Response of the

State Treasurer's Office

to the

Office of the State Inspector General's

"Limited Investigation of the

South Carolina Office of the State Treasurer"

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Section I: Introduction and Executive Summary

The South Carolina Office of the State Treasurer ("STO") appreciates the opportunity to respond to the South Carolina Office of the State Inspector General's ("SCOIG") "Limited Investigation of the South Carolina Office of the State Treasurer" ("Report"), issued in May 2026. The STO welcomes opportunities for improvement and has carefully reviewed the Report.

The STO accepts SCOIG feedback regarding budgetary allocations, cost accounting practices, and specific aspects of the Unclaimed Property Program. The STO is working to implement process enhancements in these areas, as indicated in the STO remediation plan. (Exhibit 1). These steps reflect the STO's ongoing commitment to operational excellence.

However, the Report contains several material inaccuracies. In discussing STO's statutory compliance, the SCOIG disregards longstanding, good-faith agency interpretations, in favor of its own novel interpretations. The Report also omits critical context and evidence.

The SCOIG's analysis of the Master Lease Program (S.C. Code Ann. § 1-1-1020) ("MLP"), particularly with regard to the State Election Commission ("SCEC") transaction, is fundamentally flawed. The STO fulfilled its limited statutory role of facilitating the financing transaction. The SCEC is responsible for procurement compliance and repayment planning. The SCOIG focuses on potential contractual late penalties, which were never assessed nor paid, yet fails to mention the competitive financing rates of 3.29% and 3.768% SCEC obtained through the MLP. Further, the STO's investment of SCEC lease proceeds from the beginning of the lease generated earnings that more than offset additional interest incurred by the SCEC due to the delayed appropriation and the delayed payment resulting therefrom.

Additionally, the SCOIG's interpretations of S.C. Code §§ 11-5-120 and 11-13-70, *et seq*., represent unsupported departures from the plain meaning of the statutes and over a century of consistent STO practice. The SCOIG's allegations regarding STO's "failure to reconcile by fund" ignore STO's demonstration of its reconciliation by fund in compliance with Proviso 98.14, provided to the SCOIG. The noted issues regarding bank reporting forms fall primarily on the Comptroller General's Office ("CGO"), which had not furnished "forms" for banks to fill out and return as referenced in the statute.[1]

The resulting Report elevates policy disagreements and hypothetical scenarios into findings of possible "mismanagement." This response details specific errors and inaccuracies within the Report and provides supporting documentation to refute them.

Disagreements notwithstanding, the STO remains committed to the highest standards of fiscal responsibility, transparency, and service to the people of South Carolina. The STO will continue to work collaboratively with the General Assembly, the SCOIG, the CGO, and other partners to strengthen South Carolina's financial operations for the benefit of all citizens.

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[1] Following the issuance of the SCOIG's Report, the CGO clarified to the STO via e-mail dated June 9, 2026, that "The banks may provide the CGO a bank statement in the same form it provides the STO" to fulfill these statutes. (Exhibit 2).

Section II: The Report does not consistently conform with applicable SCOIG standards

Before addressing the specific factual and legal assertions contained within each section of the Report, the STO notes its overarching position that the SCOIG's investigation and resulting report in many aspects do not consistently conform with the State's statute establishing the authority of the inspector general, apply the SCOIG's stated evidentiary standard, or reflect the standards of fairness, objectivity, and completeness required by the "Green Book."

A. The SCOIG's authority to interpret statute appears to be limited to making recommendations to strengthen State law or referrals to enforce the law

To the extent that the SCOIG identified a different interpretation of the law, or a potential improvement to the law, its role is to "recommend legislation to the Governor and General Assembly to strengthen" such law. S.C. Code § 1-6-30(8). The SCOIG's suggestion that the STO may have committed "mismanagement," despite STO's clear showing that it has complied with reasonable, longstanding, good-faith agency interpretations of the law, is improper.

The SCOIG is a creature of state statute, having only those powers explicitly given to it in S.C. Code § 1-6-10, *et seq*. These statutes do not grant the SCOIG any power to construe an unclear or ambiguous statute, or re-construe statutes in a way that contradicts an agency interpretation. In cases where an unclear or ambiguous statute is recognized, the SCOIG's role is limited to acknowledging that ambiguity, and "recommend[ing] legislation to the Governor and General Assembly to strengthen public integrity laws." S.C. Code § 1-6-30(8).

Historically, and at the time the SCOIG's report was issued, South Carolina case law has indicated that a state agency's good faith interpretation of a statute it administers is deserving of deference.[2] This deference was observed not only by the South Carolina judiciary, but was also acknowledged between state agencies.[3] With Governor McMaster's recent signature of Act 251, the Small

[2] South Carolina state courts have long deferred to agency interpretations: "[a]ccordingly, the deference doctrine properly stated provides that where an agency charged with administering a statute or regulation has interpreted the statute or regulation, courts, including the [Administrative Law Court], will defer to the agency's interpretation absent compelling reasons. We defer to an agency interpretation unless it is 'arbitrary, capricious, or manifestly contrary to the statute.'" *Kiawah Development Partners, II v. South Carolina Dept. of Health and Environmental Control*, 411 S.C. 16 (2014).

[3] The South Carolina Attorney General's Office has consistently confirmed that its interpretation of statutes is guided by the deference affirmed by *Kiawah*. In multiple legal opinions from 2019 through 2022, the Attorney General's Office reiterated that "[i]t is this Office's long standing policy, like that of our state courts, to defer to an administrative agency's reasonable interpretation of the statutes and regulations that it administers," citing *Kiawah* and its opinions directed to Marcia S. Adams, (S.C.A.G., 2022), W. Marshall Taylor, Jr., (S.C.A.G., 2020), The Honorable Garry R. Smith, The Honorable Gary E. Clary, and The Honorable Wes Climer, (S.C.A.G., 2019).

Business Regulatory Freedom Act, on June 30, 2026,[4] an agency's statutory interpretation will no longer be entitled to deference in South Carolina courts; however, it is unclear whether this law will or should affect the interaction between agencies. Regardless, it generally remains true that an agency charged with fulfilling or enforcing a statute is an expert—and often the foremost expert—as to the meaning, effect, and practical application of that statute. While the SCOIG is charged with the power to assess a state agency's bright-line legal compliance, the SCOIG does not have the statutory authority to impose and enforce its own novel interpretations of statutes governing other agencies.

The two areas in which the SCOIG claims to have observed the STO's "mismanagement" relate to STO's interpretation and application of the state laws it administers: the STO's MLP, and certain statutes dealing with "reporting." In both instances, the SCOIG either takes issue with the STO's century-long interpretation and application of the law, or outright disagrees with the mechanism that is set forth in the statute.

In either case, it is improper for the SCOIG to unilaterally determine that an agency is "mismanaged" based on the SCOIG's disagreement with an agency's longstanding interpretation and application of a statute, particularly when the agency is able to show that it has made good faith efforts to comply with the statute as the agency has understood its requirements over an extended period of time.

B. The SCOIG Report does not consistently adhere to the "preponderance of evidence" evidentiary standard

The Report states that the SCOIG has applied the preponderance of the evidence standard in its investigation. In order for the preponderance of evidence standard to be observed, there must be actual evidence supporting factual findings. However, as will be discussed in greater detail below, the Report contains assertions with no evidentiary basis, and further renders accusations against the STO based entirely on hypothetical events that never occurred, and seeks to find fault with the STO based on those non-occurrences. Moreover, during the SCOIG's investigation, there were certain instances in which the STO presented the SCOIG with evidence contrary to the SCOIG's original assumptions, which the SCOIG apparently discounted or ignored. These errors undermine the SCOIG's claim of adhering to the preponderance of evidence standard.

C. The SCOIG Report does not consistently adhere to the "Principles and Standards for Offices of Inspector General"

The SCOIG states that its investigation was conducted in accordance with the Principles and Standards for Offices of Inspector General (the "Green Book") promulgated by the Association of Inspectors General. However, the contents of the Report appear inconsistent with the foundational standards of the Green Book.

[4] "Section 1-23-380(5) of the S.C. Code is amended to read: …(b) In interpreting a statute or regulation, the court shall not defer to the agency's interpretation of the statute or regulation and instead shall interpret the statute or regulation de novo."

The Green Book's standards governing investigations and evaluations require that Offices of Inspector General "gather, assess, and report evidence in a fair, unbiased, and independent manner" (Sections 2.3, 2.6, 3.3, 3.6) and conduct work in a "diligent and complete manner" to ensure sufficient and appropriate evidence is collected and pertinent issues are adequately resolved. (Sections 2.7, 3.7). Reports must be objective, accurate, complete, and adequately supported by evidence, without misleading emphasis or advocacy. (Sections 1.7, 3.10).

Throughout the Report, the SCOIG presents disputed legal interpretations as settled conclusions, relies upon speculative or hypothetical outcomes rather than actual events, minimizes or omits material facts that contradict, undermine or materially qualify its conclusions, adopts the most adverse interpretation of evidence without adequately addressing reasonable alternative explanations that would not result in adverse conclusions, and omits relevant roles and duties of other agencies whose actions or inaction were pivotal in the events and outcomes reviewed by the SCOIG. These concerns are not merely technical disagreements. They go directly to the Green Book's core requirements of due professional care, objectivity, thoroughness, evidence-based analysis, and fair reporting. (Sections 1.1, 1.9, 2.3, 3.3).

As discussed in greater detail below, these deficiencies materially affect the reliability of numerous findings and recommendations in the Report.

Section III: The factual assertions and legal conclusions related to the STO's Master Lease Program are inaccurate

The SCOIG's Report contains a section focusing on the SCEC's utilization of the STO's Master Lease Program for the lease purchase of election equipment manufactured by Election Systems & Software ("ES&S"). The Report is an inaccurate depiction of the STO's involvement in the transaction, and contains factual assertions that are unsupported, incomplete, and in some cases entirely hypothetical.

The circumstances of the SCEC's lease purchase represent an outlier in nearly every respect. According to a review of STO records, there has never been an instance of an agency having to surrender equipment acquired through the MLP, nor has a bank ever assessed a late payment penalty in connection with the MLP. The STO's records indicate that it has facilitated over one hundred lease purchases through the MLP—all of which were successful.

None of the SCOIG's concerns arising from that arrangement were caused by or cognizable to the STO or the financial institution lessor at the time of the SCEC's request for financing. Despite this, the allegations of the Report have already been politically weaponized against the STO and caused unjustified harm to the reputation of the State Treasurer, the STO, and its staff.

This response represents the facts related to the SCEC's transaction, as understood by STO at the time this response is issued. The STO notes, however, that the SCEC is also under SCOIG investigation, as has been acknowledged by SCEC's then-chairman, former Fourth Circuit Court of Appeals Judge Dennis Shedd, per the minutes from the SCEC's October 15, 2025, meeting: "Shedd reported that SLED, the Attorney General's Office, and the Office of Inspector General (OIG) currently have matters involving Knapp under review." The STO is unaware of any official reports or conclusions regarding these inquiries. The STO questions the propriety and essential fairness of the SCOIG releasing this Report, which purports to hold the STO accountable for actions and inaction by the SCEC, while there has not been an SCEC investigative report released, and pursuant to S.C. Code § 1-6-50(C), such report may never be released.

As such, the STO is left to defend itself against allegations in the Report without full information, using the publicly available resources as described below, all of which (and more) would have been available to the SCOIG before the publication of the Report.

A. The SCOIG omits important information regarding the SCEC's lease-purchase of voting machines

In its Report, the SCOIG omits or fails to discover certain information, and inaccurately presents other information, which STO believes is critical to a full and fair assessment of the quality of STO's management of the MLP, especially in relation to the SCEC transaction.

By way of background, the MLP is established by S.C. Code § 1-1-1020, which authorizes the STO to "provide financing arrangements…on behalf of boards, commissions, institutions, and agencies of state government for the purpose of renting, leasing, or purchasing office equipment, telecommunications equipment, energy conservation equipment, medical equipment, data processing equipment, and related software," and requires the STO to "negotiate the terms of any financing arrangement" necessary to effectuate the transaction.

The current statutory language creating the MLP has been in place since 2002. The State Fiscal Accountability Authority ("SFAA") has "exempted the financing provisions of lease/purchase contracts and other debt and banking functions of the State Treasurer's Office from the procurement procedures of the Procurement Code."[5]

Master lease deals are structured to allow agencies to enter into lease purchase agreements to obtain certain types of equipment without encumbering the State with general obligation debt. It is the purchasing agency's responsibility to determine whether a lease or an outright purchase is appropriate under each set of circumstances. S.C. Code Regs. 19-445.2152. In the event the General Assembly chooses not to appropriate funding for an agency's master lease payment, the agency must simply inform the lessor (usually a bank) and surrender the equipment, with no further contractual obligations by the State.

[5] "Legal Exemption Table 9.12.2025" (p.19), available at: https://www.procurement.sc.gov/legal/procurement-law. (Exhibit 3).

1. **The SCEC participated in discussions with the General Assembly regarding the acquisition of new election equipment, resulting in the recommendation by Senate staff that the SCEC pursue financing through STO's Master Lease Program.**

In January 2024, the Legislative Audit Council ("LAC")[6] released a 194-page report on the SCEC.[7] This audit report highlighted numerous issues within the SCEC, including but not limited to eighteen recommendations made for action by the General Assembly and the SCEC within a 30-page section called "Post-Election Audits and Election Integrity". The LAC report discussed the SCEC's voting equipment, including the DS200 and DS450 ballot scanner manufactured by ES&S. The LAC stated its concern that the SCEC did not "have an asset management system that catalogs, inventories, and tracks the locations of" its ES&S voting machines (p. 84), and lacked "a sufficient inventory list of all voting machines it procured for the state" (p. 89). Overall, the LAC made seventy-one recommendations, in addition to reviewing the status of the sixteen recommendations made in the LAC's 2013 review of the SCEC.

