

**Transcript of Legislative Joint Auditing Committee  
December 14, 2012, presentation of the Special Report Update – Arkansas State Treasury –  
Review of Selected Bond Investment Transactions**

Co-Chairman Senator Bill Pritchard: ...Next, the Special Report on Arkansas State Treasury. Jon Moore, you're recognized.

Jon Moore: Thank you, Mr. Chair. This presentation covers an update of the Special Report issued on September 14, 2012, titled *The Arkansas State Treasurer – Review of Selected Bond Transactions*. As directed by the Committee, we went back and analyzed, updated this report and analyzed all the bond sales that occurred between January 1, 2007 and May 17, 2012. Our original report, we commented on 11 of these transactions, and in this updated report, we've included all those original 11 transactions plus some additional transactions, for a total of 30. During that Committee meeting in September, eight questions were asked that Ms. Shoffner agreed to research and provide responses to the Committee. The questions that, the questions and Ms. Shoffner's responses were electronically mailed to members of the Committee, and also, I believe, that you have those questions and answers in your printed material today. If the Chair pleases, now might be a good time to hear any questions the Committee may have related to those or this information.

Senator Pritchard: Okay, we have, I don't know who's in seat 74. [Response inaudible] Is your question of staff, or do you want to wait 'til we get the folks up here, from the Treasurer's Office?

Representative Denny Altes: Either one, or both.

Senator Pritchard: Well, if the question's probably staff, we're gonna bring the people up in a minute and go to questions.

Representative Altes: Okay, probably Treasurer's Office.

Senator Pritchard: Alright. Can we have the, Ms. Shoffner, could we have you come to the table and the other folks that are here to give testimony? Ms. Rogers, Ms. Sanson, and whoever else you brought with you.... Could we get another chair? ...Okay, if each of you will just introduce yourself, we're not gonna go to comments just yet, but just introduce yourself, so that we know who all's here.

Autumn Sanson: I'm Autumn Sanson, Chief Investment Officer of the State Treasurer's Office.

Senator Pritchard: Thank you.

Debbie Rogers: Debbie Rogers, Chief Deputy Treasurer.

Martha Shoffner: Martha Shoffner, State Treasurer.

Janice Lewis: Janice Lewis, Executive Assistant in the Treasurer's Office.

Senator Pritchard: Okay. Ms. Shoffner, as you know, this is our second time, so some of this will be old hat. Would you please stand and raise your right hand? Ms. Shoffner, do you

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solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Treasurer Shoffner: Yes.

Senator Pritchard: Yes, okay. Ms. Rogers, could you please? Ms. Rogers, do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Debbie Rogers: Yes, sir, I do.

Senator Pritchard: Affirmative. Ms. Sanson? Ms. Sanson, do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Amber Sanson: Yes, I do.

Senator Pritchard: Alright. Ms. Lewis? Ms. Lewis, do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Janice Lewis: [Inaudible]

Senator Pritchard: Thank you very much.... Just to bring the Committee up to date, and some of you here were not here last time, we spent a lot of time going over, a couple of hours, at the last meeting, and we covered a lot of ground. In your packet is both the report, and we had several questions of Ms. Shoffner, and there is a request, I mean her response to those questions is in your packet. What we're gonna do, and Ms. Shoffner, if you want to make an opening statement, or do you want to do straight to questions?

Treasurer Shoffner: Well, I really would like to make one, I mean, it's a prepared statement.

Senator Pritchard: You are recognized.

Treasurer Shoffner: Okay, thank you. Thank you, Mr. Chairman. I would like to thank the Chairmen and the Committee as well as the Legislative Audit for its hard work, recommendations, and suggestion for improvements that will benefit the citizens of Arkansas. We have a good investment policy that ensures safety, liquidity, and positive yields for the taxpayers' money. While following the guidelines of the investment policy, the Treasurer has deposited \$164 million on our investments during this administration. Since 2007, there have been over 900 bond transactions, of which 30 bonds have been sold and are the focus of this report. The Auditor's report reflects economic numbers, while the Treasury works with actual dollars. From the purchase to sale dates on the 30 bonds, \$10 million were earned with an additional \$5 million being earned on the replacement bonds. The Treasury could not control the markets, but we can control our investment decisions. Since the last Committee meeting, we have introduced several improvements to our investment practices. We have strengthened internal controls through additional documentation on all transactions. Our new Investment Manager has experience in several areas of financial management and is working with our Chief Investment Officer, strengthening our system of checks and balances. I have the young

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man here today, if you would like for me to have him stand. His name is Hunter Johnson, and he is our Financial Manager. Going forward, we intend to review...Did you say okay?

Senator Pritchard: Yeah, let's go ahead and have him stand.

Treasurer Shoffner: Hunter, would you stand please?

Senator Pritchard: And this is a new hire?

Treasurer Shoffner: Yes. Yes. He's the new Investment Manager...Going forward, we intend to review the portfolio of all overall yield, rate shock scenarios, potential calls, and unrealized gains and losses on all securities on a monthly basis through a portfolio accounting system. We also, we are open for discussion of the possibility of amending legislation, which you have mentioned, legislation to allow for more flexibility in the investments. We also intend to actively attempt to purchase securities on the secondary market, rather than the new issue market, to allow for quicker settlement dates – funds, I'm sorry. Again, the Treasury appreciates the hard work and recommendations of the Committee and legislative office and look forward to working with them to do our best for the people of Arkansas. Thank you, Mr. Chairman.

Senator Pritchard: Thank you, Ms. Shoffner. Okay, and let me tell you where, how we're gonna go from here, and we want to hear from everyone, but since we had a lengthy meeting last time, to rather than have duplication of answers, I'm gonna ask Co-Chairman Summers ask some questions, and I think it'll be many that you have. That's not to cut anyone off. I see the board's already lighting up. We certainly want to give everybody the opportunity. As you know, our policy is that we will, as the list gets long, I will put you on the clock. But we don't want, because we want to give everybody an opportunity, but after you have your allotted time, you can go back on the list and ask another question. So I think that's worked good in the past, and we'll do it this time to make sure everybody has an opportunity to be heard from. And I will caution everyone to keep on point. As you know, we always do. And to keep it on this audit and on the information before us and the report. With that, I will turn it over to Chairman Summers, who has some questions.

Co-Chairman Representative Tim Summers: Thank you, Mr. Chairman. Ms. Shoffner, most of these questions will be to you...

Treasurer Shoffner: Yes.

Representative Summers: ...but feel free to have your staff fill in whenever you need to.

Treasurer Shoffner: Thank you. I appreciate that.

Representative Summers: Okay. Do you think changing the state investment policy to allow longer bond maturity dates and to allow investments in high-quality corporate bond obligations could improve the rate of return on Treasury investments without significantly increasing risk, and, if so, have you ever tried to get the investment policy changed? When was the present

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policy adopted, and when was it amended, or has it been amended since it was adopted? And I've asked you several questions, so if you need me to refer back, I'll be happy to.

Treasurer Shoffner: Thank you, Representative Summers. The legislation, I think, was put in place in, or the legislation that directs our policy, investment policy, I think was initiated in '99. I'm not...'97, I'm sorry. Stipulations in that investment policy is that we can only go out five years, and I think it's 90 days for corporate paper, 90 days for commercial paper. I think that it would give us more flexibility if we could go out, not that we would necessarily, but the flexibility on going out to 10 years rather than five would be good. But we're open to the suggestion of the Committee and the auditors.

Representative Summers: Okay. And it seems like that, does the Board review the policy every year? And it seemed like with the changing investment or financial markets, that policy should be revised more often than 15 years. You understand my question?

Treasurer Shoffner: Absolutely. The markets and what we're in now, the economic markets since I've come in. I mean, downturn, we're losing every year. As Bernanke said, the toolbox is almost empty, but hopefully, after we go over the cliff or not, that things will turn around so....

Representative Summers: I'm sure not encouraging you to accept more risk in any way with taxpayers' money, but I do think that the policy should be reviewed and other options considered...

Treasurer Shoffner: Yes.

Representative Summers: ...and that it ought to be part of your minutes of your financial group when you meet...

Treasurer Shoffner: Yes.

Representative Summers: ...with the Board.

Treasurer Shoffner: I agree.

Representative Summers: On June 30, 2011, the Treasury had \$1.3 billion in cash and cash equivalents. Do you think that much was necessary for liquidity purposes?

Treasurer Shoffner: Mr. Chairman, or Representative Summers, if I may defer to my Chief Deputy, Debbie Rogers, on that question.

Debbie Rogers: That balance is as of June 30<sup>th</sup>?

Representative Summers: 2011.

Debbie Rogers: 2011. Well, we look at liquidity daily to make sure that we have the amount to, to pay for the warrants and the obligations of the State. So, it definitely fluctuates every day. Our biggest time for the year is for the income tax season, which is between January and April

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of every year. So it is something that we look at every day, that's a focus of our cash management system, our cash management section.

Representative Summers: I believe in the previous report, Audit had recommended that \$250 million was sufficient to maintain liquidity. Do you agree with that number or disagree? I realize it could change, but as basically a standard? Am I right in recalling that, Mr. Moore, or did I dream that?

Jon Moore: I don't believe we made that specific recommendation.

Debbie Rogers: No, I don't recall that, but there are days when we have to pay out over \$300 million worth of expenditures to cover the warrants. So I don't feel like \$250 million would be adequate.

Representative Summers: Okay. Do you think the Treasury, Ms. Shoffner, do you think the Treasury's overall rate of return is negatively affected by excess liquidity, and have you done anything in recent months to reduce excess liquidity?

Treasurer Shoffner: We have placed some bond money, I mean, some money markets into the bonds, yes.

Representative Summers: Okay.

