



**THE HONORABLE CURTIS M. LOFTIS, JR.**

State Treasurer

September 30, 2016

Richard Eckstrom, CPA  
Comptroller General  
Office of the Comptroller General  
1200 Senate Street  
Columbia, SC 29201

Mr. Eckstrom,

*Richard,*

The State Treasurer's Office (STO) is in receipt of your letter of the 21<sup>st</sup> of September and delivered to our office on the 26<sup>th</sup>.

As the State's Comptroller and the Chairman of the SCEIS Executive Oversight Committee you are aware of the ongoing conversion of the complex and antiquated legacy systems in the State Treasurer's Office. This conversion is a monumental task no other State Treasurer has chosen to undertake. The Legislature has been supportive and understanding of the process and realizes that having investment activity integrated into the SCEIS accounting system provides significant improvements in day-to-day operations, as well as greater reporting and data analysis. Your staff participated in and was instrumental in the conversion process, especially as we refined important definitions and developed both accounting and reporting deliverables. Of course, my office and the SCEIS team have devoted tremendous amounts of time and resources to both the conversion and to providing information to our partners about the conversion process. I can assure you, no one desires the timely and accurate completion of the conversion more than I.

As with any major conversions of this size and complexity, it is understandable that accounting and reporting issues will arise and must be dealt with in order to ensure timely and accurate reporting. The procedures to test for issues and analyze them are extensive and ongoing. I assure you the issue at hand is our top priority, and substantial progress is being made.

Therefore, I respectfully request flexibility regarding the reporting of certain information produced by the STO. The end users of that information have received notice that their reporting dates have been advanced by 15 days, to October 1<sup>st</sup>. This deadline has come as a surprise to many State agencies and to my office; in fact, the STO was just recently made aware of the new deadlines by a conversation with the State Auditor's Office. We believe we will meet, as planned, the original deadline of October 15; therefore, we are asking for no more time than the original deadline allowed.

The STO was not included in your requested proviso, and we were not provided advanced notice or instructions from your office. The promulgation of the State's financial statements involves and is dependent upon input, resources and cooperation of many parties in addition to the Comptroller General's Office. Had the STO been consulted, we would have strongly advised against shortening

the time allowed for year-end reporting, as such deadline changes during a complex and lengthy conversion are unlikely to be helpful to the effort of timely and accurate reporting. May I suggest a leadership team be created consisting of representatives of the Comptroller General's Office, the State Auditor's Office, the State Treasurer's Office, and other parties as you see fit, so that we might work more cooperatively in furtherance of the stated goals of a timely and accurate CAFR?

Your support of our request for more time to complete reporting delayed by this conversion of statewide systems will be appreciated just as we believe you appreciated our support for you during your SCEIS CAFR conversion. The Comptroller's Office struggled with similar burdens caused by these long over-due conversions, and the resulting complications were that the June 30, 2012 CAFR was submitted over five months after the due date, and the June 30, 2013 CAFR was submitted six weeks after the due date. During that two-year period, my office diligently worked to assist your office in an effort to resolve the impact of the late CAFRs. We adjusted the date and required work schedules for a large bond issue. We also spent significant time and energy with the rating agencies and others to assure them that the delinquent CAFRs were due to "one off" complications caused by a complicated conversion and not because of any governance or technical issues.

More than ever, in this important conversion year, I ask that we work cooperatively for the good of the State, affording the necessary time for success in this important undertaking rather than risking errors through haste. I do not ask for 5 months or 6 weeks, as your office required, but for 2 weeks (and possibly less) to supply the information requested.

I am confident additional resources are unnecessary since the existing resources of both SCEIS and my office are addressing the issue and are proving to be adequate to achieve the objective. The one essential element currently lacking that would ensure our ultimate goal of accurate, reliable reporting is additional time, which you can provide us.

We have concluded the issue in the Investment and Market Cost GAAP Basis Report (TIM814) and Yearly Premium Discount and Accrued Interest Report (TIM801) occurred during the development of a yearly report. The methodology of the report was based on an understanding of definitions acknowledged by your office, my office and SCEIS. Unfortunately, we believe the definitions, while agreed upon by all parties, should have been clearer prior to the design of the report. As a result, the calculation within the report is overstated.

We have confirmed that Cash Receipts have been accurately stated, reconciled to our trustees at the Bank of New York Mellon, and appropriately distributed to agencies. We have also engaged an independent financial reporting and systems implementation firm to validate the allocation of Investment Earnings balances with the yearly reports. These experts have also validated the calculation of accrued interest at the portfolio level. As a result of these validations, I am confirming that there was no cash impact on the general, special revenue or earmarked funds. As that work continues, we remain in touch with our sister State agencies to apprise them of our progress.

Our office has worked, and is continuing to work, to validate and release enhanced data. Please find attached a list of agencies potentially impacted by the distributed report. It is important to note some agencies have provided and continue to provide average accrued interest. It appears that this matter does not impact several agencies given that their funds are not invested by the STO, and some agencies have already been provided with a revised amount.

We remain committed to the conversion to and operation of a single Statewide Enterprise Accounting System. I also request that we be given a contact in your office that might work closely with us so our communication can be less formal and more appropriate for such technical, important and fluid activity.

Again, we thank you for your patience and we look forward to your support in extending the deadline to the original deadline of October 15. We would be pleased to meet with you and the State Auditor to arrange a reasonable extension as we work toward completing this significant statewide conversion.

Sincerely,

Signature Redacted

Curtis M. Loftis, Jr.  
South Carolina State Treasurer

CML/ebf  
Enclosure

## **Audited Agencies**

E550 SFAA- Insurance Reserve Fund  
F500 PEBA-Retirement/Insurance Benefits/Deferred Comp  
H670 ETV  
L320 State Housing Authority  
P360 Patriots Point  
P400 Conservation Bank  
P450 Rural Infrastructure Authority  
R120 State Accident Fund  
R140 Medical Malpractice Patients Comp Fund-AA  
U120 Department of Transportation  
U150 Transportation Infrastructure Bank  
Y080 Department of Commerce-Palmetto Railways  
Y140 State Ports Authority

## **College and Universities**

H090 The Citadel  
H120 Clemson University  
H150 College of Charleston  
H170 Coastal Carolina University  
H180 Francis Marion University  
H210 Lander University  
H240 South Carolina State University  
H270 University of South Carolina  
H470 Winthrop University  
H510 Medical University of South Carolina  
H590 SC Tech Systems