Of particular relevance to the SCOIG's Report regarding the STO, the LAC identified a number of instances in which the SCEC "did not follow the S.C. Consolidated Procurement Code (the procurement code) requirements for sole source procurements" (p. 98), and recommended that the SCEC "request a procurement audit from the Division of Procurement at the S.C. State Department of Administration to ensure that the agency has followed the South Carolina Consolidated Procurement Act" (p. 102). Howard "Howie" M. Knapp, SCEC Executive Director from January 2022 to September 2025, responded to the LAC's findings and recommendations on behalf of the SCEC. The response, dated December 21, 2023, is attached to the LAC's report as Appendix F.

Following the LAC's report, the SCEC considered purchasing new and additional voting equipment from ES&S. According to an e-mail[8] from Knapp to the SCEC Commission members, "after the agency's budget hearing before the House Ways and Means Committee, but before the hearing before the Senate Finance Committee, I was approached by our statewide voting system vendor, ES&S, about replacing all precinct ballot scanners (the DS200s) with the newer scanner with audit capabilities (the DS300). The company had also been approached by some counties that

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[6] The Legislative Audit Council is composed of five public members (one of whom must be a practicing certified public accountant or a licensed public accountant and one of whom must be an attorney), as well as four members of the General Assembly, serving *ex officio*.

[7] "A Review of the South Carolina Election Process," January 2024, available at: https://lac.sc.gov/sites/lac/files/Documents/Legislative%20Audit%20Council/Reports/A-K/SEC_2024.pdf.

[8] Following the issuance of the SCOIG's Report regarding the STO, the STO discovered that Palmetto State Watch had published the SCEC's response to a Freedom of Information Act ("FOIA") request containing approximately 1200 pages of SCEC communications, many of which had not previously been available to the STO. That production is available at the bottom of the investigative article located at https://palmettostatewatchfoundation.com/2025/10/22/elections-commission-fires-howard-knapp/. It is unknown to the STO whether the SCOIG requested or reviewed any of these materials.

need additional voting equipment."[9] As recounted in this e-mail, Knapp presented the SCEC's budget to the Constitutional Budget Subcommittee of the House of Representatives Ways and Means Committee on February 6, 2024, and did not request money in the SCEC budget for election equipment. The STO is unaware of when or how ES&S "approached" Knapp following that hearing, or how or when the decision was made to pursue funding for additional election equipment. There is no discussion of any decision to pursue funding for additional election equipment in the publicly-posted SCEC Commission meeting minutes from February 2024 or March 2024.

At the March 14, 2024, meeting of the Constitutional Budget Subcommittee of the Senate Finance Committee, Knapp presented the SCEC's budget requests, which included a request for $24.5 million in General Fund appropriations for the purchase of replacement ballot scanners. Knapp stated to the subcommittee that the ballot scanners purchased with these funds would "definitively show that—and you see on your sheet—that the ballot was counted, how it was counted, when it was counted, and which scanner tabulated the ballot, while still protecting the voter's secrecy."[10] Knapp indicated to the subcommittee that, while the SCEC currently had functional ballot scanners, the proposed new ballot scanners would enhance the SCEC's ability to audit elections. When asked whether the House of Representatives had approved this $24.5 million budget request, Knapp said, "No. I did not ask for it at the House because I wasn't sure— I talked to the vendor— I didn't know if it would be realistic to do it this year. After talking to the vendor around the time the House budget was due, they assured me it would be. This is fresh, for you."

At the April 10, 2024, meeting of the Senate Finance Committee, Senator Lawrence Grooms[11] presented the budget recommendations on behalf of the Constitutional Budget Subcommittee, which included $12,500,000 for the SCEC "to help upgrade our voting systems."[12] The Senate Finance Committee approved the SCEC's budget with an appropriation of $12,500,000 for "Voting System Upgrade," and the Senate included the item in its Appropriations Bill on the same day.

However, the House of Representatives responded by appropriating only $1 for "Voting System Upgrade" in its May 8, 2024, Appropriations Bill. Apparently, the House of Representatives' Appropriations Bill raised concerns with the Senate—namely members of the Senate Finance Committee, as indicated by communications[13] between Senate staffers. On June 12, 2024, Senate

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[9] Knapp e-mail dated July 3, 2024, at 12:59 p.m., Subject: "Statewide Voting System Upgrade Option" (Exhibit 4).

[10] A video of Knapp's March 14, 2024, presentation to the Constitutional Budget Subcommittee of the Senate Finance Committee can be viewed at https://www.scstatehouse.gov/video/archives.php.

[11] Senator Grooms, who requested that the SCOIG conduct the investigation of the STO, is the chairman of the Constitutional Budget Subcommittee.

[12] A video of the April 10, 2024, meeting of the Senate Finance Committee can be viewed at https://www.scstatehouse.gov/video/archives.php.

[13] Generally, Senate staff e-mails are not available for public review, as the General Assembly is exempt from the State's open records laws; however, this e-mail was later forwarded to SCEC staff and produced as part of the SCEC's response to the FOIA request referenced in footnote 8.

staffer Rick Harmon, then serving as the Joint Bond Review Committee's Director of Research, emailed Quentin Hawkins, the Senate Finance Committee's Chief of Staff, and copying other Senate staffers, provided a memorandum Harmon had drafted recommending that the SCEC use the Master Lease Program:

> I need to proof[14] this again tomorrow, but wanted you to have this as you enter into negotiations tomorrow.
>
> If the $12.5 million is not going to survive the conference committee, then I suggest a 3-year master lease to finance the software acquisition.
>
> Annual payments will be about $8.873 million, and the first payment can be delayed until FY 2025-26. The payments will have to be made from recurring funds on the line.
>
> It can be structured to include a pre-payment in the event an appropriation is made available next or any subsequent year.
>
> Howie has the authority to do this under the Election Commission statute, subject to approval of the Election Commission – no further approvals are required from JBRC or SFAA.
>
> Hope this gives you some flexibility and relief.
>
> Rick

(Exhibit 5).

The document drafted and attached by Harmon, later referred to as the "Briefing Memorandum,"[15] concluded by stating "Given the uncertainty of the FY2024-25 appropriation, and the benefits of structuring flexibility and favorable financing rates, the state master lease proposal for a term of 3 years appears to have highest and best value among the alternatives considered within this analysis." On June 13, 2024, Rick Harmon forwarded the email above to SCEC's Knapp, with the

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[14] Harmon provided the "final version" of the memorandum to the group later that day.

[15] During the SCOIG's investigation and prior to the issuance of the Report, STO did not have access to the e-mail communication between Harmon and Hawkins. STO did, however, have Harmon's Briefing Memorandum, which the SCEC had provided STO to show political support for the SCEC's utilization of the MLP for acquiring election equipment. When the STO brought the Briefing Memorandum to the SCOIG's attention, the Inspector General stated that he would not consider its contents for purposes of the SCOIG's investigation of the STO because it was not placed on legislative letterhead and was, essentially, a personal recommendation by Harmon rather than a recommendation made in Harmon's professional capacity on behalf of the Senate and/or Joint Bond Review Committee. The e-mail communication between Harmon and other Senate staffers suggests that this assumption was incorrect.

Briefing Memorandum attached, stating "Attached is the analysis for alternative funding. Let me know if you have any questions." Knapp forwarded Harmon's memorandum to SCEC staffer Jenny Wooten on June 17, 2024. (Exhibit 6).

The General Assembly ultimately ratified the State's budget on June 26, 2024, appropriating only $1 to the SCEC for "Voting System Upgrade," for fiscal year 2024-25.

On July 3, 2024, Knapp sent an e-mail[16] to the SCEC Commission members, providing the memorandum that Harmon had drafted on behalf of the JBRC and/or Senate, circulated among Senate staffers, and forwarded to Knapp. Knapp's e-mail stated:

> During budget negotiations, several members of the Senate leadership expressed a strong desire to have this system in place for the November 2024 election, as they felt it would add a layer of confidence for voters. That was when Senate leadership asked Senate staff to draft the attached memo "Briefing Memorandum – Voting System Upgrade – 2024 June 11." To summarize the memo, there is a mechanism by which the state could purchase this equipment through a lease to purchase option where the state would pay back the total cost within three fiscal years.

Following additional e-mail conversation between Knapp and the SCEC Commission members, the SCEC planned to discuss the MLP financing of the election equipment at the August 21, 2024, Commission meeting. In anticipation of that meeting, SCEC staff again contacted Harmon to request a list of agencies that had used the STO's MLP for financing equipment. In response, Harmon e-mailed Wooten[17] and Knapp with a list of agencies that had used MLP when he served as Director of Debt Management at the STO, and recommended contacting Jackie Hipes, then serving as Director of Debt Management at the STO, who oversaw the administration of the MLP.[18]

Also in advance of the meeting, on August 19, 2024, an e-mail[19] was sent to Knapp, which purported[20] to be a message from Representative Bruce Bannister, Chairman of the Ways and Means Committee for the House of Representatives:

> Mr. Knapp,

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[16] Attached as Exhibit 6.

[17] Cited documents refer to Jenny McGill while other later documents refer to Jenny Wooten, but both names refer to one person. When appropriate, the STO's response replaces the last name "Wooten" for "McGill" for clarity and consistency.

[18] Harmon e-mail dated August 15, 2024, at 7:59 a.m., Subject: "RE: [External] RE: Call this week?" (Exhibit 7).

[19] Attached as Exhibit 8.

[20] The e-mail was sent from the S.C. House account for Kim Jackson; it did not indicate why the message from Rep. Bannister was being relayed through Ms. Jackson.

> Please accept this email as my support for the State Election Commission to utilize the state master lease program as specified in Section 1-1-1020 of the SC Code of Laws as a funding mechanism to acquire new voting machines that allow risk limiting audits to be conducted. As you know, the integrity of our elections is of paramount importance to the House of Representatives, and the acquisition of these machines before the November General Elections would be considered a great benefit.
>
> Additionally, please know that the staff of the Ways & Means Committee are happy to assist should you have any questions or need assistance.

Knapp promptly forwarded this email to Wooten, and Wooten sent the message to SCEC Chairman Shedd as a pdf document, stating: "Attached is the email that Howie received from Bruce Bannister, the Chairman of House Ways and Means, supporting the use of the state master lease program to purchase the voting equipment." (Exhibit 9).

At the SCEC Commission meeting held August 21, 2024, Knapp provided a summary of the proposed purchase of election equipment from ES&S. According to the meeting minutes,[21] Chairman Shedd questioned Knapp about the General Assembly's support. Knapp "indicated the support of the General Assembly, discussed letters received in support of the upgrade, and that there has been no opposition." Knapp also stated, "There would be no payments until the following fiscal year and he had received verbal assurance that the agency will get the appropriations to fund the upgrade loan in the next fiscal year." Chairman Shedd asked SCEC General Counsel Thomas Nicholson about the legality of the MLP. Nicholson stated he was "confident that it met all legal requirements."

Chairman Shedd made a motion to authorize Knapp "to sign the master lease agreement on behalf of the agency. … The motion was passed unanimously."[22] This procedure appears to be consistent with state law, which empowers the Executive Director to "purchase, lease, or contract for the use of such equipment as may be necessary to properly execute the duties of his office, subject to the approval of the State Election Commission." S.C. Code § 7-3-20(D)(9).

Following the SCEC Commission meeting, on September 16, 2024, Jessica Wiggington, Budget Analyst for Senate Finance Committee, emailed Wooten (SCEC) and copied Senate staffers Rick Harmon and Jake Scoggins, asking, "…did the Commission approve the master lease option during the August 21 meeting? A member has inquired about its status." (Exhibit 11).

Wooten replied to all recipients, confirming "Yes, the commission did approve for the agency to move forward with the master lease program option at that meeting."

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[21] Attached as Exhibit 10.

[22] The SCEC meeting minutes for July 11, 2024, reflect that "Chairman Shedd asked about the competitive bid process [related to the purchase of the new equipment]. Director Knapp explained the current contract with the current vendor and how *the new purchase would fall under the existing contract.*" (emphasis added).

2. **The SCEC selected TD Equipment Finance, as the lowest bidder, to finance its lease purchase of $28,846,199 in election equipment, at an annual interest rate of 3.29%.**

The first indication that the STO received regarding the possibility of the SCEC using the Master Lease Program came on August 15, 2024, when Wooten spoke with the STO's then-Director of Debt Management, Jackie Hipes. Wooten followed up their telephone conversation with an e-mail that same day, requesting additional information regarding the MLP, and indicating that the SCEC Commission would soon be considering whether to move forward with a financing request for election equipment. (Exhibit 12). As noted above, the SCEC meeting minutes indicate that the Commission members voted unanimously to authorize Knapp "to sign the master lease agreement on behalf of the agency," at their meeting on August 21, 2024.

On August 23, 2024, the SCEC formally requested financing in the amount of $28,846,199 by submitting the SCEC's Master Lease Program Financing Request form via e-mail, along with four attachments, one of which was a copy of Harmon's Briefing Memorandum recommending that the SCEC utilize the STO's MLP. (Exhibit 13). The financing request was signed by Knapp and LaToria Williams, SCEC's Director of Finance (the agency's procurement and budget officer). Based on this request, the STO solicited competitive proposals from six financial institutions and presented those proposals to the SCEC for consideration. Of the institutions who responded with a proposal, the SCEC informed the STO that it selected the lowest bidder, TD Equipment Finance ("TDEF"),[23] proceeding with finance at an interest rate of 3.29% annually.