Treasurer Shoffner: We're taking all the recommendations, and we're going forward with new policies and new implementations, so we look forward to rectifying everything that you all think or considering that maybe we should adjust.

Representative Summers: Okay. This question is for your Chief Financial...I'm not sure the title, Ms. Sanson. Why beginning in 2009 did you start selling bonds before maturity?

Autumn Sanson: We felt at times that, that with the help of the brokers that we use, some of them could give us a good analysis of the reason that we could sell and actually make a profit, get us in to better paying bonds, or better call protections on some of those bonds.

Representative Summers: Okay. Was that decision based on the management of the Treasurer's Office or based on advice from brokers?

Autumn Sanson: It was based on both at times.

Representative Summers: Okay. So at times brokers did advise you to make transactions?

Autumn Sanson: Yes, sir.

Representative Summers: Okay. Did your office...Ms. Shoffner, do you agree with that, that brokers did advise you?

Treasurer Shoffner: Yes. Yes.

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Representative Summers: And did your office analyze these transactions to determine if they were in the State's best interest? Ms. Sanson?

Autumn Sanson: We were given analysis by some of the brokers that we were able to look and see that we could make a profit and, you know, that it would be a better replacement bond we could get into. I don't think that that happened every time, but it did happen in some cases, yes.

Representative Summers: Okay, the question is did your office analyze these transactions with the net economic gain or loss calculated in a report? Did your office do an analysis of each and every transaction?

Autumn Sanson: No, the analysis would have been given to us from the broker.

Representative Summers: So you accepted the broker's recommendation without an analysis by your office?

Autumn Sanson: Without some type of financial analysis, right. We don't have, and that's something we're implementing, we are gonna put in place, but we did not have in place at the time.

Representative Summers: Do you have copies of the analysis provided by the broker in your records?

Autumn Sanson: No, we don't.

Representative Summers: I want to make sure I've got that. Is that correct, Ms. Shoffner? You do not have records.

Treasurer Shoffner: That's correct, but we're working to adjust all of that, the documentation.

Representative Summers: But you do not have them though, the previous?

Treasurer Shoffner: No.

Representative Summers: Okay. Thank you. And you relied – I want to make sure that this is on the record – you relied on advice from brokers to determine if these bond transactions were profitable for the State? I'd like for each one of you three to answer that, if you would, please. Ms. Shoffner?

Treasurer Shoffner: Yes. Yes.

Representative Summers: Ms. Rogers?

Debbie Rogers: Yes, sir.

Representative Summers: And Ms. Sanson?

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Autumn Sanson: Yes, and I will say a little bit more on that. It is their responsibility ethically in their due diligence to take care of the Treasurer's Office and make sure that they are helping us do the right thing at the, with the economic conditions at the time that we actually sell that bond.

Representative Summers: And which brokers provided you with analysis?

Autumn Sanson: We've had analysis, good analysis, from Crews and Associates, from Morgan Keegan, and I would say Delta Bank and Trust was in with that as well.

Representative Summers: Okay, but again, you don't have documentation of any of that?

Autumn Sanson: No, sir, we don't in our files. That's correct.

Representative Summers: Okay, and again, did you ever analyze the results of these transactions to determine if the brokers were giving sound advice? And I'd like for each one of you to answer that, please. Ms. Shoffner?

Treasurer Shoffner: Yes.

Representative Summers: And is there a record of that analysis? Ms. Rogers?

Debbie Rogers: I'm sorry. Would you repeat the question?

Representative Summers: Yes, I will. Did you ever analyze the result of these transactions to determine if the brokers were giving you sound advice?

Debbie Rogers: Well, I will say yes because we do have over the last, since the last meeting, we have evaluated these sells, and we do have documentation and analysis spreadsheets that have been provided to us that we have examined.

Representative Summers: The question, did you ever analyze the results of these transactions to determine if the brokers were giving sound advice, and you're saying you have done that analysis?

Debbie Rogers: Yes, sir, over the last...

Representative Summers: And you have a record that you could provide?

Debbie Rogers: ...Over the last couple of months. Yes, we have.

Representative Summers: Okay, what about the previous months prior to that, though? You're confusing me with your answer. I'm probably confusing you with my question.

Debbie Rogers: Well, I just want to be totally upfront as to what we have.

Representative Summers: Yes.... Tell me again what you have.

Debbie Rogers: Over the last few months, since the last meeting, since we have examined the sales, we have gotten documentation from the brokers with analysis on the sales.

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Representative Summers: But not prior to that?

Debbie Rogers: Not to my knowledge, no.

Representative Summers: Okay. Ms. Sanson?

Autumn Sanson: That's correct. Any analysis was done over the phone with discussion with the broker, and we did not have anything on paper in the files until the past few months when we have requested that information to put in our files.

Representative Summers: And who discussed it with the brokers, and who actually made the decision to make the transactions?

Autumn Sanson: It was usually myself, Martha, and Debbie, at times would be in the discussion of the analysis.

Representative Summers: Collectively or individually? As a group, did you make the...

Autumn Sanson: As a group, we would make that decision. You know, we would have discussions on that.

Representative Summers: And do your records reflect that meeting?

Autumn Sanson: We have signed documents where, yes, there was a signature by all of us, or at least Martha and me, on the decision.

Representative Summers: Again, this is for all three of you, did any brokers give advice on the handling of bank or money market accounts, and if so, who and what advice? Ms. Shoffner, did any brokers give advice on the handling of bank or money market accounts?

Treasurer Shoffner: Yes.

Representative Summers: Okay, which ones?

Treasurer Shoffner: St. Bernard's.

Representative Summers: And what advice did they give you?

Treasurer Shoffner: Well, it was that the money markets are at .01, so that we really need to put that money to work, and that is what I think the auditor....

Representative Summers: And is there a record of that advice?

Treasurer Shoffner: Yes.

Representative Summers: Okay. A written record, in other words, there's documentation that they gave you that advice, that St. Bernard's did?

Treasurer Shoffner: Yes.



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Representative Summers: Okay. Is that from the time you took over? How long have you had that advice documented?

Treasurer Shoffner: Several months. A month. Several months.

Representative Summers: Okay, but not....

Treasurer Shoffner: Not in the past.

Representative Summers: Okay.

Treasurer Shoffner: Not in the past. Yeah. We have moved some money from money markets to bonds.

Representative Summers: Ms. Rogers, same question.

Debbie Rogers: Yes.

Representative Summers: Okay, and who?

Debbie Rogers: It was St. Bernard's.

Representative Summers: And what advice did they give you?

Debbie Rogers: That the money market rate was low, and that we should change it.

Representative Summers: And then what transaction advice did they give you? In other words, if they said the money market rate's low, they, I'm sure had more to say than just that.

Debbie Rogers: Yes, we would change it into a higher yielding bond.

Representative Summers: Okay, and they advised you to make that transaction?

Debbie Rogers: Yes, sir. Yes.

Representative Summers: Okay, and Ms. Sanson?

Autumn Sanson: Yes, that's correct. We were told by them that we should probably take money out of the money market.

Representative Summers: Okay, I want to be sure we're all in agreement on this. You had money in money market accounts, and the broker advised you to place it in a bond transaction and actually completed the transaction. Is that correct?

Treasurer Shoffner: Yes.

Representative Summers: Ms. Rogers?

Debbie Rogers: Yes, sir.

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Representative Summers: And Ms. Sanson?

Autumn Sanson: Yes, sir.

Representative Summers: Okay, thank you. Another question, we're getting away from that, and we've asked you this previously. Did you, or anyone in your office, receive any form of compensation or campaign contribution from any firm or individual involved in State Treasury investment transactions, and, if so, who? Ms. Shoffner first, please.

Treasurer Shoffner: Well, only in campaign contributions, but being in the financial, I'm sorry.

Representative Summers: And who was it that did that?

Treasurer Shoffner: Well, several, you know. I had a function, a fundraiser, and there were several there. I would have to look up that information.

Representative Summers: Okay. Ms. Rogers, obviously you weren't a candidate, but do you know of anybody in the office that received any form of compensation or campaign contribution?

Debbie Rogers: No, sir, I do not.

Representative Summers: You're not aware of any?

Debbie Rogers: No, sir.

Representative Summers: And Ms. Sanson?

Autumn Sanson: No, it would just be what Ms. Shoffner said that she got on her campaign funds.

Representative Summers: Okay, thank you. All reported, right, obviously?

Treasurer Shoffner: Yes.

Representative Summers: Okay, and this question: How do you determine which broker to use, number one, and how did you decide to begin using St. Bernard? Ms. Shoffner first, please?

Treasurer Shoffner: Well, I think Arkansas firms generally come to the Treasurer when they're newly elected or during the course of time and present their qualifications, and you work with all the brokers. Um...I'm trying to think. You just build relationships. And the question was, why do you retain them?

Representative Summers: Well, let me be more specific. When....

Treasurer Shoffner: I like to work with Arkansas brokers, yes.

Representative Summers: Okay. Had you, do you know if the Treasurer's Office used St. Bernard prior to you taking office?

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Treasurer Shoffner: No, they had not.

Representative Summers: What...

Treasurer Shoffner: But they only came to me in '09, '08 or '09.

Representative Summers: And what, how did you decide to begin using St. Bernard for the bulk of your business?

Treasurer Shoffner: Because they gave us good rates.

Representative Summers: They give you better rates than other brokerage firms?

Treasurer Shoffner: Well, not necessarily better, but I'd like to defer to my Chief Investment Officer.

Representative Summers: Ms. Sanson?

Autumn Sanson: I can, I can kind of tell you how we would go about getting new brokers. That's usually done through an RFP. You know, they would come to us for request for proposal, give us all their financial background, you know, detailed information on the strength of their company, and then we would actually go from there, make a decision on the brokers that we would use.

