

LAC

Report to the General Assembly

November 1997

A Review of the Offices of the Comptroller General and the State Treasurer



Legislative Audit Council

400 Gervais Street
Columbia, SC 29201
(803)253-7612
(803)253-7639 FAX

Public Members

Dill B. Blackwell, Chairman
J. Bennette Cornwell, III
Philip F. Laughridge, CPA
Harry C. Wilson, Jr., Esq.

Members Who Serve Ex Officio

James E. Bryan, Jr.
Senate Judiciary Committee
Ernie Passailaigue
Senate Finance Committee
Henry E. Brown, Jr.
House Ways & Means Committee
James H. Harrison
House Judiciary Committee

Director

George L. Schroeder

Authorized by §2-15-10 *et seq.* of the South Carolina Code of Laws, the Legislative Audit Council, created in 1975, reviews the operations of state agencies, investigates fiscal matters as required, and provides information to assist the General Assembly. Some audits are conducted at the request of groups of legislators who have questions about potential problems in state agencies or programs; other audits are performed as a result of statutory mandate.

The Legislative Audit Council is composed of five public members, one of whom must be a practicing certified or licensed public accountant and one of whom must be an attorney. In addition, four members of the General Assembly serve ex officio.

Audits by the Legislative Audit Council conform to generally accepted government auditing standards as set forth by the Comptroller General of the United States.

Copies of all LAC audits are available to the public at no charge. Audits published after January 1995 can be found on the Internet at www.lpittr.state.sc.us/reports/lac.htm.

A Review of the Offices of the Comptroller General and the State Treasurer was conducted by the following audit team.

Audit Supervisor

Senior Audit Manager
Jane I. Thesing

Typography

Susan S. Long
Candice H. Pou
Maribeth Rollings Werts

Audit Team

Audit Manager
Priscilla T. Anderson

Senior Auditors
Perry K. Simpson
Andrew M. Young

Associate Auditor
Elizabeth W. Oakman

LAC

Report to the General Assembly

**A Review of the Offices
of the Comptroller General
and the State Treasurer**

Contents

Executive Summary

..... v

Chapter 1 Introduction and Background

Audit Objectives 1
Scope and Methodology 2
Background 3

Chapter 2 Organizational Structure and Duplication Issues

Merger Issues 5
Capital Leases 8
Disbursements to Local Governments 10
Communications With Bond Rating Firms 12

Chapter 3 Statewide Issues

Investment Management 13
Bond Attorney Services 14
Payroll Deductions 17
The Purchasing Process 22

Chapter 4 Internal Operations

Travel Expenditures 23
State Cars 25
Other Administrative Expenditures 26
Budget Requests 26

Appendix

Agency Comments 29

Contents

Executive Summary

Members of the General Assembly requested that the Legislative Audit Council conduct an audit of the Office of the Comptroller General and the Office of the State Treasurer. We reviewed the function and organizational structure of the two offices and considered the advantages and disadvantages of combining them. We also reviewed operations to identify areas of duplication and inefficiency and to determine whether specific management practices were in accord with statutory and other requirements.

We found that combining the two offices would likely result in minimal savings and could have an adverse affect on the state's system of financial checks and balances. While we did not identify major operational problems in either agency, we have made recommendations to improve efficiency and cost effectiveness in the state's financial management and in the two offices' internal operations. Our findings are summarized below.

Organizational Structure and Duplication Issues

We reviewed the offices of the comptroller general and the state treasurer to determine the advantages, disadvantages, and potential savings to the state if they were combined. We found:

- ❑ Having two agencies for the comptroller and treasurer functions is the practice in most other states. Forty-five states in addition to South Carolina have separate treasurer and comptroller offices. Only three states have combined comptroller and treasurer functions within a single agency (see p. 5).
- ❑ Savings from merging the operations of the two agencies would probably not be significant. We reviewed three areas of similar function in the two offices—executive management, administration, and data processing—to determine whether substantial staff reductions and savings would result from combination. Significant reductions would not be likely because the staff in each agency is relatively small, they already share some resources, and each office provides unique services to external entities (see p. 6).
- ❑ Merger could impact the state's system of financial checks and balances. As provided by state law, the current organizational structure requires that each office maintain its own financial records to provide a check of the other office (see p. 8).

We reviewed specific functions of the two offices to determine whether there is unnecessary duplication.

- ☐ Both the Office of the State Treasurer and the Office of the Comptroller General collect and compile information on capital leases for financial reporting purposes. It would be more efficient for the comptroller general's office to assume this responsibility (see p. 8).
- ☐ Both the comptroller general's and state treasurer's offices disburse funds to local governments. However, they disburse funds for different programs and purposes, and we found no evidence of duplication (see p. 10).
- ☐ Separate communication between the comptroller general's office and the treasurer's office and bond rating firms results in minimal duplication (see p. 12).

Statewide Issues

The comptroller general's and treasurer's offices have responsibilities for statewide financial management. Our review resulted in some recommendations with statewide applicability.

- ☐ The treasurer's office may not be earning maximum interest rates on its certificates of deposit. Current methods of purchasing CDs do not take into account the state's position as a large investor and do not recognize that higher interest rates may be available from banks in other states. For each tenth of a percentage point that South Carolina does not earn on \$130 million in CDs, the state loses \$130,000 annually (see p. 13).
- ☐ The Budget and Control Board's policies for procuring the services of bond attorneys may unnecessarily restrict the flexibility of state agencies. Also, we could not find justification for dividing the authority to approve the procurement of these services between the attorney general's office and the Budget and Control Board (see p. 14).
- ☐ The state may not be recovering from private companies the full cost of processing employee payroll deductions. Also, the comptroller general's office has made deductions for some organizations that do not meet the minimum employee participation level required by law (see p. 17).

Internal Operations

We also made recommendations to the two agencies to improve internal operations.

- ❑ Although travel expenditures by both offices were generally found to be in compliance with regulations, there were some instances in which lodging costs could be considered excessive. We recommend that the General Assembly consider setting a limit on the amount of lodging reimbursement for both in-state and out-of-state travel (see p. 23).
- ❑ A number of statewide elected officials may be driving state cars that are not cost effective (see p. 25).
- ❑ The treasurer's office has taken steps to include all anticipated revenues and expenditures in its budget requests. However, more detail is needed to provide adequate information to members of the General Assembly (see p. 26).

Executive Summary

Introduction and Background

Audit Objectives

Members of the General Assembly requested that we audit the offices of the comptroller general and the state treasurer. The audit requestors asked that we focus on the functions of the two agencies and consider whether they should be combined. They also requested that we identify areas of duplication and review specific areas of management concern. Our specific objectives are listed below.

- ☐ Examine the advantages, disadvantages, and potential cost savings of combining the offices of comptroller general and the treasurer.
- ☐ Determine the extent and cost of duplication between the offices of the comptroller general and the treasurer in working with local governments.
- ☐ Examine the process by which the comptroller general's and treasurer's offices disburse funds to local governments.
- ☐ Determine the extent of duplication between the offices of the comptroller general and the treasurer in working with the bond rating firms.
- ☐ Examine the process by which the treasurer's office invests in short-term securities.
- ☐ Determine the adequacy of the process by which the treasurer's office procures bond counsel.
- ☐ Determine whether the comptroller general's office is recouping from private companies the costs of processing voluntary deductions from employee payroll checks.
- ☐ Review a sample of expenditures by the offices of the comptroller general and treasurer. Determine if expenditures for equipment, supplies, and other items are in accordance with state law, regulations, and good management practices.
- ☐ Determine if state cars are assigned and used by the two offices in accordance with statutory and other requirements and whether the assignments are needed.
- ☐ Determine the amount spent on travel by upper-level management in the offices of the comptroller general and treasurer. Determine if travel funds are expended in accordance with statutory and other requirements.