The lease closed on September 30, 2024, with SCEC Executive Director Knapp and SCEC General Counsel Nicholson signing all relevant documents. In these documents, among the many things that Knapp certified in writing was that the State had "an immediate need for," the election equipment, and that he "expects and anticipates adequate funds to be available for all future payments or rent due after the current budgetary period." (Exhibit 15).

> This certificate confirms and affirms that the Equipment described in the Lease referenced above is essential to the functions of Lessee or to the services Lessee provides its citizens. Further, Lessee has an immediate need for, and expects to make immediate use of, substantially all such Equipment, which need is not temporary or expected to diminish in the foreseeable future. Such Equipment will be used by Lessee only for the purpose of performing one or more of Lessee's governmental or proprietary functions consistent with the permissible scope of its authority.
>
> Lessee expects and anticipates adequate funds to be available for all future payments or rent due after the current budgetary period.

STATE ELECTION COMMISSION

By:

Name: Howard M. Knapp

Title: Executive Director

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[23] *See* e-mail from Jenny [Wooten] to Jackie Hipes dated September 5, 2024, Subject: "RE: Master Lease Request for Proposal-Responses" (Exhibit 14).

Further, Nicholson signed a legal opinion letter on SCEC letterhead asserting various legal conclusions, including the certification that the lease "complies with all bidding and procurement laws." (Exhibit 16).

Based on my examinations mentioned above and relying upon statements of fact contained in the documents I have examined, I am of the opinion that:

(1) The Agreement has been duly authorized, executed, and delivered by Lessee.

(2) Lessee has full right, power, and authority to execute and deliver the Agreement and perform its obligations thereunder; and the execution and delivery of the Agreement by Lessee does not, and performance by Lessee thereof will not, contravene any indenture, covenant, instrument, or agreement to which Lessee is a party or by which Lessee or any of its properties is bound or affected.

(3) The execution and delivery of the Agreement and the consummation of the transactions contemplated thereby complies with all applicable bidding and procurement laws.

(4) No approval, consent, exemption, authorization, or other action by, or notice to or filing with, any government authority is necessary in connection with the execution, delivery, or performance by Lessee of the Agreement; provided, it being understood that the performance by Lessee of the Agreement is subject to non-appropriation as set forth in Section 5.06 of the Agreement.

Sincerely yours,

Thomas W. Nicholson
General Counsel

The STO received the lease-purchase proceeds from TDEF on September 30, 2024, and deposited it into a State of South Carolina Wells Fargo account. The money was recorded in the SC Enterprise Information System ("SCEIS") in the appropriate SCEIS fund[24] for the benefit of the SCEC[25], which is coded to retain its own interest, as identified by the CGO. The STO, as the contractual "Acquisition Fund Custodian," held the proceeds and invested them for the benefit of the SCEC until the SCEC requested the disbursement to take possession of the equipment.

Following the draw of $15,000 to pay attorneys' fees for the closing and tax opinion, Knapp, on behalf of the SCEC, submitted a draw request for the loan proceeds received from TDEF on October 30, 2024, for $25,836,319, so that a portion of the purchase price of the election machines could be paid to ES&S. The SCEC (via Knapp) did not request the full $28,831,199 remaining proceeds (after attorney fees) because, after the ballot boxes were delivered, the SCEC found that some were cracked and unusable. The SCEC contacted ES&S and received a new invoice, which excluded the damaged ballot boxes with their power supply and AC cords, with a revised amount of $25,836,319.

In connection with the draw for the first ES&S invoice, the SCEC was required to complete complex financial entries within SCEIS. As part of this process, on November 4, 2024, SCEC's

[24] *See* e-mail from Keith Scott (CGO) to Angie Graham (STO) dated September 25, 2024, Subject: "RE: Sub fund request E280 SC Elections Commission-Master Lease (46N10000)" (Exhibit 17).

[25] This SCEIS fund is identified under E160, the STO's SCEIS business area, as STO is the contractual fund custodian for purpose of master leases; however, the SCEC requested and the CGO granted access to the fund.

Director of Finance (Williams) e-mailed Kathy Johnson at the CGO to ask "Will we need to set up a new fund, cost center, and functional area to receive these funds? I'm not familiar with how the master lease program works, so any guidance you could provide would be greatly appreciated." Johnson (CGO) responded by directing Williams to CGO guidance posted on their website.[26] The CGO provides additional accounting support on this matter in its "Accounting Guidance for Master Leases."[27]

Jennifer Hairston (CGO) e-mailed Williams on November 6, 2024, and the following e-mail interaction took place:

> Hairston: "Can you let me know if you all are exempt from the procurement process for election software?"
> Williams: "I'm not entirely sure. To be honest, I wasn't involved in procuring this equipment. I do know they had a contract with ES&S before I started here."
> Hairston: "Was it approved by MMO? Did you get bids? Was it a sole source? Why isn't it on a PO?"
> Williams: "I believe this may be a sole source, though I'm not entirely certain. I will confirm. According to Kathy Johnson, a PO is not required under the master lease financing arrangements."
> Hairston: "Gotcha. I think we are good if Kathy has approved."
> Williams: "Alright, I spoke with her yesterday, and she provided guidance on how to process the document."
> Hairston: "So you lease the voting machines?"
> Williams: "The voting equipment was financed through the master lease program."
> Hairston: "Thanks so much."

(Exhibit 18). To be clear, it does not appear that Johnson (CGO) "approved" anything in her November 4, 2024, e-mail to Williams; however, the STO is not aware whether other discussions occurred which would indicate the CGO's approval (*i.e.*, through Johnson, Hairston, or another CGO staffer) outside of the e-mails to which the STO has access.

Ultimately, each of the SCEC's draw requests were approved by the CGO and posted to the SCEC in SCEIS, giving the SCEC authority to pay the draw amounts under the financing arrangement as follows:

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[26] "SCEIS Finance Accounting for Master Lease/Purchase": https://cg.sc.gov/sites/cg/files/Documents/Guidance%20and%20Forms%20for%20State%20Agencies/CGs%20Accounting%20Policies%20and%20Procedures/03-31-25/CG_Accounting%20Guidance%20Master%20Leases%20-%20Jan%202020.pdf.

[27] Located on the CGO website at https://cg.sc.gov/sites/cg/files/Documents/Guidance%20and%20Forms%20for%20State%20Agencies/CGs%20Accounting%20Policies%20and%20Procedures/06-30-26/CGO%20Accounting%20Guidance%20for%20Master%20Leases%20v2.pdf.

	Recipient	Date of Draw Request	Draw Amount
Draw 1	Closing Attorneys	Sep 30, 2024	15,000
Draw 2	ES&S	Oct 30, 2024	25,836,319
Draw 3	ES&S	Dec 5, 2024	1,784,898.12
Draw 4	ES&S	Jul 11, 2025	1,209,981.88
Total Drawn:			**28,846,199**
Total Financed:			**28,846,199**

3. **The SCEC required a second financing arrangement to cover the sales tax for the voting equipment that was not included on the original ES&S invoice; the STO coordinated with the SCEC and TDEF to finance an additional $2,017,930.92 at a rate of 3.768% annually.**

In December 2024, the SCEC contacted the STO because the SCEC had not requested enough funds to cover sales tax in the original lease. Per Wooten, "after securing the first financing request, we realized that the quotes our vendor submitted did not include taxes. This has resulted in us needing additional funds to pay for the entire cost of the equipment upgrade which is why we are making a second master lease financing request."[28]

On December 10, 2024, Jackie Hipes (STO) relayed to Wooten that TDEF had reviewed the matter internally and "decided that the best course of action is to document as a separate lease and make it coterminous with the 9/30/2027 maturity date on the existing lease." She explained the SCEC would need to submit a new financing request and supporting documentation. On December 17, 2024, Knapp signed a Master Lease Program Financing Request for an additional $2,017,930.92.

The STO coordinated with the SCEC and TDEF to execute an "addendum" to the first lease, financing an additional $2,017,930.92, with a repayment schedule that was coterminous with the original lease. Because rates had increased slightly, this additional amount was financed at a rate of 3.768% annually.

The addendum provided that the additional $2,017,930.92 being financed was not purely for the purpose of sales tax. Instead that amount represented an "undivided interest" in all of the equipment financed under the September 30, 2024, lease purchase—including taxes and fees. This allowed a proportional amount of the equipment to be secured under the addendum amount.

In the context of this second transaction, the SCOIG quotes an e-mail from the Insurance Reserve Fund ("IRF") stating, "On January 15, 2025, [the SCEC] emailed a request to increase the $28,846,199 in coverage for the new election equipment by the amount of $2,017,930 coverage." In that e-mail, the IRF is clearly indicating there was existing coverage for the "new" equipment, but the SCEC had to increase the coverage for that equipment because their initial coverage was

[28] E-mail from Wooten to Hipes dated December 18, 2024, Subject: "From State Election Commission RE: TD Bank and the lease". (Exhibit 19).

based on an underestimated, pre-tax cost. Ignoring the proper context of the IRF e-mail, the SCOIG inaccurately and inappropriately contorts this quote with the editorial comment that "there was no 'new election equipment' but merely sales tax for already paid for equipment."

The lease purchase closed on January 31, 2025. Just as with the original master lease agreement, Knapp and Nicholson again signed all relevant documents. Knapp again certified in writing that the State had "an immediate need for," the election equipment, and that he "expects and anticipates adequate funds to be available for all future payments or rent due after the current budgetary period." (Exhibit 20).

> This certificate confirms and affirms that the Equipment described in the Lease referenced above is essential to the functions of Lessee or to the services Lessee provides its citizens. Further, Lessee has an immediate need for, and expects to make immediate use of, substantially all such Equipment, which need is not temporary or expected to diminish in the foreseeable future. Such Equipment will be used by Lessee only for the purpose of performing one or more of Lessee's governmental or proprietary functions consistent with the permissible scope of its authority.
>
> Lessee expects and anticipates adequate funds to be available for all future payments or rent due after the current budgetary period.

> STATE ELECTION COMMISSION
>
> By: [signature]
>
> Name: Howard M. Knapp
>
> Title: Executive Director

Further, Nicholson again certified in writing that the lease "complies with all bidding and procurement laws." (Exhibit 21).

> COMMISSIONERS
> HON. DENNIS W. SHEDD, Chairman
> JOANNE DAY
> CLIFFORD J. EDLER
> LINDA MCCALL
> SCOTT MOSELEY
>
> HOWARD M. KNAPP, Executive Director
>
> 1122 Lady Street, Suite 500, Columbia, SC 29201
> P.O. Box 5987, Columbia, SC 29250
>
> all documents submitted to me as originals, conformity to the original documents of all documents submitted to me as certified or photostatic copies, and the authenticity of the originals of such latter documents.
>
> Based on my examinations mentioned above and relying upon statements of fact contained in the documents I have examined, I am of the opinion that:
>
> (1) The Agreement has been duly authorized, executed, and delivered by Lessee.
>
> (2) Lessee has full right, power, and authority to execute and deliver the Agreement and perform its obligations thereunder; and the execution and delivery of the Agreement by Lessee does not, and performance by Lessee thereof will not, contravene any indenture, covenant, instrument, or agreement to which Lessee is a party or by which Lessee or any of its properties is bound or affected.
>
> (3) The execution and delivery of the Agreement and the consummation of the transactions contemplated thereby complies with all applicable bidding and procurement laws.
>
> (4) No approval, consent, exemption, authorization, or other action by, or notice to or filing with, any government authority is necessary in connection with the execution, delivery, or performance by Lessee of the Agreement; provided, it being understood that the performance by Lessee of the Agreement is subject to non-appropriation as set forth in Section 5.06 of the Agreement.

> TD Equipment Finance, Inc.
> Page 2
>
> Sincerely yours,
>
> [signature]
>
> Thomas W. Nicholson
> General Counsel

Ultimately, each of the SCEC's draw requests for this "addendum" lease also were approved by TDEF and the CGO for payment under the financing arrangement as follows:

	Recipient	Date of Draw Request	Draw Amount
Draw 1	Closing Attorneys	Jan 31, 2025	7,500
Draw 2	ES&S	July 11, 2025	2,010,430.92
Total Drawn:			**2,017,930.92**
Total Financed:			**2,017,930.92**

During the period between the STO's receipt of the funds from TDEF and the final disbursement of lease proceeds to ES&S, the STO earned $169,046.09 in interest for the SCEC, to be used in accordance with the terms of the lease purchase agreement.

4. **ES&S assessed an effective sales tax of 7% for the total purchase, consistent with a purchase of goods in St. Matthews, South Carolina.**

The "delivery address" listed in the ES&S invoice is "102 Courthouse Dr., Suite 115, St. Matthews, SC 29135." The total effective sales tax for the combined transactions amounts to 6.97%, which is consistent with the assessment of 6% state sales tax, plus the 1% local option sales tax assessment applicable for the equipment purchase since it was delivered to St. Matthews, South Carolina.[29] The omitted sales tax issue, combined with the SCEC's withholding payment for ES&S for damaged equipment purchased under the first lease purchase, resulted in three ES&S invoices presenting charges, some of which overlap with the original ES&S quote.