Representative Summers: So I would assume based on your qualifying a brokerage that you determine that St. Bernard would give you a better rate, gave you better service, better returns, that they were a stronger firm than the other firms you used. Is that what you're saying?

Autumn Sanson: No, sir. That's not what I'm saying.

Representative Summers: Okay, what are you....

Autumn Sanson: The rate that any broker this time or in the past year could give us was pretty, pretty much the same across the board.

Representative Summers: Okay, at some point, though, you obviously begin using St. Bernard more so than others. Do you agree with that?

Autumn Sanson: That's a correct statement.

Representative Summers: Okay. Why? It had to be better service, better returns? Ms. Shoffner, help me on that.

Treasurer Shoffner: No, sir. I mean, we have firms coming in all the time from out of state and they want to, you know, meet the Treasurer or ask for our business or, you know, present their proposals. We consider them, and if they call and present an offer or whatever that they have, then we look at that and determine if that's a good offer. So we like to work with all, not all, brokers, but most of them in the state we're working with.

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Representative Summers: The question, though, is St. Bernard's got the bulk of the business, you'd agree with that? Or a big portion of it?

Treasurer Shoffner: Yes.

Representative Summers: And you just, Ms. Sanson, just said you looked at their strength, their experience, all the reasons why you would use them particularly as a new broker as compared to the others, and what led you to make that decision as State Treasurer?

Treasurer Shoffner: Well....

Representative Summers: I mean, obviously, they had to offer something the others don't for you to use them. Is that correct?

Treasurer Shoffner: Yes, but, but, we didn't consciously show preference to them, and even though it appears that way, what we're gonna do is work forward with internal controls, and the cumulative, that didn't register with me on what the cumulative was until this came about.

Representative Summers: So your records, you were unaware that....

Treasurer Shoffner: Of the cumulative, yes, and so we're gonna, we want to level, so with internal controls, we're gonna go back, we're gonna start using, analyzing portfolio account analyzing system. So we're gonna be able to monitor everything, how the spread is.

Representative Summers: But, again, I want to be sure I understand. Ms. Sanson made the statement that you select your brokers based on returns, and I believe Ms. Sanson said their returns were the same as other brokers basically?

Treasurer Shoffner: Yes. I would say basically.

Representative Summers: You have to look at their experience, their financial strength.

Treasurer Shoffner: Yes. Yes.

Representative Summers: Did you have some connection, somebody in the office have some connection, with the principals of St. Bernard's prior to your taking office?

Treasurer Shoffner: Well, their family is, their family is from the same county I am, and one of the principals worked for John McClellan and just a good friend. He just went into our hall of fame in Newport, so we're proud of him, but it was no preferential treatment given because of that.

Representative Summers: Okay....

Senator Pritchard: Ms. Sanson, just to be clear, and I'm referring back, and I don't want to put words in your mouth, so, but referring back to the testimony from the last meeting, and we're talking about before that meeting, what happened? What is your understanding of why you used St. Bernard so much?

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Autumn Sanson: I wasn't ever really given a reason why we, other than I was told they were good to her or that we could justify using them.

Senator Pritchard: So if I remember from the last meeting, and that's essentially the same answer that I recall, that you said you were instructed by Ms. Shoffner to use them. Is that correct?

Autumn Sanson: That's correct.

Senator Pritchard: So, okay, so, I just wanted to make it clear. So that kind of answers the question that Chairman Summers was asking is who, why were you using – and you may want to answer differently – but why were you using St. Bernard, start using St. Bernard and using them so much, and your testimony is Ms. Shoffner instructed you to do that. Is that correct?

Autumn Sanson: That's correct.

Representative Summers: Thank you, Mr. Chairman. Ms. Shoffner, the Treasurer purchased \$1.69 billion in bonds from St. Bernard between July 2008 and March 12 this year. In your first appearance before this Committee, Senator Dismang asked you to provide an investment proposal demonstrating that St. Bernard's yields were higher than those of other firms. You agreed to do so, but your written response summarizes information contained in Legislative Audit's first report. So I again ask, do you have written proposals from St. Bernard prepared at the time of investment demonstrating a higher yield than other firms?

Treasurer Shoffner: Yes, was that question 6 on my response, to my response? 'Cause I'm showing a proposal here on the net gain during that time, well, on the first 11 bonds from September the 17<sup>th</sup>. Then, there was a correction on that – is that correct, Roger? – on the net gain for St. Bernard's, on the 11<sup>th</sup>.

Representative Summers: Okay, again, I think what he was asking was do you have written proposals from St. Bernard's – and I think you've actually answered this, but as Chairman Pritchard said, I don't want to put words in your mouth – do you have written proposals from St. Bernard prepared at the time of investment demonstrating a higher yield than other firms? That's basically a yes or no answer, please.

Treasurer Shoffner: Yeah.

Representative Summers: You do have?

Treasurer Shoffner: Yeah. Yes, I do. [Pause] No, we maintained after, not before.

Representative Summers: Okay, so the answer to that is no?

Treasurer Shoffner: Yeah. I'm sorry. I thought you were talking about the 11 initial bonds.

Representative Summers: No, Senator Dismang specifically asked for that, and...

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Treasurer Shoffner: Yes.

Representative Summers: ...the answer to that is no. When was the last time any bonds were purchased using St. Bernard's? Ms. Sanson, can you answer that?

Autumn Sanson: I believe that was this past week.

Representative Summers: This past week?

Autumn Sanson: Yes, sir. I don't have the exact date. I'm sorry.

Representative Summers: Okay. Have any other bonds been purchased from anyone else recently?

Autumn Sanson: Yes, sir.

Representative Summers: And if St. Bernard's provided the best rate, why weren't they used?

Autumn Sanson: They didn't provide the best rate always.

Representative Summers: Before the first audit report, the...Never mind on that one. Do you agree, Ms. Shoffner, that State Treasury investment decisions are all made at the direction of the State Treasurer?

Treasurer Shoffner: I'm sorry?

Representative Summers: Do you agree that your investment decisions are all made at your direction?

Treasurer Shoffner: No. I think it's collective. For the last year, the three of us have been....

Representative Summers: Okay. Ms. Rogers, has this ever happened to where the Treasurer directed you to make an investment without the three of you collectively making a decision? That's a yes or no question.

Debbie Rogers: I can recall one time when Ms. Sanson was returning from a business trip and the Treasurer and myself made some investments on that....

Representative Summers: Did the Treasurer, did you have a part in the decision or were you directed?

Debbie Rogers: Yes, sir. I did. Yes, it was the two of us, but that was....

Representative Summers: Who was the broker?

Debbie Rogers: That was St. Bernard's, as I recall.

Representative Summers: And Ms. Sanson, do you understand the question?

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Autumn Sanson: Yes, sir. I do.

Representative Summers: And has the Treasurer ever directed you to make an investment?

Autumn Sanson: Yes, the Treasurer directs me to make investments, yes, at times.

Representative Summers: Without a collective decision?

Autumn Sanson: Well, we would discuss it, but it would, you know, she might have said, “I see something out there today and let’s talk about this and see this....”

Representative Summers: I want to be very clear. Has the Treasurer directed you to make investments with brokers? Yes or no.

Autumn Sanson: Yes.

Representative Summers: And what brokers?

Autumn Sanson: There have been a, I mean, St. Bernard’s. I can recall Stephens. Those are the two that pop into my mind. Bank of Oklahoma.

Debbie Rogers: Can I add to my answer? May I add to my answer? I’m remembering that same day that we invested with St. Bernard’s, we also invested with UBS Financial at the same time.

Representative Summers: At the Treasurer’s direction, though? It was not a collective decision?

Debbie Rogers: With our....

Representative Summers: Well, now were getting different....

Debbie Rogers: Well this was myself and the Treasurer discussing this together. And we...

Representative Summers: But did the Treasurer direct you or did you say...?

Debbie Rogers: We agreed to invest it...

Representative Summers: So you....

Debbie Rogers: ...with those two firms.

Representative Summers: So if you had disagreed, what would have happened?

Debbie Rogers: I don’t know.

Treasurer Shoffner: I would have certainly taken it under consideration.

Representative Summers: Thank you, but Ms. Sanson, you’re saying you were directed to make investments, not a collective decision. That’s an important point.

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Autumn Sanson: [Pause] I have. Yes.

Representative Summers: Thank you. This report and a prior report found that it lacked proper internal controls because proper checks and balances were not present in the state investment process. And, I'd like to ask the three of you, if you agree or disagree on that. I think we covered it, but I need to have you on record. You understand the question, Ms. Shoffner?

Treasurer Shoffner: No, I'm sorry.

Representative Summers: Okay. Do you have proper internal controls in place?

Treasurer Shoffner: I'm not, I'm not sure. I think documentation has been lacking, and we're working on that now. We're going forward with several things through a portfolio accounting system. So we're putting in place a lot of things, and we're excited about it, and we met yesterday. So, going forward, we're real optimistic that we're gonna turn this around.

Representative Summers: So maybe....

Treasurer Shoffner: ...with more documentation. Yes.

Representative Summers: Maybe prior to the audit, you had some work to do on it. Is that what you're saying on the internal controls?

Treasurer Shoffner: We weren't aware, yes.

Representative Summers: Okay.

Treasurer Shoffner: Prior to the audit of the....

Representative Summers: And Ms. Rogers?

Debbie Rogers: Yes, I would agree, but since the last meeting, we have enhanced our documentation, and we certainly will continue to do that going forward.

Representative Summers: And Ms. Sanson?

Autumn Sanson: Can you repeat the question again?

Representative Summers: Yes, it was about internal, whether you lack proper internal controls prior to the....

