

**STATE TREASURER'S OFFICE  
OVERVIEW OF ISSUES SURROUNDING SCEIS FUND  
30350993 AND OTHER ALLEGATIONS**



Issued February 26, 2025

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

February 26, 2025

To Governor Henry McMaster, Members of the South Carolina General Assembly and the Citizens of South Carolina:

Please find this comprehensive response to the \$1.8B conversion fund to address actions taken by my staff as well as refute some of the assertions made by others on our handling of this matter.

To be clear, there is no mystery bank with \$1.8 Billion in it. There is no missing or misspent money, and all cash and investments have been properly managed and accounted for by the State Treasurer's Office. The AlixPartners Report confirms this as well. The State Treasurer's Office has acted in good faith to research and understand the accounting error made during the SCEIS computer conversion.

Despite bold claims to the contrary, we have fully cooperated with the Office of the Comptroller General, the Department of Administration, the State Auditor's Office and the external auditors brought in to review this matter, namely Mauldin Jenkins CPAs & Advisors and AlixPartners LLP.

I take seriously my duties as a fiduciary in charge of managing South Carolina's public funds.

We are ready to move forward with the recommendations of the AlixPartners report and to put this chapter behind us.

Sincerely,

A handwritten signature in black ink that reads "Curtis Loftis, Jr." in a cursive script.

Curtis M. Loftis, Jr.  
South Carolina Treasurer

## EXECUTIVE SUMMARY

- Comments by certain State officials regarding the State’s financial system and SCEIS Fund 30350993 have been ambiguous, misleading, and often inaccurate, resulting in significant misunderstandings among stakeholders. (p. 3).
- The Comptroller General is responsible for the creation of the State’s ACFR and is tasked with the oversight of SCEIS. (p. 8).
- The AlixPartners Report concludes that \$1.6 billion of the balance recorded in SCEIS Fund 30350993 was caused by the CGO’s incorrectly converting non-cash to cash in SCEIS. (p. 10).
- The evidence confirms that the CGO excluded SCEIS Fund 30350993 from the ACFR, coordinated the use of SCEIS Fund 30350993 during the State’s financial system conversion, and incorrectly recorded \$1.6 billion of appropriations as “cash,” which it ultimately directed into SCEIS Fund 30350993. (p. 11).
- Comptroller General Brian Gaines has consistently provided inaccurate communications and under-oath testimony to the Subcommittee regarding SCEIS Fund 30350993, attempting to place undue blame on the Treasurer for the CGO’s errors. (p. 20).
- The AP Report suggests that the Comptroller General and/or CGO provided false information to AlixPartners, withheld other important information from AlixPartners, and that the CGO may have provided false information to the Subcommittee. (p. 22).
- The Comptroller General is obstructing STO’s ability to follow the AP Report recommendation and the directives of the General Assembly. (p. 25).
- The Treasurer has never hidden or attempted to hide SCEIS Fund 30350993. (p. 28).
- The Treasurer’s testimony that the \$1.8 billion had earned interest was made in reliance of the Comptroller General and State Auditor’s professional opinions that SCEIS Fund 30350993 represented General Fund cash. (p. 29).
- Senator Goldfinch falsely claimed to have evidence that SCEIS Fund 30350993 held federal funds in the Subcommittee’s April 2, 2024 hearing. (p. 30).
- The STO’s General Fund Portfolio has always maintained sufficient liquidity to cover all State transactions. (p. 32).
- The Treasurer has never concealed or attempted to conceal any ACFR (or draft ACFR) General Fund balance. (p. 35).
- The Treasurer never released, nor did he intend to release information that would put the State’s financial system at risk. (p. 40).
- The manner in which the Subcommittee has chosen to undertake its “investigation” has been inappropriate and may be actively endangering the State’s interests. (p. 46).

## **BACKGROUND**

This Overview of Issues Surrounding SCEIS Fund 30350993 and Other Allegations (“Report”) is the product of an internal review requested by Curtis M. Loftis, Jr., State Treasurer of South Carolina (“Treasurer”) and conducted by the South Carolina State Treasurer’s Office (“STO”) via its STO Legal Division, and articulates the present understanding of the background and facts related to the *State Treasury Forensic Accounting Review Final Report* (“AP Report”) issued by AlixPartners LLP on January 15, 2025, as well as allegations made in the *Interim Report of Findings and Recommendations on the \$1.8 Billion Discrepancy in Treasury Balances and Certain Other Matters* (“Interim Report”), issued by the Constitutional Subcommittee of the Senate Finance Committee (“Subcommittee”) on April 16, 2024.

On November 29, 2022, **without notifying or consulting with the Treasurer or STO**, Comptroller General Richard Eckstrom issued the State’s 2021-2022 Annual Comprehensive Financial Report (“ACFR”) containing a restatement in “Note 15” which adjusted ACFR General Fund cash and equity by a net amount of negative \$3.530 billion (pp. 146-147). According to note 15, the adjustment was necessary because a mapping error in the State’s accounting system, the South Carolina Enterprise and Information System (“SCEIS”), had resulted in an overstatement of cash in the ACFR General Fund. Per Note 15, the error “impacted the ACFRs only. It had no impact on the State’s actual cash...” Id. p. 147.

This ACFR restatement, which was disclosed as part of the 2022 ACFR on the Electronic Municipal Market Access (EMMA) system on January 31, 2023, is now the subject of an investigation by the Securities and Exchange Commission (“SEC”).

Although Note 15 did not explicitly state it, the AP Report confirms that the CGO initially calculated the ACFR restatement as “net result of three primary categories of errors: (1) the Double-Counting of Appropriations, which had improperly overstated cash by \$5.9 billion, (2) the cash balance in Fund 30350993, which improperly understated cash by the \$1.8 Billion, and (3) a \$517 million Department of Transportation-related adjustment which also had understated cash.” (p. 46). The AP Report appears to acknowledge that Note 15 quantitatively corrected the misstatement in the ACFR. The Treasurer and STO have not been provided sufficient information to determine (nor is it within their legal authority to determine), and therefore cannot opine on whether the proposed SCEIS reversal entries and ACFR calculation methodology is qualitatively correct, or what effects those corrective entries will have on the ACFR.

As it pertains to this Report, Eckstrom and the Comptroller General’s Office (CGO) unilaterally determined that an understatement of \$1.8 billion in the ACFR General Fund had occurred due to the exclusion from the ACFR General Fund of entries recorded in SCEIS—namely those entries recorded in SCEIS Fund 30350993.

As a result of significant inquiry and speculation regarding the origins and ownership of the SCEIS Fund 30350993 balance, Governor Henry D. McMaster established a multi-agency “Working Group” to research the matter. In light of the State’s pending SEC investigation, and out of respect for the progress of the Working Group, the Treasurer held this report in abeyance. As the AP Report has now been released and discussed SCEIS Fund 30350993 in detail, this

report serves to supplement the information discussed therein, as well as respond to other allegations regarding the Treasurer and STO.

## DISCUSSION

### **I. Comments by certain State officials regarding the State’s financial system and SCEIS Fund 30350993 have been ambiguous, misleading, and often inaccurate, resulting in significant misunderstandings among stakeholders.**

Misunderstandings regarding accounting terminology, as well as the mechanisms within State’s financial system, have led to misleading and inaccurate accusations regarding SCEIS Fund 30350993.<sup>1</sup>

#### **a. The STO does not custody all State money, and the ACFR does not directly present the financial condition of the STO’s portfolios.**

As an initial point of clarity, it is important to understand that the STO does not custody all State cash and investments. Certain State entities have been authorized by statute to manage and/or account for their own resources, and some are exempt from using SCEIS. These entities report their financial information to the Comptroller General, who is singularly responsible for leveraging that information, along with other financial information it requests and obtains from State agencies through SCEIS and through its “closing package” forms, to compile and prepare the State’s ACFR.

The Comptroller General incorporates STO-custodied resources into its ACFR calculations, but the ACFR is not a discrete representation of *only* STO-custodied resources. This distinction has contributed to seemingly disparate conclusions regarding the ACFR vs. the STO’s cash and investments, such as:

- “This mapping error impacted the ACFR’s only. **It had no impact on the State’s actual cash...**” 2022 ACFR p. 147.
- “We determined that approximately \$1.6 billion of the \$1.8 billion [in SCEIS Fund 30350993] did not represent real cash... It should be noted that, upon reversing the \$1.6B entries that **the bank balances in SCEIS remain the same and continue to reconcile to bank statements.**” AP Report, p. 10.
- “The [remaining] \$245 million is...investible/spendable cash and **is, and has been, included in the bank balances reported by the STO.**” AP Report, p. 10.

In other words, a problem with the CGO’s ACFR does not imply—and in the present situation, does not equate to— a problem with the STO-custodied cash and investments.

Even if the STO had statutory authority or responsibility to compile the ACFR (which it does not), as noted by the AP Report the CGO has historically prepared the ACFR in a manner

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<sup>1</sup> These topics have been highly simplified for clarity. For every generality, there are exceptions.

that has made it impossible<sup>2</sup> for STO to independently assess the ACFR’s accuracy. For fiscal year ending 2023, and numerous years prior, the State Auditor’s “Report to Governance on the Audit of the State of South Carolina”<sup>3</sup> (and many years prior) noted that the CGO’s processes are “manual” and “based off review of the account coding and historical knowledge”:

The process performed by the Comptroller General’s Office (CGO) to prepare the Cash and Investment closing file is manual and time consuming. The reconciliation process is initiated by general ledger export and review of approximately 31,000 transactions to determine if those transactions should be included or excluded from the reconciliation process. The inclusion/exclusion decision is determined based off review of the account coding and historical knowledge. We recommend that management of the State review the reconciliation to determine if any components of the process can be automated.

Likewise, the AP Report notes a troubling number of instances in which the CGO’s processes, calculations, adjustments, and “top-side entries” were, in AlixPartners’ assessment, insufficient (pp. 9, 38, 39, 41, 48, 51, 53, 60, 61, 62, 64) inadequately documented (pp. 11, 13, 39, 51, 53, 57, 58, 61), the result of incorrect or unsupported methodology (pp. 11, 39, 51, 53, 54) or a combination of these factors. The CGO even refused to allow AlixPartners to review its “Crosswalk” for any year after 2020. AP Report (p. 61, fn. 120). Before that, an independent review conducted by accounting firm Mauldin and Jenkins similarly stated that the CGO has not adequately communicated its ACFR processes to STO. *See* Mauldin & Jenkins, “Operational Performance Assessment of the ACFR Development Process” (pp. 44-48).

In the context of SCEIS Fund 30350993, the difference between the financial condition of the STO-custodied cash and investments versus the CGO’s presentation of the ACFR, has caused significant confusion. It is essential to recognize that the Comptroller General’s 2022 ACFR restatement had absolutely no connection with the STO’s ability to track the resources it custodies. The restatement was an element of the CGO’s Government-wide ACFR computation.

**b. SCEIS Fund 30350993 is an accounting record, not a bank or investment account.**

Contrary to implications in public discourse, the \$1.8 billion “fund” at issue is not a bank account or investment product containing that amount. SCEIS Fund 30350993 is an accounting ledger used to represent State transactions.

SCEIS<sup>4</sup> contains the State’s General Ledger. Because the State’s General Ledger is large and complex, it is organized into smaller “accounting designations that the State uses to track specific funding sources and spending for particular purposes” which are referred to as “funds.”

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<sup>2</sup> In fact, one of the many AP Report recommendations made for the CGO is that it “Provide training and related documentation to the STO that explains where cash and investments in the STO Treasury show up in the ACFR and how negative cash can occur. Documentation should be sufficient to allow the STO to independently quantify the ACFR General Fund cash balance using information to which it already has access.”

<sup>3</sup> This audit addressed the FY2023 ACFR, issued by Comptroller General Brian J. Gaines.

<sup>4</sup> The majority of South Carolina Code provisions governing the State’s financial procedures predate SCEIS and do not contemplate the existence of SCEIS funds.

ACFR FY23 (p. 24). To avoid ambiguity, the term “SCEIS fund” will be used in reference to this SCEIS accounting designation.

SCEIS funds aggregate related SCEIS General Ledger information into a smaller, more specific ledger. The existence of a SCEIS fund does not imply the existence of a discrete bank account or investment account composed only of the assets or transactions represented in that SCEIS fund. One dollar in a SCEIS fund does not necessarily correlate to a specific bank account or specific investment security in a pool.

The CGO is the sole agency with the authority to create, classify, reclassify, close, or authorize agency access<sup>5</sup> to SCEIS Funds: “the Comptroller General is directed, as the State Accounting Officer, to maintain an Enterprise Information System for State Government (SCEIS) that will result in proper authorization and control of agency expenditures, including payroll transactions, and in the preparation and issuance of the official financial reports for the State of South Carolina.” 2023-24 State Appropriations Act, Proviso 97.2; *see also* 2005 Act No. 115, Part 1B, Proviso 59.2.

In conclusion, SCEIS Fund 30350993 is not a specific bank or investment account; it is an electronically-recorded accounting ledger which aggregates and presents related SCEIS General Ledger transactions.

**c. The STO banks and invests “pooled” money, also referred to as portfolios, the amounts of which are classified on a large scale.**

The STO banks and invests money in large portfolios or “pools” which benefit from economies of scale and allow for lower trading costs per dollar, greater diversification, and, consequently, theoretically higher yields. *See* 2024 Appropriations Act, Proviso 98.3. Pools are created based on the State’s needs, as well as the purposes, restrictions, and requirements associated with money from certain sources. Each pool is composed of a specifically-tailored combination of cash and/or investments, depending on the pool’s risk and liquidity requirements. The “menu” of STO’s permissible investments is dictated by S.C. Code Ann. § 11-9-660. At any given time, a pool may include assets “located” in the portfolio’s designated bank account or multiple investment vehicles, and that “location” will change regularly.

The STO tracks these pools using SCEIS, and the AP Report has confirmed that STO’s cash and investment have reconciled with banking records since at least 2015. In highly simplified terms, what this means is that the SCEIS Bank General Ledger matches the bank and investment statements from the same period. And, importantly, even when the errors in SCEIS Fund 30350993 are reversed, this will continue to be true. AP Report, p. 10.

**d. The “accounts” in SCEIS Fund 30350993 are not bank accounts or investment accounts; they are categories of transactions.**

Within the context of SCEIS, an account (referred to hereafter as “GL Account”) is not a bank account, an investment account, or any other financial product. GL Accounts are categories

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<sup>5</sup> The Comptroller General’s website contains forms by which agencies can request these actions. <https://cg.sc.gov/guidance-and-forms-state-agencies/cgs-accounting-policies-and-procedures>



of transactions which organize the ledger entries by their characteristics, such as revenues, expenses, assets, liabilities, and equity.

The image below is a screen capture of how a SCEIS fund is presented within SCEIS. As shown in this example, SCEIS Fund 10050025, the balances are organized into GL Accounts.

GL Account	YTD Beg Bal	MTD Activity	YTD End Bal
1000000000 CASH DUE TO/FROM			
1000030000 GENERAL FUND APPROPRIATION CASH		31,681,850.00	31,681,850.00
1011300000 WF_E16_STO_Contingent Acct_CASH			
1011300001 WF_E16_STO_Contingent_CLRG_CKS_OUT			
* Cash Accounts		31,681,850.00	31,681,850.00
** Total Assets		31,681,850.00	31,681,850.00
*** Total Assets		31,681,850.00	31,681,850.00
2000010000 ACCT PAY&VOUCHER PAY			
2000040000 ACCOUNTS PAYABLE - CCD			
* Accounts Payable			
** Total Liabilities			
5180750000 AID ENTITIES			
5180850000 AID PLANNING DISTRICTS			
* Expenses			
7999999997 GENERAL FUND APPROPRIATION CASH OFFSET		31,681,850.00-	31,681,850.00-
* Other Accounts		31,681,850.00-	31,681,850.00-
** Total Fund Balance		31,681,850.00-	31,681,850.00-
*** Total Liabilities and Fund Balance		31,681,850.00-	31,681,850.00-
**** Total			

Transactions recorded within a SCEIS fund account can also be aggregated and viewed at the SCEIS General Ledger account level, across all SCEIS Funds. The GL Account column indicates how the corresponding activity is aggregated within the SCEIS General Ledger for the SCEIS fund.<sup>6</sup> GL Accounts are often referred to by their 10-digit numbers and/or a shorthand nickname derived from that number. Every SCEIS fund uses the same GL Accounts numbers—i.e. every SCEIS fund’s “CASH DUE TO/FROM” GL Account is numbered 1000000000, just as the SCEIS fund example shown above. Unfortunately, SCEIS Funds and GL Accounts can be easily conflated because SCEIS funds are assigned long (8-digit) number codes, which are also often shortened for quick reference.

In the context of SCEIS Fund 30350993, the reference to “accounts” does not mean that there is a discrete bank or investment vehicle with \$1.8 billion dollars in it. These “accounts” are GL Accounts.

**e. The term “General Fund” has multiple meanings.**

<sup>6</sup> The number associated with each GL Account is not a “bank account” number, but a SCEIS-wide account code used (as applicable) in every SCEIS Fund and in the SCEIS General Ledger.



Another critical distinction to be made in the discussion of SCEIS Fund 30350993 is the various uses of the term “General Fund.”<sup>7</sup> Despite the ubiquity of the term in State government, the State’s General Fund is not defined in statute, and can have multiple meanings depending on context and application.

To the Treasurer and STO, “General Fund” is the General Fund Portfolio— the STO-custodied pool of cash and investments which finance the ordinary operations of the State, except where the cost of those operations are paid by other sources.

To the Comptroller General and CGO, “General Fund” primarily refers to the CGO-calculated ACFR General Fund financial statement published in the ACFR. The ACFR is comprised of all State resources, including STO-custodied resources, as well as resources not custodied by STO, and resources which are not recorded on SCEIS. Activity is accounted for in the ACFR General Fund unless State Law or external parties require them to be accounted for in another fund. FY2023 ACFR, p. 30.