The original "quote" document (which is not an invoice) from ES&S for the purchase of the equipment excluding tax, set forth a total cost of $28,846,199 for all equipment and related fees. The quote contains a line item for 3,015 "DS300 Ballot Box with Power Supply and AC Cord," for a total price of $2,879,325.00. This is the equipment that was received in damaged condition. Accordingly, when it came time to pay ES&S from the proceeds of the financing arrangement, ES&S issued invoice number PR579423, which revised the total amount from the "quote" down to $25,836,319. The second invoice that SCEC received, number PR579423a, was for $1,784,898.12, which represented the total amount of sales tax due for the equipment referenced in the first invoice. The third invoice, numbered PR579424, was for the replacement equipment that was initially excluded from the first invoice, plus the sales tax for that equipment (which was not included on the second invoice).

The three invoices (excluding the inoperative initial quote) submitted over both SCEC financing requests sum to a total of $30,841,129.92, of which $2,010,430.92 was assessed sales tax.

[29] STO staff informed the SCOIG of its understanding that the sales tax includes the local option sales tax, but SCOIG staff did not use that information in its Report.

Date	Invoice Number	Pre-tax total	Taxes	Invoice items	Effective Sales Tax Rate	Total Amount Invoiced
9/30/24	PR579423	25,836,319.00	0	DS300	n/a	25,836,319.00
10/29/24	PR579423a	0	1,784,898.12	Taxes due on invoice PR579423	6.91%	1,784,898.12
10/28/24	PR579424	2,994,880.00	225,532.80	Replacement of damaged items	7.53%	3,220,412.80
Total to ES&S		28,831,199.00	2,010,430.92		6.97%	**30,841,629.92**
Attorney Fees						**22,500**
Total Invoiced						**30,864.129.92**
Total Financed						**30,864.129.92**

5. **The SCEC again presented its request to the General Assembly for appropriations to pay for the voting equipment it financed through the STO's Master Lease Program.**

In January 2025, the General Assembly began its process for preparing the FY2025-26 General Appropriations Bill. In anticipation of the SCEC's presentation of budget requests to the House Ways and Means Committee, SCEC's Wooten met with Chairman Bruce Bannister. Following that meeting, Wooten followed up with an e-mail, dated January 23, 2025, to Ryan Tooley (House Staffer):

> Hey Ryan,
>
> When I met with Chairman Bannister and Marc last week, they asked me about the payment terms for the state master lease program. This is related to our top priority budget request. I am attaching the payment terms, so you have this information if you need it. If you have questions, just let me know.

There are no SCEC minutes posted on the agency's website for the months of December 2024 or January 2025. The STO is therefore unaware of whether meetings of the SCEC Commission were held during the months immediately prior to the SCEC's budget presentations to the General Assembly.

SCEC's Budget Request Presentation for FY2025-26[30] was submitted to the Constitutional Subcommittee of the House Ways and Means Committee on January 22, 2025. In that document, the SCEC presented the full pre-payment of the election equipment lease purchase as "Priority 1"

[30] This document can be viewed at: https://www.scstatehouse.gov/CommitteeInfo/Ways&MeansMeetingHandouts/Constitutional/2025/State%20Election%20Commission.pdf.

in its budget request summary. The SCEC's description of the request explicitly states that the equipment was purchased through the MLP:

> Priority 1: The SEC is requesting $32,000,000 in non-recurring funds for Statewide Voting System Upgrade.
>
> • In order to meet the increasing needs and demands of county voter registration and elections offices ahead of the November 2024 election, the State Election Commission utilized the State Master Lease Program to purchase DS300 polling place scanners and tabulators, ExpressVote Ballot Marking Devices, DS950 high-speed scanners and tabulators, and pollbook hardware.
>
> ·3,015 new DS300 scanners, 250 Ballot Marking Devices, 100 EPollbooks, 100 ExpressVote Printer, additional cases, additional memory sticks.
>
> • The equipment will be used to conduct elections by county voter registration and election offices across the state. All 46 counties received equipment.
>
> • This purchase replaces existing scanning equipment with scanners that have an auditing function, allowing the SEC to conduct Risk Limiting Audits of South Carolina elections.
>
> • This request would provide additional transparency in ballot counting, while protecting voter's privacy.

(p. 12).

On January 28, 2025, Knapp presented SCEC's FY2025-26 budget to the Constitutional Subcommittee of the House Ways and Means Committee. In his presentation, he presented the request for "$32,000,000 in non-recurring funds for Statewide Voting System Upgrade" as "Priority 1." Knapp explained that at end of the budget cycle in 2024, the SCEC learned that Beaufort County created a number of precincts which "required a bunch of additional equipment." Knapp went on to say that ES&S no longer created the ballot scanners that the State was using, so the SCEC had to order "the newest kind." Since the new ballot scanners did not match the old ones, this "necessitated a complete state-wide upgrade of all precinct-level ballot scanners." Knapp informed the subcommittee that the SCEC financed the acquisition of the ballot scanners through the MLP for a total of "32.9 million dollars with interest."[31]

On March 6, 2025, Knapp presented SCEC's FY2025-26 budget to Senator Grooms and the other members of the Constitutional Budget Subcommittee of the Senate Finance Committee.[32] In his presentation, Knapp again presented a request for "$32,000,000 in non-recurring funds for Statewide Voting System Upgrade" as "Priority 1." Knapp told the subcommittee that the $32,000,000 request was to "pay back" a financing arrangement of election equipment "through the master lease program." Senator Grooms and another senator asked questions related to this

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[31] Knapp's explanation in the House and Senate hearings regarding the need to undertake "a complete state-wide upgrade of all precinct-level ballot scanners" is somewhat inconsistent with his previously-provided justification to the Senate during the FY2024-25 budget preparation.

[32] A video recording of this subcommittee hearing can be viewed at: https://www.scstatehouse.gov/video/archives.php.

item, but there were no questions or comments regarding Knapp's indication that the SCEC had used the MLP to finance the election equipment.

6. The General Assembly delayed the release of funding for SCEC voting equipment until after the due date of the first lease purchase payment.

The House Ways and Means Committee did not appropriate the full amount of Knapp's request, but did approve the amount of the SCEC's first lease purchase payment, $10,970,755. That amount was appropriated for SCEC's use under Proviso 118.22(B), which directed the State Treasurer to disburse funding to the SCEC on September 30, 2025. The House adopted this language on March 12, 2025. Had the General Assembly passed the House's version of the Appropriations Bill, the State funding would have been released to SCEC in time to make its first master lease payment to TDEF on time.

However, on April 9, 2025, the Senate Finance Committee amended Proviso 118.22(B) to include an unusual caveat: the appropriation for the SCEC's "Statewide voting system upgrade," could not be distributed to the SCEC until February 20, 2026, while allowing other appropriations to be "disbursed by September 30, 2025." This proviso language would prove problematic for the SCEC because it withheld funds until after both the due date (September 30, 2025) for the SCEC's first lease purchase payment as well as the November 4, 2025, election date. On April 23, 2026, the full Senate adopted this same language.

On May 6, 2025, the House rejected this delayed disbursement date and again passed a budget bill which directed that "The State Treasurer shall disburse the following appropriations by September 30, 2025." Ultimately, however, the General Assembly's 2025-26 Appropriations Act, passed on June 3, 2025, provided $10,970,755 in funding for the SCEC's voting equipment, but delayed distribution of that money until February 20, 2026.

As reflected in the approved meeting minutes for the SCEC meeting held July 30, 2025, "Regarding the Budget Request, [SCEC] staff is currently drafting the agency's FY 2026–2027 annual budget request. Director Knapp explained that the number one priority will be securing funding for the full repayment of the loan for election equipment purchased by the Commission in 2024."

7. The STO assisted the SCEC in avoiding surrender of election machines or contractual late penalties.

On September 25, 2025, the SCOIG contacted the STO to inform them that the SCEC did not have sufficient funds to make its September 30, 2025, payment[33] for the voting machines in the amount of $10,970,755, and asked what options might be available. The STO learned that the SCEC Commission had terminated the employment of Howard Knapp in its September 17, 2025,

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[33] Pursuant to the contract, the first payment was due on September 30, 2025. However, the contract established that SCEC could not be held in default until after a ten-day grace period of nonpayment had passed following the due date. Additionally, any late penalty could not be assessed until thirty days of nonpayment elapsed after the due date.

meeting, and subsequently Paige Salonich, the SCEC's Deputy Director, was terminated on September 23, 2025. Following these removals, Jenny Wooten had been appointed Interim Director of the SCEC.

Upon the SCOIG's notification of SCEC's situation, the STO promptly contacted Wooten and asked to meet with her and relevant staff to discuss the issue as soon as possible. Wooten was not immediately available, but a meeting was scheduled for September 29, 2025, at 3 p.m. at the SCEC's office. Several staff members from the SCEC attended the meeting, including but not limited to Interim Director Wooten and General Counsel Nicholson. STO staff in attendance were Chief of Staff Mark Barnes, General Counsel Shawn Eubanks, and Director of Public Affairs Edward Frasier. Inspector General Brian Lamkin also attended this meeting. During this meeting, the STO strongly recommended that Wooten contact TDEF immediately to request an extension of the payment due date. Wooten stated that she would contact TDEF as was suggested. The STO provided Wooten with names and contact information for relevant staff members at TDEF.

Following the meeting, Wooten e-mailed a TDEF employee (as an apparent follow-up to a phone conversation) at 3:41 p.m. stating: "This is related to both State Election Commission contracts. We have a $10.9 million payment due tomorrow, and we will not have the state-appropriated funds. We expect to have the funds by Feb 20, 2026. We are requesting a 6-month extension without interest, if possible." The e-mail included language from the 2025-26 Appropriations Act which provided that $10,970,755 in funding for a "Statewide voting system upgrade," would be distributed to the SCEC on February 20, 2026. Wooten copied other SCEC staff on the e-mail, but no STO staff.

On the evening of September 29, 2025, at 4:58 p.m., Kevin Doyle, a Senior Vice President with TDEF, forwarded Wooten's email to STO's Hipes, as well as Alan Lipsitz, STO's outside counsel who handled the SCEC master lease closings. In response to Doyle's e-mail, STO's Chief of Staff Barnes and STO's General Counsel Eubanks, initiated a call with Doyle to offer any additional relevant information. Following the call, Eubanks e-mailed Doyle at 5:55 p.m., copying relevant STO and SCEC staff members:

> Kevin,
>
> Thanks for taking the time to discuss this matter with us this evening. You asked for some clarification on the situation. As I understand it, the SC Election Commission has a payment coming due to TD in the amount of approximately $10.9M. The due date is tomorrow, September 30. The Election Commission has stated that they do not have the money to pay this amount at this time; however, there is an appropriation in the amount of the payment set to be funded on February 20, 2026:
>
>> SC Budget Proviso 118.22. (SR: Nonrecurring Revenue)
>> …
>> (B) The appropriations in this provision are listed in priority order. Item (1) must be funded first and each remaining item must be fully funded before any funds are allocated to the next item. Provided, however, that any

individual item may be partially funded in the order in which it appears to the extent that revenues are available.

The State Treasurer shall disburse the following appropriations on February 20, 2026, for the purposes stated, with the exception of items (1) and (68)(b) which shall be disbursed by September 30, 2025.

….

(71) E280 Election Commission

….

(b) Statewide voting system upgrade $10,970,755;

Based on this, I believe the SC Election Commission was requesting that TD bank amend the agreement in a way that allows the payment to be made following the February 20, 2026 disbursement of the appropriations. I understand from our conversation this evening that it is not possible for this amendment to be made without some kind of additional accrual of interest. In spite of that, I believe the parties can still reach a positive resolution.

I am copying Alan Lipsitz (our closing attorney), as well as Jenny Wooten (SCEC Director) and Thomas Nicholson (SCEC attorney).

We at the State Treasurer's office are happy help in any way needed to make this work for TD and the Election Commission. Please let us know how we can assist.

The following day, September 30, 2025, Eubanks instructed outside counsel Lipsitz to contact the SCEC to offer any assistance in drafting needed documents and/or amendments to the lease agreement—with the caveat that it be made clear that Lipsitz is STO's attorney and does not represent the SCEC.

At the end of the day on September 30, 2025, STO understood there to be a clear path forward for the SCEC: TDEF indicated that it was willing to amend the SCEC's lease agreement to accommodate the February 20, 2026, release of funding to pay the first payment, with no penalty assessed to the agency. Despite this positive progress, the SCEC was the ultimate decision-maker and would not commit to take action to resolve the matter.

On October 2, 2025, TDEF e-mailed Wooten (SCEC) and Eubanks (STO) with a list of questions. Eubanks responded only to Wooten and copied SCEC General Counsel Nicholson with the questions pasted from TDEF's e-mail, along with answers to those questions from STO's perspective:

Here are my general thoughts (in red) on responses to these questions, however the Election Commission will have to determine how to answer. I've spoken with Alan and he and/or I are happy to discuss, including hopping on a call today if you have any questions. Of course, we are dealing with a short timeline so I think we really need to get TD some answers by the end of the day.

For clarity, the primary outstanding questions are:

•Why did the appropriations get moved to Feb. for this year when they had historically been Sept.? We do not know the reason for this change; however, the funding date applied to almost all one-time appropriations—this particular transaction was not singled out for a delay. It appears to have been a simple oversight.

•Is the expectation that they will be Feb. going forward, or was this just a one off? I don't think we know the answer to this either but I would suggest that it would be safer to move all future payment dates to February to ensure that this issue does not come up again next year.

•I assume the SEC's budget submission included the current fixed lease payment amount currently scheduled for 9/30/26? And, if so, can the submission be modified to increase appropriation for the lease payment which will be higher to accommodate the 5 mos. of additional accrued interest that needs to be re-paid from extending the first payment to Feb.? I would defer to the EC on whether they have enough cash to cover this difference, but if not I think the preference is to reduce the amount of principal in the Feb 2026 payment, while keeping the total payment the same, modifying future payment amounts if necessary.