Autumn Sanson: I do think there were some, yes, there were some lacking there, but we are moving forward, and we are taking some new steps to improve that.

Representative Summers: And again, let's start with you, Ms. Shoffner. What do you think could be done to provide better internal controls, and you may have basically answered that, but are you...?



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Treasurer Shoffner: Well, through documentation and by using what I said before, the portfolio accounting system, and we'll be providing a quarterly report to the Finance Council, and the discussion we had on the legislation, potential legislation or amendment to the legislation already standing to give us more flexibility in our investments.

Representative Summers: Okay. Relating now, you introduced the young gentleman as Financial Manager.

Treasurer Shoffner: Yes.

Representative Summers: What is, what's Ms. Sanson's title?

Treasurer Shoffner: I'm sorry. I'm sorry. She corrected me yesterday on that. It's Investment Manager.

Representative Summers: Okay.

Treasurer Shoffner: And Ms. Sanson is the Chief Financial Officer.

Representative Summers: Okay. Has she been responsible for managing investments?

Treasurer Shoffner: I'm sorry – Chief Investment Officer. Investment Manager is the new hire.

Representative Summers: Okay.

Treasurer Shoffner: Yes.

Representative Summers: What is, what are Ms. Sanson's duties as prescribed by your job description and her title?

Treasurer Shoffner: She, she places the bonds. I don't know the mechanics, but the bonds are placed. We discuss. She orders and sends to settlement. If I could defer, Debbie, because Melissa's not here, on how it goes to settlement.

Debbie Rogers: She's referring to the segregation of duties.

Treasurer Shoffner: Yes.

Debbie Rogers: The Chief Investment Officer makes the investments, and then it, the information is given to our Chief Financial Officer and the actual money movement is done on that side.

Representative Summers: Okay, now, who's the Chief Investment Officer?

Debbie Rogers: The Chief Investment Officer is Autumn Sanson.

Representative Summers: And who's the Chief Financial Officer?

Debbie Rogers: That is Melissa Corrigan.

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Treasurer Shoffner: Yes, she does the settlements.

Representative Summers: And where does this new position fit in with those two positions?

Debbie Rogers: Actually, it's not a new position. We have had an Investment Manager who recently retired, so we just filled that position with Mr. Johnson, and we added the investment knowledge to work with Ms. Sanson in evaluating the offers from the brokers and making the investment decisions along with us.

Representative Summers: Will this particular position then have an involvement in making the decisions along with the three of you? Will they have a vote?

Debbie Rogers: Yes.

Representative Summers: And is that spelled out in your investment policy?

Debbie Rogers: I don't believe it's in the investment policy. It's just the, the procedures that we're following now.

Representative Summers: Are they written procedures, I guess, is what I need to know.

Debbie Rogers: No, sir. I don't believe we've written those.

Representative Summers: Okay, and who will supervise that position? The one you recently filled, will you supervise it?

Debbie Rogers: Yes.

Representative Summers: Under your supervision?

Debbie Rogers: Yes, along with Ms. Sanson.

Representative Summers: Okay, and Ms. Shoffner, we asked you this question last time about, I'm gonna just be very blunt and specific about Ms. Sanson's future. Do you have any plans to terminate Ms. Sanson?

Treasurer Shoffner: Absolutely not. And after the meeting on September the 17<sup>th</sup>, I told her that. I've reassured her, and we're all on board now and a team, and we're gonna work toward our goals, and we look forward to it.

Representative Summers: Okay, thank you for that answer. And I'm getting to the end here, so. This is questions relating to the money market accounts, and I'm not sure which one of you needs to address this, but why were bond proceeds placed in money market accounts, which pay very low interest rates, for, we have times, from 28 days all the way up to 81 days?

Treasurer Shoffner: Well, that, Autumn, would you like to get that? That's on the settlement dates?

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Autumn Sanson: I think the norm would be that when we had a sale or call or maturity, if you buy a new issue, it is going to take typically three to four weeks for the next settlement, but we are trying to put procedures in place where we can buy as much as we can on the secondary market so the settlement will be faster on that. But, you're right, there's really not, there's no excuse for them to be sitting in a money market for that amount of time, and we know that now, and we're putting procedures in place so that does not happen in the future.

Representative Summers: Has the, I'm sorry, again, I don't recall your title, it's Chief Investment Officer?

Autumn Sanson: (Laughs.) I think it's Chief Investment Officer.

Representative Summers: Would you say 28 days was sufficient?

Autumn Sanson: 28 days is sufficient on a new issue. That's correct.

Representative Summers: And does it take that long to find replacement investments?

Autumn Sanson: No, sir, the actual transaction is normally made on the day that we are aware, we've been made aware of the call or the maturity. However, a new issue, it just usually takes anywhere from two to four weeks to actually settle.

Representative Summers: In a maturing investment, would you typically try to replace that with the same or reinvest it with the same broker?

Autumn Sanson: We do if the rates, if they present us with a good bond, and we are analyzing all options. We do get options from all the other brokers as well so that we have a good picture of what's out there.

Representative Summers: If you try to place it back with the same brokerage firm, why did St. Bernard's share of the State Treasury bond transactions grow so much, nearly twice the amount as the next highest firm, during the period of July 2008 to March 2012? Keep in mind you've said that you base it on the best rate, the strength of the company, all those things. Why did their transaction share grow so much?

Autumn Sanson: Are you asking me this question?

Representative Summers: I'm asking all three of you, please.

Autumn Sanson: Okay, I don't know the answer to that question.

Representative Summers: Ms. Rogers?

Debbie Rogers: I'm sorry, I don't either.

Representative Summers: Ms. Shoffner?

Treasurer Shoffner: I'm sorry, I don't either.

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Representative Summers: You don't know why they got that share of the business?

Treasurer Shoffner: No, other than going from calls going back in, and on the, I don't know how many calls were on St. Bernard's list, but when you sell and buy and sell and buy, is that correct, Autumn? I mean, go back in. Replacement bonds....

Representative Summers: Obviously, but obviously, some firms had the bonds, and they were going then to St. Bernard's. Is that correct?

Treasurer Shoffner: That's correct.

Representative Summers: Okay. Do you consider what you're gonna do with the bond proceeds prior to selling a bond? Do you know exactly what you're gonna do with the proceeds prior to selling?

Treasurer Shoffner: Well, it gets deposited.

Representative Summers: I mean, you've got to put it into another investment at some point.

Treasurer Shoffner: Well, it goes in, it's deposited, yeah.

Representative Summers: I guess my question would be, you've got this situation occurring, so you've got to go somewhere with the dollars, if it's gonna be a good decision, right?

Treasurer Shoffner: Yes.

Representative Summers: So do you know where you're going with your reinvestment at the time of sale?

Autumn Sanson: Typically, the answer, yes, we would know that. When a broker would come to us or we would have that discussion with the broker about something being sold, they would and they should have a replacement bond to be able to put into place for that. That did not always happen.

Representative Summers: Okay, that's the questions I have at the current time, Mr. Chairman.

Senator Pritchard: Thank you, Chairman Summers. Okay, what we're gonna do now, members, I'm not putting you off, it's just we went to these questions because they had to do with the questions we'd asked Ms. Shoffner. We're gonna go, and I think it'll be fairly short, to finish presenting the report. If you ladies need a short break, you can take one, but we just gonna, he's gonna finish giving the report, or you can stay there, and then we'll go to the members' questions. Mr. Moore, you're recognized.

Jon Moore: Thank you, Mr. Chair. First of all, I want to apologize to Representative Summers. When he asked his question about liquidity during the previous Committee meeting, we reported that at June 30, 2011, the agency had \$1.3 billion in cash and cash equivalents. And we had done an analysis of the previous two years, and the largest one month fluctuation that we had

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seen was \$240 million. I had forgotten that, and Representative Summers was correct to remember that.

During our current follow-up report, three concerns came to our attention. The first of these concerns was that some replacement bonds had lower rates of return than the original, than the bonds originally held. The second concern was that, when these bonds were sold, the funds were placed in money market mutual funds for extended periods of time. And the third concern was that, when the bonds were sold, the replacement bonds were either called or sold very quickly.

Our review, we looked at 30 bonds with a cumulative value of over \$650 million that were sold and replaced with similar bonds between September 2009 and May 2012. The total net economic gain or loss from these transactions was a loss of \$434,000. An example of exchanging the bonds for lower rates, there was one investment that was a \$25 million non-callable bond with a fixed rate of 4.25%. This bond was exchanged for a bond paying 2%. The net economic loss related to this one transaction was a negative \$788,000. For 10 of the 30 transactions that we analyzed, the replacement bond was lower, had a lower rate than the original bond.

Another concern was placing the proceeds for the bond sales into money market mutual funds where they were earning extremely low rates. The previous \$25 million bond that we, the bond that we used an example in the previous slide, was the \$25 million non-callable bond. It was placed in a money market mutual fund for 79 days. During that time, it earned \$1,692. If they had held the original bond for that same period of time, it would have earned \$233,000. In another transaction of another \$25 million bond, it was held in a money market mutual fund for 80 days. During that time, it earned \$548. The original bond would have earned \$91,667. In analyzing the frequency of transactions, we determined that 21 of the replacement bonds sold to the Treasury were called or sold to the broker within 6 months of the transaction of the sale of the replacement bond.

Exhibit I on page 3 of our report, we've summarized the, all these transactions by broker, and, as you can see, there was one broker that, St. Bernard's, that had a negative economic rate of return for all eight transactions that they were involved with, negative \$783,000. This is a slide that we had in the previous report, and it shows that one broker associated with Apple Tree Investment at St. Bernard's was responsible for placing \$1.69 billion with the agency with the Treasury's investments, and the next highest firm was Morgan Keegan with just less than \$900 million.

