STATE TREASURER'S OFFICE – INITIAL RESPONSE
May 13, 2026

The State Treasurer's Office ("STO") provides this initial response to the "Limited Review of the South Carolina Office of the State Treasurer" ("Report"), prepared and published by the South Carolina Office of Inspector General ("SCOIG").

I. Master Lease Program

The STO's master lease program is established by S.C. Code Ann. § 1-1-1020, which authorizes the STO to "provide financing arrangements… on behalf of boards, commissions, institutions, and agencies of state government for the purpose of renting, leasing, or purchasing office equipment, telecommunications equipment, energy conservation equipment, medical equipment, data processing equipment, and related software," and requires the STO to "negotiate the terms of any financing arrangement" necessary to effectuate the transaction. To that end, the SFAA has "exempted the financing provisions of lease/purchase contracts and other debt and banking functions of the State Treasurer's Office from the procurement procedures of the Procurement Code."

The current statutory language creating the master lease program has been in place since 2002. The deals are structured to allow agencies to lease-to-own certain types of equipment without encumbering the State with general obligation debt. In the event that the General Assembly chooses not to appropriate funding for an agency's master lease agreement, the agency must simply inform the lessor (usually a bank) and surrender the equipment, with no further contractual obligations by the State.

According to our review of STO records remaining from that period to the present, there has never been any instance of bank repossession of State-leased property, nor has a bank ever assessed a late payment penalty in connection with the master least program. The STO's records indicate that it has assisted agencies in financing over 100 purchases through the master lease program—all of which were successful.

A lease is not the ideal financial structure for every situation. It is the agency's responsibility to determine whether a lease or an outright purchase is appropriate under each set of circumstances. S.C. Code Regs. § 19-445.2152.

The Report focuses singularly on the State Election Commission's ("SCEC") utilization of the STO's master lease program for election equipment; and, unfortunately, the circumstances of the SCEC's lease represent an outlier in nearly every respect. However, none of the problems which have arisen from that financing arrangement were cognizable to the STO or the financial institution lessor at the time of the SCEC's request for financing. We have provided your office with evidence of the following:

- The SCEC's board approved the lease of the election equipment, as required by S.C. Code Ann. § 7-3-20(D).

·The SCEC (not STO) selected T.D. Equipment Finance as lessor for the arrangement. T.D. Equipment Finance was the lowest bidder among four competitive proposals solicited by STO from financial institutions that participate in the STO's master lease program.

·The SCEC provided STO a copy of a June 11, 2024, "Briefing Memorandum" form the Director of Research for the Joint Bond Review Committee, which concludes: "Given the uncertainty of the FY2024-25 appropriation, and the benefits of structuring flexibility and favorable financing rates, the state master lease proposal for a term of 3 years appears to have highest and best value among the alternatives considered within this analysis."

·The Executive Director for the SCEC certified in writing that the State had "an immediate need for," the election equipment, and that he "expects and anticipates adequate funds to be available for all future payments or rent due after the current budgetary period."

·The SCEC's General Counsel certified in writing that the lease "complies with all bidding and procurement laws."

We also note that, prior to the SCEC entering into the master lease agreement, the SCEC Executive Director claimed to have obtained support from leadership in both the Senate and House of Representatives for the SCEC acquisition of the election equipment via STO's master lease program.

Regardless, the STO's coordination of the SCEC financial arrangements occurred in late 2024. The STO had no way of anticipating that State Appropriations Act for Fiscal Year 2025-26 (passed in July 2025) would appropriate funding for the first annual payment of the SCEC's lease, but delay the release of the funding until February of 2026— after the SCEC's first payment to the lessor was due.

Once STO learned of the situation, the Treasurer and STO intervened and diligently assisted the SCEC in avoiding either a surrender of voting machines or a 10% per month late payment penalty. The Treasurer contacted the SCEC's chairman regarding the matter, and spoke to the Commission members at the SCEC's [DATE] meeting, urging them to work with T.D. Equipment Finance to amend the lease agreement to avoid the contractual consequences of SCEC non-payment. The Treasurer also wrote a letter to the SCEC to that effect, and by copy of that letter, notified the Governor, the Speaker of the House, and the President of the Senate of the situation.