The Comptroller General also tracks the “Appropriations General Fund” which refers to the money appropriated in each year’s State Appropriations Act. Per S.C. Code Ann. § 11-3-50, “The Comptroller General shall keep a book in which all appropriations by the General Assembly shall be entered, with all payments made under them...” Presently, this “book” is maintained in SCEIS.

	<b>STO’s General Fund Portfolio</b>	<b>CGO’s ACFR General Fund</b>	<b>Legislature’s General Fund in Appropriations Act</b>
Context	1 of 8 STO-invested pools.	1 of 5 Governmental Funds calculated by the CGO for purposes of the ACFR.	Legislatively-assigned resources are organized into 4 Funds for Statewide Accounting, of which the General Fund is one.
What rules/policies apply?	Resources invested in accordance with State law and STO portfolio investment guidelines.	Calculation and presentation governed by GAAP/ GASB guidelines and CGO policies.	Governed by State law and Appropriations Act.
Compatibility and visibility within SCEIS?	STO and CGO have full visibility to all portfolio activities in SCEIS.	The ACFR General Fund is not composed of the same SCEIS Funds that represent pooled resources in the General Fund Portfolio. CGO calculates the ACFR General Fund and makes additional manual adjustments outside of SCEIS. STO is not privy to CGO’s calculations.	Maintained by the CGO in SCEIS.

<sup>7</sup> The term General Fund predates SCEIS by decades and does not invoke the same meaning of “fund” discussed previously in the context of SCEIS funds.

Understanding the various meanings of “General Fund” is particularly relevant in discussing the differing reconciliations performed by the STO and CGO. STO reconciles the cash and investments it custodies. On a monthly basis, the STO reconciles the total custodied cash and investments in the Treasury with the statements from the financial institutions holding and investing those assets. **There has never been any indication that STO’s bank and investment reconciliations are inaccurate.** In fact, the Comptroller General correctly states in the 2022 ACFR restatement, Note 15, that the restatement has no impact on the State’s (and thus the STO’s) actual cash:

*This mapping error impacted the ACFRs only. It had no impact on the State’s actual cash or on the State’s annual appropriation and budgeting process. Furthermore, the general ledger remained correct throughout.*

It is the ACFR General Fund for which the CGO issued a net \$3.5 billion restatement, which included applying the \$1.8 billion balance recorded in SCEIS Fund 30350993 as cash to the ACFR General Fund, without ever notifying or consulting with the Treasurer or STO.

## **II. The Comptroller General is responsible for the creation of the State’s ACFR, and is tasked with the oversight of SCEIS.**

Pursuant to State law, the Comptroller General is responsible for the management of SCEIS and the creation of the ACFR, and has been given broad and absolute authority to carry out that responsibility.

In the simplest terms: the Treasurer is the State’s banker; the Comptroller General is the State’s accountant. The present Comptroller General apparently disputes this distinction; but, at all times relevant to the history of SCEIS Fund 30350993, this is how the statutory relationship was mutually understood between the Comptroller General and the Treasurer, as well as their respective offices. In fact, in a 2020 e-mail discussion among STO and CGO staff, former Comptroller General Eckstrom aptly described the duties and authorities of each office:

Martin [of STO], you know the bank-side of this task. David, between you, Kathy, Michael, and Katherine [all of CGO] I think we can cover the book-side. [...] We’re all in this together.

### **a. The Treasurer is the State’s Banker.**

The STO manages the “bank-side” of the State’s financial system, and “acts as the State’s banker and is responsible for managing, investing, and retaining custody of more than \$60 billion in public funds for the South Carolina State Government.” Mauldin & Jenkins, *Operational Performance Assessment of the ACFR Development Process* (p.10). The Treasurer “has by law the custody and control of the moneys of the State.” *In re Morris*, 1998 WL 196487 (S.C.A.G.) (quoting 81A C.J.S., States § 135). The Treasurer is responsible for the investment of the STO-custodied funds, and S.C. Code Ann. § 11-9-660(A) provides him with “full power to invest and reinvest all funds of the State” in a list of designated investment vehicles.

In summary, the Treasurer custodies and invests the Treasury's money and provides reporting to others (the CGO, state agencies, the Legislature, and the public), and issues Treasury payments directed by the Comptroller General. See S.C. Code Ann. § 11-5-100, *et seq.*

**b. The Comptroller General is the State's accountant, responsible for computing, compiling, and issuing the ACFR, managing SCEIS, and overseeing the State's financial procedures.**

By comparison, the Comptroller General maintains the “book-side” of the State's finances. As the State's Chief Accounting Officer, he verifies, directs, and accounts for every expenditure of the State.<sup>8</sup> By law, he is to serve as a “complete check”<sup>9</sup> on the Treasurer. S.C. Code Ann. § 11-3-110.

The Comptroller General is the officer responsible for ascertaining the purpose—and therefore the “ownership”—of State money. He must maintain, “as a permanent office record,” an “itemized statement of expenditures showing in each case the name of the payee and a list of articles purchased or services rendered, together with a certified statement that such articles or services were purchased or rendered exclusively for the purpose or activity for which the appropriation was made” for every payment from the Treasury. S.C. Code Ann. § 11-3-170. He must also account for “unappropriated funds in the State Treasury.” S.C. Code Ann. § 11-3-90.

Of particular relevance to the matter of SCEIS Fund 30350993, the Comptroller General is tasked with keeping “a set of books exhibiting the separate transactions of the State Treasury” (S.C. Code Ann. § 11-3-100) and must keep records such that, “at any time,” he will be able to “show how such accounts stand” between the State and any recipient or intended recipient of public funds (S.C. Code Ann. § 11-3-210).

The Comptroller General must also “keep a book in which all appropriations by the General Assembly shall be entered, with all payments made under them...” S.C. Code Ann. § 11-3-50.

Additionally, for each fiscal year since 2014, the Comptroller General has been given full power and authority to maintain SCEIS, report on the financial condition of the State government, and issue accounting policies and directives for the State. See 2023-24 State Appropriations Act Proviso 97.2.

From a legal perspective, it is clear that the designation, identification, ACFR inclusion, and record-keeping responsibilities related to the transactions recorded in SCEIS Fund 30350993 can only reasonably be attributed to the Comptroller General. A review of the events which led to the accumulation of “cash” represented in SCEIS Fund 30350993 only further reinforces this conclusion.

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<sup>8</sup> For example, See SCAG Op.Ltr. Dec. 2, 2005, to the Honorable Hugh K. Leatherman, Sr.

<sup>9</sup> Importantly, the law does not authorize, nor do the systems in place allow the Treasurer to serve reciprocally as a “complete check” on the Comptroller General.

**III. The AlixPartners Report concludes that \$1.6 billion of the balance recorded in SCEIS Fund 30350993 was caused by the CGO’s incorrectly converting non-cash to cash in SCEIS.**

The AP Report concludes that, of the \$1.8 billion represented in SCEIS Fund 30350993, “approximately \$1.6 Billion did not represent real cash. It is attributed to balances in certain ACFR-only business areas (“ACFR BAs”) that were incorrectly recorded to Fund 30350993 during Phase 2 of the bank conversion. **These balances represent a summation of adjustments previously recorded by the CGO during the ACFR preparation process, and as such, the failure to recognize what these balances represented had the unintended consequence of artificially inflating the balance in Fund 30350993.** These entries were the primary reason that the Conversion Account did not net to zero upon completion of the conversion as intended.” AP Report, Pg. 10 (Emphasis added.)

By way of background, SCEIS has been set up in a way that represents the movement of actual resources (i.e. real cash), and also tracks budgeted dollars, also known as appropriations. In SCEIS, appropriations are not real cash; instead, they represent an agency’s authority to spend money, as dictated by the General Assembly. In the SCEIS system, appropriations can be erroneously recorded as real cash.

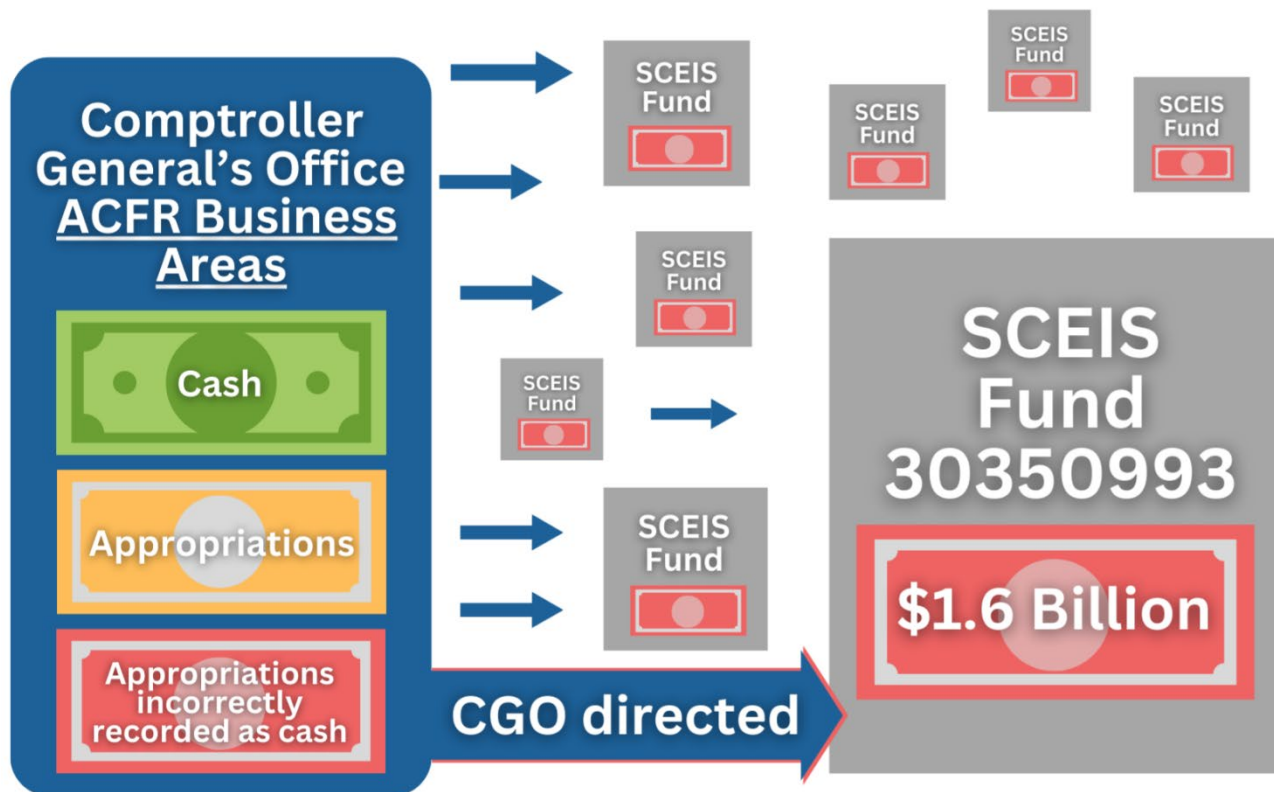
AlixPartners concludes that the CGO incorrectly recorded appropriations (i.e. non-cash) originating from the CGO’s SCEIS ACFR Business Areas (“ACFR BA’s”).<sup>10</sup> The CGO’s *non-cash* entries erroneously flowed out into the SCEIS “universe” as *actual cash*. The CGO’s incorrect entries contained both “positive” and “negative” aspects of cash. Thus, as the non-cash entries worked their way into SCEIS funds as cash, the net effect on the SCEIS General Ledger bottom line was zero.

STO did not know, and had no way of knowing, that the CGO had “created cash” in SCEIS by recording appropriations as cash. Under the CGO’s explicit direction, STO transferred \$1.6 billion of this ACFR BA non-cash “to the Conversion Account [in SCEIS Fund 30350993], which had the effect of turning non-cash balances within Legacy Cash accounts in SCEIS into ‘real cash’ by transferring those balances into ‘real cash’ general ledger accounts.” AP Report, p. 43. Meanwhile, the “negative” aspects of this cash—also referred to as “corresponding entries”—remained in (or was moved to) other SCEIS funds.<sup>11</sup>

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<sup>10</sup> ACFR BA’s are also sometimes referred to as “Triple Zeros,” as they include: A000 (General Governmental), H000 (Education), J000 (Health-Environment), L000 (Social Services), N000 (Admin of Justice), P000 (Resources-Econ Dev), U000 (Transportation), V000 (Debt Service), and X000 (Intergovernmental).

<sup>11</sup> The AP Report does not specify the date(s) that the CGO’s original errors occurred, nor does it reassure the State that the \$1.6 billion of non-cash recorded as cash in SCEIS Fund 30350993 represents the full extent of the CGO’s original error.



The error affected the ACFR and the SCEIS Bank General Ledger differently. The SCEIS Bank General Ledger is “SCEIS Fund agnostic,” and considers all SCEIS funds without regard to ACFR classification. Since the CGO’s incorrect entries accumulating as cash in SCEIS Fund 30350993 were offset by negative entries in other SCEIS funds, the net effect on SCEIS Bank General Ledger was zero. Likewise, the net effect of reversing the entries in the SCEIS Bank General Ledger will also be zero, and the SCEIS Bank General Ledger will continue to reconcile properly.

As noted above, Comptroller General is statutorily required to keep records such that, “at any time,” he will be able to “show how such accounts stand” between the State and any recipient or intended recipient of public funds (S.C. Code Ann. § 11-3-210), and must also “keep a book in which all appropriations by the General Assembly shall be entered, with all payments made under them...” S.C. Code Ann. § 11-3-50. Legally, and factually, the \$1.6 billion of appropriations recorded as cash in SCEIS Fund 30350993 can only be attributed to the Comptroller General.

**IV. The evidence confirms that the CGO excluded SCEIS Fund 30350993 from the ACFR, coordinated the use of SCEIS Fund 30350993 during the State’s financial system conversion, and incorrectly recorded \$1.6 billion of appropriations as “cash,” which it ultimately directed into SCEIS Fund 30350993.**

Despite the AP Report’s explicit finding that the \$1.6 billion of false cash in SCEIS Fund 30350993 “represent a summation of adjustments previously recorded by the CGO during the ACFR preparation process,” (p. 10), Comptroller General Gaines continues to publicly deny any

responsibility and assign blame to STO. As such, it is appropriate to explicitly set forth the evidence proving that the CGO excluded SCEIS Fund 30350993 from the ACFR, coordinated the use of SCEIS Fund 30350993 during the State’s financial system conversion, and incorrectly recorded \$1.6 billion of appropriations as “cash,” which it ultimately directed STO to record in SCEIS Fund 30350993.

**a. The Comptroller General was statutorily responsible for the SCEIS conversion.**

In 2005, the General Assembly mandated that SCEIS “shall be implemented for all agencies” as the State’s financial management and accounting system. S.C. Code Ann. § 11-53-20. SCEIS represented a comprehensive automated information system, replacing the thirty-year-old Statewide Accounting and Reporting System (“STARS”), as well as several other individual systems, some of which had limited or no compatibility with STARS. “The South Carolina Enterprise Information System Oversight Committee, as appointed by the Comptroller General, shall provide oversight for the implementation and continued operations of the system.” *Id.*

The conversion of STO functions to SCEIS occurred between 2014 and 2018, and was a collaboration of representatives from the CGO, STO, the SCEIS division of the Department of Administration, the State Auditor’s Office, as well as two outside consultants: Grant Thornton, LLP (an accounting and auditing firm), and SAP (the developer of the SCEIS platform).

**b. The CGO coded SCEIS Fund 30350993 to be excluded from the ACFR.**

As the AP Report acknowledges, the CGO has been aware of SCEIS Fund 30350993 since it was created in SCEIS by the Department of Administration in 2014. *See* (p.8). Moreover, the CGO, not STO, excluded SCEIS Fund 30350993 from the ACFR General Fund, and coordinated the STO’s and Department of Administration’s use of the SCEIS fund during the State’s financial system conversion.

On May 26, 2016, Laura Showe, the CGO’s Manager of Statewide Reporting issued an e-mail directive four other CGO employees to change the coding and classification of SCEIS fund 30350993 to be excluded from ACFR (formerly referred to as CAFR<sup>12</sup>) reporting, and notifying STO’s Director of Treasury Management, Martin Taylor, of the modification to the SCEIS fund:

Good morning,

David [Starkey, of CGO] just attended a meeting and it has been determined this fund does not represent “true” cash available and should not be reported within the CAFR, it is being used as a clearing fund for the Treasurer’s office. Therefore, the following

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<sup>12</sup> For Fiscal Years 2019-20 and prior, the State’s comprehensive financial statements were referred to as the Comprehensive Annual Financial Report, or “CAFR.” For Fiscal Years 2020-21 and after, the same report is called the Annual Comprehensive Financial Report, or “ACFR.”

changes need made on the fund master so that it is not picked up in any CAFR reporting that is prepared at year end.

Fund Type = 99

GAAP individual fund= 999

Fund code = 6999

Funds classification = 99999

These changes will ensure that it is not pulled into the General Fund reporting based upon the current coding. If any issues are identified with these requested changes please let me know so that we can work towards a solution. Thanks

Laura Showe  
Manager, Statewide Financial Reporting  
Comptroller General's Office

EXHIBIT 1. This e-mail proves that CGO employees Showe and Starkey explicitly acted to exclude SCEIS Fund 30350993 from the CAFR/ACFR, and recognized SCEIS Fund 30350993 as a "clearing fund."