- ❑ Determine the extent to which the offices of the comptroller general and the treasurer receive funding from sources other than general fund appropriations and how the funding is used.

Scope and Methodology

Our review of the offices of the comptroller general and state treasurer centered on organizational structure, efficiency and perquisite issues, and specific investment and cash management strategies. We focused our review on activities occurring from January 1995 to February 1997. We generally did not review management issues other than those specified by our fieldwork plan.

We reviewed expenditures of the comptroller general's and treasurer's offices and administrative records from both agencies. We conducted interviews with comptroller general's and treasurer's office staff and staff from other state agencies. Interviews were also conducted with officials in other states and from organizations, such as the bond rating firms, in the private sector. We reviewed publications from professional associations and private sector sources. State law and regulations, agency policy, and agency organizational structures in other states were the primary criteria we used to measure performance.

We performed limited nonstatistical sampling of both agencies' expenditure records, the comptroller general's payroll deduction records, and the treasurer's records on bond counsel selection. We reviewed management controls over processing payroll deductions and selecting bond counsel. We did not verify computer generated records received from either agency. However, the reliability of computer-generated data was not central to our audit objectives, and, when all evidence is viewed in context, we believe the opinions, conclusions, and recommendations in this report are valid.

This audit was conducted in accordance with generally accepted government auditing standards.

Background

The South Carolina State Constitution requires that a comptroller general and a treasurer be elected by the voters of the state to serve four-year terms of office. The offices of the comptroller general and the state treasurer conduct and oversee the state's financial management. The comptroller and the treasurer are also two of the five members of the state Budget and Control Board, which is responsible for the executive and administrative management of state government.

Each of the two offices has responsibilities for particular functions related to financial management. The comptroller general is the state's chief accountant and paymaster and the treasurer is the state's chief banker. A more detailed listing of the responsibilities of each office is presented below.

Office of the Comptroller General

Functions of the Comptroller General's Office

- Audits and certifies the validity and legality of state agencies' disbursements.
- Ensures that state agencies do not exceed appropriations made by the General Assembly.
- Processes the payroll for most state agencies except for institutions of higher education.
- Provides centralized accounting and reporting of the state's financial activities.
- Prepares the state's comprehensive annual financial report (CAFR).
- Provides statewide supervision of the collection of property taxes.
- Administers distributions to local governments, such as the property tax relief fund and the homestead tax exemption program.

The comptroller general's office has approximately 90 employees who are organized in five divisions. Comptroller general's office expenditures for FY 96-97, composed entirely of state general funds, totaled \$4.8 million as shown in Table 1.1.

**Table 1.1: Comptroller General's
Office Expenditures, FY 96-97**

Personal Services	\$3,432,604
Other Operating Expenses	\$629,100
Employee Benefits	\$779,642
Total	\$4,841,346

Office of the State
Treasurer

Functions of the State Treasurer's Office

- Serves as the state's bank; receives and disburses funds from all sources.
- Analyzes bank accounts and manages the state's cash flow.
- Structures and administers all debt issues for the state.
- Invests all state funds, including general funds and funds of the state retirement systems.
- Manages the local government investment pool.
- Oversees and manages the flow of funds to the state's deferred compensation program.
- Administers programs of aid to subdivisions, allocating various appropriations, taxes, and fees, and disbursing the funds back to cities, counties, and other local districts.
- Administers the state's unclaimed property program.

The treasurer's office has a staff of approximately 63 employees organized in six divisions. The treasurer's expenditures (97% state general funds) for FY 96-97 were about \$3.5 million as shown in Table 1.2.

**Table 1.2: State Treasurer's
Office Expenditures, FY 96-97¹**

Personal Services	\$2,243,672
Other Operating Expenses	\$730,739
Employee Benefits	\$524,809
Total	\$3,499,220

¹ The amounts shown do not include "pass through" expenditures or expenditures from special revenue accounts, such as fees received for managing the local government investment pool and the unclaimed property program (see p. 26).

Organizational Structure and Duplication Issues

Merger Issues

We reviewed the offices of the comptroller general and the state treasurer to determine the advantages, disadvantages, and potential savings to the state if the offices were combined. We considered current laws which provide for the operation of both offices, the structure of comptroller and treasurer operations in other states, and similar responsibilities of the two offices in South Carolina. We concluded that merger would likely result in minimal savings to the state.

Statutory Requirements

The South Carolina Constitution (Article VI, Section 7) requires the election of a comptroller general and a treasurer. Sections 11-3-50 and 11-5-100 of the South Carolina Code of Laws require that the comptroller general's office and the treasurer's office maintain a duplicate record of state appropriations and disbursements. Section 11-3-100 states that the duplicate records of the comptroller general's office are to provide a system of checks to the records of the treasurer's office. State law also provides that both the comptroller general and the treasurer serve on the five-member Budget and Control Board, which is charged with the executive and administrative management of state government.

Merger of South Carolina's comptroller and treasurer functions would require an amendment to the state constitution. As outlined by the constitution, an amendment must be approved by members of both the House of Representatives and the Senate, approved by the voters in a statewide referendum, and then ratified by the majority of the General Assembly during the next legislative session. A merger of the two offices could also affect the structure of the Budget and Control Board.

Other States

We reviewed comptroller and treasurer functions throughout the United States and interviewed officials in several states. Our focus was on those states with the comptroller and treasurer functions combined in a single agency.

We found that 45 states in addition to South Carolina have separate treasurer and comptroller offices. In addition, while Georgia does not have a comptroller, other agencies within the state are responsible for duties typically assigned to a state comptroller, such as the approval of state disbursements.

Only three states (Montana, New Jersey, and Texas) have combined the comptroller and treasurer functions within a single agency. In Montana and New Jersey, the treasurer's office has some duties comparable to those of South

Carolina's comptroller general. However, in these states, unlike South Carolina, approval of agency disbursements is the responsibility of individual agencies rather than the comptroller.

In September 1996, following approval of the state legislature and the state electorate to abolish the treasurer's office, the Texas Comptroller of Public Accounts assumed the duties of the treasurer's office. By 2000, the Texas Legislative Budget Board projects that the merger will eliminate 164 staff positions and reduce costs by approximately \$13 million. We interviewed an official of the comptroller's office who now works with the newly established treasurer's unit. According to this official, an assessment of the reduction in staff positions and savings from elimination of the treasurer's office is not yet possible due to the early stage of merger.

Comparable Responsibilities

While the offices of the comptroller general and treasurer perform various unique functions, other functions of the offices are similar. We reviewed the operations of both agencies in South Carolina to determine those areas which perform comparable responsibilities. Our primary objective was to assess the feasibility of merging these particular functions.

Based on our review of agency documents and interviews with officials in South Carolina and other states, we concluded that three areas within the offices of the comptroller general and the state treasurer have comparable responsibilities:

It is unlikely that substantial cost savings would result from combining the two agencies.