The Report appears to hold STO solely responsible for the SCEC's delayed response, while failing to acknowledge the SCEC's responsibility in managing its own financial obligations and equipment needs. The Report further fails to acknowledge the various allegations of wrongdoing by the SCEC and/or its former staff which are still being investigated, the outcomes of which may further shape our understandings of these events.

After the SCEC's issues arose, STO's legal and debt divisions began a full review of all processes, procedures and documentation related to the master lease program. Some immediate changes include:

·The master lease form contract was renegotiated to reduce the late payment penalty to 5%.

·All master lease agreement documents are to be reviewed, simplified and clarified regarding the applicability of any late payment

·Prior to the approval of any master lease financing request, STO's Office of General Counsel will produce a written legal opinion regarding whether the proposed lease/purchase is "office equipment, telecommunications equipment, energy conservation equipment, medical equipment, data processing equipment, and related software," per S.C. Code Ann. § 1-1-1020.

In conclusion, with the benefit of hindsight, STO agrees that certain processes and procedures can be improved in the STO's master lease program. However, the events surrounding the SCEC arrangement were extraordinary and unforeseeable, and certainly do not rise to the level of mismanagement by the STO, as you have suggested.

II. Reporting of Quarterly Bank Balances in Accordance with Section 11-5-120

The Report discusses the STO's compliance with S.C. Code Ann. § 11-5-120, which states, "The State Treasurer shall publish, quarterly, by electronic means and in a manner that allows for public review, a statement showing the amount of money on hand and in what financial institution it is deposited and the respective funds to which it belongs." The language of Section 11-5-120 was originally passed by the General Assembly in 1903 and remained the same until a 2008 revision allowing for electronic publication rather than publication "in one daily paper in the city of Columbia." S.C. Code § (24)21 (1903).

The historical record indicates a consistent interpretation by State Treasurers that Section 11-5-120 requires a quarterly report containing three elements: 1) the total amount of deposits in the Treasury's bank accounts; 2) the financial institutions in which the STO deposits money; and 3) the amount of money (i.e. "funds") in each bank. SCOIG's report disregard this longstanding interpretation and instead concludes that "the respective funds to which it belongs," refers to accounting funds rather than money. The SCOIG's interpretation is flawed for several reasons. Namely, the fund-based accounting system appears to have first been espoused in the "Governmental Accounting, Auditing, and Financial Reporting," published in 1935. The statutory language in question predates that publication by at least thirty years.

The STO fulfills the longstanding interpretation of Section 11-5-120 via the Bank Balances Quarterly Report which is published on its website. Additionally, as of September 30, 2019, STO began publishing a separate Portfolio Performance Summary which provides the market value and annualized total returns for each of the following: State General Fund, Insurance Reserve Fund, State Investment Pool, Long-Term Pool, Local Government Investment Pool, Education Improvement Fund, LTDI Trust Fund, and SCRHI Trust Fund. With the addition of this report, the STO currently provide more transparency regarding the allocation and performance of Treasury cash and investments than any previous STO.

Despite these facts, the SCOIG concludes that STO is not fully compliant with Section 11-5-120 because that statute requires STO to "publish fund data"—although the specifics of that mandatory "fund data" are never explicitly stated in law. SCOIG further suggests, without any legal or historical justification, that STO can "achieve full compliance with S.C. Code § 11-5-120" by reporting "funds at each financial institution by homogeneous groups with a cumulative total for each group."

Clearly, the language of Section 11-5-120, if not outright unclear, is susceptible to multiple good faith interpretations. To the extent that the STO's historic and current interpretation of Section 11-5-120 are incorrect, STO stands ready and willing to report the bank information however the General Assembly deems appropriate. However, STO strongly disagrees with the SCOIG's conclusion that STO's "partial compliance" with Section 11-5-120 (according to SCOIG's own unsupported interpretation) constitutes mismanagement.

III. Banks Providing Information to the Comptroller General in Accordance with Sections 11-13-70 through 90

The Report discusses STO's compliance with S.C. Code Ann. §§ 11-13-70 through 90. Section 11-13-70 requires financial institutions holding STO deposits to "file a report… on forms furnished by the Comptroller General," with the STO. Section 11-13-80 requires the financial institution to "transmit" a copy of that Comptroller General form to the Comptroller General. And Section 11-13-90 requires the STO to "at once withdraw all state deposits," from any financial institution who fails to timely provide the completed Comptroller General form, "without good cause shown."