On the same day, in response to the CGO's directive to code SCEIS Fund 30350993 to be excluded from the CAFR/ACFR, STO's Director of Treasury Management, Martin Taylor, advised Senior Assistant Comptroller David Starkey of CGO and Doug Cooper of Department of Administration that:

There are several funds used for "treasury" purposes that you will likely need to treat in similar fashion as this fund..... Suffice it to say we at STO will need to consider the activity in this fund to balance the system to the BANK, but the activity within these funds is AGENCY / FUND agnostic and not attributable to any specific agency.....

We'll talk it through at the overview meeting we discussed this am.....

EXHIBIT 1. Taylor's e-mail affirms the long-standing mutual statutory understanding that STO's responsibility is to balance SCEIS money to the bank, without regard to the ownership of specific SCEIS funds, while it is the CGO's responsibility to make determinations regarding the ACFR.

There is no indication that any person at CGO or the Department of Administration ever took issue with Taylor's statement.

- c. **The CGO coordinated the use of SCEIS Fund 30350993 as a "conversion fund" and directed the STO to make conversion entries in it.**



The SCEIS conversion team used SCEIS Fund 30350993 to track the conversion of banking and investment functions as entries were imported from the legacy systems to SCEIS.<sup>13</sup>

On July 13, 2017, Taylor (STO) sent an e-mail to Starkey (CGO) acknowledging receipt and review of a “workpaper” from Starkey which described a very large journal entry in SCEIS related to the SCEIS cash conversion. Taylor (STO) stated to Starkey (CGO):

I have spent some time looking at your workpaper and think I follow your efforts. BUT before we get to posting any entries etc, I wanted to get together with you and your crew, put it up on a screen and talk through what entries you propose and what my next steps should be.... Just make sure we are all singing the same hymn..... As we continue to empty the legacy cash accounts into Bank GL's.

EXHIBIT 2. Taylor's communication indicates his understanding that the CGO was coordinating STO's posting of SCEIS conversion entries.

On November 2, 2017, Starkey (CGO) sent an e-mail to Katherine Kip<sup>14</sup> and Martin Taylor (both of STO), copying Showe and Morrison (both of CGO) in which Starkey directs STO to make accounting entries in SCEIS related to the SCEIS conversion:

Hi Martin & Katherine,

Here the adjustment to 1000060000, which went through last night as we discussed last night. As long as you now convert the H000 and P000 areas in 1000060000, you will only convert the cash, as the appropriations have now been eliminated. Katherine, we took Martin through the workpapers last night, which go down to the document level. We never eliminated the appropriations from 1000060000, as all of the activity was in fund 10019000 (a GAAP fund 999 – which does not flow into the CAFR). But, now we are good to convert that. We also discussed the JE to eliminate the 9999999999 account balance yesterday as well and will touch base with you in a few.

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<sup>13</sup> As part of that process, another SCEIS fund— SCEIS Fund 30350992— was also used as a conversion fund to record cash and investments transfers, similar to the use SCEIS Fund 30350993. On June 26, 2017, Taylor (STO) consolidated these conversion entries from SCEIS fund 30350992 into SCEIS Fund 30350993, per SCEIS journal entry document number 1003448757.

<sup>14</sup> Kip was employed with the STO from 2016 until February 2020, at which time she assumed a position at the CGO.

EXHIBIT 3. Attached to the CGO email is a complex excel spreadsheet detailing the ledger entries relating to the adjustment discussed in the email.

In this e-mail, Starkey (CGO) is directing Taylor and Kip (both of STO) to “convert” balances from two of the CGO’s ACFR Business Areas: H000 and P000. Consistent with the recent findings of the AP Report, Starkey (CGO) acknowledges that the CGO had, at some point previously, “never eliminated the appropriations” from one of the SCEIS GL Accounts associated with the legacy STARS system (GL Account 1000060000). Starkey (CGO) assures the STO that “the appropriations have now been eliminated,” and that the STO, in following his directive “will only convert the cash.” Unfortunately, as AlixPartners has determined, Starkey was incorrect: “those ACFR BA entries should not have been recorded as part of the conversion and, had they not been recorded, only \$245 million would have remained in Fund 30350993.” p. 49.

What is not mentioned in the e-mail, but is made clear from the context of the e-mail, as well as STO’s SCEIS entries in following the Starkey’s directive is this: the effect of the CGO’s direction, which was unknown<sup>15</sup> at the time, was that **non-cash appropriations were moved into SCEIS Fund 30350993 as if they were cash.**<sup>16</sup>

In response to Starkey (CGO) on the same day, Kip (STO) requests clarification regarding the CGO’s directive, as well as CGO’s reassurance that the directive is appropriate:

So are you saying you want me to convert 9999 account into 1060 to the extent of -513,524,815 in cash (i.e. the rest of the account is appropriations and should not be converted). Have we ascertained that there are no other appropriations that need to be eliminated?

EXHIBIT 3.

As evidenced by a November 2, 2017, e-mail from State Auditor George Kennedy to various CGO and STO staff, the State Auditor could not complete his audit until this action was complete. EXHIBIT 4. Any delay in the audit would hold up the publication of the CGO’s ACFR, and, as the AP Report states “...the former Comptroller General, Mr. Eckstrom, insisted that the ACFR be issued in time to be considered for the Certificate of Achievement for Excellence in

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<sup>15</sup> To be clear, there is no evidence that the CGO or the STO understood that these entries would result in non-cash appropriations being incorrectly recorded as cash. In fact, the e-mail conversation makes it clear that both parties believed the CGO had removed any appropriations, and that the proposed transaction would involve true cash only.

<sup>16</sup> This is not the only time that appropriations from the CGO’s ACFR Business areas were improperly recorded as cash, but it is the most clearly documented. AlixPartners has indicated verbally to STO staff in a meeting that some of the incorrect entries were recorded into SCEIS Fund 30350993 by STO and others were recorded by CGO. However, the AP Report’s conclusion as to responsibility for these entries is unequivocal: the \$1.6 billion in SCEIS Fund 30350993 “balances represent a summation of adjustments previously recorded by the CGO,” that were “incorrectly recorded to Fund 30350993 during Phase 2 of the bank conversion.” P. 10.

Financial Reporting from the Government Finance Officers Association. However, the former CG often demanded that his team exceed the timing requirements of the GFOA, aiming to be the first state to issue its ACFR. The CGO staff commented that these deadlines often placed unnecessary pressure on the team.” (p. 39).

Thus, in response to Kip’s (STO) November 2, 2017, e-mail asking Starkey (CGO) whether he is sure there are no other appropriations that need to be eliminated before Kip makes the CGO’s entries, Starkey (CGO) responds with the following immediate directive:

We’ll call you in a minute, but all business areas within 1000060000 need to be converted now, even H000 and P000.

### EXHIBIT 3.

The above entries were made, as directed by Starkey (CGO), on November 7, 2017.<sup>17</sup> The CGO-directed entries resulted in a significant increase to the balance of SCEIS Fund 30350993. The fact that AlixPartners recommends the reversal of entries recorded in this batch, indicates that AlixPartners, having the benefit of information known now, has concluded that the entries result in non-cash being incorrectly recorded as cash.

This interaction is plain evidence of the AP Report’s conclusion, in which it determined that “approximately \$1.6 billion” recorded in SCEIS Fund 30350993 “is attributed to balances in certain ACFR-Only business areas... previously recorded by the CGO during the ACFR preparation process, and as such, the failure to recognize what these accounts represented had the unintended consequence of artificially inflating the balance in Fund 30350993.” p. 10. The AP Report concludes that “the CGO has determined (and we agree) that those ACFR BA entries should not have been recorded as part of the conversion and, had they not been recorded, only \$245 million would have remained in Fund 30350993.” p. 49.

Nevertheless, the CGO’s directive was followed, and the 2016-17 ACFR was issued on November 17, 2017, only days after the above discussion. For his work on this ACFR, the Comptroller General received a “Certificate of Achievement for Excellence in Financial Reporting,” just as he had hoped.

- d. The STO proposed a prior period adjustment which would have transparently addressed the balance of SCEIS Fund 30350993, but the CGO and State Auditor refused.**

In early March of 2018, Starkey of CGO and Taylor of STO discussed the conversion entry balance which was now in SCEIS Fund 30350993.

On March 1, 2018, Taylor (STO) e-mailed Starkey (CGO) two documents, both with “Conversion GL Cleanup” in their titles, asking Starkey to review them, and then to “Gimme a

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<sup>17</sup> The SCEIS entry does not identify the specific user who recorded these entries because it was a “batch entry.”

holler afterwards and I'll post when we are happy.” In one of the documents, Taylor offered a proposal to account for the balance in SCEIS Fund 30350993, suggesting that a prior period adjustment should be made:

[...] it is therefore my determination that the balance of the Conversion GL within 30350993 s/b written off as a prior period adjustment in order to complete the conversion process as all of this activity took place in years 2016 and prior.

EXHIBIT 5. A Prior Period Adjustment, or “PPA” is a correction of an error in financial statements that was reported for a prior period, resulting in a restatement. As explained in the AP Report, “Under this proposal, the cash portion of Fund 30350993 would remain, as the STO needed that balance to tie back to the bank account balances.” (p. 9).

In a presentation before the Senate Finance Committee on January 21, 2025, an AlixPartners representative testified that, while he did not believe the specifics of the PPA proposed by STO via Martin Taylor were the correct accounting solution, Taylor’s proposal would have been a “transparent” way of permanently resolving the issue presented by SCEIS Fund 30350993, as the proposed PPA would have been publicly reported as a restatement in the ACFR.

However, “[Taylor] was informed by the CGO and a representative from CliftonLarsonAllen LLP (‘CLA’), the State’s external auditors, that neither would accept that decision.” (p. 9) (emphasis added). Per AlixPartners, “We learned from a former STO employee of a meeting during this time, which was apparently attended by a CLA Partner (and possibly an OSA representative), two STO employees, and a CGO employee during which the STO proposed that the PPA be recorded to the ACFR General Fund, to which the CLA Partner responded that he would not issue the ACFR with a PPA.” (p. 41).

**e. The CGO instructed the STO to transfer \$1.5 billion to a CGO-created GL Account in SCEIS Fund 30350993, where it remains today.**

The CGO created GL Account 2400040001 (Due to Other Funds – Equity in Pooled Cash), a liability GL Account specifically made for the purpose of recording the balance of the conversion entries in SCEIS Fund 30350993. Then, “the CGO instructed the STO to transfer the balance” to that account within SCEIS Fund 30350993. AP Report (p. 41).

At some point on or immediately before March 2, 2018, Starkey (CGO) informed Taylor (STO) that, instead of the STO-proposed PPA, the CGO would create a different GL Account for the conversion entries, including those recorded in SCEIS Fund 30350993. Starkey (CGO) follows up and confirmed this conversation on March 5, 2018, with the following e-mail, and even offers for CGO to make the entries transferring the SCEIS Fund’s balance into this GL Account:

Hi Martin,  
The liability account to use (once it is set up) will be 2400040001 “Due to Other Funds – Equity in Pooled Cash”.

Kathy is in and out today and we will let you know when it is done. Also, the P000 expenditure account to use is 5510501050 “Resources and Economic Development”. Let me know if you have any problems with that one and we can input it here for you if needed.

We’ll keep you updated.

Regards,

David

EXHIBIT 6. The same day, Taylor (STO) responds to Starkey (CGO), via e-mail, confirming specifically how the balance represented in SCEIS Fund 30350993 should be handled:

[...] Also..... on the 1.5BB amount in 30350993,..... was planning to move the BONY amount to the M2M offset account, and then the \$500k to the liability account..... Does that work for ya’ll, or do you want all of it to the liability account ?

EXHIBIT 6. Starkey (CGO) responds with CGO’s directive:

As it is a pooled investment account, I think it would be easier with the 24 account<sup>18</sup>, **as those monies are truly owed to other funds.**

[ Emphasis added.] EXHIBIT 6. Taylor acknowledges and complies with Starkey’s e-mail and states that he will keep Starkey posted with any issues. EXHIBIT 6.

This exchange again shows STO following the CGO’s directives on SCEIS matters. It also clearly demonstrates that, while the parties acted collaboratively, it was CGO—not STO—who had the ultimate authority and discretion to dictate SCEIS-conversion actions which resulted in the accumulated balance in SCEIS Fund 30350993. Nowhere in this March 2018 exchange, nor any time in the subsequent five plus years, did the CGO assert that it was STO’s responsibility to ferret out the “ownership” of the balance of SCEIS Fund 30350993. As the AP Report correctly notes, “Despite reclassifying the Conversion Account balance to an account called ‘Due to Other Funds – Equity in Pooled Cash’, neither the STO nor the CGO made any subsequent attempts to identify to whom such funds were owed until fiscal year 2022.” (p. 42).

**f. The CGO directed STO to add an additional \$324 million balance to SCEIS Fund 30350993.**

On October 26, 2018, an email from John Morrison (CGO) to Martin Taylor (STO) provided a “list of the balances that we [the CGO] have identified that need to be washed through the conversion account based on our conversation.” EXHIBIT 7. Morrison further stated: “I have

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<sup>18</sup> The “24 account” refers to GL Account 2400040001 (Due to Other Funds – Equity in Pooled Cash) created by the CGO.

shown the adjustments as it needs to be entered from the CAFR perspective. I will follow up with a phone call in a minute.” Id.

Less than two hours later, Taylor (STO) replied via e-mail to Morrison (CGO), and subsequently made the SCEIS journal entries to SCEIS fund 30350993 and others in compliance with the CGO’s instructions. Included in those transactions, the STO added, at Morrison’s direction, \$324 million dollars to SCEIS Fund 30350993.<sup>19</sup> These 2018 conversion entries increased the amount in SCEIS Fund 30350993 from \$1.5 billion to \$1.8 billion.

The AP Report indicates that this CGO-directed entry was, again, incorrect, and notes a troubling observation regarding the CGO’s credibility in recounting these events:

A current CGO employee drafted a memo in March 2024<sup>20</sup> that explains that the entry was requested by the STO. The memo explains, that during the STO’s cash conversion from STARS to SCEIS, the STO could not convert funds held in a certain general ledger account because they did not have access. It then explained how the STO requested that the CGO (who had control over those accounts) move those funds to a general ledger account that the STO had access to so they could include the funds in the accounts they did not have access to in the conversion. **Despite this recounting, we identified other information which suggests that the request was made by the CGO, potentially undermining the credibility of the March 2024 memo.**

(p. 42). The AP Report notes this credibility concern despite stating in its disclaimer that “AlixPartners has assumed, without complete independent verification, the accuracy and completeness of all information available from the State or which was otherwise provided to AlixPartners.” p. 67.

- g. As part of its \$3.5 billion restatement, the Comptroller General decided— without consulting the STO— to apply the balance in SCEIS Fund 30350993 to the ACFR General Fund.**

During or before December of 2022, the CGO determined it had inadvertently double-counted certain State funds in SCEIS, resulting in an overstatement of the ACFR General Fund in the State’s ACFR by approximately \$5.87 billion dollars, and that a restatement was necessary. *See* Subcommittee “Report on the Investigation of the FY2022 Annual Comprehensive Financial Report Restatement,” 2023.

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<sup>19</sup> See SCEIS Fund 30350993 document number 1005873176 through -78.

<sup>20</sup> Neither AlixPartners, the CGO, or the Subcommittee have provided STO, or given STO an opportunity to respond to, the March 2024 memo described above. As discussed more fully below, the STO has requested this document from CGO, but as of the date of this report, CGO has refused to provide it.

As part of this restatement, the CGO decided, **without consulting with or notifying the STO**, to include the balance of SCEIS Fund 30350993 in the ACFR General Fund, as well as \$517 million of Department of Transportation money which previously had not been included within the ACFR General Fund, which had the net effect of to reducing what would have otherwise been a \$5.87 billion restatement of cash to a \$3.5 billion restatement. This determination and action by the CGO further proves that the CGO had full knowledge and visibility of, and access to SCEIS Fund 30350993.

**V. Comptroller General Brian Gaines has consistently provided inaccurate communications and under-oath testimony to the Subcommittee regarding SCEIS Fund 30350993, attempting to place undue blame on the Treasurer for the CGO’s errors.**

On May 12, 2023, Brian J. Gaines was appointed to succeed Mr. Eckstrom in serving as the State’s Comptroller General. Since that time, he has made numerous false assertions regarding SCEIS Fund 30350993 and the conversion process, in writing and under oath before the State’s legislature in an apparent attempt to place blame on the Treasurer and STO for the CGO’s errors.

**a. Gaines’s Letter dated December 12, 2023**

On December 12, 2023, Gaines sent a letter to the Treasurer (and, presumably, to members of the Subcommittee) containing numerous false and misleading assertions regarding SCEIS Fund 30350993 which have now been completely dispelled by the AP Report. EXHIBIT 8. This letter became an exhibit in the Subcommittee’s Interim Report and has never been withdrawn by Gaines or the CGO. Gaines’ false statements in the letter include but are not limited to the following:

•*SCEIS Fund 30350993 “has been in the possession and control of the State Treasurer’s Office since its creation in October 2014.”* This is soundly disproven by the AP Report, as well as numerous e-mails already discussed in which the CGO not only acknowledges its own ability to make entries in SCEIS Fund 30350993, but also directs STO’s entries therein.

•*“Fund 30350993, as understood by the Comptroller General’s Office, was originally established by the State Treasurer’s Office to balance entries coded incorrectly between bank accounts – and it was set up as to not be presented to the General Assembly as moneys potentially available for appropriation or to be included in the ACFR.”* As clearly proven above, and acknowledged in the AP Report, the CGO knew and agreed to SCEIS Fund 30350993 being used as a conversion fund. Moreover, it was the CGO, not STO, who excluded SCEIS Fund 30350993 from the ACFR.