The Treasurer's Office did not maintain documentation that bonds were purchased from the broker providing the best rate. Without this documentation, no advantage to the State is apparent from the concentrated use of this one broker. In conclusion, the Treasury lacks internal control over its investment process because it does not operate with the checks and balances of an adequate, independent oversight authority or the assistance of outside investment consultants. Also, the Treasurer acted on the advice of brokers without analyzing the merits of the sale.

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In this slide, I'm making an example of a proper segregation of duties. In the first cell up there, you'll see that we show that the Treasurer, the consultants, and the State Board of Finance. It would be better internal control if they cooperated to make investment decisions, and then from those investment decisions, the money could be placed with money managers. The money managers would make specific investments. Those specific investments would be recorded by a custodian, and the results of the sale would go back to the decision-making group to be evaluated. Currently, all the internal controls associated with the investment process in the State reside with the Treasurer. Proper segregation of duties requires the separation of the functions of authorization, custody of assets, and recordkeeping. This example provides a better segregation of duties.

Our recommendations in the expanded, updated report are the same recommendations that we had in another report that we issued on September 14<sup>th</sup> called *The Review of State Board of Finance Investment Policy and the Arkansas Treasury Investment Practices*. The first recommendation: the Board of Finance and the Treasurer should consider contracting with an independent investment consultant for a comprehensive analysis of Treasury investment, investments and recommendations for new investment policy and practices. The second recommendation is the Board of Finance and the Treasurer should consider placing funds with an outside money manager and allowing them to make specific investment decisions within given criteria. The State Board of Finance should consider developing a new Treasury investment policy based on recommendations from an independent investment consultant. The State Board of Finance and the Treasurer should develop procedures that facilitate the Board serving a more active role in oversight of Treasury investment activities. The Treasurer should ask members of the General Assembly to consider expanding the composition of the State Board of Finance to include private citizens who are experts in investment. The State Treasurer or the State Board of Finance should also consider asking members of the General Assembly to consider changes in investment law requiring better segregation of duties associated with investment practices. Mr. Chairman, this concludes my report.

Senator Pritchard: Thank you, Mr. Moore. Okay, we're gonna go to questions. Unless someone has a question of Mr. Moore about the report, if not, we'll go to the questions. I don't see anybody frantically waving their arms. Okay, now what we're gonna do, I've got 7 or 8 people up here already. I suspect the list will grow. So, as I told you earlier, so there's no misunderstanding, you'll hear my little bell go off here at three minutes. We will let you finish the question, and I will give you some more latitude if, for some reason, your time was not, you didn't get your questions asked. You can go to the bottom of the queue, and so that everybody has a fair chance to answer, and we'll get out of here before dinner time. So, with that, Representative Altes, you're recognized for a question.

Representative Altes: Thank you, Mr. Chair. I missed the last meeting. I'm sorry, and my mind works real slow, but on the answer to your question number 6 on page 3, the last sentence, I have a problem with it. It says – are you with me? Okay, it says an economic loss was shown, but in reality this resulted in actual dollar gain of \$7 million. And I have trouble understanding how an economic loss was shown but you made \$7 million. Can you explain that?

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Treasurer Shoffner: The all 30 bonds, yes.

Representative Altes: Say again?

Treasurer Shoffner: It was the 30 bonds, the cumulative, yes.

Representative Altes: It's not a yes or no question.

Senator Pritchard: Mr. Moore, could you help us with that?

Jon Moore: Yes, our economic gain or loss was shown, we showed by, we calculated it by comparing what the instrument that they held would have earned, and then we compared it with what the instrument actually earned. And I think, and I haven't checked the calculations, but Ms. Shoffner's calculations have a cumulative of what the investment actually earned, the 30 investments what they actually earned, and the cash flow of the investments into the Treasury. Our analysis is really comparing what they could have earned if they'd kept, held the bonds.

Representative Altes: So an actual profit was made of \$7 million from St. Bernard?

Jon Moore: St. Bernard's didn't have all 30 of the transactions.

Treasurer Shoffner: Alright, this was from the sale of the bond forward, and that would be \$6 million. Yes. Yes, from the point of sale. \$6 million, \$900-something thousand. But, yes, that's profit.

Representative Altes: I'm not understanding.

Treasurer Shoffner: Yes. The auditors are speaking in economic loss, and we speak in real dollars. So what we have is real dollars from the time of sale on all 30 bonds.

Legislative Auditor Roger Norman: Mr. Altes, I think one of the differences, we looked at the difference between what they did from the time they sold the bond and they replaced it with, to what would have happened if they had done nothing and just held the bond. And that's where we look at the economic gain or loss based upon, upon that.

Representative Altes: So if they had– I'm still not understanding – so if they had held the bond....

Roger Norman: Well, when they sold the bond, they received cash for the bond, and that's what the Treasurer's Office is including...

Treasurer Shoffner: The positive.

Roger Norman: ...in their gain or loss. So, actually, you know, if you had held the bond for six months, hopefully, you're gonna sell it and make some sort of profit on the interest. But what we were looking at is if they had done nothing, they would have been better off in several of these cases to do nothing, and they would have made more money than what they did by selling the bond early.

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Representative Altes: So they actually made \$7 million, but you were projecting that they should have made more. Is that what, is that what you're trying to say?

Jon Moore: Yes, that's basically correct.

Representative Altes: Okay.

Treasurer Shoffner: Well, actually we did, on the \$10 million from the sale and then the \$5 million from the replacement bonds, a total of \$15 million we made on the 30 sales.

Representative Altes: Okay, is this, is this just a sample of reviewed bonds?

Jon Moore: That's the 30 bond transactions that they sold early, they sold prior....

Representative Altes: This is a sample that you picked out of all the bonds?

Jon Moore: No, that's all of them. That's all of them.

Representative Altes: This is all the bond transactions?

Treasurer Shoffner: Yes.

Jon Moore: No, that's all the bonds that they sold early, before maturity.

Representative Altes: Okay, this is the ones they sold early?

Jon Moore: Yes.

Representative Altes: Okay, and they showed a \$783,000 loss on St. Bernard? Is that what you're saying?

Jon Moore: Economic loss, yes.

Representative Altes: Okay. Another question....

Treasurer Shoffner: Senator Altes, on that, that was from the point of purchase for the auditors. It was the \$10 million, not from the point of sale. Point of sale was \$5 million, and from purchase, you know, total, to maturity it was \$10 million. So a total of \$15 million we made in dollars on the 30 sold bonds.

Representative Altes: Okay.

Treasurer Shoffner: And we, yes, we could have made more. What was the question, on which one were you asking now? I'm sorry.

Representative Altes: Yeah, we were just talking about St. Bernard. On this page, it showed that this is, I guess, this is all the ones that you sold early that you lost \$783,000 on it, but you actually made \$15 million on all of the St. Bernard bonds, right?



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Treasurer Shoffner: It's on all the 30. No, I'm sorry. It's on all the 30.

Representative Altes: Okay, so all these that you sold early we, you actually made \$15 million on all of these?

Treasurer Shoffner: Yes. Oh, yes.

Representative Altes: Okay.

Senator Pritchard: Representative Altes, I let you go a little bit long because we were having trouble getting you good answers, but let's move on. You can go to the bottom of the queue if you want to come back. We've got eight people up here.

Representative Altes: One more question.

Senator Pritchard: Alright, quick one.

Representative Altes: Okay. When you hire a money manager, for instance, like BOK, Crews, Morgan, don't you pay them over and above your, the actual commissions?

Treasurer Shoffner: No.

Representative Altes: Do you pay them a retainer?

Autumn Sanson: No, we don't. We don't hire a money manager at this point. We don't have money managers that are hired that we would pay.

Representative Altes: Okay. Thank you, Mr. Chair.

Senator Pritchard: Thank you. Representative Kerr, you're next.

Representative Kerr: Thank you, Mr. Chair. Ms. Shoffner, do you or any of your staff – and this may have been asked before, but please indulge me and answer it again – do you or any of your staff have a securities license or securities training?

Treasurer Shoffner: Seven, yes. No, but our new Investment Manager said that he would like to get his Series 7.

Representative Kerr: Okay.

Treasurer Shoffner: But, no.

Representative Kerr: So, currently, your new Investment Manager doesn't have any designation or securities training.

Treasurer Shoffner: The new investment manager?

Representative Kerr: Is that correct? Yes.

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Treasurer Shoffner: Oh, yes. And I've supplied, Jon, if you have a résumé of Hunter Johnson, did you get that?

Jon Moore: No, ma'am. I have the résumé, but I didn't bring it with me.

Treasurer Shoffner: He absolutely does on fixed, do you have his résumé...?

Representative Kerr: Okay, and prior to hiring....

Treasurer Shoffner: Absolutely he does.

Representative Kerr: Okay.

Treasurer Shoffner: He's worked in the financial market.

Representative Kerr: Prior to hiring him, did anyone in your office have securities training or any licenses?

Treasurer Shoffner: No.

Representative Kerr: Okay. I gotta be honest with you. This, you're continuing investing money with St. Bernard?

Treasurer Shoffner: Was that a call the other day?

Autumn Sanson: I'm sorry. I didn't. What was your question?

Representative Kerr: Are you continuing to invest money with St. Bernard?

Autumn Sanson: Yes.

Representative Kerr: Okay. Well, with this kind of return, why would you? With this kind of performance over this length of time, why would you continue to invest money with St. Bernard?

Autumn Sanson: Well, the, the, us buying actual, you know, doing investments with them, I think is going to be a separate case than us actually selling bonds to repurchase. I don't think we should be selling bonds any more.

Representative Kerr: I totally agree.

Treasurer Shoffner: I totally, well, and especially at the percent yield coupon rate.