Although both Sections 11-13-70 and 80 require "a report" on a form "furnished by the Comptroller General," neither of these statutes specify what information must be reported by the banks and/or trust companies. Sections 11-13-70 and 80 clearly identify the Comptroller General as the officer responsible for furnishing the forms referenced therein, making him responsible for determining the form's contents and the information requested. Indeed, the CGO acknowledges that these statutes are its responsibility, as both Sections 11-13-70 and 80 are listed as duties of that agency in its 2024 Annual Accountability Report.

While the STO's banking agreements do not explicitly name the CGO as a party with informational access, these form contracts explicitly require each bank to "make available to the State Treasurer, *and the respective State Entity*, reports necessary to facilitate monitoring, reconciliation, and research requirements." (emphasis added). The STO's banking agreements were previously provided to you.

However, the STO is not aware of any specific "form furnished by the Comptroller General" to banks or trust companies in accordance with Sections 11-13-70 and 80. In the absence of such a form, banks or trust companies cannot transmit a copy of the form to the CGO. Likewise, the CGO has not informed STO of any complaints or objections by the CGO concerning the adequacy of banking data provided to the CGO. As such, the STO can only conclude that the CGO's needs for the bank information are already fulfilled by data provided on a daily basis through SCEIS.

STO strongly disagrees with the Report's conclusion "failing to at once withdraw all state deposits" from all noncompliant banks constitutes STO mismanagement. To the contrary, the impossibility of filling out a CGO form that does not exist constitutes "good cause" for the STO not to withdraw all deposits from a bank or trust company that fails to do so, as allowed by S.C. Code Ann. § 11-13-90.

IV. STO's Appropriations, Budgeting and Spending

The STO agrees that it can do more in its cost allocation processes to improve consistency with cost accounting methodologies for its operating costs. To that end we are drafting and will implement improvements in those processes. Currently the majority of STO's costs are in personnel. STO has a strong process that is reviewed routinely by management to ensure correct allocations of staffing costs.

We disagree with the SCOIG's conclusion that the STO had no reliable process for assessing program costs. In multiple recent years, the STO had planned to undertake several significant projects and, consequently, budgeted for the expenditures related to those projects. However, due to unforeseen external demands, the agency appropriately focused staff time and resources on those matters, and did not ultimately proceed with the planned projects. As a result of this prioritization, portions of the STO budget which were intended to support those previously planned projects was not spent.

V. Unclaimed Property Program

The Report discusses the STO's Unclaimed Property Program. Notwithstanding certain inaccurate factual assertions and conclusions reached in this section, STO generally accepts the SCOIG's findings.

South Carolina's unclaimed property law requires businesses to report and remit certain types of abandoned property to the STO. This property is not "surrendered" to the STO, but rather remitted to the State and held for the benefit of the rightful owner. Since 2011, the STO has returned over $420 million of unclaimed property to its rightful owners. Third-party audit firms are a critical resource for STO to discover and recover unclaimed property held by entities across the country. Multi-state audits conducted by these third-party audit firms have facilitated the reporting of over $93 million to the STO's unclaimed property program.

The total value of the unclaimed property remitted to the state, as well as the total amount paid to the third-party auditors, are fully recorded and accounted for in the STO's unclaimed property management system, KAPS. The STO's unclaimed property program is audited every year as part of the agency's annual audit and is also audited by the STO's third-party internal audit vendor. The STO acknowledges the SCOIG's recommendation to record third-party audit invoices in SCEIS as a vendor payment as an item of consideration. As a result, the STO has extended the current third-party audit contract, formerly set to expire on June 30, 2026, by six months to allow the STO time to assess alternate payment methodologies and budget authorization impacts related to implementation of the SCOIG's recommendation.

VI. The Medicaid Management Information System (MMIS) Issue

The MMIS overdistribution of investment earnings is separate and distinct from errors identified in the AlixPartners, Mauldin & Jenkins, LLC reports, and the oversight of the remediation process by Forvis Mazars, LLP. While this was part of a conversion issue with South Carolina Department of Health and Human Services ("DHHS"), it was related to an assessment by at least two of the agencies set up of their cash fund general ledger codes being implemented at that time. While a larger issue with the SCEIS conversion of DHHS existed, the overdistribution issue was separate and different. Nor did it impact reporting in the state's annual financial statements. Once the agency identified the issue, it immediately took steps to correct it.