•If the interest rate on the lease changes due to this amendment, are there any legal implications (i.e. RFP process)? From STO's perspective, per the SFAA's list of procurement exemptions, Master Lease agreements are exempt from the process. From the EC's perspective, they will have to evaluate but it would certainly be a wise move to call a special meeting of their board to vote on this.

The following morning, October 3, 2025, at 8:41 a.m., TDEF again reached out to Wooten and Eubanks, indicating that TDEF had not received SCEC's response to the questions: "Our next internal call on this with Sr. Mgt and credit partners is Monday at 10am. It would be beneficial to have answers to questions below before then." Wooten responded to TDEF at 11:02 a.m. and informed TDEF "We have internal meetings today to discuss these items, and I will respond as soon as we are comfortable."

Later that day, Wooten provided the following responses[34] to TDEF's questions:

•Why did the appropriations get moved to Feb. for this year when they had historically been Sept.? It's our understanding that the appropriations were moved to February because of concerns over the economy and potential impacts that tariffs may have on economic conditions.

[34] The text of Wooten's responses to the questions has been colored red for ease of reading.

•Is the expectation that they will be Feb. going forward, or was this just a one off? It's our understanding there is a potential that there could be a February date going forward, but of course, this is up to the General Assembly.

•I assume the SEC's budget submission included the current fixed lease payment amount currently scheduled for 9/30/26? And, if so, can the submission be modified to increase appropriation for the lease payment which will be higher to accommodate the 5 mos. of additional accrued interest that needs to be re-paid from extending the first payment to Feb.? We have not yet submitted our budget request due to the recent change in leadership. We have an extension to submit our request. Currently, it is our plan to include the remaining payments due on the master lease loan in our request. If necessary, I believe we would be able to modify our request if we need an increased appropriation for FY2027. However, we would not be able to request any more than the $10.9 million to put towards the first payment.

•If the interest rate on the lease changes due to this amendment, are there any legal implications (i.e. RFP process)? We are currently looking into this to determine what the legal implications are.

STO's Barnes and Frasier began reaching out to legislative staff to inform them of the situation. First, they called Meredith Ross, Chief of Staff for the House of Representatives Ways and Means Committee. Ross expressed support for STO's efforts in assisting the SCEC to resolve the issue. However, the tone was very different in STO's call with Quentin Hawkins, Chief of Staff for the Senate Finance Committee. Hawkins indicated that he was already familiar with the situation, and that Senate Finance Committee staffer Amanda Adler had been in communication with the SCEC regarding the matter. He expressed disapproval of the SCEC's lease purchase, and of the STO's MLP in general. He offered no support regarding the STO's efforts to work toward a resolution or assist the SCEC in avoiding penalties. Barnes informed Hawkins that the STO was actively making positive steps toward a beneficial outcome.

On the afternoon of October 9, 2025, having received very little update as to the SCEC's progress, Barnes contacted Wooten to request an update. In that conversation, Wooten did not have a timeline as to when the SCEC would work out an amendment to the lease with TDEF. She indicated that the SCEC would have to call a meeting of their commission to vote to approve the amendment—an action which would have required 24 hours' notice. Wooten further indicated that even if the SCEC received an amendment that day, it was unlikely that the SCEC would be able to approve it before the deadline. Barnes recommended that Wooten may want to ask TDEF for additional time, but Wooten did not indicate whether she would do so.

Shortly thereafter, TDEF directly contacted STO's outside counsel, Alan Lipsitz. In that conversation, Lipsitz took the liberty of asking TDEF for a 10-day extension to get the amendment completed. TDEF did not immediately agree to the 10-day extension, but the TDEF staffer indicated that she would present the request to TDEF decision-makers. At 3:29 p.m. on October 9, 2025, TDEF e-mailed SCEC and STO staff, as well as Lipsitz, providing "the 2 updated Draft amortizations for review to be used for the documentation. The 1st payment and rates remain the same with updated payments in future years." This amortization schedule moved all three payments to February 28 of 2026, 2027, and 2028, based on Ms. Wooten's indication that the first payment must remain the same, and that future payments should also be moved because, as she stated in her October 3, 2025, e-mail, "there could be a February date going forward."

On October 9, 2025, State Treasurer Curtis Loftis called the SCEC's then-Chairman Shedd directly to discuss regarding the matter. Loftis described the situation to Shedd. Shedd's response was that the SCEC Commission was going to make its own decisions, and that they did not believe TDEF would take the equipment if the SCEC did not pay on time. Shedd expressed that he and the SCEC Commission members did not intend to take any further steps regarding an extension to the lease purchase agreement.

On October 13, 2025, the SCEC Commission scheduled a meeting for October 15, 2025. The STO notified the SCOIG that this meeting had been scheduled. In advance of the meeting, the STO provided Shedd with a notebook containing all of the contractual documentation related to the SCEC's master lease transactions, as well as the proposed amendments, including the above-referenced amortization which included the first payment remaining the same (to match the appropriation for the current fiscal year) and a slight addition to interest added to subsequent annual payments. The notebook was hand-delivered along with a cover letter from STO's General Counsel providing a brief summary of the notebook contents and the history of the transactions they represented.

On Wednesday, October 15, 2025, the SCEC held a meeting that then-Chairman Shedd invited Treasurer Loftis to attend and discuss the matter of the master lease with the Commission. Loftis and relevant STO staff members attended the meeting.[35] In that meeting, the Treasurer spoke to the Commission members during public session, urging them to work with TDEF to amend the lease agreement to avoid the contractual consequences of SCEC non-payment. However, Shedd's response was again uncooperative. Shedd digressed—at times contradicting himself— regarding the allegations against Knapp, the master lease agreement, the SCEC's budget and the Commission's review process—or lack thereof—related to the agency's budget. He accused Knapp of "Conspiring with [other SCEC] staffers to falsify documentation the commission was seeking, and conspiring with those staffers to lie about the fact that they had falsified that documentation," and indicated that this was all "admitted by Mr. Knapp and those other staffers." Shedd stated that Knapp "misled the Commission on contract matters he asked us to approve."

Despite the extensive evidence that Shedd and the SCEC Commission members had been informed of the mechanisms of the master lease before it was entered into, Shedd stated that he "had no idea this contract would be financed through a third party" and had "very serious concerns" about what Knapp did with the Commission's authorization. Shedd claimed "We didn't even know there would be interest on any of this purchase, and no one told us. No one told us. Even after the interest show[s] up in the calculations for the contracts. We never saw those contracts, I never saw them—did you see them? Did you see them Joanne? Cliff, I don't think you—we didn't see the contracts. We just authorized—and Howie [Knapp] went off and did what he did and now we find out much, much after the fact that he was contracting with that company…."

[35] A video of the October 15, 2025, SCEC meeting may be viewed at yahoo.com/news/videos/sc-election-commission-meeting-222632850.html.

Regarding the inclusion of the election machine purchase on the SCEC's proposed FY 2025-26 budget (which had been previously approved by the SCEC Commission and signed by Knapp and Shedd[36]), Shedd attempted to deny knowledge, understanding, or responsibility for the contents of the SCEC budget: "I do look through it, I do that. But the way some of those documents are presented, it's pretty hard to figure out the dollar limits, and so what we do is we give general instructions [to staff]… and we presume they're being followed." Shedd also said of the Commission's review of the agency's budget, "We give it a review, but it's a cursory review, but we have all the dollars and stuff in there, we just don't know. We look at the overall budget, what the overall budget number is."

Shedd further claimed that Knapp "controlled that budget and the way it was presented to us, and had I seen that—I think I probably asked him, I probably asked him [about the amount budgeted for SCEC's lease-purchase of election equipment]." Also relevant to the SCOIG's Report regarding the STO, Shedd indicated "I'm aware that three other state authorities—SLED, the Attorney General, and the Inspector General—they have Knapp, or agency conduct which occurred under his time here, under review." Shedd stated in the meeting that the SCEC Commission was not going to approve any proposed amendments to the SCEC's master lease agreement through TDEF, and declared that he did not believe TDEF would repossess the election machines or impose the contractual 10% penalty for late payments which could be triggered when an agency fails to surrender the leased property to the lessor.

Shedd's statements in the SCEC meeting were so troubling to Treasurer Loftis and STO staff members that, on the same day, following the meeting, the Treasurer sent a letter to Shedd and the other SCEC Commission members, copying the Governor, the President of the Senate, the Speaker of the House, and Inspector General Lamkin. The letter provided a brief synopsis of the situation, and urged the SCEC Commission members to approve the proposed amendments, which TDEF had officially approved that morning. The letter was sent out to all parties on October 15, 2025.

While the STO does not have explicit evidence that Treasurer Loftis' letter directly prompted action, the events immediately following delivery of this letter strongly suggest this is the case. The afternoon following delivery of the letter, October 16, 2025, the SCEC completely reversed the position espoused by Shedd in the meeting. SCEC's General Counsel Nicholson e-mailed TDEF, various SCEC staffers, and STO's outside counsel Alan Lipsitz the following message:

> We have a proposal for how to proceed. The draft amendments provided by Alan contemplate a changed payment date to February 28th not just for the payment that had been due on September 30, 2025, but for the remaining two payments in 2026 and 2027. However, we do not expect that the dates for the remaining two payments needs to be changed to February. We expect the September 30 date to work for both of those future payments. Therefore, we propose that the draft amendments should be amended so that they only apply to the 2025 payment. Otherwise, the drafted amendments would remain the same. This would leave the status quo intact for the rest of the agreement with regards to the September 2026 and 2027 payments; the

[36] SCEC FY26 Budget (Exhibit 22).

> SEC would still have the duty to seek appropriations for those payments, and so on. We believe we can proceed forward with those changes.
>
> Please let us know if this will be acceptable; we understand that time is of the essence and would like to have this matter resolved.[37]

By this request, the SCEC declined the STO's and TDEF's initial proposal that the first payment remain the same amount (and therefore identical to the amount appropriated to the SCEC for that specific purpose in FY2026). Instead, TDEF would amend only the first payment, applying additional interest as to that payment to account for the four-month delay in payment.

The STO was not privy to the discussions the SCEC had in coming up with this proposal, nor was the STO consulted as to the appropriateness or advisability of it. The STO's understanding at the time was that the General Assembly had chosen to include the delayed funding language of Proviso 118.22 in light of ongoing economic concerns. Based on this understanding, the STO believed there was a reasonable expectation that the delayed funding language would be passed again in future years, and, as such, it would be wise to move the SCEC payment due date to February 28 for all three payments. However, the decision was the SCEC's to make, and the STO deferred to SCEC judgment—as evidenced by an e-mail from Eubanks to Wooten and Nicholson regarding a potential change in the amount of the first payment: "I would defer to the [SCEC] on whether they have enough cash to cover this difference, but if not I think the preference is to reduce the amount of principal in the Feb 2026 payment, while keeping the total payment the same, modifying future payment amounts if necessary." Ultimately—assuming the SCEC had available funds to make the increased first payment— the SCEC's proposal would prove to be beneficial to the State and saved the agency from paying additional interest which would have been incurred by delaying all three payments.

On October 20, 2025, the SCEC Commission met again to discuss the amendments to the SCEC lease agreement. Per the minutes of this meeting:

> Commissioner Day requested clarification on the addendum. Wooten explained it adds roughly $140,000 in interest, increasing the total from $32.8 million to slightly over $33 million.
>
> Chairman Shedd moved that the Commission authorize and direct Interim Director Wooten to execute the documents necessary to prevent default, seconded by Commissioner Day. The motion passed unanimously.

Per the minutes, Shedd also reiterated that, even though he had signed off on the SCEC's proposed budget for FY2026, he had been unaware that it reflected $32 million in costs for the election machines: "Chairman Shedd explained the Commission was unaware of the increase and that he signed the budget document as Chairman, but requested a disclaimer be noted that the budget document was prepared by staff in accordance with the law." That same day, October 20, 2025,

[37] Nicholson e-mail dated October 16, 2025, at 4:17 p.m., Subject: "RE: [External] Follow Up Call SC/TDEF Amendment" (Exhibit 23).

Wooten signed the amendment to the master lease agreement on behalf of the SCEC. The amendment did not change previously established interest rates. In the amendment, TDEF waived "any default or Event of Default under the Lease and any documents related to the Lease as a result of the Lessee failing to make the scheduled Rental Payment that, prior to the effective date of this Amendment, was due on September 30, 2025."

The amendment approved by the SCEC Commission and executed by SCEC staff established that a rental payment of $10,385,809.02 would be due on February 28, 2026, for the first lease, and a payment of $724,716.55 would be due on the same day for the second lease—amounting to a total payment of $11,110,525.57. While these payments were higher than the payments which would have been due on September 30, 2025, the difference in the payments was exclusively pro-rated contractual interest that accumulated between September 30, 2025, and February 28, 2026. The two subsequent payments, due on September 30, 2026, and September 30, 2027, remained unchanged from the previous agreements.