•*“The State Treasurer’s Office is the only State entity that may move the amounts in Fund 30350993 to the appropriate SCEIS Funds and make its purpose known to the General Assembly.”* Gaines makes this statement, despite the fact that, only a few weeks earlier, on November 8, 2023, the CGO initiated a transaction with SCEIS Fund 30350993 by transferring \$1.8 billion out of the Fund into SCEIS Fund 90016011, and back into Fund 30350993.<sup>21</sup> This

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<sup>21</sup> See SCEIS Fund 30350993 Document #1014653960 and #1014654100.



transfer by the CGO, with the description “CORRECT ACFR CASH GROUPS,” further proves that CGO had both access to view the SCEIS Fund 30350993 and the ability to perform transactions with it.

**b. Gaines’s Testimony before the Subcommittee on April 2, 2024**

In the April 2, 2024, hearing, Gaines made still more false and accusatory statements regarding SCEIS Fund 30350993, this time having been put under oath:

COMPTROLLER GENERAL BRIAN GAINES: The 1.8 came about during the conversion from the old legacy system to the new accounting system. It was during the Treasurer's office conversion process. So, and those transactions that generated that \$1.8 billion was done by folks that were employed, employees of the treasurer's office.

SENATOR LARRY GROOMS: Who do you believe is responsible for resolving the problem?

COMPTROLLER GENERAL BRIAN GAINES: I would say the Treasurer's office, as the transactions originated out of their office, and they would be the ones with the records that would be able to dictate where those funds came from and why they were transacted in that way.

These statements are false. The AP Report states that the Comptroller General is factually responsible for the non-cash appropriations entering the SCEIS system as cash. The e-mails discussed previously are irrefutable proof that the CGO directed STO to post that non-cash as cash into SCEIS Fund 30350993. Moreover, the Comptroller General is legally mandated to account for all transactions in the Treasury (SC Code Ann. § 11-3-100), maintaining all accounting records of the Treasury (SC Code Ann. § 11-3-100), accounting for unappropriated money in the Treasury (S.C. Code Ann. § 11-3-90) the accounting of appropriations (S.C. Code Ann. § 11-3-50), and maintaining SCEIS (Proviso 97.2).

SENATOR STEPHEN GOLDFINCH: But do you I'm sorry, I don't mean to interrupt you, but do you have authority to look into a Treasurer's account?

COMPTROLLER GENERAL BRIAN GAINES: No. So the CG cannot. No other agency, the CG included, can make adjustments to any other agency's funds. We can't do that.

SENATOR STEPHEN GOLDFINCH: And this is the Treasurer's agency's funds?

COMPTROLLER GENERAL BRIAN GAINES: It is a fund that is assigned to the Treasurer's office. Yes, sir. It's an E160 fund, which is the Treasurer's office fund.

SENATOR STEPHEN GOLDFINCH: And therefore, the CG's office can't access it?

COMPTROLLER GENERAL BRIAN GAINES: Correct.

These statements are false. The CGO has complete legal authority and responsibility to maintain SCEIS, and effectuate all State accounting policies. If the Comptroller General is not able to “look into” or “make adjustments” to any other agency’s funds, it is his own fault, and he is in gross violation of his clear statutory duties. Nevertheless, the evidence proves that the CGO can and has made adjustments to SCEIS Fund 30350993, such as its November 8, 2023, transfer of \$1.8 billion out of SCEIS Fund 30350993, into SCEIS Fund 90016011, and back into Fund 30350993.<sup>22</sup> This transfer by the CGO proves that CGO has both access to view the SCEIS Fund 30350993 and the ability to perform transactions with it.

Regrettably, the Subcommittee appears to have relied heavily on Gaines’s brief testimony in this hearing, along with, perhaps, other communications of which the STO is not a party; however, the above exchanges have now been proven false by the findings of the AP Report and the evidence provided in this document.

**VI. The AP Report suggests that the CGO provided false information to AlixPartners, withheld other important information from AlixPartners, and that the CGO may have provided false information to the Subcommittee.**

AlixPartners makes two subtle yet significant observations in the AP Report: 1) the CGO provided false information to AlixPartners and withheld other important information from AlixPartners, and 2) that the CGO may have provided false information to the Subcommittee, and that the Comptroller General has no intent to change its flawed practices moving forward.

**a. The CGO refused to allow AlixPartners to review its “Crosswalk” for fiscal years 2022 and 2023.**

The CGO’s refusal to allow AlixPartners to review its “Crosswalk” for 2022 and 2023 is inexcusable and indefensible. See AP Report (p. 61, fn. 120).

The Crosswalk is a CGO-created workpaper created in Microsoft Excel (*not* SCEIS) by which the CGO “aggregates the State’s cash and investment balances from SCEIS for each ACFR.” AP Report p. 56. Among other things, the Crosswalk contains “manual adjustments” by the CGO, and “entries posted after the date the SCEIS GL report underlying the Crosswalk was generated.” (p. 57).

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<sup>22</sup> See SCEIS Fund 30350993 Document #1014653960 and #1014654100.

In the Crosswalks reviewed by AlixPartners, variances in the Crosswalk “represent yet another example of how the CGO’s workpapers could be better documented and more sufficiently reviewed.” (p. 57). The AP Report also states that AlixPartners “noted multiple instances where the CGO... could not explain the accounting treatment or classifications applied [in the Crosswalk],” and references a “lack of understanding by the CGO.” P. 60.

As a matter of significant concern, the AlixPartners “selected the 2019 and 2020 Crosswalk files to attempt to corroborate the CGO Adjustments columns. We attempted to validate and reconcile the balances in the supporting workbooks and agree them to the CGO Adjustments columns of the Crosswalk files. These attempts were complicated by a **lack of detail within the Crosswalk files** and a **lack of any formal documentation explaining how such balances were compiled and derived**. The supporting workpapers that we identified which tied to the Crosswalk files were generally **insufficient as to determining the source of the data, the purpose of individual reports within, or any adjustments made to generate the result**.” AP Report p. 61 (emphasis added).

The AP Report description of the Crosswalk is concerning: **the CGO calculates statewide cash and investments for ACFR reporting using an Excel spreadsheet with manual adjustments that are insufficiently documented, supported, or reviewed**.

Despite these concerning observations, AlixPartners notes, “The CGO did not accept our offer to review a more recent version of the Crosswalk (i.e. fiscal year 2022 or 2023). We therefore cannot comment on whether the documentation had improved since 2020.” AP Report, p. 61.

Importantly, 2022 was the year that the Comptroller General released its \$3.5 billion dollar restatement to ACFR General Fund cash.

As a matter of maximizing the benefit of a taxpayer-funded forensic audit, an auditee’s refusal to allow AlixPartners to review any of its work is a wasted opportunity. However, in light of the AP Report’s revelations, the CGO’s current Crosswalks should have been thoroughly reviewed, and the Comptroller General’s refusal to allow the AlixPartners to do this is inexcusable.

- b. The CGO attempted to mislead AlixPartners regarding its own errors by providing AlixPartners with a memorandum that falsely blamed the STO, and presumably has provided that same memorandum to the Subcommittee prior to its April 2, 2024 hearing involving the Treasurer.**

The AP Report states that the CGO provided a memorandum containing the demonstrably false accusation that the STO requested a SCEIS entry which AlixPartners determined was incorrect: “Despite this recounting, we identified other information which suggests that the request was made by the CGO, potentially undermining the credibility of the March 2024 memo.” (p. 42).

As discussed more fully above, an e-mail from John Morrison of CGO, dated October 26, 2018, proves that the CGO ordered the incorrect entries<sup>23</sup> to be made—in other words, there is clear proof that the CGO’s March 2024 memo was, at best, mistaken, if not directly intended to mislead the original recipient of the memo, and perhaps was even provided to AlixPartners with that same intent. In either case, neither the STO or the Treasurer was ever provided a copy of the March 2024 memo, much less given an opportunity to respond to it.

Moreover, given the proximity of the March 2024 date to actions by the Subcommittee, STO has reason to believe that the original recipient of the CGO’s inaccurate memo was the Subcommittee. The Subcommittee requested Comptroller General Gaines’s and the Treasurer’s attendance at a hearing on April 2, 2024, under the pretext of discussing their respective agencies’ budgets. EXHIBIT 10. Yet, upon arrival the Treasurer was questioned and lambasted for over six hours by six Senators on numerous complex and granular accounting, legal, regulatory, and political topics. The Subcommittee presented him with, and demanded that he discuss, complex, unauthenticated financial documents that had never been provided to him previously. The Treasurer was never asked a single question about the STO budget.<sup>24 25</sup>

It is highly likely that many of the accusations and misleading documents set forth in that “budget hearing” originated from back-channel communications from the Comptroller General and/or the CGO, likely including this March 2024 memo. The CGO’s flagrant refusal to comply with a valid FOIA request for these communications is a tacit admission of this.

The CGO’s “March 2024” memo is subject to mandatory disclosure pursuant to the Freedom of Information Act, (S.C. Code Ann. § 30-4-10, *et seq.*). The CGO is a “public body” pursuant to S.C. Code Ann. § 30-4-20(a), and the March 2024 memo is a “public record” as defined by S.C. Code Ann. § 30-4-20(b), because it is a “documentary material” which is “owned, used, in the possession of, or retained by” the CGO.

Recognizing the importance of this document, on January 30, 2025, STO submitted a request to CGO for “the ‘March 2024 memo’ drafted by a CGO employee which was referenced on p. 42 of the Alix Partners report, along with any correspondence conveying that document (such as e-mails to which it was attached, letters, etc), conveying drafts of the document, or otherwise discussing the document.” EXHIBIT 10.

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<sup>23</sup> Again, STO reiterates that there is no evidence, and STO does not intend to imply or suggest, that the CGO knew these entries were incorrect at the time they were suggested, or at any time until the AlixPartners issued its conclusions. By all accounts, the CGO’s and STO’s actions during the SCEIS conversion were cooperative and taken in good faith.

<sup>24</sup> By comparison, the Comptroller General’s budget hearing occurred immediately prior to the Treasurer’s and lasted less than 15 minutes, in which he was allowed to summarily and falsely declare that all of the issues resulting in or caused by the entries in SCEIS Fund 30350993 were the fault of the State Treasurer.

<sup>25</sup> It bears noting that this hearing, upon which the Subcommittee bases many of its findings in the Interim Report, was supposed to be an agency budget hearing.

On February 4, 2025, CGO's attorney responded by denying the request and claiming ignorance, responding "I'm not exactly sure which memo the report references." EXHIBIT 10.

On February 5, 2025, STO expanded the scope of the FOIA request to "all correspondence (including attachments or enclosures) or other materials provided to members, committees, subcommittees, staff members, or consultants, of the General Assembly, sent or received between January 1, 2024 and April 30, 2024. This would include but not be limited to letters, e-mails, meeting/calendar invitations, voicemails, text messages, or any other materials in CGO's possession." EXHIBIT 10.

On February 12, 2025, the CGO again denied the STO's request, claiming that the requested materials were protected by "legislative privilege."

The CGO's grounds for withholding these public records is, of course, utter nonsense. S.C. Code Ann. § 30-4-40(8) establishes the legislative privilege exception to FOIA, and provides that a public body may withhold "Memoranda, correspondence, and working papers **in the possession of individual members of the General Assembly or their immediate staffs.**" (emphasis added). Any materials in the CGO's possession<sup>26</sup> may not be withheld under this provision. The STO's February 5, 2025, records request submitted by the STO explicitly requested "materials in CGO's possession." Moreover, the requested CGO records, including the March 2024 memo, were created before the existence of the Governor's Working Group, and before the passage of Proviso 93.19 authorized the Department of Administration to hire AlixPartners, and declared working materials related to AlixPartners audit "exempt from public record request."

In short: the CGO has no lawful justification for withholding any of the requested information from STO, or anyone else.

The CGO's efforts to hide its March 2024 memo is a clear and troubling indication of Gaines's and the CGO's efforts to place undue blame on the Treasurer and the STO which should raise grave concerns about the reliability information provided to AlixPartners and to members of the General Assembly.

## **VII. The Comptroller General is obstructing STO's ability to follow the AP Report recommendation and the directives of the General Assembly.**

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<sup>26</sup> The statute goes on to state that "nothing herein may be construed as limiting or restricting public access to source documents or records, factual data or summaries of factual data, papers, minutes, or reports otherwise considered to be public information under the provisions of this chapter and not specifically exempted by any other provisions of this chapter." S.C. Code Ann. § 30-4-40(8). Thus, even if the STO had requested the same CGO-related materials from the General Assembly, the General Assembly could not withhold them under Section 30-4-40(8), although this matter may need to be litigated for clarification.

The AP Report made 25 separate recommendations, most of which articulate concerns of fundamental accounting revealed within the CGO. The AP Report made only one recommendation directly solely toward STO, which the STO had already taken steps to accomplish nearly ten months before the AP Report’s release.

The AP Report recommends<sup>27</sup> that the STO:

#	Recommendation	Relevant Party(ies)	Page Number
4	Develop comprehensive policies and procedures outlining the roles and responsibilities of the STO which must require that the STO report (and independently confirm, as needed) cash and investments in its custody by agency and fund at least annually.	STO	37

(p. 16).

Responding to the release of the AP Report recommendations, the General Assembly passed a Joint Resolution (S. 253) on February 13, 2025, requiring in part that “The Office of the State Treasurer, the Office of the Comptroller General, and the Office of the State Auditor shall work in concert to effectuate the implementation of recommendations made in the AlixPartners forensic accounting report and other relevant studies conducted during Fiscal Years 2023-2024 and 2024-2025 that do not require statutory change. The Office of the State Treasurer, the Office of the Comptroller General, and the Office of the State Auditor shall begin implementation of these recommendations immediately in coordination and with oversight of the Department of Administration.” (Section 2).

The Joint Resolution also established a ninety-day deadline by which these agencies were to “provide a detailed timeline for implementation of all recommendations made in the AlixPartners forensic accounting report and other relevant studies conducted during Fiscal Years 2023-2024 and 2024-2025, including those recommendations requiring statutory change to the Governor, the President of the Senate, the Chairman of the Senate Finance Committee, the Speaker of the House of Representatives, the Chairman of the House Ways and Means

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<sup>27</sup> It should be noted that, even if STO had been able to report cash and investments in the manner described above, it would not have changed any of the facts surrounding SCEIS Fund 30350993. In fact, the Subcommittee noted in its 2023 “Report on the Investigation of the FY2022 Annual Comprehensive Financial Report Restatement,” that when former Comptroller General Eckstrom was asked to supply correspondence with the Treasurer or any other agency asserting that “the manner in which the Office of the State Treasurer reconciled cash was insufficient or inadequate for the Office of the Comptroller General to successfully compile the Annual Comprehensive Financial Report,” General Eckstrom responded that he was “unable to locate” any such correspondence dating back ten years. (p. 12).

Committee, the Department of Administration, and to the independent compliance monitor.” (Section 5).

However, nearly ten full months before the issuance of the AP Report’s recommendation, and almost a full year before the General Assembly passed its Joint Resolution, the STO had already formally requested that the Department of Administration modify SCEIS to allow STO to report “by agency and fund”—a request which it now believes would, at least partially, fulfill Recommendation 4 of the AP Report. On March 29, 2024, the STO submitted a Business Process Document requesting that SCEIS be modified to “Create a more automated process at fiscal year-end that... calculates cash balances by cash g/l within fund within Agency.” EXHIBIT 11.

In compliance with the General Assembly’s directive, on February 14, 2025, Clarissa Adams, STO Chief of Staff, e-mailed Marcia Adams, Director of Department of Administration, asking “In light of the swift joint resolution passage of S.0253 by the General Assembly this week and the 90 day implementation timeline requirement in Section 5 of the bill, could you please provide a time frame as to when the attached BRD will be completed?” EXHIBIT 12.

Marcia Adams (DOA) responded to Clarissa Adams (STO), stating that the “BRD conflicts with the requirements of the CGO,” and recommended that the STO, CGO and Department of Administration meet to discuss further. EXHIBIT 12. Prior to this discussion, DOA had informed STO that it would not make the STO-requested change in the BRD until after the release of the AP Report. However, this was the first time STO had ever been informed that there was a problem with the SCEIS modification requested in its BRD. The letter offered no clarification as to exactly what element of the request conflicted with the CGO’s requirements. The message was clear: because Comptroller General Gaines controls SCEIS, the Department of Administration has not and will not make the changes to SCEIS requested in the STO’s Business Process Document.

On the same day, February 14, 2025, Adams (STO) e-mailed Comptroller General Gaines requesting a meeting to discuss the BRD and referencing the immediacy of the matter, given the timeline required by the General Assembly, per of S. 253. EXHIBIT 13.

Gaines did not respond.

Adams (STO) sent a follow-up letter on February 21, 2025, sent via e-mail and hand delivery. EXHIBIT 14.

As of the date of the issuance of this report, Gaines has still not responded.

Gaines’s refusal to communicate with STO regarding this important matter is evidence that he is actively obstructing the STO’s ability to follow the recommendations set forth in the AP Report, and fulfill the expectations of the General Assembly. Obviously, in order for the STO to develop “comprehensive policies and procedures outlining” the review, reporting, and verification of this “by agency and fund” report required in Recommendation 4, or even ascertain a timeline to do so as required by the Joint Resolution, the STO must first be given a clear



understanding of what SCEIS can actually be modified to do in accordance with the STO's March 29, 2024 request.

In legislative hearing after legislative hearing<sup>28</sup>, Gaines has complained that he “inherited” a poor relationship between the STO and the CGO, and “despite [his] best efforts, the same relationship continues persist.” These events, along with the document request described previously, suggest that quite the opposite is true—Gaines is meaningfully impeding the business efforts of STO, subverting the wishes of the General Assembly, and hindering the progress of this State.