Representative Kerr: Yeah, okay.

Treasurer Shoffner: One and less so....

Representative Kerr: Don't, wouldn't you think it would be a good idea to have someone in your, on your staff that has some extensive securities training so that you'd know when these people call you to, to make a sale to you, you'd know that you're getting a good deal or you're

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not, or you'd know something about the market? You know, that kind of...you need to work your staff in that direction, to be honest with you.

Treasurer Shoffner: Yes, absolutely.

Representative Kerr: Thank you, Mr. Chairman.

Senator Pritchard: Well, thank you, Representative Kerr, and see, you don't have to take the whole three minutes. Senator Rapert, you're recognized for questions.

Senator Rapert: Thank you, Mr. Chairman. Some of my questions have been answered, so that's good. I just want to clarify that your new hire has no Series 7 license now, nor has he been Series 7 licensed in the past.

Treasurer Shoffner: No, he doesn't. Would you like for us to get you a résumé or have him come forward?

Senator Rapert: In terms of that decision that you made, why, under the circumstances, would you hire someone, when it is required for anyone in this business to have a Series 7 license in order to deal with securities that you're dealing with, would you hire someone and call that a resolution, when you know he doesn't have the ability at this time to be able to make those decisions and never had that certification?

Treasurer Shoffner: But he will work with our Chief Investment Officer.

Senator Rapert: Your problem is now and at this time, and I don't know why you would have done that. I'm gonna move on to my questions quickly.

Treasurer Shoffner: Senator, we have, the person that was in this position for 35 years did not have a Series 7.

Senator Rapert: That's not a good answer for me, either, and when you're dealing with \$3 billion of taxpayer money, you should have someone qualified to make those decisions. And, ultimately, the other question: it is a true statement that ultimately the decision on every single transaction that's been had has been your decision, is that true?

Treasurer Shoffner: No.

Senator Rapert: It's not? You answered in September, you answered in September that you had the ultimate authority on every single transaction, and I believe the record will show you answered yes.

Treasurer Shoffner: Let's look at that, okay?

Senator Rapert: But today, based upon your experience, do you say that you ultimately are the one that has the final decision to make these transactions?

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Treasurer Shoffner: Well, I'm considered the custodian of the Treasury. I'm an elected official, as all of us are, and we're working for the people.

Senator Rapert: Okay, thank you. Regarding the assets under management, and I do not accept the brevity of some of the answers to the questions that you've put in writing to me. They need to be more thorough. But, today, in terms of assets under management, what is the current level of assets under management at St. Bernard Financial?

Treasurer Shoffner: Four?

Autumn Sanson: \$447 million.

Senator Rapert: What is the SIPC coverage and maximum insurance loss exposure per account at St. Bernard Financial?

Autumn Sanson: I believe we're, the brokerages are covered through the TAG program. Is, I don't know if that's a true statement. I don't really know the answer to that, other than these are government-backed bonds.

Senator Rapert: When you are making, when you are making decisions on placing assets, do you, or have you ever, considered the limits of exposure per firm under SIPC limits, which is the Securities Investor Protection Corporation, and any excess insurance coverage that's allowed?

Autumn Sanson: That's not something that we have covered in the past, no.

Senator Rapert: Does anyone on your staff here understand the question that I'm asking?

Autumn Sanson: I do understand the question you're asking.

Senator Rapert: And you know that each firm per account has limits. The limit per account is only \$500,000 for the SIPC coverage, and then firms individually negotiate for excess coverage. \$400 million would be pretty high, unless they have a coverage policy that says up to account limits. Do you happen to know if you've ever seen that on St. Bernard Financial?

Autumn Sanson: I have not.

Senator Rapert: That's an issue that needs to be clarified. Is there someone here with St. Bernard Financial that can answer that question?

Senator Pritchard: Is there someone here from St. Bernard Financial? I'm surprised, I thought...

Senator Rapert: Is Mr. Keenan here?

Senator Pritchard: I'm surprised he's not here. He wasn't asked to be here, but I understood he was going to be here.

Senator Rapert: I would respectfully like, Mr. Chair, when I'm finished at some point that we have the Treasurer's Office report to us what is the total exposure limit per account there. That

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also supports the fact that there has been no regard, because they're not able to answer the question, there has been no regard for what the potential exposure is, if that firm completely folded. I'm going to ask my last couple of questions, and I'll be done, Mr. Chairman. As it relates to Series 7 licensing, when you begin to do business with a principal, and I believe Mr. Keenan was the principal, did you ever take the step of looking at the FINRA broker check record to determine if he had any infractions or any problems with his service in the State of Arkansas?

Autumn Sanson: I don't believe that Mr. Keenan was looked at, no. We do look at the brokers that we deal with, such as Steele Stephens, who is the broker that we would deal with.

Senator Rapert: FINRA is a public, it's available to the public, any person can pull that up, and we have information that's been handed to us today to say that Mr. Keenan has no less than three infractions in which he's received penalties in the State of Arkansas. Are you aware of that?

Treasurer Shoffner: Not, are you speaking to me?

Senator Rapert: Yes.

Treasurer Shoffner: I'm sorry. No, I thought that....

Senator Rapert: Do you think that that would have changed your mind had you known that?

Treasurer Shoffner: Probably, but I thought that, that he was only cited for caution.

Senator Pritchard: Okay, we're gonna, like I said, we hate to do this, but we're gonna deal with that since the subject come up, since you've asked it, we had a report, and I think we want to hear from Finance Authority.

Representative Summers: If we could ask Commissioner Abshure to come to the table. Please, sir.

Senator Pritchard: And I apologize to....

Senator Rapert: Will you be able to come back so I can finish my last question, Mr. Chairman? Thank you.

Senator Pritchard: [Inaudible]

Treasurer Shoffner: I'm sorry.

Senator Pritchard: But, I think that's, I think it's important that we hear that. I think it's gonna be very germane to what we're doing here. Mister...

Commissioner Heath Abshure: Abshure.

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Senator Pritchard: Would you take a seat at the table and introduce yourself? This is being recorded, so if you would introduce yourself so we know and your title.

Commissioner Abshure: Heath Abshure, Arkansas Securities Commissioner.

Representative Summers: Thank you, Commissioner. We just received this report from FINRA. Are you familiar with them?

Heath Abshure: Yes, sir.

Representative Summers: Okay, and is this a legitimate report, as far as you can determine?

Heath Abshure: Yes, sir.

Representative Summers: Okay. Would you highlight the items on there and give us your thoughts on it, please?

Heath Abshure: FINRA is the self-regulatory organization that governs the actions of broker-dealers. Looking at the particular violations that are listed, one is from our office, where we fined Mr. Keenan because he had let his license lapse. It's a books and records violation. We still licensed him, fined him \$65-....

[Inaudible]

Senator Pritchard: I don't know that we have those copies. We just received the report, but that's why we're asking. I'm sorry. That's why we're asking him to address the report. We could get it distributed, but it'll take a few minutes.

Heath Abshure: I would say....

Senator Pritchard: Senator Chesterfield, that's a valid question. Do you want us to come back to this after you have the copy of the report in front of you?

[Inaudible]

Representative Summers: Here's one copy.

Senator Pritchard: Here, pass that one down. Does anybody else feel the need to have one right now? They'll make us some copies. We'll get them out quickly. I'm sorry.

[Inaudible]

Senator Pritchard: They're printing them now, so....

[Inaudible]

Heath Abshure: F-I-N-R-A. For the Financial Industry Regulatory Authority. It's the old NASD, when the NASD merged with the enforcement arm of the New York Stock Exchange a couple years ago, and the new name is FINRA, but you're probably more familiar with it as NASD. It is

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a, it is a self-regulatory organization that oversees broker-dealers, licensed broker-dealers, and I see a summary in this FINRA report that it lists three violations by Mr. Keenan, not necessarily the firm, but Mr. Keenan himself, and they are of a books and records type. These aren't fraud violations, and they don't look like they're started by customer complaints. Two of them deal with having sufficient net capital. Broker-dealers are under an obligation to maintain net capital levels throughout the year, and it looked like in the past years, one was, it looks like 2003 and the other was 2007, there was a slip at some point in the, during that year, and the net capital got below a required level, and so what was then NASD, now we refer to as I mentioned before, FINRA, came in and fined Mr. Keenan. The most recent action against Mr. Keenan is actually one that was initiated by my office, and it was because he was acting as an unregistered investment advisor because the firm's compliance officer had failed to submit his licensing application or renewal application. Even though this sounds like it should never happen, I can tell you it happens all the time, and therefore, we fined him. He was unlicensed for about two years. We fined him and gave him a license. Again, it wasn't based on a customer complaint or anything of that nature. Now, it's a little...one of the questions earlier was why this move to St. Bernard. The actual brokers that service the Treasurer's accounts are Steele and Steve Stephens, and they have been serving the Treasurer's accounts for a number of years, but I want the Committee to know FINRA contacted me approximately three years ago asking about the Stephens, and the reason that they were asking is because the Stephens only business, when it comes to broker-dealer business, is with the State.

Representative Summers: You're not, Commissioner Abshire, you're not saying that these reports are without merit?

Heath Abshire: No, these reports are with merit. Absolutely. These are actual, true statements of what happened, but....

Representative Summers: You seem to be, though, just kind of poopah-ing them, like they're not really important, and to your knowledge, are the other firms that the State deals with, do they get these kind of reports regularly?

Heath Abshire: Yes.

Representative Summers: So everybody we deal with, most of them we deal with, are in violation?

Heath Abshire: Or have had violations or have employed people that have had violations.

Representative Summers: And been fined?

Heath Abshire: I would say, I would be hard pressed to think of a firm of any size that hasn't had some sort of regulatory action in the past.