- ☐ *Executive management* in both offices perform similar duties. We considered executive management in the treasurer's office to include the treasurer, the chief of staff and the deputy treasurer and in the comptroller general's office to include the comptroller general and the deputy comptroller general. These officials are responsible for agency-wide operations, working essentially through directors who head each division.
- ☐ The *administrative* divisions of both offices are charged with activities such as human resource management, procurement and staff training and development. The treasurer's office administrative division has three employees including its director, while the administrative division of the comptroller's office has a director and five employees (see Table 2.1). In addition to in-house functions, the treasurer's administrative division processes payroll and handles other personnel activities for the Board of Financial Institutions. The comptroller general's administrative division processes the payroll for 92 county auditors and treasurers.

Table 2.1: FTEs and Personnel Costs for Administrative Divisions

Agency	Number of FTEs	Total Salaries and Fringe Benefits
Office of the State Treasurer	3	\$127,378
Office of the Comptroller General	6	\$299,445
Total	9	\$426,823

- *Data processing* divisions of both offices provide automated support for other areas. As needed, these divisions also assist other state entities with their information needs. Data processing staff in the treasurer's office include a director and 12 employees, and in the comptroller general's office, a director and 17 employees (see Table 2.2).

Table 2.2: FTEs and Personnel Costs for Data Processing Divisions

Agency	Number of FTEs	Total Salaries and Fringe Benefits
Office of the Comptroller General	18	\$827,928
Office of State Treasurer	15 ¹	\$538,870
Total	33	\$1,366,798

1 Two positions are vacant.

If the noted areas were combined, it is unlikely that staff reductions would result in substantial cost savings to the state. This is partly due to the sharing of some resources under the current organizational structure. For example, the divisions of data processing already share a computer mainframe and some computer software. Also, as noted, the administrative divisions provide services to external entities as well as to in-house operations. Further, the current staff in each agency is relatively small. As a result, it is unlikely that the number of staff in these areas would be reduced significantly.

Conclusion

A total of 45 other states operate separate agencies for the comptroller and treasurer. While the functions of these agencies may vary among the states, the comptroller is generally responsible for financial accounting and reporting, and the treasurer for debt and investments.

The merger of similar functions of the agencies is unlikely to result in significant savings to the state. Any savings would be partially offset by expenses incurred in the process to amend the state constitution.

Finally, merger of the offices of the comptroller general and the state treasurer could have an impact on the systems of financial checks and balances between the agencies. In the three states that have combined operations within one agency, either the comptroller general or the treasurer is the designated agency, with the other operation as a subunit of that agency. While such a structure could streamline South Carolina's current system and eliminate executive management positions, the system of checks and balances under this structure may be weakened. As provided by state law, the current organizational structure requires that each office maintain its own financial records to provide a check of the other office.

Capital Leases

Both the Office of the State Treasurer and the Office of the Comptroller General collect and compile information on capital leases for financial reporting purposes. It would be more efficient for the comptroller general's office to assume this responsibility.

Generally accepted accounting principles (GAAP) require the state to disclose information on leases in its financial statement. The comptroller general prepares South Carolina's financial statement, the comprehensive annual financial report (CAFR). Agencies report information on two types of leases. An operating lease, basically a rental agreement, authorizes the agency to use property. A capital lease transfers substantially all the benefits and risks of asset ownership to the agency.

The comptroller general collects and compiles all information on operating leases for reporting purposes. However, agencies must report information on capital leases to the treasurer's office, which compiles the information and

There is duplication of effort between the two offices in working with capital leases.

then submits it to the comptroller general's office for reporting purposes. The comptroller general's office may then communicate with both the treasurer's office and the agency to clarify and/or follow-up on the information obtained.

Treasurer's office staff stated that the office is involved in collecting capital lease data since these leases are considered debt and a primary mission of the treasurer's office is debt management. The treasurer's office assists agencies in securing financing for leases. However, once the lease is in place, the information collected is needed only for reporting purposes, and this is the responsibility of the comptroller general's office.

An employee of the treasurer's office estimated that she spends approximately 50% of her time on capital leases from May to July. For the remainder of the year, she periodically works with leases as they are submitted to the treasurer's office. There were approximately 49 capital leases statewide as of September 1997.

State law does not address which entity is responsible for obtaining and compiling information on capital leases. According to an official of the North Carolina state controller's office, that office receives information for capital and operating leases for presentation in North Carolina's financial report.

It would be more efficient for one agency to assume responsibility for obtaining information on capital leases. There is duplication of effort between the treasurer's and the comptroller general's offices in working with the leases. The comptroller general should coordinate areas related to the state's financial statement. This change is likely to minimize confusion among state agencies about which agency collects information on the different types of leases.

Recommendation

1. The General Assembly may wish to consider amending state law to require the South Carolina Office of the Comptroller General to assume sole responsibility for collection and compilation of information on capital leases for financial reporting purposes.

Disbursements to Local Governments

Both the comptroller general's office and state treasurer's office disburse funds to local governments. We reviewed these disbursements and found no evidence of duplication between the two offices. The offices disburse funds for different programs and purposes.

The primary disbursements to local governments made by the comptroller general's office involve reimbursement for revenue lost due to property tax relief or exemptions. They include:

- ☐ Homestead Tax Exemption Program - Property tax exemption for senior and disabled citizens.
- ☐ State Property Tax Relief Fund - Relief from property taxes levied for school operations.
- ☐ Merchants' Inventory Tax Program - Exemption from property taxes for retailers' inventory.

The state treasurer's office processes disbursements which primarily involve shared revenue. They include:

- ☐ Accommodations Tax - Additional sales tax charged on hotels and other accommodations that is collected from, and distributed back to, counties and municipalities.
- ☐ Solid Waste Tire Fee - Part of the fee collected on each tire sold that is distributed to counties.
- ☐ Local Options Sales Tax - Distribution of the extra one percent sales tax collected in some counties.
- ☐ Local Government Fund - State general fund revenues distributed to local governments.
- ☐ Aid to Planning Districts - Annual appropriation distributed to ten planning districts.
- ☐ Aid to Fire Districts - Annual appropriation to fire districts, based on broker and insurance premium taxes.

The administrative costs incurred by these two agencies in making the disbursements are not significant. According to officials with the state treasurer's office, about a quarter of one FTE is spent administering the disbursement of funds to local governments. According to an official with the comptroller general's office, approximately three FTEs perform work related to the disbursement of funds to local governments.

Other state agencies are also involved in disbursements to local governments. Both the comptroller general's office and the state treasurer's office work with the Department of Revenue (DOR) on the programs for which they disburse funds. DOR also disburses funds directly to local governments in other programs, such as funds from beer and wine permits and the admissions tax. Other agencies, such as the Department of Insurance and the State Department of Education, also participate in various disbursement programs.

We contacted several local government officials and none reported any major concerns with the current disbursement procedures.

Timing of Disbursements From the Treasurer's Office

We reviewed the timing of disbursements from the treasurer's office to local governments and school districts. In a limited sample of programs, we found no problems with the treasurer's disbursement of funds.

In 1996, there was a difference of opinion between the treasurer's office and the comptroller general's office regarding when property tax relief funds should be disbursed to local school districts. In 1997, however, the General Assembly amended state law to require that the funds be disbursed annually on December 1.