	Payment 1	Payment 2	Payment 3
Original Agreements	10,970,754.17 (Due 9-30-2025)	10,970,754.17 (Due 9-30-2026)	10,970,754.17 (Due 9-30-2027)
STO/TDEF Proposed Amendments	10,970,754.17 (Due 2-28-2026)	11,191,128.17 (Due 2-28-2027)	11,191,128.17 (Due 2-28-2028)
SCEC Final Amendments	11,110,525.57 (Due 2-28-2026)	10,970,754.17 (Due 9-30-2026)	10,970,754.17 (Due 9-30-2027)

Additionally, from the date that the lease purchase proceeds were received from TDEF until May 2026, the STO, serving in its contractual role as fund custodian for the SCEC's master lease proceeds, earned $169,046.09[38] in investment earnings on those proceeds. Per the contract, investment earnings are the property of the Lessee unless they need to be used to pay lease interest: "any such remaining moneys in the amount equal to the amount of earnings on the Acquisition Fund shall be used by Lessee on the next Rental Payment date to pay all or a portion of the interest component of the Rental Payment then due…" As such, the earnings from STO's investment of the SCEC's money during the short time it was held in the Acquisition Fund offsets nearly all of the additional interest accrued between the original September 30, 2025, lease payment due date and the amended February 28, 2026, lease payment due date.

On October 24, 2025, "Knapp and Salonich were arrested. Knapp faces eleven charges: eight related to use of his official position for financial gain, one for embezzlement of public funds, one for misconduct in office, and one for accessory after the fact. Salonich faces one charge of

[38] There are two SCEIS funds that deposit investment earnings related to this transaction. One SCEIS fund has earned $158,954.39 through May 2026. The other SCEIS fund that deposits interest has earned $10,091.70 through May 2026, making the total investment earnings deposited $169,046.09 through May 2026.

wiretapping."[39] As of July 21, 2026, the Richland County 5th Judicial Circuit Public Index indicates that each of these noted charges are still pending, in a case status of Pending/Initial Appearance.

In conclusion, while the STO was neither a party to, nor a guarantor of the SCEC's transactions, STO staff devoted considerable time and effort to assist the SCEC and to protect the interests of the State, its voters, and its taxpayers. TDEF allowed the SCEC a 10-day payment extension to the SCEC's lease, arranged almost entirely by the efforts of the STO. Moreover, the STO proposed amendments to the leases which would allow the SCEC to make the payment in February of 2026, all without significant penalty to the SCEC nor further ramifications to the State. Those draft amendments were approved by TDEF, although they were ultimately modified at the SCEC's later request. The Treasurer wrote a letter to the SCEC, the Governor, the Speaker of the House, and the President of the Senate, informing them of his grave concerns regarding the SCEC's actions. Only then did the SCEC meaningfully engage in an attempt to address the problem for which they were responsible. Finally, contrary to the SCOIG's claim that the SCEC's lease purchase agreement penalties "created an endless debt cycle," the SCEC never paid a single penny of penalty.

B. The SCOIG's Report's conclusions are unsupported and/or contradicted by State law, and by the evidence discussed above

The SCOIG Report mischaracterizes the facts and the law related to the SCEC transaction, effectively faulting the STO for an unforeseeable change in appropriation timing made by the General Assembly.

1. TDEF conducted all necessary due diligence related to the SCEC's lease purchase.

While the STO takes its role in the MLP seriously and makes every effort to ensure that the purchasing agency is well-served, the master lease statute does not create or imply a duty by the STO to verify the agency's creditworthiness. The agency's ability to pay is independently assessed by the lessor (lender). The leasing agency is statutorily responsible for determining its legal and financial responsibilities, limitations, and authority, just as it would be with any lease.

In this case, TDEF, as the lender, conducted extensive due diligence on the SCEC's repayment capacity, which is standard lender practice and includes assessment of the lessee's ability to pay. The SCEC provided formal written certification that the equipment was necessary for elections, and that it would make all efforts to obtain funding for future lease payments. TDEF disbursed lease funds with full knowledge that it was subject to a non-appropriations clause and that there was not a State budget in place for the fiscal years during which the lease payments would come due. There was no need nor statutory obligation for the STO to duplicate that effort. The SCEC made certain critical representations to both TDEF and the STO which, in hindsight, were incorrect. The SCEC pursued funding for a timely lease payment, but the General Assembly ultimately chose to release the funding four months after the lease payment due date.

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[39] https://palmettostatewatchfoundation.com/2026/03/19/legislative-cover-how-south-carolinas-legislature-helped-create-the-election-commission-mess-it-now-claims-to-fix/.

2. **The General Assembly's decision to delay the release of funding to the SCEC for the first payment of the lease purchase agreement was entirely unforeseeable to the STO**

The SCOIG's assertion that the STO "failed to recognize" the SCEC's inability to make the first master lease payment is founded on the false premise that the STO or the SCEC could have recognized information that did not yet exist at the time of the lease purchase closings. The statutorily-created MLP allows multi-year financing arrangements for agencies. If an agency had sufficient contemporaneous appropriations to purchase the equipment outright, the agency would have no need for financing through the MLP. Because the Appropriations Act is passed on a yearly basis, an agency entering into a multi-year master lease agreement does so without absolute certainty of its ability to make future payments. This aspect of the MLP is both obvious and widely known.

Rick Harmon's June 11, 2024, Briefing Memorandum, which was circulated among Senate staff and ultimately sent to the SCEC in support of the MLP, explicitly recommended structuring the SCEC's transaction via the MLP on a three-year term. In fact, the CGO's guidance entitled "SCEIS Finance Accounting for Master Lease/Purchase"[40] instructs agencies to account for lease purchases "using the *unbudgeted* governmental fund to purchase the assets" (emphasis added). The evidence clearly indicates that the SCEC was given several strong indications of legislative support for obtaining the election equipment through the MLP. When the General Assembly declined to fund the SCEC's election equipment purchase through the budget appropriations process, Senate and House staffers recommended to the SCEC that it pursue financing through the MLP. Harmon's e-mail circulating his Briefing Memorandum to Senate staff suggests that Harmon prepared the memo at the request of Quentin Hawkins, Senate Finance Committee Chief of Staff. Likewise, the Chairman of House Ways and Means submitted an e-mail to the SCEC in support of its use of the MLP.

Regardless, when the SCEC's applications for financing were submitted to the STO and closed in September 2024 and January 2025, there was no information indicating the SCEC would be unable to make the first payment roughly one year later due to a delayed disbursement written into the next year's Appropriations Act. The FY2025-26 appropriations proviso delaying disbursement until February 2026 was not enacted until June of 2025. After the SCEC acquired the equipment through the MLP, the General Assembly, having been fully informed that the SCEC had financed the equipment, chose to pass an Appropriations Act for FY2025-26 which did not release SCEC funding until after the first payment for the lease purchase agreement would come due. The SCEC was fully and solely responsible for knowing that this money would not be released in time for the September 30, 2025, payment due date, and for taking necessary actions to resolve the problem.

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[40] https://cg.sc.gov/sites/cg/files/Documents/Guidance%20and%20Forms%20for%20State%20Agencies/CGs%20Accounting%20Policies%20and%20Procedures/03-31-25/CG_Accounting%20Guidance%20Master%20Leases%20-%20Jan%202020.pdf.

3. **The SCEC selected TDEF, the lowest bidder, to finance its election equipment lease purchase at interest rates of 3.29% and 3.768% -- rates which are never mentioned in the SCOIG's report**

While STO does handle the financing aspects of the MLP by engaging with the lending market, the Report mischaracterizes significant aspects of the STO's role and the transaction history, and fails to acknowledge critical facts. The SCEC selected TDEF, as the winning (lowest) bidder, to finance the lease purchase of its election equipment at a rate of 3.29%, and the subsequent addendum at a rate of 3.768%. These interest rates are never mentioned in the Report; although the Report contains extensive discussion and hypotheses regarding contractual penalties which were never assessed against nor paid by the SCEC.

4. **The SCOIG makes misleading findings regarding the STO's involvement in the SCEC master lease transactions**

The SCOIG's description of the circumstances surrounding the SCEC's lease purchase agreement inaccurately suggests impropriety by the STO in the negotiation or preparation of the SCEC lease. The lease purchase agreement documents which make up the SCEC's transactions are standardized MLP documents. The letter the SCOIG references from Alan Lipsitz (STO's outside program counsel) to the SCEC correctly states that documents are not subject to significant negotiation, but the SCEC was free to negotiate, question, or simply decline to proceed at any point. The SCEC reviewed (or should have reviewed) the terms of the agreement prior to entering into it. The STO did not and could not have forced the SCEC to finance its election equipment through the MLP. The SCEC provided input and was the ultimate decision-maker (factually and legally) regarding the selection of TDEF from the institutions responding to the bid invitation, selection of specific financing options (*i.e.*, no pre-payment penalty), and ultimately entering into the financing agreement with TDEF. The SCOIG declines to acknowledge any responsibility on the part of the SCEC, despite the fact that the events described in the Report would never have occurred without certain action and inaction by the SCEC. Instead the SCOIG renders the unsupported and inaccurate legal conclusion that the Treasurer and/or STO are "the [SCEC's] treasurer" and a "fiduciary," a role which the SCOIG fails to elaborate upon, but which supposedly includes the duty to manage SCEC's finances and procurement activities, and ensure that the General Assembly fully funds the SCEC's budget requests.

The SCOIG's inclusion of bank deposits for all entities which bid on the SCEC master lease is, likewise, misleading. Contrary to the SCOIG's repeated incorrect references to TD Bank as the lessor in the SCEC's financing arrangement, TD Equipment Finance is not TD Bank. TD Bank, N.A. is a federally-chartered bank, incorporated in and headquartered in Delaware.[41] TDEF is not a bank, but is a separate entity, incorporated in Maine, with its own leadership and board of directors, licensed and registered to do business in all 50 states, including South Carolina. The STO informed the SCOIG of this fact prior to the publication of the Report, but the SCOIG disregarded that fact—choosing instead to make the inaccurate public claim that the SCEC's lease purchase was financed by TD Bank. By intentionally referring to TDEF as TD Bank, the SCOIG

[41] Federal Deposit Insurance Corporation – BankFind "TD Bank, National Association" https://banks.data.fdic.gov/bankfind-suite/bankfind/details/18409.

attempts to connect STO's commercial banking relationship with TD Bank, as a qualified public depository, to the transaction between SCEC and TDEF, without any evidence of such a connection.

The SCOIG goes so far as to present STO's cash on deposit with TD Bank in its Report. There is no correlation between TD Bank holding state deposits and TDEF being selected as the lessor for the SCEC lease purchase. TDEF was simply the lowest bidder. There is absolutely no evidence of any improper benefit being offered by TDEF, or requested or received by the STO. In fact, the Treasurer and STO's extensive efforts to assist the SCEC in avoiding these penalties is clear proof to the contrary.

5. The contractual penalty for late payment was never assessed against the SCEC, and has never been assessed against any agency participating in the STO's Master Lease Program

The Report extensively discusses a contractual "10% of the delinquent amount per month" late-payment penalty which might have been triggered if the SCEC had failed to act. It should be noted that the STO has completed over one hundred master lease transactions, and this penalty has never been assessed in the history of the program, including the case of the relevant SCEC transaction.

The Report's inflammatory calculations of "Late Charge: 213.84%" are based on an absurd hypothetical situation in which the General Assembly appropriates sufficient funds and the SCEC fails to make a payment for a full calendar year or longer. The Report uses conditional language (*e.g.*, "would," "could," "potentially") in its analysis of this late penalty because no late penalty was ever demanded, incurred, or paid. In order to reach this calculation of 213.84%, the SCOIG construes the contractual 10% late penalty in the most harmful light possible—calculating it to compound monthly for an entire year—and makes this calculation the title of the subsection. To the contrary, the 10% penalty contractual provision does not compound monthly. In fact, the Report's own Finding §III(B) – 1 acknowledges as much, stating that the late-payment provisions for the MLP agreements imposed a penalty of "effectively 120% APR."

Even in a "worst case scenario" in which the SCEC failed to amend the due date of the first payment **and** failed to terminate the agreement pursuant to the non-appropriations clause, the FY2025-26 Appropriations Act provided that $10,970,755 would be released on February 20, 2026. With the annual payment due date for the lease purchase falling on September 30, 2025, and the contractual thirty-day and ten-day grace periods, any penalty accrued would be for a period of approximately three months. Regardless, the events the SCOIG hypothesized did not occur, and were never even likely because the non-appropriation clause in the master lease contract allows the lessee (*i.e.*, the SCEC) to end the contract by returning the equipment when it does not receive appropriations to pay the lease payment, with no further obligation from the State. The Report further fails to acknowledge another provision in the SCEC's contract which provides that the SCEC's obligation to make any Rental Payment "is incurred when funds are legally available." Given the existence of these clauses, it is unlikely—if not outright impossible—that the SCEC would have incurred late payment penalties in the amounts claimed as fact by the SCOIG.

Despite these contractual safeguards, the SCOIG chose not only to publish a 213.84% interest rate in the Report, but to publish that number in a bolded section heading, while *excluding* the actual interest rates for the SCEC's financing arrangement: 3.29% and 3.768% APR. Likewise, the Report's conclusion that the SCEC's transaction "created an endless debt cycle for the SCEC" is blatantly false, not to mention inappropriate and harmful to the reputation of the STO and its staff, as well as the State. As noted above, no penalties were ever assessed. The STO questions the appropriateness of this heading's inclusion in the Report, along with its speculative and misleading content The SCOIG's incorrect assertion has been widely reported in the media, and was referenced on the Senate floor to disparage and malign State Treasurer Loftis and the STO.

6. **Sales tax and shipping and handling were ultimately invoiced correctly**

The Report states that the SCEC was assessed "district" sales tax, and that it is "unaware" of a district sales tax in South Carolina. As is explained more thoroughly above, the total sales tax assessed on the transaction was 6.97%, which is consistent with the State's regular 6% sales tax, as well as the 1% local option sales tax for purchases in St. Matthews, South Carolina—the location to which the election machines were delivered. Similarly, SCOIG's statement that shipping and handling "was listed in the paperwork twice" fails to note the obvious reason for two separate shipping and handling charges: there were two separate shipping events. Here again, the Report's assertions appear to selectively advocate against the STO rather than reflect the actual events, their true causes, and their real effects.