Representative Summers: Do you think – and then I'll be quiet – do you think it's important that the Treasurer's office know who they're dealing with from the standpoint of violations?

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Heath Abshure: Absolutely. Absolutely.

Representative Summers: And that ought to be part of their due diligence?

Heath Abshure: Yes. Yes, sir.

Representative Summers: Okay.

Heath Abshure: We encourage that of all investors. It's one of the most important things you can do.

Representative Summers: Okay. That's all my questions, Mr. Chairman.

Senator Pritchard: Senator Chesterfield, do you have a question of this? Or we're gonna move on, folks. We're getting off. Yeah, you're recognized. You gotta push your button. There we go.

Senator Chesterfield: Hello, hello. Would those findings have precluded the Treasurer's Office from using the services of that gentleman?

Heath Abshure: No. No, and that's, you know, the findings themselves were fines, and licenses were still given. I think it's important to note, at least in this case, there was no suspension, there was no bar, no licenses were taken away, and certainly, there's nothing in here that would preclude St. Bernard or any of the broker-dealers operating at St. Bernard from engaging in the business.

Senator Chesterfield: Thank you very much, Mr. Chair. Thank you.

Senator Pritchard: Okay. We're gonna go back to our questions. Thank you very much for that information. Yeah, Rapert, Senator Rapert, I'm sorry, do you have a question to follow up?

Senator Rapert: Yes, thank you, Mr. Chairman. Commissioner Abshure, do you have any memory of the coverage accounts for that particular, St. Bernard's Financial, under SIPC and excess coverage per account?

Heath Abshure: Personally, I don't, Senator, but I can almost guarantee you my office, and they're investigating this matter and looking into it, will have documents there, and I'm gonna get those for you.

Senator Rapert: And again, you know, it's not that there's anything wrong. However, the problem is, is that if St. Bernard's Financial and your accounts through the Treasury were in one account, and their excess coverage was only \$50 million and you have \$400 million, if it was a Bernie Madoff-type scandal, we would be left completely holding the bag. So it's important that you understand what coverages are per account so that you do not have excess investments in there that are so exposed. The last question, you know, that I really have here, and it's just to clarify, and I would state making bad decisions or giving bad advice is not illegal, though it has consequences, and I just don't understand, based on all of the testimony in September and all



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the testimony here now, why it is that you directed so much business, especially now knowing that this, apparently these gentlemen have only, their sole business is, has been the State of Arkansas at one point, I just do not understand the decisions. The answer to my question previously that you gave a written response to when I asked why was \$100 million given to one firm, when at the same time only \$25 million to another firm for the same investments, and you dodged that some way by saying these were replacement bonds. Well, the fact, the bottom line, the question is, why the amount of the assets under management? So I'm gonna ask you this. You tried to answer this the last time, and what I'm asking, have you ever received, now you've already said you received contributions from them, but have you ever received any of those contributions or any remuneration whatsoever from an employee of one of those firms or from the firm itself in the form of cash?

Treasurer Shoffner: No.

Senator Rapert: No. That's all I need to know.

Senator Pritchard: Thank you.

Senator Rapert: Thank you.

Senator Pritchard: Thank you, Senator Rapert. Next on the list is Representative, Senator-Elect Stubblefield. You're recognized. Push your button again, please. Just push it once. Oops. Push it one time. No, we're recording this, so we need to hear it. Push the button one time to get in the queue. Now, don't touch it anymore.

Representative Stubblefield: Thank you, Mr. Chairman. My question was, was just asked by Senator Rapert, his last question. It still perplexes me, and it's hard for me to comprehend how, how all this came about, such as selling bonds to firms at a lesser rate, especially with a lack of proper documentation, and repeatedly doing business with firms that have a history of economic losses to our taxpayers and our dollars. But anyway, the question I was gonna ask was have you ever received any kind of compensation, whether monetary or non-monetary, from any of these firms, and you've answered that no, so.... That's my question. Thank you, Mr. Chairman.

Treasurer Shoffner: Thank you.

Senator Pritchard: Representative Mayberry, you're next.

Representative Mayberry: Thank you, Mr. Chair. Going back to the analysis that you say was provided to you but you don't still have documentation for, that you didn't keep, I guess, whatever. Could that be, for review purposes, could that be generated or produced retrospectively on those? I would think that with the criteria....

Treasurer Shoffner: I'm sorry, could you repeat that?

Representative Mayberry: Ms. Rogers, you were nodding your head yes?

Debbie Rogers: Yes, that's exactly what we've done.

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Representative Mayberry: So you have done that now, so you do have those?

Debbie Rogers: Yes.

Representative Mayberry: Okay. Thank you. With regards to your new Investment Manager, this replaces someone who had been, this was an existing position. Can you describe the difference in the roles of what the previous Investment Manager played and what your new Investment Manager will play?

Debbie Rogers: Excuse me. The previous Investment Manager was in charge of placing the trust funds or certificates of deposit with the banks, and that, that role has changed quite a bit over the last couple of years because we are having more and more problems placing our trust fund CDs with banks. So that involves more phone calls to banks to try to place those funds. What his role will be now is, along with placing those funds in certificates of deposits, he will also work with Ms. Sanson on the broker side for the securities investments as well.

Representative Mayberry: Okay. And would that be in a review process of proposals that brokers present?

Debbie Rogers: Yes, sir.

Representative Mayberry: Is your new Investment Manager more qualified than your previous Investment Manager with regards to....

Debbie Rogers: He has experience in that area, yes.

Representative Mayberry: With, relative to Ms. Sanson, to your qualifications, how are his, with regards to that role he will play in that review of those...? In other words, you're his, I guess, supervisor? Is that correct, Ms. Sanson?

Autumn Sanson: Yes, I think that's a correct statement.

Representative Mayberry: Is that, is that an area of expertise in his field, that maybe...?

Autumn Sanson: I think, you know, he's been in the banking industry, where he has done this same type of job that I'm doing at this time in the Treasury.

Representative Mayberry: Okay.

Autumn Sanson: I think a lot of my experience is the fact that I've worked in the Treasury for 12 years. I know pretty much all, everything, every department in the Treasury. I know when we need things to come due and what type of liquidity we would need. I have a finance degree. So, I do have that experience.

Representative Mayberry: At our previous meeting, you seemed to indicate, obviously, through some of your answers that you, you had some concern all along the way about these, about certain transactions and why they were being conducted and such as that. Since that meeting,

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the first part of my question is, how has the working relationship been within your office? And I think that Ms. Shoffner had indicated that it is good. I would ask if you would agree with that. And, on a go-forward basis, do you feel like the processes and procedures are being put in place, or have been put in place, to ensure that we don't have inappropriate transactions?

Autumn Sanson: Yes, I've been assured by the Treasurer that I am going to stay on, and I am going to do the same duties that I have been doing, and we have had discussions on the analysis that we give her in the future, that there will be a sense of trust with all of us, that we are, you know, we are giving her the information that she needs to make those decisions.

Senator Pritchard: Thank you. I'm sorry to cut you off. You see the hour, and the list keeps growing, so we're gonna move on.

Representative Mayberry: Thank you.

Senator Pritchard: Representative Rice, you're recognized for a question. I think you had Mr. Hammer's questions. He had to leave.

Representative Rice: Thank you, Mr. Chairman, and this first is directed at Ms. Sanson. I'd appreciate as defined and concise an answer as you can give. Representative Hammer did have to leave, and I'll ask these for him. Did you advise Ms. Shoffner, Ms. Sanson, to buy bonds at a loss from St. Bernard's?

Autumn Sanson: No, I did not.

Representative Rice: Did Ms. Shoffner ever direct you to sell when you knew that the sale was gonna result in a loss?

Autumn Sanson: Yes.

Representative Rice: Which firms have a history of coming to the Treasurer's Office or to the Treasurer and gave advice to sell that resulted in a loss on that transaction?

Autumn Sanson: St. Bernard's.

Representative Rice: Were there any others?

Autumn Sanson: There were none. None of the others that I was concerned with. I felt like we at some, when we did sell bonds, we were going in to better bonds most of the time but not on those.

Representative Rice: Ms. Sanson, are you aware of any events or actions that are referred to as "churning"?

Autumn Sanson: I do know what you're referring to as churning, yes.

Representative Rice: Ms. Shoffner?

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Treasurer Shoffner: Yes.

Representative Rice: Do you or did you take the lead on dealing with brokers?

Treasurer Shoffner: No.

Representative Rice: As Treasurer?

Treasurer Shoffner: As Treasurer.

Representative Rice: Did you show any type preference with any of the brokers?

Treasurer Shoffner: No, I think we had a work, good working relationship with all the brokers.

Representative Rice: Did you have any previous personal relationship with any of the brokers or developed any personal relationships with any of the brokers after taking office?

Treasurer Shoffner: No, absolutely not.

Representative Rice: At what point did you determine you were not getting good service from a broker?

Treasurer Shoffner: Well, I relied upon my staff, on the broker. I mean, they're, we regard them as money managers and rely on what's best for the State of Arkansas, for the people of Arkansas.

Representative Rice: Could you be a little more precise and say at what point do you determine that you're not getting good service from a broker?

Treasurer Shoffner: From a broker?

Representative Rice: In the matters we're discussing here today with the losses.

Treasurer Shoffner: I guess I want to know what particular transaction you're talking about.

Representative Rice: Transactions that we're discussing today with...

Treasurer Shoffner: But is there a specific one?

Representative Rice: Transactions with losses that we were discussing here today. Is there a point that you've felt like you weren't getting good service?

Treasurer Shoffner: No, I relied upon the information that I was given.

Representative Rice: From the broker?

Treasurer Shoffner: From the broker, from staff, yes.