Communications With Bond Rating Firms

One of our audit objectives was to determine the extent of duplication between the offices of the comptroller general and the treasurer in working with bond rating firms. We concluded that contact between these two offices and the rating firms results in minimal duplication.

Bond rating firms, such as Fitch, Moody's, and Standard and Poor's, determine the state's credit rating and the rating for individual bonds issued by the treasurer's office on behalf of the state, its agencies, and certain authorities. The rating is a current opinion of the state's ability to meet its financial obligations. South Carolina currently has a AAA credit rating, the highest rating possible.

Because a limited number of staff from the bond rating firms are assigned to serve a particular state, officials of the comptroller general's and the treasurer's offices may communicate with the same individuals. The comptroller general's office furnishes information to the firms about the state's comprehensive annual financial report (CAFR) that is used to determine the state's overall credit rating. When bonds are issued, the comptroller general may also provide updates on the state's financial status. The treasurer's office provides information to assist the firms in rating individual bond issues. The rating firms consult the treasurer's office about matters related to each bond issue as well as those which impact the state's overall credit rating.

We interviewed officials of two of the three bond firms that work with the offices of the comptroller general and the treasurer in South Carolina. These officials stated that their work with each office is separate and distinct. We also contacted officials in Alabama, Florida, and North Carolina. They stated that bond rating firms receive information from or work with more than one agency. In North Carolina, although activities are coordinated through the treasurer's office, the bond rating firms may communicate with the comptroller's office or other offices as needed.

Statewide Issues

Investment Management

The treasurer's office may not be earning maximum interest rates on its certificates of deposit (CDs).

The treasurer's office manages 25 investment portfolios, including those owned by state government, local governments, and public retirement systems. These portfolios consist of investments such as U.S. treasuries, securities from other federal agencies, corporate bonds, and CDs. Their total value was approximately \$19.5 billion on June 30, 1997.

In our audit, we did not evaluate specific securities purchased by the treasurer's office. We did, however, evaluate the methods by which some types of securities were purchased.

Method for Purchasing Certificates of Deposit

In June 1997, three portfolios contained about \$130 million in CDs, ranging in denomination from \$100,000 to \$20 million. Amounts up to \$100,000 per bank are insured by the Federal Deposit Insurance Corporation (FDIC). For higher amounts, the treasurer's office requires that the CDs it purchases be collateralized with other securities.

The treasurer's office purchases more than 95% of its CDs on a quarterly basis. Any bank with a branch office in South Carolina is eligible to sell these CDs. The interest rates are set by the treasurer's office using two benchmarks:

- ☐ The interest rates published for three-month U.S. Treasury bills, which are sold in minimum amounts of \$10,000. Because these securities are backed by the taxing power of the federal government, they are viewed by investors as virtually risk-free.
- ☐ The interest rates published for \$100,000 CDs by banks doing business in South Carolina. These securities are insured by the FDIC.

This method for purchasing CDs has two limitations:

- ☐ It does not adequately take into account the state's leverage as a large investor that buys CDs as large as \$20 million from some banks.
- ☐ It does not recognize that higher interest rates are sometimes available from banks that do not have branches in South Carolina.

South Carolina's policy of buying CDs only from banks with in-state branch offices is similar to policies in Georgia, North Carolina, and Tennessee. Nonetheless, we found no objective reason for such a preference, particularly since some of the banks from which we buy CDs are headquartered in other states.

The state of Georgia purchases CDs through competitive bid.

The treasurer's office could make moderate changes that would yield higher interest rates on funds invested in CDs. First, it could seek to obtain CD rates above the rates that banks pay to smaller investors. The state of Georgia, for example, seeks to obtain higher rates by purchasing CDs through competitive bid. Second, when greater returns are available, the treasurer's office could buy CDs from banks that do not have in-state branches. We found several out-of-state banks from which higher rates were available at the time of the April 30, 1997, CD purchase by the treasurer's office.

In summary, the methods used by the treasurer's office to purchase CDs may prevent it from maximizing earnings, assuming no change in safety and liquidity requirements. For each tenth of an interest rate percentage point that South Carolina does not earn on \$130 million in CDs, the state loses \$130,000 annually.

Recommendation

2. The state treasurer's office should change its method for purchasing certificates of deposit to obtain higher rates of interest within its safety and liquidity requirements.
-

Bond Attorney Services

The treasurer's office implements Budget and Control Board policies for procuring the services of private bond attorneys. In a limited review, we did not find material non-compliance with the board's policies. We did find, however, that the board's policies may unnecessarily restrict the flexibility of state agencies.

Background

The state government borrows funds to finance the construction and improvement of buildings, roads, and other facilities. This borrowing is conducted through the sale of bonds. General obligation bonds pay for facilities that do not generate income, such as state office buildings and roads, and are usually repaid with taxes and other state revenues. Revenue bonds pay for facilities that generate income, such as parking decks, athletic stadiums, and college dormitories, and are usually repaid with the income generated. As of June 30, 1997, bonds and related debt issued through the treasurer's office had an outstanding balance of approximately \$2.3 billion.

When issuing bonds, the state uses the services of private law firms to draft required legal documents, ensure compliance with state and federal laws, give opinions on the bonds' tax exempt status, and oversee the sale of the bonds. Attorneys hired by South Carolina state agencies are usually approved by the attorney general. Under an exception to the law, however, the Budget and Control Board has assumed authority for prescribing the methods by which most state agencies hire and compensate bond attorneys. Section 11.3 of the 1997 South Carolina Appropriation Act states that:

No department or agency of the State Government shall engage on a fee basis any attorney at law except upon the written approval of the Attorney General and upon such fee as shall be approved by him. This shall not apply to . . . exceptions approved by the Budget and Control Board.

Attorney fees and expenses for bonds issued through the treasurer's office have averaged about \$150,000 per year.

Budget and Control Board Policies

The Budget and Control Board has separate policies for procuring the services of bond attorneys, depending on the type of bond:

- ☐ When issuing *general obligation bonds*, the treasurer's office is required to rotate bond counsel business among four law firms selected by the Budget and Control Board. Each law firm provides services for two years, after which the next firm on the rotation takes over.

- ❑ When issuing *revenue bonds*, most state agencies, working through the treasurer's office, are required to hire bond counsel from among the same four law firms that have been approved for general obligation bonds. For each bond issue, the agencies are required to hire the firm that has handled the lowest dollar amount of bond issues since February 1995.

These procurement policies can produce negative effects:

- ❑ If a state agency seeks to hire a firm with a higher level of expertise or with greater knowledge of the agency, it may not do so unless a firm of that type is next on the rotation. It is not likely that all firms will be of equal competence for each bond issue.
- ❑ There is a lack of continuity in the relationship between state agencies and their bond attorneys, particularly in the issuance of revenue bonds. When agencies are required to change bond attorneys frequently, there may be reduced efficiency in the process of issuing bonds. In addition, the ability of agencies to obtain advice between bond issues may be reduced, because the firm that worked on the prior issue might not be permitted to work on the next issue.

The policies may also produce unintended results. For example, if an additional law firm were approved by the Budget and Control Board to work on the state's bonds, would all revenue bonds be assigned to the firm until its balance exceeded that of another firm?