7. **The STO had no involvement in the SCEC's decision to negotiate an increased first payment; however, the STO is unaware of any evidence suggesting this action was improper**

The Report makes the inaccurate and unsupported accusation that the SCEC's "loan modification" in paying a higher amount for the first lease payment to include interest for the delay in payment, "caused the amount of the delayed payment to TD Bank in February 2026 to 'exceed the amounts and purposes stated in the appropriations' in violation of S.C. Code §11-9-20(A)." The STO is unaware of any evidence that the SCEC "exceeded the amounts and purposes stated in the appropriations." While it is true that FY2025-26 Proviso 118.22 provided a restricted-purpose appropriation of $10,970,755 for "Statewide voting system upgrade," the SCEC could have had additional unrestricted General Funds appropriations which would have been lawful and appropriate to apply toward the first lease purchase payment. However, even if the SCEC did exceed its appropriations, that action would have been proposed by, negotiated by, undertaken by, and solely and entirely the responsibility of, the SCEC.

8. **STO's contractually-required investment of the SCEC's master lease proceeds, pending disbursement to ES&S, benefited the SCEC and more than offset the additional interest that the SCEC incurred.**

The SCOIG observes that "the STO invested the borrowed funds and generated more than $117,252 in investment earnings." Per the master lease contract, investment earnings are the property of the Lessee unless they need to be used to pay lease interest: "any such remaining moneys in the amount equal to the amount of earnings on the Acquisition Fund shall be used by

Lessee on the next Rental Payment date to pay all or a portion of the interest component of the Rental Payment then due…"

As of May 2026, $169,046.09 in earnings made on the investment of the original amount of loan proceeds has been applied to the SCEIS funds related to the SCEC's master lease. As such, the earnings from STO's investment of the SCEC's master lease proceeds more than offset the $139,771.40 in additional interest accrued between the original September 30, 2025, lease payment due date and the amended February 29, 2026, lease payment due date. Thus, any implication that the STO misused, misdirected, or failed to safeguard the SCEC's funding is wrong and misguided.

9. **Many of the SCOIG's conclusions regarding the STO's Master Lease Program amount to subjective disagreement with the underlying statute and case law establishing the program—not with any inappropriate action by the STO.**

The Report contends that the South Carolina Supreme Court's decision in *Caddell v. Lexington County School District No. 1*, 296 S.C. 397 (1988), and the Attorney General's application of that case to lease-purchase agreements with non-appropriations clauses are wrong; further, the Report implies that the General Assembly inadequately designed the program which it created to make use of such precedent.

The plain language of S.C. Code § 1-1-1020 authorizes "financing arrangements under the master lease program," not direct purchases or lending by the STO. The non-appropriation clauses and other provisions are standard and were designed to avoid creating "Constitutional" debt—*i.e.*, a general obligation of the State of South Carolina which encumbers the State's taxing authority—consistent with the 1991 SCAG opinion and the *Caddell* case. The Report's assertions conflate Constitutional debt with a lease payment that, although recurring, can be canceled if money is not appropriated for its payment. The Report implies (but does not explicitly state) that the SCEC created an improper debt obligation in the transaction, and bolsters this implication by referencing the fact that the STO categorized these MLP transactions in SCEIS as "Other debt charges" under Cost Center E160DM0000 Debt Management," and claiming that Knapp signed the SCEC's IRS form 8038G as the "'Issuer' of over $30M in debt." This discussion is misguided and creates needless, harmful confusion. The transactional documents themselves are the means by which the true legal nature of the transaction is determined, not truncated/abbreviated fund descriptions in SCEIS.

Finally, the noted trade-in of old equipment is a procurement matter for the SCEC and Surplus Property Office. The MLP agreement between the SCEC and TDEF provides that TDEF accepts the return of the equipment being purchased to fulfill any payment obligation by the SCEC. As such, the SCEC's decision to trade in older machines as part of the deal does not somehow create Constitutional debt for the State. The Report seems to object to the legal mechanisms established by S.C. Code § 1-1-1020; however, those mechanisms are well-founded in accordance with South Carolina Supreme Court precedent and built upon the written advice of the South Carolina Attorney General. The SCOIG is entitled to recommend that the General Assembly make changes to the statute "to strengthen public integrity laws." S.C. Code § 1-6-30(8). However, the SCOIG has no authority to declare a legally-compliant agency program to be "mismanaged" based on the SCOIG's disagreement with the law, or its opinion of what the law should be.

10. The SCEC was solely responsible for ensuring that the election equipment was procured in accordance with State law and certified in writing that it had been legally procured.

The STO is exempt from the Procurement Code for MLP financing functions (SFAA exemption, March 25, 1986): "The Board exempted the financing provisions of lease/purchase contracts and other debt and banking functions of the State Treasurer's Office from the procurement procedures of the Procurement Code, upon the recommendation of the Division of General Services, pursuant to Code §11-35-710."[42] In pursuing financing under the STO's MLP, the applicant agency is solely responsible for procurement compliance and the choice of funding mechanisms. *See* S.C. Code Regs. 19-445.2152 and 19-445.2005. Despite the STO bringing this to the SCOIG's attention, the Report makes the murky assertion that "as a result of the failure to adhere to the Procurement Code, the SCEC and/or STO must follow the procedures set forth in S.C. Code Regs. 19-445.2015 [Unauthorized or Illegal Procurements.]" The STO did not undertake any unauthorized or illegal procurement. It was not the STO, but the SCEC's Nicholson, who attested in writing to TDEF his legal opinion that the SCEC had "full right, power, and authority to execute and deliver the Agreement and perform its obligations thereunder", and that the lease-purchase agreement "complies with all applicable bidding and procurement laws."

The SCOIG's inclusion of the STO in its Report statement quoted in the preceding paragraph is contrary to the plain language of South Carolina procurement regulations. Procurement compliance is the sole responsibility of the acquiring agency, including justification of lease versus purchase (S.C. Code Regs. 19-445.2152), source selection, and sales-tax determination. Moreover, in the event "that a contract award or modification is otherwise in violation of the Consolidated Procurement Code…" the acquiring agency's chief procurement officer must follow certain procedures to either ratify or nullify the contract. *See* S.C. Code Regs. 19-445.2015. As it relates to the SCEC specifically, the STO notes that there is evidence suggesting that the SCEC understood the equipment purchase from ES&S to "fall under its existing contract" with that vendor, although the STO never advised the SCEC that this was the case. This is suggested in the SCEC meeting minutes for July 11, 2024, in which "Chairman Shedd asked about the competitive bid process [related to the purchase of the new equipment]. Director Knapp explained the current contract with the current vendor and how *the new purchase would fall under the existing contract.*" (emphasis added). The belief is also suggested by LaToria Williams, SCEC Finance Director and procurement officer, in her communication with the CGO on November 6, 2024, in which she stated that she was new to the SCEC and did not know whether procurement was done, but "I do know they had a contract with ES&S before I started here." Regardless, it was the SCEC, not the STO, who entered into the lease purchase agreement premised at least partially upon the SCEC's written affirmation that the SCEC had complied with all applicable bidding and procurement laws.

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[42] "Legal Exemption Table 9.12.2025" also notes that "The General Assembly finds that in order to provide greater efficient and effective service to the various state agencies and institutions, all lease financing activities should be administered by one agency. The General Assembly recognizes that the Office of State Treasurer currently administers capital leases and third-party lease purchase financings." 1994 Act No. 497, Part II, §10A [2] (p.19) https://www.procurement.sc.gov/legal/procurement-law (*See* Exhibit 3).

The opinion of Materials Management Officer John St. C. White, provided in the Report, indicates that the SCEC's prior ES&S contract "did not provide for the acquisition of more equipment during the life of the contract." White concludes his opinion saying that, based on the information he has access to, "one can only conclude that the Commission's recent acquisition of DS300 Voting Equipment did not comply with the [Procurement] Code." The STO can neither dispute nor support White's opinion. However, the Report fails to acknowledge that White's conclusion is that the SCEC—not the STO— failed to comply with the Procurement Code. White's opinion is silent as to any action by the STO. It is unclear how the SCOIG, having requested and received White's expert opinion, could have thereafter concluded and reported that "the SCEC and/or STO" entered into an unauthorized or illegal procurement. There is no basis for the SCOIG to assert that the STO violated the procurement code and must therefore follow the procedures for an illegal or unauthorized procurement.

C. The STO fulfilled its limited statutory role in the SCEC's lease purchase.

In conclusion, no late fees were paid. No prohibited debt was created. Title to the election equipment did not pass to TDEF. The STO fulfilled its limited statutory financing role.

Notwithstanding the STO's disagreement with the SCOIG's conclusions and recommendations, the STO is implementing improvements as indicated in the attached remediation plan. (Exhibit 1). Recommendations regarding the statutory structure and/or funding source of the MLP are policy matters for the General Assembly. The STO stands ready to assist with any such legislative clarification.

Section IV: The SCOIG imposes new, legally- and historically-unsupported interpretations of STO reporting statutes

Section IV of the Report addresses the STO's compliance with certain antiquated statutes regarding the transfer or publication of certain STO banking data. All of the statutes discussed by the SCOIG in this section preexist SCEIS, the State's accounting system, by roughly 100 years. While the STO has consistently interpreted and complied with these statutes as they have been historically understood, it must be acknowledged that SCEIS is a significantly more efficient and effective method of accomplishing the underlying intent of these statutes. It would have been reasonable, appropriate, and well within the SCOIG's purview to note that these statutes' meanings have been confounded over time by changes in technology and accounting, and recommend changes to those statutes which better fit the present intent of the legislature. Instead, however, the SCOIG opted to impose its own novel re-interpretation of these statutes—ignoring longstanding agency interpretations, and in some cases even inserting words into the statute to produce a desired meaning.

B. The SCOIG imposes an unsupported, novel reinterpretation of S.C. Code § 11-5-120, contradicting over 100 years of consistent STO compliance

The Report states the STO "is in partial compliance" with the reporting requirements of S.C. Code § 11-5-120 due to "the failure to report the funds to which the deposited monies belong." This allegation is based on the SCOIG's unsupported misreading of the section. Further, the SCOIG's proffered solution to reach compliance with its interpretation of Section 11-5-120 is impracticable and contradictory.

Section 11-5-120 was originally adopted in 1903. *See* S.C. Code § (24)21 (1903). As currently enacted, it reads "The State Treasurer shall publish, quarterly, by electronic means and in a manner that allows for public review, a statement showing the amount of money on hand and in what financial institution it is deposited and the respective funds to which it belongs." As noted in the Report, this statute was last amended in 2008; the only change was that the report is published by electronic means, rather than in a Columbia newspaper. The **information** required to be reported has not been amended since it was originally enacted over 120 years ago. The historical record indicates a consistent interpretation by State Treasurers that Section 11-5- 120 requires a quarterly report containing three elements: 1) the total amount of deposits in the Treasury's bank accounts; 2) the financial institutions in which the STO deposits money; and 3) the amount of money (*i.e.*, "funds") in each bank.

Statement of the State Treasurer's Bank Deposits
As of Close of Business 3/31/2026

PUBLISHED AS REQUIRED BY SECTION 11-5-120, CODE OF LAWS OF S.C. 2016

...in what finanical institution it is deposited...

Arthur State Bank	7,801
Bank of America, NA	1,254,914,086
BNY Mellon	6,565
Blue Ridge Bank	8,146
Coastal Carolina National Bank	217,977
Enterprise Bank of SC	15,391
First Citizens Bank of SC	2,309,192
First National Bank of South Carolina	1,050
JP Morgan	5,759,928
Palmetto State Bank	1,380,704
South State Bank	494,383
Synovus Bank	2,669,645
TD Bank	11,703,731
The Bank of Clarendon	59,052
Truist Bank	98,253
United Community Bank	152,695,069
Wells Fargo Bank	289,832,958
TOTAL	1,722,173,931

...and the respective funds to which it belongs.

"the amount of money on hand"

Deposits in excess of federal insurance limits are collateralized in accordance with Statute 11-13-60.

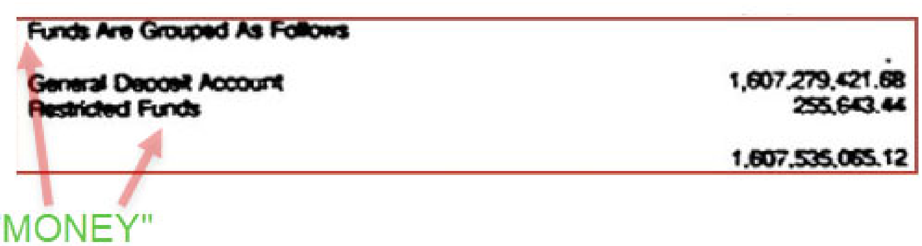
The STO provided the SCOIG newspaper clippings of previous quarterly bank deposit reports as far back as April 9, 1948, which clearly evidenced the format of the report published pursuant to Section 11-5-120 had remained substantially the same for at least 77 years.

The Report disregards this evidence of STO's longstanding interpretation and instead concludes that "the respective funds to which it belongs," refers to accounting funds rather than money, opining cryptically that Section 11-5-120 requires STO to "report funds at each financial institution by homogeneous groups." The SCOIG's interpretation is flawed for several reasons: (1) GASB, one suggested standard for defining "funds" as used in the statute, was created in 1984, approximately eighty years after statutory enactment; (2) reporting on the basis of SCEIS funds[43] cannot be the standard the General Assembly intended when the statute was last amended because the amendment occurred before SCEIS development and implementation (which started in approximately 2007); and (3) the SCOIG cannot point to any legal authority that supports its interpretation.