### **VIII. The Treasurer has never hidden or attempted to hide SCEIS Fund 30350993.**

Turning to the allegations made by the Constitutional Subcommittee of the Senate Finance Committee: the Interim Report issued by the Subcommittee incorrectly states that “Treasurer Loftis failed to disclose the existence of the \$1.8 billion [SCEIS] fund to the General Assembly and to the people of South Carolina over the past seven years, despite his explicit statutory duty to do so,” (pp. 5, 8, and 10) citing S.C. Code Ann. §11-5-185(7). The Interim Report further describes SCEIS fund 30350993 as being improperly “hidden” in terms of disclosure to the General Assembly and “hidden” from the CGO for reporting purposes until 2022. (pp. 10 and 14).

As an initial matter, it must be noted that Section 11-5-185(7) specifically requires the Treasurer to report on issues “relating to state revenue,” which SCEIS Fund 30350993 clearly is not, nor has it ever been understood as such.

Nevertheless, as has been thoroughly established at this point, the accusation that SCEIS Fund 30350993 was “hidden” from anyone is false. All SCEIS users with statewide access can view SCEIS funds, including SCEIS Fund 30350993. That includes, at a minimum, the CGO, STO, the Department of Administration's SCEIS Division, the State Auditor's Office, and the Executive Budget Office (“EBO”). Upon information and belief, certain members or Committees of the General Assembly and their staffs also have access to SCEIS; however, the breadth of General Assembly member access and the level of their access is not known to STO.

Further, STO submits an annual “Other Funds Survey” report of cash balances and expenditures to the EBO. Beginning in 2017, STO's report to EBO (which covered FY 2016-2017) contained an explicit line item identifying SCEIS Fund 30350993 and the \$1.8 billion amount represented in it as of the date of submission of the report. The SCEIS Fund was then reported to EBO every year until 2023, when the EBO instructed STO to stop reporting these types of SCEIS funds in its report. EXHIBIT 31.

Unlike the Treasurer, the Comptroller General and EBO have mandatory, non-discretionary duties of notification to the General Assembly which pertain to SCEIS fund 30350993. The Comptroller General is statutorily required to “report, annually, to the General

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<sup>28</sup> See e.g. House Ways and Means Committee, Constitutional Subcommittee (January 16, 2025); Senate Finance Committee, Constitutional Subcommittee (Feb. 18, 2025).

Assembly his transactions in regard to unappropriated funds in the State Treasury.” S.C. Code Ann. § 11-3-90. The Comptroller General is further required to “annually report to the General Assembly a balance sheet of the books aforesaid [Exhibiting the separate transactions of the State Treasury], setting forth as well by whom debts are due to the State as the amounts of those debts.” §11-3-100. Likewise, the EBO gathers comprehensive financial information from agencies, as outlined in S.C. Code Ann. § 11-11-10, et seq., as well as the supplemental financial information provided by the EBO to the General Assembly per §11-11-80 to accompany the submission of the Governor’s budget.

STO is unaware of any evidence that CGO or EBO ever notified the General Assembly of the balance of SCEIS Fund 30350993 or considered such a notification to be required by statute. Although the STO explicitly reported to EBO from 2017 until 2023 regarding SCEIS Fund 30350993, and its existence and use was separately known to CGO since at least 2016, neither agency presumably believed a report to the legislature was statutorily required.

Notably, for much of this time, current Comptroller General Brian Gaines was the EBO’s director.

The fact that these other offices did not consider SCEIS Fund 30350993 to be a matter that warranted disclosure under statutes with much more specific application to this matter, as well as mandatory terms, is evidence of the professional consensus by all parties involved that the balance of the SCEIS fund had been recorded correctly.

**IX. The Treasurer’s testimony that the \$1.8 billion had earned interest was made in reliance of the Comptroller General and State Auditor’s professional opinions that SCEIS Fund 30350993 represented General Fund cash.**

Members of the Subcommittee have questioned the basis for Treasurer’s assertion that his office had invested and earned interest from the \$1.8 billion represented in SCEIS Fund 30350993. This assertion was made in reliance of the Comptroller General’s and State Auditor’s professional opinions that SCEIS Fund 30350993 represented General Fund cash.

First, and most importantly, from Fiscal Year 2022 and forward, both Comptroller General Eckstrom and Comptroller General Gaines included the balance of SCEIS Fund 30350993 as **cash** in their calculations of the ACFR General Fund. As such, it was the State of South Carolina’s official position that SCEIS Fund 30350993 represented General Fund cash.

Further reinforcing the State’s position regarding the balance of SCEIS Fund 30350993, Comptroller General Gaines stated in his December 12, 2023, letter to the Treasurer:

The Comptroller General’s Office, the State Auditor, and the State’s external auditor, CliftonLarsonAllen, are all confident to a reasonable degree of certainty that the amounts in SCEIS Fund 30350993 are part of the General Fund fund balance, and that this treatment of the money in this Fund is correct in the FY2022 ACFR and for the upcoming FY2023 ACFR.

EXHIBIT 8. Likewise, the State Auditor wrote in a letter to the Chairman of the Subcommittee on February 20, 2024,

Based on the process we described above to validate the CGO placement of the \$1.8 billion in the General Fund, we have no reason to believe the research will not support its ownership by agencies reflected in the General Fund. However, if evidence is discovered to support the ownership of the \$1.8 billion or positions thereof by a fund other than the General Fund, a reclassification of cash presented in the ACFR will need to be made.

#### EXHIBIT 15.

The Treasurer relied on these assertions, which, at the time they were made, were the official position of the State. In fact, in the April 2, 2024, hearing before the Subcommittee, the Treasurer explicitly qualified his testimony regarding the existence of the \$1.8 billion as cash, stating “The Comptroller's General's Office and the State Auditor's Office and Clifton Larson all have reached a level of confidence that this money exists and it should be in the general fund. And we don't say that's not the case, but we really don't have a say.”

It bears repeating here that the term General Fund can have one of three meanings—an ambiguity which may have contributed to a miscommunication in these conversations. To the Treasurer, the “General Fund” is the STO General Fund Portfolio, not the ACFR General Fund. Resources in the STO’s General Fund Portfolio earn real interest which can be calculated accordingly. Since all available State cash is pooled, invested, and earns interest (without regard to any particular SCEIS fund), STO calculated the amount of interest that \$1.8 billion in the General Fund Portfolio would have earned over the relevant period.

Regardless, the Treasurer’s answer was given in good faith, based on the professional accounting opinions of other State officials presumed to be able to render that opinion accurately.

#### **X. Senator Goldfinch falsely stated that SCEIS Fund 30350993 held federal funds in the Subcommittee’s April 2, 2024 hearing.**

The Subcommittee inaccurately speculates in its Interim Report that the Treasurer misapplied interest earned from federal money commingled in the balance of SCEIS Fund 30350993, supposedly impairing the General Assembly’s fiduciary responsibility to ensure proper application of those earnings. There was no evidence supporting this claim at the time, and there is no evidence of it today.

During the April 2, 2024, Subcommittee hearing, Senator Stephen Goldfinch questioned the Treasurer regarding the State’s custody and investing of federal funds. Bizarrely, Goldfinch falsely stated the Subcommittee knew that SCEIS Fund 30350993 contained federal dollars:

SENATOR GOLDFINCH: Would it surprise you to know that we know, after doing extensive research, that some of that money is in fact owed to the federal government?

TREASURER LOFTIS: For what reason?

SENATOR GOLDFINCH: Don't know. We'd love to -- we'd love to have the answer to that.

TREASURER LOFTIS: Well, then how do you know it's owed to the federal government?

SENATOR GOLDFINCH: We'd love to have the answer from the treasurer's office on that, Mr. Treasurer.

TREASURER LOFTIS: Senator, you said some money is owed to the federal government from that money. Why was that the case?

SENATOR GOLDFINCH: I want to know that from you.

TREASURER LOFTIS: Well, Senator, you just said that part of that money is due to the federal government.

SENATOR GOLDFINCH: Yeah, and I—

TREASURER LOFTIS: So that tells me that you believe the federal government is the owner.

(pp. 171- 172). The Treasurer correctly points out Senator Goldfinch's false construct:

TREASURER LOFTIS: If you know something I don't know, you are -- it is incumbent upon you to tell me.

SENATOR GOLDFINCH: Okay. I'd love to tell you, but you know what? We have to rely on you for that.

TREASURER LOFTIS: Well, Senator, you've made -- you've made a false construct.

SENATOR GOLDFINCH: I have not made a false construct.

TREASURER LOFTIS: You've said that we owe the federal government money. We have no reason to believe we owe the federal government money. You have said we do. That's a false construct.

(p. 176). This exchange with Senator Goldfinch is indicative of the manner in which members of the Subcommittee handled much of the April 2, 2024 hearing. To date, neither Senator Goldfinch nor the Subcommittee has provided any evidence supporting his assertion that SCEIS Fund 30350993 contains federal funds.

Had the Subcommittee researched the matter, they would have discovered that there is a specific South Carolina officer—the Comptroller General—who is statutorily responsible for keeping track of federal funds:

The Comptroller General shall account for and control expenditures of individual federally funded projects for all agencies using the Statewide Accounting and Reporting System. [...] Upon request of the board, the House Ways and Means Committee, or the Senate Finance Committee, the Comptroller General shall provide periodic reports of authorization levels, expenditures, revenues, and other data related to the federal projects.

S.C. Code Ann. § 2-65-60.

Nevertheless, the General Assembly can rest assured that STO has, for years, complied with the reconciliation procedures established by the Cash Management Improvement Act (“CMIA”) 31 U.S.C. §§ 6501 and 6503, and in accordance with the CMIA Agreement between the State of South Carolina and the United States Department of the Treasury. This Agreement sets forth procedures for draws of federal funds, the State’s disbursement of federal funds, interest liabilities and calculation methodology, and other financial procedures.

Accordingly, the Treasurer did not impair the General Assembly’s fiduciary responsibility to ensure proper application of the earnings on federal money.

**XI. The State’s General Fund Portfolio has always maintained sufficient liquidity to cover all State transactions.**

In its Interim Report, the Subcommittee falsely accuses the Treasurer of violating the law purportedly because “the State’s General Fund reflected a negative position of \$474 million on June 30, 2023, in violation of Section 11-9-300 of the South Carolina Code.” (pp. 9, 19).

As an initial matter, the Subcommittee characteristically declines to offer critical specificity in this accusation—opting instead for the broad and inflammatory assertion that the “General Fund” reflected a negative position, rather than the more specific assertion that the ACFR General Fund’s “cash and cash equivalents” were negative, *according to an unpublished initial draft ACFR*.

As noted previously, the concept of the “General Fund” is not defined in statute and has different meanings depending on context and application. The CGO’s presentation of the ACFR General Fund is not directly representative of the liquidity or sufficiency of resources in STO-managed General Fund Portfolio.

While ACFR General Fund liquidity is not the STO’s responsibility, according to Comptroller General Gaines’s cover letter in the FY 2022-23 ACFR, the ACFR General Fund is in sound financial condition: “The State ended fiscal year 2023 with a positive budgetary-basis General Fund fund balance after reservation of \$6.846 billion, which was made up of legislatively-approved agency carryover appropriations of \$4.051 billion, the Contingency Reserve of \$23.716 million, the General Reserve of \$575.285 million, the Capital Reserve of \$209.194 million, and an unassigned surplus of \$1.986 billion.” (p. 9). Comptroller General Gaines notes that “Legislation also directs that in closing the books each year the Comptroller

General shall suspend, to the extent necessary, any budgetary-basis surplus appropriations in a general or supplemental act or Capital Reserve Fund appropriations if the State’s General Fund has a negative Unassigned fund balance when reported on a generally accepted accounting principles-basis (GAAP basis). *There were no suspensions necessary for fiscal year 2023.*” Id. (emphasis added).

Additionally, the unrestricted fund balance of the ACFR General Fund far exceeded governmental accounting industry recommendations. According to the Government Finance Officers Association (“GFOA”), general-purpose governments like the State of South Carolina should maintain “unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.” *Fund Balance Guidelines for the General Fund*, September 30, 2015. The ACFR had a budgetary basis General Fund unrestricted fund balance of \$6.846 billion as of June 30, 2023. (ACFR pp. 9, 189). According to the ACFR, two months of ACFR General Fund’s total revenue was approximately \$2.68 billion. Thus, STO maintained more than double the GFOA-recommended fund balance in the State’s ACFR General Fund.

As for the liquidity of the STO’s General Fund Portfolio, the STO’s Comprehensive Investment Plan requires a minimum of 10% liquidity in STO’s portfolios. STO tests and confirms compliance to its liquidity policy on a daily basis. [EXHIBIT 16].

On June 30, 2023, resources that compose the STO’s General Fund Portfolio cash and cash equivalents were positive and sufficient to fulfill the cash needs of the State. None of the STO’s bank balances were overdrawn or reflected a negative balance. The FY 2023 ACFR states “The reported amount of the State Treasurer’s deposits as of June 30, 2023, was \$2.767 billion and the bank balance was \$2.691 billion.” (p. 80).

Stated succinctly: the State’s liquidity was and continues to be sufficient to support State operations. Nevertheless, in light of the Subcommittee’s assertion that this situation represents the Treasurer’s violation of three separate section of the South Carolina Code, each statute is addressed individually below.

**a. Section 11-9-300 does not establish a mandate for the Treasurer; however, even if it did, the General Fund did not “become exhausted” and this statute was not violated.**

The Subcommittee accuses the Treasurer of violating S.C. Code Ann. § 11-9-300—a statute which specifically applies to the State Fiscal Accountability Authority (“SFAA”), not to the Treasurer. Even if it did apply to the Treasurer, the General Fund and maintained a cash reserve sufficient to ensure that all checks and other disbursements were paid when presented for payment.

Section 11-9-300 reads as follows:

The State Fiscal Accountability Authority shall, when necessary, borrow as otherwise provided by law a sufficient sum or sums of money to provide for the payment of all demands upon the State

Treasury, to the end that the general fund herein authorized shall at no time become exhausted, and the authority shall maintain at all times a cash balance sufficient in its judgement to meet the requirements of . . . this section.

This statute clearly does not set a mandate of any kind for the Treasurer or STO. Section 11-9-300 requires that the SFAA prevent the general fund from becoming exhausted by borrowing money to pay the State's bills. Notably, the SFAA did *not* borrow money during FY 2023 to "provide for the payment of all demands upon the State Treasury" to prevent the general fund from becoming "exhausted." Id. The SFAA's failure to act to prevent the General Fund from becoming exhausted is evidence that such action was not "necessary," per the statute.

There is no evidence of checks or other disbursements failing, nor did the Joint Auditors propose any comment to the State that checks or other disbursements from the State had bounced when presented for payment.

Clearly, there was a sufficient cash balance in the General Fund, and the Treasurer did not violate Section 11-9-300.

**b. The STO maintained a sufficient cash reserve to finance the necessary activities in accordance with Section 11-9-290.**

The Subcommittee also vaguely asserts that the Treasurer "likely violates" Section 11-9-290, which requires a sufficient cash reserve in the "general deposit account." (Interim Report, p. 19.) This uninformed accusation is nullified not only by the plain language of the statute itself but is also completely disproven by the evidence.

Section 11-9-290 reads as follows:

The State Treasurer shall at all times maintain a sufficient cash reserve in the general deposit account to finance properly the activities supported by the respective funds comprising the general deposit account and to this end the [SFAA] may borrow, from time to time, such amounts as are necessary.

In order to violate this statute, the Treasurer would have to fail to "maintain a sufficient cash reserve in the *general deposit account*," not the General Fund. See S.C. Code Ann. § 11-9-290 (emphasis added). The "general deposits account" is a component of the General Fund and consists of multiple bank accounts in which State agencies are directed to deposit their cash for specific purposes.

Regardless, the SFAA did *not* have to borrow money during FY 2023 to "maintain a sufficient cash reserve in the general deposit account." Id. The SFAA's failure to act to maintain a cash reserve is evidence that such action was not "necessary," because the Treasurer and STO had sufficiently maintained that cash reserve.



Thus, the Subcommittee’s conclusion that that the STO “likely” violated Section 11-9-290 is plainly incorrect.

- c. Section 11-5-185(7) did not and does not obligate the Treasurer to notify the General Assembly that the CGO calculated a negative cash balance in a draft balance sheet for the ACFR General Fund, which was corrected to “conform with accounting rules.”**

The Interim Report further states that the Treasurer violated Section 11-5-185(7) by not notifying the General Assembly in January 2024 of the Comptroller General’s unpublished, draft ACFR calculation of the cash and cash equivalents line of the ACFR General Fund.

The relevant portion of Section 11-5-185 is subsection (7), which reads as follows:

In addition to other reports required by law to be made, by the State Treasurer, he shall also report annually to the General Assembly in the month of January on the following matters: . . . (7) Any other information relating to state revenue which the Treasurer deems pertinent and of value to the General Assembly, including such items as special state funds, the highway fund and other funds not specified herein, as may be deemed appropriate by the Treasurer.

Here again, the Subcommittee has failed to recognize that this statute concerns *state revenue*, and not every matter of interest involving the Treasurer. Certainly, the CGO’s unpublished, draft calculation of the cash and cash equivalents line of the ACFR General Fund, which was changed before the STO was even made aware of it, is neither revenue-related, nor is it “of value”—particularly when the STO had reported a positive general ledger cash balance of \$627 million at June 30, 2023 to the CGO, invested \$1.6 billion into an overnight repurchase agreement on June 30, 2023, and had highly liquid short-term fixed income securities of over \$11 billion at June 30, 2023. Put simply: there was nothing to report in this regard.

In conclusion, the Subcommittee’s accusations regarding the Treasurer’s obligation to report the cash balance in the ACFR General Fund, as represented in a draft ACFR, are unsupported by facts or law.