An official with the treasurer's office stated that the current system of oversight is necessary to ensure that attorneys of adequate quality are procured and that they are compensated in a controlled manner. These goals, however, need not conflict with a process that allows state agencies greater flexibility in the procurement of bond attorneys.

Neither North Carolina nor Tennessee, both of which have high credit ratings, has a system for ensuring that law firms receive a share of state business. In North Carolina, individual state agencies select their own bond attorneys. In Tennessee, bonds are usually issued through centralized boards or agencies that select bond attorneys competitively for multi-year periods.

Budget and Control Board Approval of Bond Attorneys

We did not find justification for dividing the authority to approve the procurement of attorney services between the attorney general's office and the Budget and Control Board. State agencies are required to get approval of the attorney general for all attorneys procured except bond attorneys. Although bond attorneys practice in a specialized area of the law, similar arguments could be made about other areas of attorney specialization.

Recommendations

3. The General Assembly may wish to consider amending state law to give the Office of the Attorney General authority to oversee the procurement of bond attorney services. If granted this authority, the attorney general should give state agencies greater flexibility in the selection of bond attorneys and the authority to procure their services on a multi-year basis.
4. If the Budget and Control Board maintains authority for overseeing the procurement of bond attorney services, it should give state agencies greater flexibility in the selection of bond attorneys and the authority to hire them on a multi-year basis.

Payroll Deductions

The comptroller general's office processes the payroll for most state agencies except for institutions of higher education. The comptroller general's office deducts funds from employee paychecks on behalf of approximately 200 organizations. There are more than 103,000 deductions per pay period (see Table 3.1).

Table 3.1: Number of Organizations and Number of Payroll Deductions by Category

Category	Number of Organizations With Payroll Deductions	Total Deductions Per Pay Period
Child Support ¹	92	1,282
Private Insurance ^{1, 2}	42	30,058
Credit Unions ¹	20	19,310
Annuities/Deferred Compensation ¹	17	15,613
Charities	7	14,039
Bankruptcies	6	347
Parking Facilities	4	2,925
Retirement Credit Purchase	4	766
Employee Associations ¹	3	17,262
Federal & State Tax Levy	2	140
U. S. Savings Bonds	1	1,891
Total	198	103,633

1 An administrative fee is charged for processing the deduction.

2 Excludes state health benefits.

Source: Office of the Comptroller General.

The state may not be recovering the full cost of processing payroll deductions. We also found that some organizations do not meet the minimum employee participation level required by law.

Cost to Process Payroll Deductions

As authorized by the appropriation act, the state charges a fee to the organizations to offset the administrative cost of processing some payroll deductions. The fee is three cents per pay period per deduction for private insurance companies, credit unions, professional associations, deferred compensation, and tax sheltered annuities. For child support deductions, the fee is \$3 per pay period. There is no fee for other types of deductions including those for charities, tax levies, and parking facilities.

In FY 96-97, the state collected \$151,358 in fees which was remitted to the general fund. The comptroller general's office could not provide a precise estimate of the cost of processing payroll deductions. Therefore, it is unclear whether the amount collected covers the processing costs. In addition, individual agencies incur costs associated with processing deductions. We contacted two large state agencies and they estimated their annual processing costs at approximately \$1,034 and \$992, respectively. According to officials with the comptroller general's office, there have been bills proposed in the past to make prepaid legal insurance, property and casualty insurance, and garnishment eligible for payroll deduction. If instituted, these proposals could further increase the cost for processing payroll deductions.

Section 8-11-80 of the South Carolina Code of Laws concerning private insurance plans states, "No part of the cost of the insurance or expenses incidental to the payroll deduction must be borne by the state . . ." The state appropriation act (§9.4 of part 1B for FY 96-97) allows for an administrative fee of up to five cents per deduction per pay period. According to officials with the comptroller general's office, the fee has remained at three cents since it was implemented. Increasing the fee to five cents would generate an additional \$41,000 for the state.

When the state does not collect enough to offset the cost of processing payroll deductions, it is subsidizing private companies at taxpayer expense. Also, when some agencies don't collect the authorized fee (see below), revenue to the state is reduced. Raising the administrative fee could also reduce the number of organizations requesting payroll deductions and help to contain costs.

Institutions of Higher Education

It is unclear if the law requiring a fee for processing payroll deductions applies to institutions of higher education. Officials with the University of South Carolina and Clemson University stated they are not charging a fee.

The proviso requiring a fee for processing payroll deductions is found under the comptroller general's section of the appropriation act. We requested an opinion from the attorney general's office concerning whether the proviso applied only to those agencies served by the comptroller general's office or to all state agencies. The informal opinion stated that until the General Assembly clarifies its intent, other agencies should probably not charge a fee for deductions. We estimate the University of South Carolina could collect approximately \$9,300 annually if it charged a fee.

Levels of Employee Participation

Section 8-11-80 of the South Carolina Code of Laws states that the comptroller general's office may not make deductions for insurance plans, ". . . where deductions are made for less than two hundred fifty state employees in any particular plan." Section 8-11-93 states that the comptroller general's office may not make deductions for charitable organizations, ". . . unless at least . . . two hundred employees . . . have made a written authorization to deduct contributions" Section 8-11-92 prohibits making payroll deductions for any organization ". . . primarily engaged in the propagation of a religious faith or belief"

We reviewed payroll deductions for the pay period ending May 30, 1997, and found that 17 (35%) of the 49 insurance companies for which deductions were made had fewer than 250 employees participating. For these 17 companies, the number of employees ranged from 41 to 220. We also reviewed seven active charities and found that five (71%) had fewer than 200 employees making contributions. The number of employees making contributions to these charities ranged from 10 to 198.

We reviewed 9 of the 17 companies with fewer than 250 participants to determine if the required 250 employees were participating at the time the payroll deduction code was created. In 8 cases, the company did not have the minimum number of employees required by law. One company had just 33 participants at the time the deduction was established. We also found that two of the five charities did not have the minimum number of 200 employees participating when the deduction was established.

According to an official with the comptroller general's office, before the payroll deduction code is created for an insurance company, the company must provide the comptroller general's office with 250 forms signed by state employees requesting the deduction. However, the number of employees who later have the deduction made may be fewer than the number who signed forms. The comptroller general's office does not maintain documentation that the required number of forms was submitted. Also, according to an official with the comptroller general's office, the office does not stop payroll deductions for organizations that drop below the minimum number of participants.

Eligibility of Charities

We also found one charity which is not eligible for payroll deduction. Section 8-11-92 of the South Carolina Code of Laws states that no religious organization is eligible for payroll deduction. However, due to an oversight by the secretary of state's office, contributions to one religious charity have been deducted since 1992. As of August 29, 1997, the comptroller general's office has discontinued making payroll deductions for this charity.

The law requires the secretary of state to annually determine which charitable organizations are eligible for payroll deductions. In 1994, the "South Carolina Solicitation of Charitable Funds Act" (§33-56-10 *et seq.* of the South Carolina Code of Laws) was amended to shift oversight of charities to the attorney general's office. However, §8-11-92 dealing with payroll deduction was not amended to shift the responsibility for determining eligibility for payroll deduction to the attorney general's office. As a result, it is not clear which office should be reviewing charities to determine if they qualify for payroll deductions.