The STO's historically consistent interpretation of "the respective funds" has meant "money." This is consistent with several other statutes in Title 11 where "funds" is clearly used as a synonym for money:

> To facilitate the management, investment, and disbursement of public funds, no board, commission, agency or officer within the state government, except the State Treasurer shall be authorized to invest and *deposit funds from any source*, including, but not limited to, *funds for which he is custodian, such funds to draw the best rate of interest obtainable*.

S.C. Code § 11-13-30 (emphasis added); *see also* S.C. Code § 11-13-125 ("*All funds received* by any department or institution of the state Government shall be deposited and maintained in appropriate accounts in the State Treasury ….") (emphasis added). Even the SCOIG's own singular, hand-picked example of a STO report from March 31, 1990 (the format of which was never used at any other time in history) uses the term "funds" to refer to money—not a specific governmental accounting fund:



Funds Are Grouped As Follows	
General Deposit Account	1,607,279,421.68
Restricted Funds	255,643.44
	1,607,535,065.12

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

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[43] Reporting "by SCEIS fund" has also been strongly discouraged by the State's security experts. In a letter from Marcia Adams, Executive Director of the Department of Administration, to former STO Chief of Staff Clarissa Adams, dated April 4, 2024, the Department of Administration's cyber security experts have confirmed that publishing a report with the detail of every SCEIS fund would "give potential hackers more ability to 'triangulate' and map their way to improper access."

the allocation and performance of Treasury cash and investments than any previous agency administration.

The SCOIG opines that Section 11-5-120 requires STO to "report funds at each financial institution by homogeneous groups." In support of this position, the SCOIG references a single quarterly report in 1990 that includes entries for both a "General Deposit Account" and "Restricted Funds." The Report provides exactly zero quarterly reports issued by the STO under any State Treasurer that has filed a quarterly report in the manner the Report suggests is required. The SCOIG failed to give appropriate and meaningful weight to consistent historical practice by all State Treasurers. *See Stone Mfg. Co. v. S.C. Emp. Sec. Comm'n*, 219 S.C. 239, 249, 64 S.E.2d 644, 648 (1951) ("While the construction of a statute by the officials charged with its administration, which has been acquiesced in by the Legislature for a long period of time, should be given great weight, the final responsibility for the interpretation of the law rests with the courts.").

Clearly, the language of Section 11-5-120, if not abundantly clear as believed by the STO, has been followed by generations of State Treasurers, and has not been misread over a century to the extent portrayed in the Report. To the extent that the STO's historic and current interpretation of Section 11-5-120 is incorrect, the STO stands ready and willing to report the bank information however the General Assembly deems appropriate and indicates by amending the relevant statute. Despite the STO's strong disagreement with the Report's conclusion regarding Section 11-5-120, the STO is implementing augmented reporting as indicated in the attached remediation plan. (Exhibit 1).

C. The STO demonstrated its ability to reconcile by fund to the SCOIG in-person

The Report lists the heading for this subsection as "Failure to Reconcile by Fund," despite the fact that the STO provided an in-person demonstration of the STO's capability to reconcile cash and investments by fund for the SCOIG, and gave additional documentation thereof to the SCOIG. First, "reconciliation by fund" is not a requirement of any "reporting statutes" as the SCOIG's inclusion of it in this section would clearly suggest. Neither Section 11-5-120 nor Sections 11-13-70 through 90 establish any requirement regarding reconciliations. It bears noting, however, that Section 11-5-120 has been recently used for political purposes to suggest that the STO must publicly publish the State's entire SCEIS fund listing (consisting of nearly 3,000 SCEIS funds), and the cash and investments recorded in each. This interpretation is, of course, entirely anachronistic, since Section 11-5-120 was passed into law over 100 years before SCEIS funds ever existed.

The Report mistakenly attempts to connect the *reporting* of quarterly bank balances required by Section 11-5-120 with the STO's *reconciliation* of cash and investments by fund, reaching the uninformed and inaccurate conclusion that "Regular reconciliation by fund combined with reconciliation by bank account(s) would allow reliable ready production of the quarterly publication per S.C. Code § 11-5-120 including 'the respective funds to which it belongs.'" The only legislation relevant to the topic of "reconciliation by fund" is Proviso 98.14 of the Appropriations Act, which was initially passed in 2024-25 and renewed for 2025-26. That proviso states as follows: "For the current fiscal year, the Office of the State Treasurer shall provide the Office of the Comptroller General all cash and investment fund balances by aggregation of funds by unique disclosure entity for the purposes of cash reconciliation and annual comprehensive financial report compilation. Further, the Office of the State Treasurer shall fully comply with information requested in the form of closing packages from the Office of the Comptroller General for the same purposes."

The Report acknowledges that the STO demonstrated "a SCEIS reporting function called 'STO Cash Report' … that provide[s] basic fund data as part of the bank balance reporting document…" and that the STO performs this function "for the end of fiscal year closing package process for the ACFR." In other words, the STO is in full compliance with Proviso 98.14. Despite this proof that the STO does indeed reconcile cash and investments by fund, and provides it to the CGO for the ACFR closing package, the SCOIG still chose to include the word "failure" to title its review of this particular issue in the Report.

D. The SCOIG faults the STO for the Comptroller General's failure to create a form that the CGO had never provided to the STO

The SCOIG's allegation that the STO is not compliant with Section 11-13-80 is incorrect and based on a misreading of its plain language and related statutes. First, and most critically, Section 11-13-70 states, "Banks or trust companies having deposits made by the State Treasurer shall file a report with the Treasurer on the first day of each calendar month *on forms furnished by the Comptroller General*." (emphasis added). The STO is unaware of any instance in which the CGO has furnished the form referenced in Section 11-30-70, or informed the STO that any bank or trust business was failing to provide information in accordance with these sections. Following the issuance of the SCOIG's report, the STO contacted the CGO to request clarification as to what information it would require. The CGO clarified to the STO that "The banks may provide the CGO a bank statement in the same form it provides the STO" to fulfill these statutes. Because the CGO had not created any reporting form as referenced in these statutes, it was an impossibility for the banks and trust companies to comply with the statute.

Additionally, the SCOIG imposes a statutory interpretation that is predicated on reading words into the statute which the General Assembly did not write nor adopt. The Report states:

> [Sections 11-13-70 and 11-13-80] impose an affirmative, *independent* obligation on the banks (as depositories) both to file reports *directly* with the STO and to transmit a copy of those reports directly to the CGO – to fulfill their separate duties. In contrast, the reporting to the CGO is not accomplished *independently* by the banks but occurs only through entries made by the STO into SCEIS. [It] fails to satisfy the basic requirements that the banks themselves 'shall transmit' the copy to the CGO directly.

Report at 21 (emphasis added). However, Section 11-13-80 does not include the words "directly" or "independently." These are inappropriate editorial additions by the SCOIG. Even if the CGO had ever created the report, as is its apparent obligation under Section 11-13-70, there is no language in Section 11-13-80 that prohibits the STO from inputting information received from banks and trust companies into SCEIS in order to transmit this information to the CGO.

While Section 11-13-80 requires banks or trust companies to transmit a copy of the report to the CGO, it is silent concerning how the CGO is to receive the report, as well as how the STO is to know that the CGO either hasn't received the report or is otherwise dissatisfied with the report's contents. Presumably the CGO would inform the STO of deficiencies in the frequency, timeliness, or content of these reports. In the absence of such a complaint, the STO cannot presume the CGO is dissatisfied with the reports it receives or the manner in which it receives them. To date, the CGO has never informed the STO of any complaints or objections concerning the adequacy of banking data provided to the CGO. Following the issuance of the Report, the CGO clarified to the STO that "[t]he banks may provide the CGO a bank statement in the same form it provides the STO" to fulfill these statutes.

The Report incorrectly asserts that by assisting the banks and trust companies with transmitting information to the CGO, there is a breach of Section 11-13-80, and as a result Section 11-13-90 requires the STO to "withdraw all state deposits from such depository and close its account." Section 11-13-90 does not require the State Treasurer to withdraw all state deposits without any consideration of the instant circumstances; indeed, Section 11-13-90 recognizes an exception when "good cause [is] shown." The statute's structure suggests the State Treasurer determines when circumstances constitute good cause. Moreover, Section 11-13-30 within the same chapter grants the State Treasurer exclusive authority regarding the deposit of funds from any source. Logically, then, the Treasurer's sole authority over the deposit of funds grants the Treasurer the authority to determine if funds must be withdrawn from a depository institution to comply with a statute, whether that be because the STO may obtain a better rate of interest elsewhere, because of failure to meet reporting requirements, or because of other statutory mandates.

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

Section V: The STO Is reevaluating its approach to budgetary allocations

Overall, the STO agrees with the recommendation that previously-employed budgetary allocation methods should be reviewed and updated to ensure costs are appropriately allocated to relevant areas. The STO will work to amend its Budget and Finance Policies and Procedures guide to provide a more detailed rationale or basis for allocating the costs of STO employees and produce a formalized cost allocation plan as discussed by the SCOIG in this subsection. Regarding the STO's under-utilization of its FY 2025 authorization increase, STO notes that it had formerly projected program activities for the fiscal year that would have utilized this authorization increase. However, the STO was unable to pursue them because of the need to direct employee resources to higher priority matters.

Section VI: The STO will continue to ensure that the operations of the Unclaimed Property Program are fully transparent

The STO disagrees with the Report's characterization of certain aspects of and procedures within the Unclaimed Property Program ("UPP"); however, the STO has reviewed the feedback regarding the program and is in the process of implementing certain changes in response to the Report's recommendations.

A. STO's Unclaimed Property Program maintains detailed and accurate financial records

The STO maintains detailed and accurate financial records within the UPP's management platform, Kelmar Abandoned Property System ("KAPS"). The STO provided the SCOIG with extensive evidence of its robust processes and met with the SCOIG on multiple occasions, to include a demonstration of KAPS and how records are maintained within it. The Report suggests that unclaimed property auditor fees may result in an "understatement" of the value of unclaimed property reported to the State. To the contrary, the total value of the unclaimed property recovered by the auditors is fully recorded in KAPS; 100% of the property value is available for claim by the rightful owner.

B. The Report misinterprets certain factual and contractual aspects of STO's engagement with third-party auditors

Much of the Report related to the UPP is based on incorrect or incomplete assertions regarding the manner in which the STO records and keeps track of unclaimed property remittances, and related third-party audit fees. The STO is legally authorized to join multi-state contingency-fee unclaimed property audits conducted by third-party auditing firms. When the STO joins these audits—conducted by third-party auditors with whom the STO has contracted in accordance with State procurement laws—the audit firm is paid on a contingency basis, based on the amount of money (or value of intangible property) recovered by the auditor and remitted for South Carolina owners. In most cases, the auditee remits the unclaimed property to the auditor for validation, which the auditor then holds in escrow until the audit is complete. The auditor withholds its contingency fee from the funds it recovers and then transfers the remaining funds/property to STO's UPP, with a corresponding invoice. Every audit fee is fully documented in KAPS.

The Report makes various incorrect or incomplete assertions regarding STO's procedures in handling audit invoicing and payment. Regarding the transparency of third-party audit billing, the Report inaccurately alleges that there was a change to invoicing in which one of the third-party auditors (Kelmar) "no longer displayed the deduction of Kelmar's audit fees." This is incorrect; there was no change in billing methodology. The STO provided the SCOIG documentation of fees being paid directly to the auditor on invoices between 2021 – 2026; this is a permissible payment method that began with the 2021 audit solicitation, for instances when an auditee remits funds directly to the STO rather than submitting to the auditor. Regardless of the payment method, all invoices include the value of the property recovered by the auditor and the applicable audit fee.

The STO disagrees with the SCOIG's suggestions that the UPP operates in a manner that is in any way not transparent. Detailed information related to payments is fully transparent in the KAPS recordkeeping system. Moreover, the STO notes that the UPP is subject to the agency's annual financial audit and regular internal audits by the STO's third-party vendor. Unclaimed property multi-state, contingency-fee audits conducted by third-party auditors typically extend over several years, making it difficult to accurately predict both the timing and projected amount of funds that will be recovered during a given fiscal year. Deducting fees from audit findings is a methodical approach that accounts for these uncertainties and supports more accurate financial planning and budgeting.

Nonetheless, the STO has re-evaluated the unclaimed property audit contract provisions to assess other payment methodologies and resulting budget authorization impacts. To that end, the STO has requested, and the Materials Management Office has approved, a change order to the existing third-party unclaimed property audit contracts. The change requires that "Contractors shall invoice the STO for the contingency fee when the Contractor provides the Audit report and remittance as required under this Contract." The contract change was effective July 1, 2026.

It must be noted that the timing and amount of unclaimed property recovered for citizens through third party multi-state audits is inherently unpredictable, and as such, the fees which are contingent upon the amount recovered during a given fiscal year are also difficult to forecast. Thus, while these changes may increase visibility of the cost of the unclaimed property, they will also make necessary projections of budget authorizations significantly more challenging and potentially costly to prepare. Therefore, the STO has engaged an actuary to determine the additional budget authorization required to implement the SCOIG's recommended payment methodology, and assist in determining what ongoing budget authorization requests are necessary to accommodate this change.

Section VII: The SCOIG's "Other Observations"

While the STO disagrees with the SCOIG's characterization and conclusions regarding "misallocation of expenses," the STO generally accepts the feedback regarding the program and is assessing the implementation of certain changes in response to SCOIG recommendations.

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