## **XII. The Treasurer has never concealed or attempted to conceal any ACFR (or draft ACFR) General Fund balance.**

In its Interim Report, the Subcommittee wrote, “The Subcommittee has evidence indicating that the Office of State Treasurer took deliberate steps to conceal the negative cash position.” (Interim Report, p. 9.) Senators on the Subcommittee have falsely accused the STO of attempting to conceal the balance in the General Fund by: (i) exerting undue influence over the Joint Auditors to remove the negative cash balance of \$474 million from the General Fund’s Balance Sheet, and remove a comment about the cash balance from the Auditors’ draft Management Letter, and (ii) selling portions of the State’s fixed income investment portfolio and presumably using the proceeds to eliminate the negative cash balance.

**a. Neither the Treasurer nor STO Influenced the Comptroller General, CGO, or Joint Auditors to conceal a purported negative general fund balance.**

It is clear that the STO did not exert undue influence on the Joint Auditors to eliminate a negative cash balance from the General Fund’s Balance Sheet in the FY 2023 ACFR or the Joint Auditors’ Management Letter.

First and foremost, there is absolutely no evidence suggesting that the Treasurer or STO coerced any change to the ACFR or the audit findings. The Subcommittee insinuates that STO’s mere interaction with the Joint Auditors is somehow definitive evidence of the Treasurer’s wrongdoing. The Subcommittee’s suggestion, based on speculation and uninformed interpretation, that the State’s ACFR and the audit thereof are so susceptible to fraud is reckless, irresponsible, and inexcusable.

The accusation itself demonstrates the Subcommittee’s misapprehension of the responsibilities of an auditor versus the responsibilities of an auditee. It is the management of the auditee—not the auditor—that makes decisions about the content of the auditee’s financial statements.<sup>29</sup> The auditor determines the procedures of the audit it performs on the auditee’s financial statements, as well as the contents of the opinion that the auditor gives on those financial statements.

The General Assembly has made it clear that the Comptroller General constitutes management of the State for purposes of the preparation and issuance of the ACFR.<sup>30</sup> The Comptroller General, not the Joint Auditors, makes decisions about the State’s financial statements, including how to present cash and cash equivalents on the General Fund’s Balance Sheet in the ACFR.

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<sup>29</sup> The State’s Joint Auditors confirm the responsibility of the management of the State, namely the Comptroller General. In its opinion on the State’s FY 2023 ACFR, the Joint Auditors state “Management [of the State] is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material weaknesses, whether due to fraud or error.” The Joint Auditors also articulate their own responsibilities: “Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinions.” *Id.*

<sup>30</sup> Proviso 97.2 from the 2022-2023 Appropriations Act provides, “It is the intent of the General Assembly that the State of South Carolina issue financial statements in conformance with Generally Accepted Accounting Principles (‘GAAP’). To this end, the Comptroller General is directed, as the State Accounting Officer, to maintain an Enterprise Information System for State Government (SCEIS) that will result in proper authorization and control of agency expenditures . . . and in the preparation and issuance of the official financial reports for the State of South Carolina.”

It would have served no purpose for the Treasurer to exert undue influence on the Joint Auditors in order to effect a change in the ACFR because the Comptroller General holds the final determination of what is presented in the ACFR. Since the Subcommittee makes no allegation that the Treasurer exerted undue influence on the Comptroller General, the Subcommittee must either accept the Comptroller General's removal of its calculated negative General Fund cash balance as appropriate, or it must find some independent wrongdoing by the Comptroller General.

Secondly, STO could not have exerted undue influence regarding the presentation of General Fund cash in the ACFR because STO did not even know that the CGO had calculated a negative cash balance in the General Fund until after the CGO had eliminated it from the General Fund's Balance Sheet.

The STO submitted its cash and investments closing package to the CGO on September 8, 2023. At some time after September 8 and before November 30, 2023, unknown to the STO, the CGO calculated a negative \$474 million balance of cash and cash equivalents for the ACFR General Fund and prepared a draft of the ACFR showing the negative balance on the Balance Sheet. Interim Report, Ex. 5. CliftonLarsonAllen referred to the draft ACFR that showed the negative \$474 million cash balance as "an initial draft" of the FY 2023 ACFR.

On December 12, 2023, Comptroller General Gaines sent an email to the Treasurer with a draft of the FY 2023 ACFR on which the CGO reported that the cash and cash equivalents in the ACFR General Fund had a balance of zero as of June 30, 2023. EXHIBIT 18.

It was not until January 10, 2024, that the STO learned about the Comptroller General's (now corrected) calculation of a negative cash balance in the ACFR General Fund. On that date, an auditor from CliftonLarsonAllen, LLP, e-mailed Clarissa Adams, STO Chief of Staff, copying George Kennedy, State Auditor, to provide "a draft of the management letter comments for review and input,"<sup>31</sup> which included a proposed comment concerning a negative cash balance in the draft of the Joint Auditors Management Letter. *See* EXHIBIT 19.

Subsequently, on January 17, 2024, STO staff and the Joint Auditors met to discuss the open items referenced in the draft Management Letter. During that meeting, the auditor was apparently surprised to hear that the CGO had not discussed the ACFR General Fund cash balance with STO.<sup>32</sup> Later that same day, one of the auditors sent an email to STO showing STO "the

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<sup>31</sup> It is standard practice for an auditor to share a draft of its management letter with the auditee to allow the auditee to review and comment on the draft letter in order to ensure that the letter is accurate. It is common for a draft comment to be edited or deleted after management's review and comment with the auditor. This is exactly what happened between the auditors and the STO concerning the draft FY 2023 Management Letter.

<sup>32</sup> In the Mauldin & Jenkins report, nearly every observation and recommendation related to the CGO notes its inadequacy in communicating with the STO and/or other agencies. *See* pp. 44-48. The CGO's poor communication practices are evidenced clearly in this particular set of circumstances.

initial ACFR draft in which” the negative balance of \$474 million was first reported by CGO. EXHIBIT 17.

STO staff met again with the CliftonLarsonAllen auditor on January 18, 2024, to discuss the negative cash balance. After some discussion, it became apparent that neither the STO or the auditors fully understood how the CGO had calculated the ACFR General Fund’s cash.<sup>33</sup> The CliftonLarsonAllen auditor unilaterally suggested removing the comment about the ACFR General Fund cash balance from its Management Letter. That same day, shortly after the meeting, CliftonLarsonAllen sent STO staff an email confirming that the comment would be removed. EXHIBIT 21.

The Treasurer was not personally involved in any of these discussions and did not attend any meetings with the auditors regarding this matter.

In summary, the Comptroller General independently—and without the STO’s knowledge—calculated a negative cash balance in the draft ACFR General Fund. Then, without notifying or consulting the Treasurer or STO, the Comptroller General independently decided to correct the issue at least six weeks before the STO even learned of it. Therefore, the STO could not have unduly influenced the Joint Auditors (or the Comptroller General, for that matter) to remove the negative cash balance from the General Fund’s Balance Sheet.

Finally, the evidence proves that the ultimate decision about the Management Letter was made independently and free of coercion by the Joint Auditors.

There is not a shred of evidence suggesting that, at any point, in any of the exchanges with the Joint Auditors, that the Treasurer or an STO employee even *asked* the Joint Auditors (or the State Auditor or CliftonLarsonAllen separately) to remove a comment concerning negative cash balance in the General Fund, much less coerced them in some way.

Neither CliftonLarsonAllen nor the State Auditor have made any such insinuation against the Treasurer or STO. In an email from George Kennedy to a Subcommittee staffer on February 6, 2024, Mr. Kennedy wrote, “The comment arose because of a negative cash balance in the general fund . . . . STO staff and Remi Omisore of CLA spoke further on this issue, and STO staff provided additional explanations of their process. Based on this discussion, *we determined the formal comment could be removed.*” (Exhibit 6 of Interim Report.) The Subcommittee either ignored this statement or refused to consider it, opting instead for the unfounded and speculative conspiracy theory loosely articulated in the Interim Report.

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<sup>33</sup> After the January 18th meeting, CliftonLarsonAllen agreed to discuss the presentation of cash at a later date. The STO subsequently requested clarification from CliftonLarsonAllen on this matter on February 2, 2024, and again on February 22, 2024, and requested a meeting with CLA in the latter communication. Receiving no response, STO followed up again on March 22, 2024, noting the quickly-approaching fiscal year end. CliftonLarsonAllen met with STO staff on April 5, 2024, only to inform STO staff that, the CGO would have to explain its calculation and methodology regarding presentation of cash in the ACFR.

As the evidence indicates, STO did not unduly influence the Joint Auditors to remove the Management Letter comment about a negative cash balance.

**b. The Treasurer did not attempt or take steps to conceal any purported negative cash balance by selling investments at a loss.**

Members of the Subcommittee have accused the Treasurer of taking deliberate steps to conceal the negative cash balance in the ACFR General Fund on June 30, 2023, by selling portions of the General Fund’s fixed income investment portfolios and presumably using the proceeds to eliminate the negative cash balance.

When the Subcommittee presented its Interim Report to the Senate, Senator Grooms and Senator Goldfinch engaged in a contrived colloquy on the Senate floor. Senator Goldfinch asked, “And isn’t it true that the zero balance was a result of the Treasurer selling our investments, the State’s investments, at a loss?” Senator Grooms responded, “I believe that to be true. I have evidence to support that. And that’s one of the areas for continued investigation to occur.”

First, this baseless accusation is chronologically impossible. June 30 is the last day of the State’s fiscal year. Once the fiscal year is over, it takes weeks for the CGO to gather the information needed to compile the ACFR, and months for the CGO to produce a draft of the ACFR. On June 30, 2023, even the CGO could not have known the exact amount of the ACFR General Fund cash and cash equivalents. Certainly, the STO could not have known before the fiscal year even ended that it needed to sell off investments on June 30, 2023, to achieve a perfect zero balance in the ACFR.

Second, despite Senator Grooms’s claim that to have evidence, neither the Subcommittee nor any Senator presented evidence of STO’s selling of securities at all, much less evidence that any sale was made with the intent of concealing the negative cash balance on June 30, 2023.

In fact, in the month of June 2023, STO did not sell a single security from the General Fund Portfolio.

In an attempt to make sense of the Senators’ assertions, one must assume that the Subcommittee is conflating—and inviting others to conflate—the existence of *unrealized* losses in the State’s investment portfolios with *selling investments* “at a loss.” The Interim Report states that STO took steps to conceal the negative cash balance, and in the next allegation, asserts that “[T]he State’s investment portfolio on June 30, 2023, reflected unrealized losses of \$900 million.” (Interim Report, p. 9.)

Unrealized losses bear no relevance to STO selling securities to change the balance of cash and cash equivalent in the General Fund from a negative \$474 million to zero on June 30, 2023. The term “unrealized loss” is a loss on paper only—it refers to a held asset’s decrease in value at a specific point in time. For a security to reflect an “unrealized loss,” that asset must still be owned. A true, or “realized” loss only can occur when an asset is sold.

The STO invests in accordance with State law—namely S.C. Code Ann. § 11-9-660,<sup>34</sup> which allows the STO to invest in repurchase agreements, U.S. Treasuries, U.S. Agencies, investment grade fixed income securities (including corporates) and certain certificates of deposits. Per the STO’s Comprehensive Investment Plan, the STO’s investment objectives are: 1) preservation of capital, 2) maintaining adequate liquidity to meet cash flow needs, and 3) attaining a competitive interest rate in relation to prevailing budgetary and economic environments while taking into account the State’s investment risk constraints and cash flow characteristics of the portfolios.

STO maintains sufficient liquidity to hold its investments until maturity. Generally, STO does not sell fixed income securities except when market repositioning would benefit the portfolio.

In conclusion, neither the Treasurer nor the STO took deliberate actions to conceal the purported negative cash balance in the General Fund, as calculated in an unreleased CGO draft of the ACFR. Neither used undue influence on the Joint Auditors to remove the ultimately nonexistent negative cash balance from the General Fund’s Balance Sheet or to remove the proposed comment about a negative cash balance in the General Fund. Additionally, the STO did not sell investments at a loss to conceal or offset a negative cash balance.

### **XIII. The Treasurer never released, nor did he intend to release information that would put the State’s financial system at risk.**

In its Interim Report, the Subcommittee repeatedly cites the Treasurer’s alleged “threat to post to the internet highly sensitive financial information belonging to the State.” The Subcommittee ignores clear evidence that the Treasurer and STO actively sought to avoid releasing sensitive information. (p. 5). The Interim Report also fails to acknowledge the Subcommittee’s own role in inciting the incident.

These events originated with an exchange of letters between the Subcommittee and the Treasurer related to the Treasurer’s compliance with S.C. Code Ann. §§ 11-5-120 and 180, which occurred prior to the April 2, 2024, budget hearing before the Subcommittee.

S.C. Code Ann. § 11-5-120 requires the State Treasurer to publish quarterly 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.”

On March 7, 2024, the Subcommittee Chairman, Senator Larry K. Grooms, sent a letter to the Treasurer on behalf of the Subcommittee, indicating that the Treasurer had refused to provide the Comptroller General information in accordance with Sections 11-5-120 and 180, and demanding that the Treasurer “provide this Subcommittee with agency ownership, by agency, by fund regarding fund 30350993” within seven days. EXHIBIT 22.

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<sup>34</sup> STO also abides by S.C. Code Ann. §§ 6-6-10, 12-45-220, and 11-1-60 which pertain to investment of the Local Government Investment Pool.

On March 14, 2024, the Treasurer provided a substantial and thorough letter in response, with exhibits. EXHIBITS 23 and 24. The letter provided a timeline of SCEIS Fund 30350993 as the STO then understood its history, an analysis of Sections 11-5-120 and 180 and proof that the Treasurer and/or SCEIS, had fulfilled those statutory requirements.<sup>35</sup>

In particular, the Treasurer’s March 14 response pointed out that the “Statement of the State Treasurer’s Bank Deposits,” a document which contains the subheading “PUBLISHED AS REQUIRED BY SECTION 11-5-120,” was posted quarterly on the STO website to fulfill this reporting requirement. Since Section 11-5-120 was passed into law nearly 100 years before the State’s adoption of SCEIS, the statute could not possibly require the Treasurer issue a report broken out by SCEIS Fund. The Treasurer further explained that a “cash by SCEIS fund report,” is extremely detailed and contains “thousands of lines of data—certainly not what is required to be published for perusal by the general public under § 11-5-120. Additionally, publishing this much data online would provide a blueprint for mischief by internet scammers and hackers.” EXHIBIT 23.

Despite the Treasurer’s thorough 8-page response addressing a number of issues raised in Senator Grooms’ March 7 letter, the Subcommittee rehashed all of those issues and more<sup>36</sup> in its April 2, 2024 hearing, and significantly criticized the Treasurer for not publishing this sensitive financial information.

During the hearing, Senator J. Thomas McElveen, III, questioned the Treasurer regarding STO’s compliance with S.C. Code Ann. § 11-5-120. A review of the discussion clearly proves that it was Senator McElveen, not the Treasurer, who pushed to publicly publish the sensitive financial data contained in the “cash by SCEIS fund report.”

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<sup>35</sup> “If the statute or regulation is silent or ambiguous with respect to the specific issue, the court then must give deference to the agency’s interpretation of the statute or regulation, assuming the interpretation is worthy of deference.” *Sierra Club v. S.C. Dep’t of Health & Env’t Control*, 426 S.C. 236, 256 (2019). South Carolina courts “defer to an agency interpretation unless it is ‘arbitrary, capricious, or manifestly contrary to the statute [or regulation].’” *Kiawah Dev. Partners, II v. S.C. Dep’t of Health & Envtl. Control*, 411 S.C. 16, 34-35 (2014). “Where an agency is charged with the execution of a statute, the agency’s interpretation should not be overruled without cogent reason.” *Nucor Steel, a Div. of Nucor Corp. v. S.C. Pub. Serv. Comm’n*, 310 S.C. 539, 543, (1992). “The construction of a statute by the agency charged with its administration will be accorded the most respectful consideration and will not be overruled absent compelling reasons.” *Dunton v. S.C. Bd. of Exam’rs In Optometry*, 291 S.C. 221, 223 (1987).

<sup>36</sup> It bears noting that this hearing, upon which the Subcommittee bases many of its findings in the Interim Report, was supposed to be an agency budget hearing. EXHIBIT 9. Notwithstanding the Subcommittee’s authority to even investigate these matters (discussed more thoroughly below), the notice and procedure of this hearing were hardly adequate to elicit a meaningful discussion on such complex and important issues.

TREASURER LOFTIS: I am only in compliance with that requirement. This is what I meant about laws aging. That law was from 1912, or either 1902, I'm not quite sure. [...] It has never been anticipated that each fund had to be listed. This is the fund list. It is 80 pages. It lists, if we do this correctly, the account<sup>37</sup> numbers, the owner, and the amounts. Like you might think that somebody in Kiev would be interested to know in what account \$4.6 billion is in. If you would like this published, Senator, we will publish it tonight.

SENATOR MCELVEEN: Well, Mr. Treasurer --

TREASURER LOFTIS: Just -- it's--

SENATOR MCELVEEN: -- though, if it needs to be published, it should have been published before tonight, correct? I mean, it's a statutory responsibility.

TREASURER LOFTIS: Well no, **if you think that we should publish this report, I'll publish it. Now before I do that, I will call SCEIS, we'll call my IT and we'll call the Secret Service<sup>38</sup>, because this is an invitation for anybody that wants our money to come get our money.** That's the report. By fund, by agency, I mean, by fund and with the fund accounts. It is the architecture of the State Treasurer's Office.

SENATOR MCELVEEN: Okay.

TREASURER LOFTIS: It is the bank of the state, and we will do as we are told, Senator.

(Subcommittee Hearing, pp. 59-60) (emphasis added).