Recommendations

5. The General Assembly may wish to consider raising the fee for processing payroll deductions.
6. The General Assembly may wish to consider amending the proviso relating to the fee for processing payroll deductions to require that all state agencies, including colleges and universities, assess the fee.

7. The comptroller general's office should develop a policy for determining when deductions should be discontinued for insurance companies and charities which have fewer than the minimum number of participants required by law.
8. The General Assembly may wish to consider amending §8-11-92 of the South Carolina Code of Laws to require that the attorney general's office determine a charity's eligibility for payroll deduction.

The Purchasing Process

One important area of operations that we did not address in this review is the use of automation to streamline the purchasing process for state agencies. The comptroller general's office and the state treasurer's office are important participants in this endeavor because they process the payment for each purchase that agencies make. Both offices are involved in a pilot project for use of a governmental procurement card.

Our recent audit *Improving South Carolina's Management and Use of Information Technology* (July 1997) recommends that, if the state procurement card pilot project is successful, a timetable for rapid statewide implementation should be developed. Also, the report recommends that the state implement electronic data interchange (EDI) for purchasing. Using EDI, electronic "forms" are sent from one computer to another without paper forms or checks.

Internal Operations

Travel Expenditures

We reviewed general fund expenditures for travel from January 1995 through February 1997 by the comptroller general, the treasurer, and the three highest salaried employees in each office. Total travel expenditures reviewed include amounts reported for mileage, lodging, meals, airfares, auto rental and usage of state cars. We did not review expenditures related to the use of state aircraft. Both offices were generally in compliance with state laws and regulations.

As of January 1997, there was a total of 87 employees in the comptroller general's office. During the two-year period under review, travel expenditures for that office totaled \$96,000. Excluding the usage of state cars, expenditures by the comptroller general accounted for more than \$35,000 of that amount, and combined expenditures by upper-level management were approximately \$49,000.

The treasurer's office, with 64 employees, spent \$49,000 for travel during the same period. Excluding the usage of state cars, expenditures by the treasurer accounted for \$19,000 of that, and combined expenditures by upper-level management were approximately \$30,000.

State travel regulations specify that constitutional officers are to be reimbursed actual expenses incurred for travel. We reviewed a non-random sample of 67% of the 48 travel vouchers processed for the comptroller general and treasurer during January 1995 through February 1997. The sample included all vouchers for amounts over \$500. Expenditures were properly documented and reimbursed in accordance with regulations.

For state employees other than constitutional officers, travel regulations establish a maximum rate for meal reimbursement. We reviewed a non-random sample of 47% of the 60 travel vouchers processed for the three highest salaried employees in each of the offices. The sample included all vouchers for amounts over \$500. Expenditures were reimbursed in accordance with regulations.

Lodging Expenditures

Although travel expenditures by both offices were found to be generally in compliance with regulations, there are some instances in which lodging costs incurred may be considered excessive. South Carolina regulations do not limit the amount of reimbursement for lodging, stipulating that state employees traveling on official business are to take care that expenses incurred are "reasonable." The federal government limits its employees to lodging rates published annually by the General Services Administration.

In reviewing travel expenses for trips taken by upper management in the offices of the comptroller general and the treasurer during January 1995 through February 1997, we compared state reimbursement for lodging expenditures with maximum rates set for federal employees. For 12 trips reviewed, state reimbursement for lodging expenses exceeded federal limits by more than 50% per night; in one instance, the state paid 233% per night above the federal limit (see Table 4.1).

Table 4.1: State Lodging Costs Exceeding Federal Limits by More Than 50% January 1995 – February 1997

Location	State Reimbursement Per Night	Number of Nights	Federal Limit	Percentage Over the Limit
Comptroller General's Office				
New York City	\$233	2	\$142	64%
	\$256	2	\$142	80%
	\$234	1	\$142	65%
	\$256	1	\$142	80%
	\$216	5	\$142	52%
Hilton Head, SC	\$147	1	\$ 73	101%
Treasurer's Office				
Washington, DC	\$211	1	\$124	70%
New York City	\$329	1	\$142	132%
Lake Tahoe, CA	\$191	2	\$ 68	181%
	\$128	3	\$ 68	88%
Charleston, SC	\$200	1	\$ 60	233%
Myrtle Beach, SC	\$138	3	\$ 58	138%

In our 1992 report, *Cost Savings for State Government: A Special Report*, we recommended that the General Assembly consider setting a limit on lodging reimbursement for both in-state and out-of-state travel. To date, there are no limits other than the requirement that lodging costs be “reasonable.”

In October 1997, the treasurer’s office reported that it will implement a new policy for approval of travel expenses.

Recommendations

9. The General Assembly may wish to consider setting a limit on the amount of lodging reimbursement for both in-state and out-of-state travel.
10. The offices of the comptroller general and the treasurer should implement measures to ensure that lodging expenditures are reasonable.

State Cars

We reviewed the use of state cars from January 1995 through February 1997. The comptroller general's office has a state-owned van driven by staff for general business purposes and a 1995 Buick Park Avenue, driven by the comptroller general since it was new for both business and personal purposes. The treasurer's office has a 1992 Ford Crown Victoria for "general use" that the treasurer has driven for both business and personal purposes since 1996.

Cost

As provided in §1-11-270 of the South Carolina Code of Laws, a statewide elected official may have a permanently assigned state car. In 1995, the State Budget and Control Board paid \$27,927 for the 1995 Buick Park Avenue driven by the comptroller general.

Section 1-11-310(A) states:

The State Budget and Control Board shall purchase, acquire, transfer, replace, and dispose of all motor vehicles on the basis of maximum cost-effectiveness and lowest anticipated total life cycle costs.

This law does not specify whether its requirements pertain to motor vehicles driven by statewide elected officials. If the law were applied to all state officials, however, motor vehicle expenditures could be reduced.

In addition to the comptroller general, four other statewide elected officials have been assigned new state cars. The cars driven by these four officials range from a 1997 Ford Taurus (\$14,825) to another 1995 Buick Park Avenue (\$27,927).

Recommendation

11. The General Assembly may wish to consider amending state law so that §1-11-310(A) applies to motor vehicles used by statewide elected officials.

Other Administrative Expenditures

We also reviewed other miscellaneous expenditures of the two offices to identify potential inefficiencies. These included expenditures for membership fees, supplies, equipment, and other services. We found no material problems with the expenditures reviewed.

Budget Requests

We reviewed the degree to which expenditures and related reimbursements have been reported by the comptroller general's office and the treasurer's office in their budget requests to the General Assembly. Our review uncovered no material amounts excluded from the budget requests of the comptroller general's office.

The treasurer's office, however, submitted a budget request for FY 96-97 that did not include significant expenditures and related reimbursements. The following year, the treasurer's office took steps to eliminate off-budget items. Below, we describe the areas already addressed by the treasurer's office and an area where improvement is still needed.

Table 4.2 lists three programs that were not included in the FY 96-97 budget request of the treasurer's office. By the end of FY 96-97, the treasurer's office incurred expenditures and received reimbursements of \$233,665 from these programs.

Table 4.2: Anticipated Expenditures and Reimbursements Not Reported in FY 96-97 Budget Request of the Treasurer's Office

Program	Amount
Local Government Investment Pool	\$144,899
Deferred Compensation Program	\$44,685
Chem Nuclear Trust	\$44,081
Total	\$233,665

In addition to the programs cited above, the treasurer's office incurred expenditures and received reimbursements of \$383,243 in FY 96-97 from the "unclaimed property" program. Because these expenditures and revenues were not anticipated at the time of the FY 96-97 budget request, they could not have been included in the request. However, §2-65-40 of the South Carolina Code of Laws requires that unanticipated revenues be approved by the Governor before they are spent.¹ The treasurer's office did not obtain the required approval.

The treasurer's office made improvements in its FY 97-98 budget request by including expenditures and revenues anticipated from the four programs cited above. These programs, however, were not listed individually and were referred to only as "programs and services." By not specifying the sources of revenue, the treasurer's office may not be providing adequate information to legislators, who are responsible for approving the receipt of all revenues.

Recommendation

-
12. The state treasurer's office should list separately each source of revenue when it submits budget requests and budget documents to the General Assembly.

1. Prior to January 1, 1997, agencies were required to obtain approval from the Joint Appropriations Review Committee.

Chapter 4
Internal Operations

Agency Comments



State of South Carolina
Office of Comptroller General

Wade Hampton Office Building
Post Office Box 11228
Columbia, South Carolina 29211

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL

GERALD W. BURNETT
DEPUTY COMPTROLLER GENERAL

October 29, 1997

Mr. George L. Schroeder, Director
South Carolina Legislative Audit Council
400 Gervais Street
Columbia, South Carolina 29201

Dear George:

Your staff was both professional and efficient in their conduct of the Legislative Audit Council's (LAC) audit of my office.

I appreciate the LAC's confirmation that my office is in compliance with state laws and regulations.

My comments regarding each of LAC's recommendations are attached.

Please let me know if I can be of any further service to either you or your staff.

Sincerely,

A handwritten signature in cursive script, appearing to read "Earle".

EARLE E. MORRIS, JR.

Attachment

**OFFICE OF COMPTROLLER GENERAL
AGENCY RESPONSE TO
S. C. LEGISLATIVE AUDIT COUNCIL REPORT
OCTOBER 1997**

Recommendation:

1. The General Assembly may wish to consider amending state law to require the South Carolina Office of the Comptroller General to assume sole responsibility for collection and compilation of information on capital leases for financial reporting purposes.

Response: *Requires enabling legislation by the General Assembly. My office will need two staff positions, computer software and operating funds to assume this additional responsibility.*

Recommendation:

2. The state treasurer's office should change its method for purchasing certificates of deposit to obtain higher rates of interest within its safety and liquidity requirements.

Response: *Recommendation pertains to State Treasurer's Office.*

Recommendation:

3. The General Assembly should consider amending state law to give the Office of the Attorney General authority to oversee the procurement of bond attorney services. If granted this authority, the attorney general should give state agencies greater flexibility in the selection of bond attorneys and the authority to procure their services on a multi-year basis.

Response: *Recommendation pertains to State Treasurer's Office.*

Recommendation:

4. If the Budget and Control Board maintains authority for overseeing the procurement of bond attorney services, it should give state agencies greater flexibility in the selection of bond attorneys and the authority to hire them on a multi-year basis.

Response: *Recommendation pertains to State Treasurer's Office.*

Recommendation:

5. The General Assembly may wish to consider raising the fee for processing payroll deductions.

Response: *Requires enabling legislation by the General Assembly.*

Recommendation:

6. The General Assembly may wish to consider amending the proviso relating to the fee for processing payroll deductions to require that all state agencies, including colleges and universities, assess the fee.

Response: *Requires enabling legislation by the General Assembly.*

Recommendation:

7. The comptroller general's office should develop a policy for determining when deductions should be discontinued for insurance companies and charities which have fewer than the minimum number of participants required by law.

Response: *Requires enabling legislation by the General Assembly.*

Recommendation:

8. The General Assembly may wish to consider amending §8-11-92 of the South Carolina Code of Laws to require that the attorney general's office determine a charity's eligibility for payroll deduction.

Response: *Requires enabling legislation by the General Assembly.*

Recommendation:

9. The General Assembly may wish to consider setting limit on the amount of lodging reimbursement for both in-state and out-of-state travel.

Response: *Requires enabling legislation by the General Assembly.*

Recommendation:

10. The Offices of the Comptroller General and the Treasurer should implement measures to ensure that lodging expenditures are reasonable.

Response: *Current state law provides for actual reimbursement on lodging. Location of events has a direct bearing on costs. What is reasonable in one city may not be reasonable in another city.*

Recommendation:

11. The General Assembly may wish to consider amending state law so that §1-11-310(A) applies to motor vehicles used by statewide elected officials.

Response: *Requires enabling legislation by the General Assembly.*

Recommendation:

12. The state treasurer's office should list separately each source of revenue when it submits budget requests and budget documents to the General Assembly.

Response: *Recommendation pertains to State Treasurer's Office.*



Office of the State Treasurer

RICHARD ECKSTROM
State Treasurer

November 5, 1997

Wade Hampton Office Building
Post Office Box 11778
Columbia, South Carolina 29211

George L. Schroeder
Director
Legislative Audit Council
400 Gervais Street
Columbia SC 29201

Via Hand Delivery

Dear Mr. Schroeder:

This letter will provide this Office's comments concerning your agency's report on our operations. We appreciate the time and effort your agency's staff devoted to the review. We know that your duties are often difficult and challenging, and we appreciate the commitment with which you carry-out those duties.

After taking office in mid-January of 1995, Treasurer Eckstrom knew it would take much time and effort to review and reform the complex operations of this office. However, under his leadership, we have made substantial progress since 1995, especially in the areas that impact the taxpayers of our State. Since 1995, we have, among other things, voluntarily saved and returned to the General Assembly \$618,000 in taxpayer generated funds from our budget to be used for more important purposes. We have reduced the number of occupied full-time state employee positions by about 10%. We have accomplished these and other savings while significantly increasing investment returns, improving existing programs, and taking on new programs such as the Unclaimed Property Program. In the first year of our operation of that program, we increased the return of monies to rightful owners to over \$3.5 million, an increase of approximately 240% over the average annual returns for the prior five fiscal years.

November 5, 1997

Page two

Our staff is continually reviewing our operations to determine if we can improve the effectiveness and efficiency of those operations or implement changes which save money for the taxpayers of this State. We are eager to receive suggestions and ideas for consideration from any source as long as the results are good. We appreciate the comments and recommendations developed by your agency during its review and look forward to determining if they would improve our operations or generate savings. To that end, we welcome any other suggestions or ideas you may have.

We do have some comments concerning some of the conclusions and recommendations reached by your agency and discussed in your report. If after reviewing our comments, you conclude that your agency has some additional comments for us that would help us in improving our operations in any respect, please do not hesitate to provide them.

Certificate of Deposit Program (your pages vi, 13-14)

In the section on investment management, your report indicates that the office may not be maximizing earnings on certificates of deposits in some instances because the office does not take into account the State's position as a large investor and does not recognize that higher rates may sometimes be available from banks located outside South Carolina.

An important point not mentioned in your report is that investments which are made with South Carolina financial institutions also provide economic benefits to the people of this state because they increase the amount of funds that local institutions have available to loan to South Carolina businesses and consumers. This in turn generates economic activity and more jobs in communities throughout the State. While earnings, liquidity, safety, and other traditional investment factors must be, and are, taken into account in any investment decision by this office, one cannot ignore the very real and concrete economic benefits of a program like this to the people of the State.