SENATOR MCELVEEN: My question about that is, if there's a question about something like that and, you know, public disclosure, should you err on the side of transparency, which is a word that gets thrown around a lot up here or --

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<sup>37</sup> The “account numbers” to which the Treasurer refers to here are not bank account numbers, but internal SCEIS identification numbers. The cash by SCEIS fund report excerpt provided to the Subcommittee did not include bank account numbers. Nevertheless, as was later confirmed by the Department of Administration, release of the information could pose a serious security risk.

<sup>38</sup> The United States Secret Service investigates “wire and bank fraud, computer network breaches, ransomware, and other cyber-enabled financial crimes...”  
<https://www.secretservice.gov/investigations>



TREASURER LOFTIS: Senator -- make sure we post this today. We'll do it, Senator, and I apologize. And we will post it today.

SENATOR MCELVEEN: All right. So if you're going to post it today, your testimony is that you have not been in compliance with that statute.

TREASURER LOFTIS: That's correct, Senator.

SENATOR MCELVEEN: All right. And so –

TREASURER LOFTIS: Well, that's your interpretation. I think we've interpreted it properly.

SENATOR MCELVEEN: Well, I think I don't want to speak for the members of subcommittee, but **I think that we believe that the law, the statute requires actually a by agency, by fund reconciliation, which the treasurer's office, to my understanding, is not doing currently.**

(Subcommittee Hearing, pp. 62-63) (emphasis added).

None of the Subcommittee members verbally indicated their belief that the Treasurer was threatening to release the State's sensitive financial information in the hearing. The word "threat" is not once uttered by anyone in the entire hearing. Moreover, STO staff was present for this discussion, and other STO staff members have reviewed the video recording; based on staff observations, it does not appear that the Subcommittee interpreted the Treasurer's remarks in this exchange as a threat to release sensitive information.

In fact, even when the Treasurer conceded that he would comply with the Subcommittee's interpretation of Section 11-5-120 by publicly posting the cash by SCEIS fund report, he explicitly stated that he would take security measures before he posts the report: "Well no, if you think that we should publish this report, I'll publish it. Now before I do that, I will call [the Department of Administration's SCEIS Division], we'll call my IT and we'll call the Secret Service, because this is an invitation for anybody that wants our money to come get our money." (Hearing Transcript, p. 60).

To that end, the day after the Subcommittee hearing, on the evening of April 3, 2024, Clarissa Adams, STO Chief of Staff, e-mailed Marcia Adams, Director of the Department of Administration regarding STO's compliance with S.C. Code Ann. §§ 11-5-120, 170 and 180. That e-mail stated, in part:

We now understand the General Assembly is re-interpreting these statutes. These new interpretations impose new and different disclosure obligations. In an effort to meet what is believed to be the new 11-5-120 requirements, attached is a detail fund report we

propose posting on our website. However, before posting the attached report, the STO has serious concerns regarding potential risks created by publishing such detail information on the STO website.

We would ask for your assistance in assessing any risks associated with publicly providing this information. If there is [any] risk in providing the detail fund report, we want to make sure the STO has alerted DOA so it can take action to help protect SCEIS and the State from the added security risks that may be created by the publication of such detailed information.

EXHIBIT 25. A follow-up e-mail sent from Marcia Adams at 11:42 a.m. on the morning of April 4, 2024 indicates that the two discussed the matter by telephone that morning, and that the Department of Administration was “working on this now.” EXHIBIT 25.

On the afternoon of April 4, 2024, the Treasurer sent two letters to the Subcommittee. The first letter, sent at 12:42 p.m., was sent via e-mail from Edward Frazier, STO Legislative Liaison and Special Assistant to the State Treasurer. That letter stated, in relevant part:

With respect to the electronic publication for public review of quarterly statements referenced in § 11-5-120, we will begin posting on the State Treasurer’s website a detailed fund report. We alerted the Department of Administration so that that agency can take action to protect SCEIS and the State’s other information and financial systems from the added security risks created by the publication of such detailed information.

EXHIBIT 26.

On its face, the letter informs the Subcommittee that the Treasurer intended to do exactly what they had informed him that they believed he should have been doing all along. Nevertheless, the letter does not indicate what information, specifically, a “detailed fund report” would include. Although the Treasurer had told the Subcommittee in the hearing that, before he published the report, “I will call SCEIS, we’ll call my IT and we’ll call the Secret Service, because this is an invitation for anybody that wants our money to come get our money,” (Hearing Transcript, p. 60), this letter did not inform the Subcommittee that STO Staff was working with the Department of Administration to determine the risks association with posting certain fund information, and that STO intended to redact the report as necessary to protect the interests of the State.

To the extent that the Subcommittee interpreted this letter as a “threat,” that interpretation is incongruous with Senator McElveen’s indication in the hearing two days prior that the Subcommittee believed the full 80-page “cash by SCEIS fund report” should have been published in order for the STO to comply with S.C. Code Ann. § 11-5-120. The Subcommittee remained curiously quiet for a group of senators who had just received a serious threat to the State’s financial security—neither the Subcommittee members nor their staff contacted the Treasurer or

STO to attempt to diffuse the supposed threat, as one would expect them to have done if they held genuine concern.

Internally at STO, there was no directive given at any time to post any new report. STO staff continued its efforts to devise a solution that would comply with the perceived “re-interpretation” of S.C. Code Ann. § 11-5-120 while also continuing to protect the State’s financial information. At 1:37 p.m., Marcia Adams e-mailed Clarissa Adams stating:

We are consulting with our outside cyber security firm and will have the risks outlined and sent to you by this afternoon. It is my strong recommendation that you do not post anything until Admin has a chance to outline the risks associated with the document you sent me last night. At first glance, this looks like information that should not be publicly posted. If our initial assessment is correct, even the best protections we can put in place may not be enough to mitigate the risks. We will respond in detail to your question later today.

#### EXHIBIT 27.

At 2:31 p.m. on the same day (April 4, 2024) the Treasurer sent a second letter to the Subcommittee which sought to clarify certain statements and respond to various other matters addressed in the April 2, 2024 Subcommittee hearing. This letter, **which was not included in the Exhibits of the Interim Report**, and which the Subcommittee refused to acknowledge in a subsequent hearing on February 18, 2025, specifically addresses the reporting requirements of S.C. Code Ann. § 11-5-120, and states

When I stated at the hearing that the State Treasurer’s Office is not in compliance with these reporting requirements, I meant that my office had not yet had the opportunity to change its reporting procedures in accordance with the re-interpretation articulated to me at the hearing. **We are now working toward devising a secure means of complying with these new disclosure obligations.**<sup>39</sup>

EXHIBIT 28 (emphasis added). If the Subcommittee truly interpreted the Treasurer’s first April 4, 2024, letter as a “threat to post to the internet highly sensitive financial information belonging to the State,” the Treasurer’s second letter, sent less than two hours later, should have assuaged their concerns by indicating that STO staff was “working toward devising a secure means of complying with these new disclosure obligations.” EXHIBIT 28.

That afternoon, the Treasurer received calls from Governor Henry McMaster, as well as Chief Mark Keel, of the State Law Enforcement Division, both of whom urged him not to release the full “cash by SCEIS fund report.” The Treasurer informed both officials that he had no

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<sup>39</sup> The Subcommittee apparently continues to deny, or refuses to acknowledge, the existence of this letter, as evidenced by their comments in the February 18, 2025 hearing.

intention of releasing the document without taking appropriate security precautions, if it was to be released at all. The Subcommittee has indicated that the South Carolina Attorney General's office also began preparing court filings to enjoin the Treasurer from releasing the "cash by SCEIS fund report." This may be true; however, given the STO legal office's positive relationship with staff at the Attorney General's Office, it is unclear why the Attorney General would not have first made contact with STO<sup>40</sup> under such circumstances.

At 5:19 p.m. on April 4, 2024, Marcia Adams sent the Treasurer a letter "strongly recommending that the detail fund report... not be published. We believe that publishing the information contained in the report would create a real and unnecessary risk for the State." EXHIBIT 29. The report was never published or released.

There was no intent by the Treasurer or within STO to actually release sensitive financial information. In fact, the evidence proves that STO staff were seeking support from other agencies to justify withholding the sensitive information.

Two weeks later, in the Subcommittee's presentation to the Senate on April 16, 2024, the Subcommittee Chairman made its first public assertion that there had been a "threat" by the Treasurer. The Chairman went so far as to speak directly to STO staff from the floor of the Senate, threatening criminal prosecution if staff released such information. By then, the matter had clearly been resolved for nearly two weeks, and the financial information in question had not been and would not be posted publicly; yet the Subcommittee still seized the opportunity to attack the Treasurer's "current judgement and temperament." *See* Interim Report, p. 8.

It is disingenuous at best for the Subcommittee to criticize the Treasurer's successful response to a potentially dangerous effort by the Subcommittee to pressure the STO to publish sensitive financial data that would expose the state to risk. Regardless how the Subcommittee interpreted the Treasurer's statements, the Treasurer's and STO's efforts drew the immediate attention of the Department of Administration, the Governor, the Chief of the State Law Enforcement Division, and apparently the Attorney General, all of whom acknowledged the danger associated with the release of the information, and agreed with the Treasurer that it should not be released despite the pressure by certain Subcommittee members to have him do so.

#### **XIV. The manner in which the Subcommittee has chosen to undertake its "investigation" has been inappropriate and may be actively endangering the State's interests.**

The Treasurer and STO, recognizing the extraordinary public importance of Comptroller General Eckstrom's 2022 ACFR Restatement, have made every effort to cooperate with the Governor's Working Group, the AlixPartners audit, and the Subcommittee's review of this issue. However, given the manner in which the Subcommittee has conducted itself, and the increasing

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<sup>40</sup> Rule 11, SCRCF requires, in part, that "All motions filed shall contain an affirmation that the movant's counsel prior to filing the motion has communicated, orally or in writing, with opposing counsel and has attempted in good faith to resolve the matter contained in the motion, unless the movant's counsel certifies that consultation would serve no useful purpose, or could not be timely held."

potential for the Subcommittee’s “hearing” content to cause harm to the State and its citizens, it is appropriate to consider whether the Subcommittee has exceeded its authority.

**a. The Subcommittee may not be legally authorized to conduct an investigation of the Treasurer or STO.**

The Subcommittee may have exceeded the scope of its legal authority by conducting this “investigation.”

S.C. Code Ann. § 2-2-40(A) allows “standing committees,” not subcommittees, of the Senate or House of Representatives, to “initiate an oversight study and investigation of an agency within its subject matter jurisdiction. The motion calling for the oversight study and investigation must state the subject matter and scope of the oversight study and investigation. The oversight study and investigation must not exceed the scope stated in the motion or the scope of the information uncovered by the investigation.”

S.C. Code Ann. § 2-2-40(B) clarifies that “the President of the Senate, the Speaker of the House of Representatives, or chairmen of standing committees” (again, not subcommittees), may authorize and conduct “legislative investigations into agencies' functions, duties, and activities,” so long as it is consistent with “fulfilling their constitutional duties.” The specific constitutional duties referenced here are listed in Section 2-2-5(1), which states that “Section 1, Article XII of the State Constitution requires the General Assembly to provide for appropriate agencies to function in the areas **of health, welfare, and safety and to determine the activities, powers, and duties of these agencies** and departments.” (emphasis added).

First, regarding Subsection (A), the Constitutional Subcommittee of the Senate Finance Committee is obviously not a committee, much less a “standing committee,”<sup>41</sup> of the Senate. This fact alone appears to preclude the Subcommittee from conducting the investigation it has undertaken.

Additionally, the STO is not aware of any motion made in, or approved by, the Senate Finance Committee “calling for the oversight study and investigation” of the Treasurer or STO, much less articulating “the subject matter and scope of the oversight study and investigation.” S.C. Code Ann. § 2-2-40(A). Given the fact that the Senate Finance Committee does not publish minutes, it is conceivable (though unlikely) that the Senate Finance Committee may have taken this action without notifying STO.

Likewise, regarding Subsection (B), the Constitutional Subcommittee of the Senate Finance Committee is, again, not a “standing committee,” of the Senate. And, if the Senate Finance Committee Chairman or the President of the Senate have authorized an investigation of

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<sup>41</sup> “‘Standing committee’ means a permanent committee with a regular meeting schedule and designated subject matter jurisdiction that is authorized by the Rules of the Senate or the Rules of the House of Representatives.” S.C. Code Ann. § 2-2-10(5).

the Treasurer or STO regarding “health, welfare, and safety and to determine the activities, powers, and duties” of STO, they have not notified STO of that fact.

There are countless other constitutional and statutory grounds for challenging the legitimacy of the Subcommittee’s “process”— not the least of which is that the Senate has no authority to impeach the Treasurer, and to the extent that the Senate would ever have an opportunity to adjudicate the Treasurer’s removal, the Subcommittee has now thoroughly betrayed any semblance of fairness or impartiality the Senate may have had.

**b. The Subcommittee’s hearing tactics have not been reasonably calculated to investigate SCEIS Fund 30350993 or the CGO’s 2022 ACFR Restatement.**

In the context of the above provisions, it is appropriate to acknowledge the Subcommittee’s hearing tactics. As discussed in previous sections of this Report, the Subcommittee has perpetuated numerous false, harmful, and unfounded allegations, all made under the broad and disingenuous shield of their legislative immunity.

**h. The April 2, 2024 Subcommittee “Budget Hearing”**

In the April 2, 2024, Subcommittee “budget hearing,” the Treasurer was never asked a single question about the STO budget.<sup>42</sup> Instead, the Subcommittee’s six-hour questioning of the Treasurer was composed of combative and misleading questioning and employed numerous “gotcha” moments. The Subcommittee questioned the Treasurer about events that occurred over the course of his entire eleven-year tenure, and baselessly accused him of misconduct throughout the hearing.

In one line of questioning, the Subcommittee falsely claimed to have evidence that STO had erroneously commingled federal money in SCEIS Fund 30350993.

In another line of questioning, the Subcommittee falsely accused the Treasurer of selling millions of dollars in investments at a loss in order to conceal a nonexistent “negative general fund balance.”

In yet another series of questions, the Subcommittee falsely accused the Treasurer of causing excessive employee turnover at STO, presenting misleading statistics such as Senator Goldfinch’s repeated assertion that “the average turnover rate in your office is almost 30 percent over the last ten years.” During a break in the hearing, the Treasurer was able to consult with STO staff regarding turnover and, upon returning, he was able to clarify the record: “The turnover rate is -- our turnover rate is within 1 percent of the statewide turnover rate. The STO’s average turnover rate is 19 percent. The statewide is 18 percent.” This information had already been provided to the Subcommittee in a letter dated March 28, 2024. Interim Report, p. 74.

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<sup>42</sup> By comparison, the Comptroller General’s budget hearing occurred immediately prior to the Treasurer’s and lasted less than 15 minutes, in which he was allowed to summarily declare that all of the issues resulting in or caused by the entries in SCEIS Fund 30350993 were the fault of the State Treasurer.

However, the most egregious example of the Subcommittee’s conduct in the April 2, 2024, hearing occurred when the Chair directed staff to hand the Treasurer a document, referred to in the hearing as “Exhibit 10.” The Treasurer reviewed the document and responded, “I cannot adequately speak to the depths of the conversation. I’m going to have to get experts to do this.”

Chairman Grooms ignored the Treasurer’s statement and began a tirade of false questioning and assertions regarding a non-existent \$30 billion in “unresolved differences,” just a few examples of which include:

SENATOR LARRY GROOMS: It looks like there's 30 billion in unresolved differences with the banking and investments, and you're the banker, your wheelhouse, and they're unresolved. And they've been hanging around now for 2015, 2016, 2017.

...

SENATOR LARRY GROOMS: It's unreasonable to think that, as the banker, you can't speak to \$30 billion in unresolved issues. You have to have some thoughts on the matter.

...

SENATOR LARRY GROOMS: You can't explain \$30 billion?

...

SENATOR LARRY GROOMS: I promise you, we have some responsibilities. And as the General Assembly, we've got some oversight questions. If you're the banker and you've lost control over \$1.8 billion, and then if you've lost control over \$31 billion.

...

SENATOR LARRY GROOMS: Well, I've got a few conclusions. We do have a \$1.8 billion problem, principally with the investments and another \$30 billion problem with the banks that occurred in funds under the exclusive control of the treasurer's these funds were under the exclusive control of the treasurer's office.

The Subcommittee never explicitly identifies “Exhibit 10,” but plainly asserts that the document represents proof of a “\$30 billion problem.” This document was even included in the Subcommittee’s Interim report as Exhibit 7, where it is identified as “Selected Accounts Variation Report for Fund 30350993.” The Interim Report cites this document, and plainly suggests that it is a SCEIS-generated report, saying “The Subcommittee understands that there exists in SCEIS considerable discrepancies in actual bank balances compared to reported amounts in SCEIS that arose from conversion of the Treasury’s banking records in 2015.” p. 9. The entire image in this document appears, unedited, below:

Selected Accounts Variation Report		Run Date / Time 03/26/2024, 20:58:09		
Bus Area: ^	Fund: 30350993	Grant: ^		
Cost Ctr: ^	Funded Program: ^		Period: 16, 2023	
Account Group Selected: ^				
GL Account	YTD Beg Bal	MTD Activity	YTD End Bal	
GL Account	YTD Beg Bal	MTD Activity	YTD End Bal	
1000000000 CASH DUE TO/FROM	(29,126,331,493.06)	-	(29,126,331,493.06)	
1010339900 UC TRUST - FEDERAL	(533,584,001.21)	-	(533,584,001.21)	
1011300000 WF_E16_STO_Contingent Acct_CASH	10,678,504,773.50	-	10,678,504,773.50	
1011300700 WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	25,339,949,424.07	-	25,339,949,424.07	
1011300707 WF GENERAL DEPOSIT WRITE OFFS	17.50	-	17.50	
1013300000 BOA_CASH_STO_GENERAL DEPOSIT ACCOUNT	1,094,129,628.79	-	1,094,129,628.79	
1013301000 BOA_CASH_STO_GDA_INT ACCT	(280,000,000.00)	-	(280,000,000.00)	
1015300000 UNITED COMMUNITY BANK_E16_CASH_GEN DEP	(8,927,566.14)	-	(8,927,566.14)	
1016300000 SYNOVUS CASH_GEN DEP	(297,953,597.15)	-	(297,953,597.15)	
1016300100 SYNOVUS RESTRICTED CASH_GEN DEP	(1,706,211,622.08)	-	(1,706,211,622.08)	
1017300000 TD BANK_E16_CASH_GEN DEP	(669,705,559.77)	-	(669,705,559.77)	
1018300000 FARMERS AND MERCHANTS GENERAL DEPOSIT	(9,425.47)	-	(9,425.47)	
1019300000 FIRST NTL HOLLY HILL_E16_CASH_GEN DEP	(6,098,183.34)	-	(6,098,183.34)	
1020300000 FIRST CITIZENS_E16_CASH_GEN DEP	(2,365,057,191.53)	-	(2,365,057,191.53)	
1021300000 TRUIST_E16_CASH_GEN DEP	(59,427,822.83)	-	(59,427,822.83)	
1024300000 ARTHUR STATE BANK_E16_CASH_GEN DEP	(3,764,915.61)	-	(3,764,915.61)	
1025300000 BANK OF CLARENDON_E16_CASH_GEN DEP	(16,551,854.73)	-	(16,551,854.73)	
1026300000 SOUTH STATE BANK GENERAL DEPOSIT	(164,761,893.22)	-	(164,761,893.22)	
1028300000 BANK OF TRAVELER'S REST_E16_CASH_GEN DEP	(245,009.38)	-	(245,009.38)	
1029300000 BLUE RIDGE BANK_E16_CASH_GEN DEP	(1,299,749.69)	-	(1,299,749.69)	
1032300000 ENTERPRISE BANK_E16_CASH_GEN DEP	(2,315,631.97)	-	(2,315,631.97)	
1034300000 PALMETTO STATE BANK_E16_CASH_GEN DEP	(22,881,753.39)	-	(22,881,753.39)	
1036300000 JPMC CASH_STO_GENERAL DEPOSIT ACCOUNT	5,000,000.00	-	5,000,000.00	
1063300300 BANK OF NEW YORK/MELLON GENERAL DEPOSIT	0.11	-	0.11	
1063300307 BONY GENERAL WRITE OFFS	(0.11)	-	(0.11)	
1076300000 ANDERSON BROTHERS_E16_CASH_GEN DEP	(500.00)	-	(500.00)	
1087300000 CAROLINA BANK AND TRUST_E16_CASH_GEN DEP	(500.00)	-	(500.00)	
2400600002 DUE TO OTHER FUNDS - EQUITY IN POOLED CASH	(1,852,455,573.29)	-	(1,852,455,573.29)	
Sum with 1000000000 and 2400600002	(0.00)	-	(0.00)	28
Sum without 1000000000 and 2400600002 (Banks Only)	30,978,787,066.35	-	30,978,787,066.35	26

Upon closer review, STO believes that this document was created to look like a screenshot of SCEIS or a genuine SCEIS report; however, there is no SCEIS report of which STO staff is aware that would produce the bottom two rows of data set forth in this document. The document appears to have been manufactured to look like SCEIS by adding a screen capture of the heading of SCEIS Fund 30350993 to the top of an Excel spreadsheet. The GL Accounts from SCEIS Fund 30350993 appear to have been exported into Excel to exclude zero balances, and the cell colors were changed to gray in an attempt to match the SCEIS heading. But most importantly, the final two lines appear to be formulas which were **manually added in an attempt to misrepresent the balance of SCEIS Fund 30350993 as being over \$30 billion.**



Selected Accounts Variation Report				Run Date / Time 03/26/2024, 20:58:09	
Bus Area: ^		Fund: 30350993	Grant: ^		
Cost Ctr: ^		Funded Program: ^	Period: 16, 2023		
Account Group Selected: ^					
GL Account		YTD Beg Bal	MTD Activity	YTD End Bal	
1000000000 CASH DUE TO/FROM		(29,126,331,493.06)	-	(29,126,331,493.06)	
1010339900 UC TRUST - FEDERAL		(533,584,001.21)	-	(533,584,001.21)	
1011300000 WF_E16_STO_Contingent Acct_CASH		10,678,504,773.50	-	10,678,504,773.50	
1011300700 WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT		25,339,949,424.07	-	25,339,949,424.07	
1011300707 WF GENERAL DEPOSIT WRITE OFFS		17.50	-	17.50	
1013300000 BOA CASH_STO_GENERAL DEPOSIT ACCOUNT		1,094,129,628.79	-	1,094,129,628.79	
1013301000 BOA_CASH_STO_GDA_INT ACCT		(280,000,000.00)	-	(280,000,000.00)	
1015300000 UNITED COMMUNITY BANK_E16_CASH_GEN DEP		(8,927,566.14)	-	(8,927,566.14)	
1016300000 SYNOVUS CASH_GEN DEP		(297,953,597.15)	-	(297,953,597.15)	
1016300100 SYNOVUS RESTRICTED CASH_GEN DEP		706,211,622.08	-	(1,706,211,622.08)	
1017300000 TD BANK_E16_CASH_GEN DEP		(669,705,559.77)	-	(669,705,559.77)	
1018300000 FARMERS AND MERCHANTS GENERAL DEPOSIT		(9,425.47)	-	(9,425.47)	
1019300000 FIRST NTL HOLLY HILL_E16_CASH_GEN DEP		(6,098,183.34)	-	(6,098,183.34)	
1020300000 FIRST CITIZENS_E16_CASH_GEN DEP		(2,365,057,191.53)	-	(2,365,057,191.53)	
1021300000 TRUIST_E16_CASH_GEN DEP		(59,427,822.83)	-	(59,427,822.83)	
1024300000 ARTHUR STATE BANK_E16_CASH_GEN DEP		(3,764,915.61)	-	(3,764,915.61)	
1025300000 BANK OF CLARENDON_E16_CASH_GEN DEP		(16,551,854.73)	-	(16,551,854.73)	
1026300000 SOUTH STATE BANK GENERAL DEPOSIT		(164,761,893.22)	-	(164,761,893.22)	
1028300000 BANK OF TRAVELER'S REST_E16_CASH_GEN DEP		(245,009.38)	-	(245,009.38)	
1029300000 BLUE RIDGE BANK_E16_CASH_GEN DEP		(1,299,749.69)	-	(1,299,749.69)	
1032300000 ENTERPRISE BANK_E16_CASH_GEN DEP		(2,315,631.97)	-	(2,315,631.97)	
1034300000 PALMETTO STATE BANK_E16_CASH_GEN DEP		(22,881,753.39)	-	(22,881,753.39)	
1036300000 JPMC CASH_STO_GENERAL DEPOSIT ACCOUNT		5,000,000.00	-	5,000,000.00	
1063300300 BANK OF NEW YORK/MELLON GENERAL DEPOSIT		0.11	-	0.11	
1063300307 BONY GENERAL WRITE OFFS		(0.11)	-	(0.11)	
1076300000 ANDERSON BROTHERS_E16_CASH_GEN DEP		(500.00)	-	(500.00)	
1087300000 CAROLINA BANK AND TRUST_E16_CASH_GEN DEP		(500.00)	-	(500.00)	
2400600002 DUE TO OTHER FUNDS - EQUITY IN POOLED CASH		(1,852,455,573.29)	-	(1,852,455,573.29)	
Sum with 1000000000 and 2400600002		(0.00)	-	(0.00)	28
Sum without 1000000000 and 2400600002 (Banks Only)		30,978,787,066.35	-	30,978,787,066.35	26

It is not clear to STO exactly what purpose this spreadsheet would actually serve, or what information it purports to convey. It appears that the \$30,978,787,066.35 “Sum without 1000000000 and 2400600002 (Banks Only)” would represent the *cumulative activity* from all Bank General Ledgers in SCEIS Fund 30350993, and is not evidence of any “unresolved difference” as Senator Grooms claimed.

By comparison, this is the *actual* “bottom line” of SCEIS Fund 30350993, from the same period (period 16 of 2023) as represented within the SCEIS system:

Selected Accounts Variation Report		Run Date / Time 02/25/2025, 15:16:01	
Bus Area: *	Fund: 30350993	Grant: *	
Cost Ctr: *	Funded Program: *	Period: 16, 2023	
Account Group Selected: SC_TRIAL_BALANCE			
GL Account	YTD Beg Bal	MTD Activity	YTD End Bal
1036300012 JPMC GEN DEP ACH IN			
1063300300 BANK OF NEW YORK/MELLON GENERAL DEPOSIT	0.11		0.11
1063300307 BONY GENERAL WRITE OFFS	0.11-		0.11-
1076300000 ANDERSON BROTHERS_E16_CASH_GEN DEP	500.00-		500.00-
1076300002 ANDERSON BROTHERS GEN DEP ACH OUT			
1087300000 CAROLINA BANK AND TRUST_E16_CASH_GEN DEP	500.00-		500.00-
1087300002 CAROLINA BANK & TRUST GEN DEP ACH OUT			
* Cash Accounts	1,852,455,573.29		1,852,455,573.29
** Total Assets	1,852,455,573.29		1,852,455,573.29
*** Total Assets	1,852,455,573.29		1,852,455,573.29
2400600002 DUE OTH FDS-EQTY CSH	1,852,455,573.29-		1,852,455,573.29-
* Other Liabilities	1,852,455,573.29-		1,852,455,573.29-
** Total Liabilities	1,852,455,573.29-		1,852,455,573.29-
3000010000 RET EARN & FD BAL UN			
* Fund Balance Accounts			
9999999999 CONVERSION ACCOUNT			
* Other Accounts			
** Total Fund Balance			
*** Total Liabilities and Fund Balance	1,852,455,573.29-		1,852,455,573.29-
**** Total			

To the extent that the Subcommittee was aware that its exhibit was not genuine, its proffering, questioning, and inclusion of it in the Interim Report is simply unconscionable. To the extent that it was a mistake, made in blind reliance on an outside source, it is an inexcusable mistake, and the Subcommittee should identify the source of this document.

**ii. The February 18, 2025 Subcommittee “AlixPartners Report Review”**

A year later, at 4:06 p.m. on February 12, 2025, the Subcommittee invited the “agency” (i.e. STO) to a “meeting to review the AP Report with your agency, the Department of Administration, and the Comptroller General’s Office,” which was to occur on February 18, 2025.<sup>43</sup> EXHIBIT 30. The e-mail request asked the STO “leadership team” to save the date, and requested that STO notify the Subcommittee “who all will be in attendance.” EXHIBIT 30. In a follow-up phone call, Subcommittee staff further indicated that the Subcommittee intended to discuss “next steps” as related to the AP Report.

However, the February 18, 2025, meeting of the Subcommittee veered far outside the scope of the AP Report. The Subcommittee criticized STO for engaging William Holder, a nationally-recognized governmental accounting and ACFR reporting expert, to assist STO in

<sup>43</sup> The Subcommittee’s invitation gave STO two business days of notice before a State holiday, during which the Treasurer and many STO staff members had already made out-of-town plans. For those STO staff members who were able, the STO team and the Treasurer worked together remotely through the weekend and the holiday to prepare the STO’s Chief of Staff, Clarissa Adams, to discuss all relevant aspects of the AP Report and the State’s “next steps” toward resolving the issues discussed in the AP Report.

understanding the CGO's calculation and preparation of the ACFR, and in interpreting the findings and entries proposed by AlixPartners.

The Subcommittee criticized STO for engaging an external communications firm to assist the agency in communicating these extraordinarily complicated accounting issues, while being sensitive to the State's interests in the investigation by the SEC, and carefully representing the State's true financial condition to any potential investors in the State's bond issuances.

The Subcommittee also questioned STO's Adams about the Treasurer's so-called "threat" to release the State's financial information in the April 2, 2024, hearing.

The Chair presented to STO's Adams (without any notice, and without any authentication) a video of Senator McElveen questioning the Treasurer in the April 2, 2024 Subcommittee meeting. Unbeknownst to Adams, **Senator McElveen's assertion that the Subcommittee believed the Treasurer should post the report had been edited out of this video.** The Subcommittee, of course, did not inform Ms. Adams that the video had been edited.

The Subcommittee also presented Ms. Adams with the Treasurer's first letter of April 4, 2024, but, despite Ms. Adams' insistence, refused to acknowledge the existence of the Treasurer's second letter, issued the same day, which stated "We are now working toward devising a secure means of complying with these new disclosure obligations." EXHIBIT 28.

When questioned on these topic, Ms. Adams informed the Subcommittee that "I was prepared to discuss the AlixPartners Report, so I would definitely want to pull those letters and have a minute to look at it because it happened sometime ago. I didn't know we were not going to be discussing the AlixPartners report," and went on to say "I apologize, I am not prepared to discuss that."

The Subcommittee ignored Ms. Adams's statement and persisted in questioning her about these events, which occurred nearly a year prior, all while interjecting editorializing comments, showing a complete disregard for Ms. Adams's statement that she was not prepared to discuss the matter. Throughout the questioning, Ms. Adams repeatedly stated that she was not able to discuss these events because she had prepared to discuss the AP Report, to which, at one point, Senator Goldfinch declared "We're here to discuss all kinds of stuff."

This Subcommittee conduct is does not appear to be intended to uncover true or meaningful information about any issue. Instead, the behavior only serves to draw attention to the Subcommittee members, without regard to the fact that their self-declared "witch hunt" has cost the State countless dollars, cost the involved agencies countless man-hours, and cost the agencies' employees many nights and weekends of work which could have been spent with their families.

**c. The Subcommittee's conduct may be endangering the State's interests.**

The Subcommittee's investigation tactics may also be endangering the State's interests by prolonging and overcomplicating the SEC investigation into the CGO's 2022 ACFR Restatement.

The Subcommittee's insistence upon publicly airing these false allegations has undoubtedly made it more difficult (and thus more expensive) for the State's attorneys to address and respond to the actual substantive issues. Moreover, on advice of counsel, the Treasurer has made the prudent decision not to issue General Obligation while the SEC investigation is ongoing, in order to protect the State's interests. As such, the STO has not issued General Obligation Bonds since it became aware of the SEC investigation.

Meanwhile, the original basis of the Subcommittee's inquiry into the \$1.8 billion balance of SCEIS Fund 30350993 has been addressed. As the AP Report confirms, when the incorrect entries in SCEIS Fund 30350993 are reversed, the net effect on the State's Bank General Ledger will be zero.

Zero.

As for the Treasurer and STO, the question is answered, and the case is closed. The Subcommittee's continued pursuit of this matter must end.

## EXHIBITS

1. Email of May 26, 2016 from Laura Showe (CGO) and response of same date by Martin Taylor (STO)
2. Email of July 13, 2017 from Martin Taylor (STO)
3. Email exchange of November 2, 2017 from David Starkey (CGO) and response from Katherine Kip (STO)
4. Email of November 2, 2017 from George Kennedy (State Auditor) to CGO and STO staff
5. Spreadsheet containing Taylor (STO) recommendation of PPA
6. Email exchange of March 1 - 5, 2018 between Starkey (CGO) and Taylor (STO)
7. Email of October 26, 2018 from John Morrison of CGO to Martin Taylor of STO
8. Letter of December 12, 2023 from Comptroller General Gaines Treasurer Loftis
9. Letter of March 26, 2024 from Subcommittee to Treasurer Loftis regarding budget hearing
10. Email exchange beginning January 30, 2025 between Shawn Eubanks (STO) and Bob Maldonado (CGO)
11. E-mail of March 29, 2024 from Melissa Simmons (STO) to Department of Administration and attachment
12. E-mail exchange of February 14, 2025 between Clarissa Adams (STO) to Marcia Adams (Department of Administration)
13. E-mail of February 14, 2025 from Clarissa Adams (STO) to Comptroller General Gaines
14. E-mail of February 21, 2025 from Clarissa Adams (STO) to Comptroller General Gaines and attachment
15. Letter of February 20, 2024 from George Kennedy (State Auditor) to the Subcommittee
16. STO Comprehensive Investment Plan
17. E-mail of January 17, 2024 from Clifton Larson Allen

18. Email of December 12, 2023 from Comptroller Gaines to Treasurer Loftis with ACFR draft dated November 30, 30, 2023
19. Email of January 10, 2024 from CliftonLarsonAllen, LLP to STO Chief of Staff Clarissa Adams with draft of management letter comments
20. Intentionally left blank
21. Email of January 18, 2024 from CliftonLarsonAllen, LLP to STO
22. Letter of March 7, 2024, from Subcommittee Chairman, Senator Larry K. Grooms to Treasurer Loftis
23. Letter of March 14, 2024 from Treasurer Loftis to Sen. Grooms & the Senate Finance Subcommittee
24. Exhibits to March 14<sup>th</sup> Letter
25. Email of April 3, 2024 from Clarissa Adams, STO Chief of Staff to Marcia Adams, Director of the Department of Administration and the director's response thereto.
26. Letter of April 4 from Treasurer Loftis to the SFC Subcommittee transmitted via email timestamped 12:42 p.m.
27. Email of April 4, 2024 1:37 p.m. from Director Adams to STO Chief of Staff Clarissa Adams
28. Letter of April 4, 2024 from Treasurer Loftis to the SFC Subcommittee transmitted via email timestamped 2:31 p.m.
29. Letter of April 4, 2024 from Director Adams to Treasurer Loftis
30. Email of February 12, 2025 from Subcommittee to Edward Frazier (STO)
31. STO Other Funds Reports to Executive Budget Office (EBO)