November 5, 1997

Page three

Since taking office in 1995, the present administration has increased investment returns approximately 63% above previous levels. Although the office's certificate of deposit program constitutes a small portion of our investment activities, we believe that the improvements we have made in the certificate of deposit program to date are reflected in the overall improvements in investment returns.

The rates set by this office for the certificate of deposit program are higher than the certificate of deposit rates offered by the same banks to other customers. For example, general certificate of deposit rates paid by the banks participating in this program in April 1997 to other customers were approximately 4.5% - 4.7%, while the minimum rate set by this office for our program for the same period was 5.35%. The office was able to achieve a greater rate of return for its certificate of deposit program by taking advantage of its position as a large investor.

The office uses sophisticated, state-of-the-art financial information systems in investing funds for the State which provide it with nationwide, up-to-the-minute financial information on all types of investments, including certificates of deposit. The rates being offered by other banks outside of South Carolina are taken into account in setting the rates for the South Carolina banks which choose to participate in the certificate of deposit program.

The State Treasurer's Office reviews all aspects of every investment program on a regular basis. We evaluate the certificate of deposit program every quarter. In the next quarterly evaluation of the certificate of deposit program, your comments and recommendations will be considered.

Bond Attorney Services (your pages vi, 14-17)

The Budget and Control Board serves as the oversight authority for all general obligation and revenue bond issues by the State, its agencies, and institutions. There are many different types of bond issues that the State, as well as other related entities, may use to raise funds for projects, and the General Assembly historically has designated the Budget and Control Board as the final reviewing

November 5, 1997

Page four

authority on all such issues. As a result, the Budget and Control Board and the State Treasurer's Office have developed expertise in reviewing most aspects of bond issues, including the services of bond counsel.

In its role as the oversight authority for bond issues, the Budget and Control Board over the years has developed various bond counsel policies including the use of a rotation list of qualified bond firms to serve as bond counsel on State agency and institution revenue bond issues. The State Treasurer's Office is a representative of the Budget and Control Board in administering bond counsel policies because of the experience and expertise it has in dealing with bond issues and bond counsel.

The current rotation system for bond counsel for revenue bond issues was developed and adopted by the Board to: ensure qualified bond counsel is selected for issues; develop on an ongoing basis an adequate number of South Carolina firms with expertise in all types of revenue bond issues; ensure that compensation for such work is reasonable and evaluated in a controlled manner; and provide an equitable basis for apportioning work among qualified bond firms.

The comments and recommendations by your agency concerning bond counsel services will be provided to the Budget and Control Board for its review and consideration.

Travel Expenditures (your pages vii, 23-25)

Your agency concluded that all travel and lodging expenditures by this office were properly documented and reimbursed in accordance with all applicable regulations. Nevertheless, we have devised and implemented a stricter pre-travel and post-travel review and approval process. In most instances cited in your review and in most instances of travel by this office, travel agencies are used in an effort to obtain the lowest possible cost. We will inform any travel agencies we use of our policy and strictly monitor their compliance.

November 5, 1997

Page five

Only one trip listed on your report was made by the Treasurer. This overnight trip to Washington, DC was made by him in his role as Chairman of the State Board of Financial Institutions to accompany South Carolina bankers on important meetings with the South Carolina congressional delegation and federal banking officials. The Treasurer used the same lodging on this trip as the representatives of South Carolina banks. This trip was paid for from bank examination fees paid to the State Board and not from tax dollars.

Total travel expenses for our office for the first two years of the current administration are approximately 14% less than the travel expenditures for the preceding two years by the prior administration. This percentage reduction is similar to the reduction in general fund appropriations achieved by the office during the current administration.

Travel and accommodations for official business are most often arranged by a travel agency selected in strict compliance with State regulations. We recommend that all State contracts with all travel agencies include a provision requiring the travel agency to obtain travel and accommodations at the lowest reasonably available cost to the State.

State Cars (your pages 25-26)

The car provided to the State Treasurer's Office, which is used by the State Treasurer as needed, is a 1992 Ford Crown Victoria which has over 95,000 miles on it. This car was provided to our office at our request as a used vehicle rather than being disposed of by the State because of its high mileage. When the State Treasurer uses this car for personal reasons as permitted by applicable regulations, he voluntarily reimburses the State for every mile of that use even though State regulations permit him not to reimburse the State. Since taking office, he has declined the use of a new State car even though he is entitled to one under current State policy and procedures.

November 5, 1997

Page six

Budget Requests (your pages vii, 26-27)

Since taking office, as you recognized in your report, we have revised and improved the office's traditional budget process. We continue to seek ways to improve the office budget and state agency budgets in general and welcome any suggestions you may have. Our efforts and improvements in planning and budgeting have allowed us to achieve significant savings in office operations.

With respect to your comments about another level of approval for revenue and expenditures for the 1996-1997 fiscal year for the Unclaimed Property Program (for which this office assumed full responsibility in early 1997), we followed the same budget process used for many years by the agency which previously was responsible for the program. Furthermore, we consulted with the Office of State Budget and other state agencies as to the appropriate method for handling such "trust fund" revenue and expenditures. We were advised that the method used by the state agency formerly responsible for the program and to be used by this office for the remainder of 1996-1997 fiscal year was appropriate. The state laws governing the Unclaimed Property Program also authorize the receipt and expenditure of these revenues. Therefore, your comment that an additional administrative approval may have been needed is questionable. Because the program has been fully included in our budget request to the General Assembly for all future fiscal years, this issue will not arise again.

With respect to the comment about the detail provided on a portion of our fiscal year 1997-1998 budget request, this may be a situation where your agency's view on the budget format and that of the General Assembly is different. When we submitted our 1997-1998 budget at the beginning of the budget process, we provided the detail to which you apparently are referring in your comments. We were advised by the administrative officials responsible for receiving the budget request that that amount of detail which we provided was not needed or feasible for the voluminous budget documents provided the General Assembly and we were asked to remove the detail. We complied with that request. During the legislative process, we provided a significant amount of itemized detail on each office program even beyond those mentioned in your review to the members and staffs of the House Ways and Means Committee and the Senate Finance

November 5, 1997

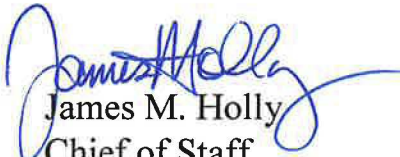
Page seven

Committee. We provided additional details orally during hearings and discussions. Each committee spent a great deal of time in reviewing our office budget. Therefore, there is no question that the General Assembly had ample information concerning our budget.

We will discuss your suggestions with the administrative and legislative staffs to whom we submit our 1998-1999 budget request and will ask that we be allowed to provide the detail you recommend. We are eager to provide whatever information or details are best whether in the formal budget documents or in our responses to any additional requests for information received from the General Assembly during the budget process.

Again, we appreciate the time and effort expended by your agency in reviewing our operations and look forward to discussing these or any other suggestions you may have concerning our office or state government.

Sincerely,



James M. Holly
Chief of Staff

JMH/ec

[0346]

This report was published for a total cost of \$757.75; 325 bound copies were printed at a cost of \$2.33 per unit.