Representative Rice: Let me ask you this, too. Are you aware of any events or actions that are referred to as churning?

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Treasurer Shoffner: No, I thought you made butter.

Representative Rice: We're at a little more serious things than making butter, Ms. Shoffner.

Treasurer Shoffner: No, I am not. I'm sorry.

Representative Rice: That's all at this time, Mr. Chairman.

Senator Pritchard: Okay. Representative Branscum, you're next.

Representative Branscum: Thank you, Mr. Chair. Ms. Shoffner, what, how are these brokers paid? Are they paid on a commission or a yearly basis or a fee per transaction?

Treasurer Shoffner: Well, I'm not sure because we don't pay the commission. I don't even know what their commissions are. Do you, Autumn, do you know?

Autumn Sanson: It's my understanding that the commission is, is just kind of taken from the yield.

Representative Branscum: So they get a percentage of each transaction?

Autumn Sanson: Yes, that's correct.

Representative Branscum: The more transactions they make, the more the broker's firm will make.

Autumn Sanson: That's correct.

Representative Branscum: As a, have you ever looked, have you ever looked, I mean, dealing with brokers on a personal basis, I mean, I work out the best deal for my personal accounts, and I'll have a maybe can work out a yearly schedule where I can do all the trades I want to, and they're just gonna charge a flat rate per year. Has that ever been looked at as a possibility, or is that even done in this industry that you know of?

Autumn Sanson: It's not, it's not been done as far as, as the length of time that I've been in the Treasurer's office, that's not been done, but I am familiar with what you're referring to.

Representative Branscum: I mean, seems to me like that would be one of the reasons why we, the broker's firm would want a, would do these trades, because the more they do, the more they make. I mean, and the more they make, the less the State would make. And if it was on a, on a, instead of a percentage but just on a fee basis, then it would be a better deal for the State. But it's just that, I think, maybe you would like to look at it in the future. Thank you, Mr. Chair.

Senator Pritchard: Thank you. Next is Representative Nate Bell.

Representative Bell: Thank you, Mr. Chair. I'm actually not sure – I'm way over here on your right, witnesses. I'm really not sure who the appropriate question or person to answer this question is, but I received some email information from a person who is a securities

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professional. I'm not. But in, inquiring as to why the State of Arkansas isn't or is purchasing these bonds through a secondary dealer instead of a primary dealer, indication is that the only real justification there in his view was liquidity, and I would appreciate someone who can elaborate on that educating me a bit on, on why we're not purchasing as a primary when the volume of bonds that we're purchasing would seem to indicate that would be the best route for us.

Treasurer Shoffner: Are you talking about the secondary market?

Representative Bell: Yes.

Treasurer Shoffner: I thought you were. We have discussed that, as a matter of fact, a few days ago, but we're gonna explore that because I think the settlement dates are less. So we're gonna explore the secondary market. Absolutely.

Representative Bell: Is there any reason why that hasn't been considered prior to the current time?

Treasurer Shoffner: Well, we discussed that yesterday, as a matter of fact. Autumn?

Autumn Sanson: I think, I think that what you're referring to is us actually doing, initiating the trades through our office rather than calling a broker to initiate the trade, is that what you're referring to?

Representative Bell: That's my understanding. It's a bit above my pay grade, but that's my understanding, that that's the indication.

Autumn Sanson: That would require someone to have their Series 7 in our office that would do that. I don't know why in the past that hasn't been done, but we've never done that in the Treasurer's office.

Representative Bell: Would that not be more financially beneficial for the State, if we traded in that format?

Autumn Sanson: That's something we would have to explore. I don't know that I could actually talk on that, if that would be beneficial. I do know that in order to have someone on staff like that, our budget would probably have to be quite higher to have somebody hired to do that.

Representative Bell: Certainly, and if the yield justified it, it might be, might be, advantageous for us to go that.

Autumn Sanson: Exactly, if the yield justified it, yes.

Representative Bell: Thank you. I appreciate it. Thank you, Mr. Chair.

Senator Pritchard: Thank you, and just quickly to that point. That is something that will be dealt with in the next session. You guys will have that chore to deal with that, to make some

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recommendations and possibly change the procedures so that we get better, a better result. Senator Irvin, you're recognized for a question.

Senator Irvin: Thank you. I have a question with the gentleman from FINRA. I'm right here. I'm right here.

Heath Abshire: Alright.

Senator Irvin: Thank you. You made a statement, and I just wanted to follow up on it. You said that Steele Stephens, their only brokerage business is with the State.

Heath Abshire: It's Steele and Steve. It's a father and son, and I forget which one is the father and which one is the son. But I understand that one was the Dick Clark of early Arkansas television, for those of you that might know who I'm talking about.

Senator Irvin: The clerk for?

Heath Abshire: No, the Dick Clark – he had a radio-television show in Arkansas.

Senator Irvin: Oh, okay.

Heath Abshire: Their, historically the only business, and I only know about them from December 2007 and on, they worked for a firm called Apple Tree, and their sole business of this particular brokers were selling bonds to the State Treasury.

Senator Irvin: So they don't sell bonds to anybody else?

Heath Abshire: At the time. Now, if they've expanded into other accounts, that I think they might have one more other account, but in terms being what you would typically think of as a retail broker with, you know, an office out on the street servicing, you know, thousands of clients, that's, that's not the Stephens. They have a very, very small client base, predominantly the State of Arkansas.

Senator Irvin: Okay, and the Arkansas Securities Department, when they issued the letter, while they were in violation of Arkansas Code, is that within your report?

Heath Abshire: Well, yes, that's our, that's our consent order.

Senator Irvin: Okay.

Heath Abshire: And understand, if you look there, it was Keenan acting as an unregistered investment advisor, and what we're talking about today is activity as a broker-dealer, and it actually gets into the distinction that was being made earlier about the commissions. Broker-dealers are always paid through commissions. An investment advisor is usually one that's gonna be paid a percentage of their assets under management. So you do have dual registration of these type of people, but what the issue we have with Keenan is that he had let his license as an investment advisor lapse and continued to act as an investment advisor. And

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we determined it was through a clerical error, as opposed to an intent to deceive or something of that nature.

Senator Irvin: Okay, and is there any retribution for the people that are hiring him?

Heath Abshure: In terms of his clients?

Senator Irvin: No, the Stephens, if they're hiring Mr. Keenan.

Heath Abshure: No, the Stephens, the Stephens work for Mr. Keenan's firm.

Senator Irvin: Okay. Okay.

Heath Abshure: Mr. Keenan owns the broker-dealer company. Mr. Keenan owns St. Bernard, and the Stephens are agents of St. Bernard, and they're actually the ones that service the State's Treasurer's account.

Senator Irvin: Correct. Alright. But that's their only business?

Heath Abshure: Yes.

Senator Irvin: They don't sell to Baptist Hospital or St. Vincent or Wal-Mart or...?

Heath Abshure: No, very limited, very limited customer base. As I said, it's predominantly the State and maybe one or two high-income customers but not a broad customer base.

Senator Irvin: Okay. Thank you. That was my question.

Senator Pritchard: Thank you. Senator Chesterfield, you're recognized.

Senator Chesterfield: Thank you, Mr. Chair, and good morning again to everyone. We've asked a lot of questions. We have exchanged a great deal of information, but at the end of the day, this is a separate entity of government that has been called on the carpet and that has been given some advice from this branch of government, and you have responded with grace under fire, and I appreciate it. I would ask that my colleagues, if they have suggestions for Ms. Shoffner, that they would commit those suggestions to writing so that we help the individual where we think that there might be difficulty. And I think that she would accept those suggestions with grace, and let us move forward because, ultimately, this is all we can do as a committee is ask, and I think we have asked appropriately. But it is now time for us to help each other, and I would ask that, if there are suggestions that my colleagues make – this is not my area of expertise, but it is obviously the area of expertise of a number of members of this committee – I would ask that you submit those suggestions to the Treasurer for her perusal and for her use, if she so desires to do so. And, hopefully, we will not have these repeat findings come May, and we can move apace as a committee, and she can move apace as the Treasurer of the State. What is unfortunate is that there is nothing in the title of Treasurer, when an individual runs, that says they must have all of this background. It's simply a citizen position, and that citizen offers him or herself for service, and when they do it, they do it with the



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knowledge that people will be critical, far more than they're ever going to be positive. But if we have those things at our disposal that can help the State of Arkansas through one of its elected officials, I would ask that we give those suggestions to the Treasurer and that we move apace because we will not be meeting again until May, and there may be things that she can work on between then and May, and then we'll just stay forward. Thank you, Mr. Chair.

Senator Pritchard: Thank you. Senator Flowers, you're recognized.

Senator Flowers: Thank you, Mr. Chair. I've got a couple questions. I'll start with the Commissioner. This information that you report to FINRA, how is that given, how is notice given to the public or to individuals that have investments with these individuals that you have oversight...?

Heath Abshire: The support that you were handed out is maintained on FINRA's website. You could go on their broker check system and check the firm or any individual agent. The other way that it's provided and we encourage citizens to call the Securities Department. Call the Arkansas Securities Department and, you know, if they don't have access to the computer or have trouble finding it, and we'll give them the information. But it's all publically available.

Senator Flowers: But you, you have nothing published other than what you do to report to FINRA for publication?

Heath Abshire: No, no, no. For example, our consent order, the Arkansas Securities Department consent order, is on our website. It's on the State's maintained website. We'll issue press releases. We do everything we can to get the knowledge, information regarding all of these things out there.

Senator Flowers: One thing I've noticed with rules and regulations in Arkansas, the Secretary of State is supposed to get that information concerning rules and regs to the appropriate agencies of state government. Does your office have any kind of rules and regulations concerning distribution of notice of violations that you all may sanction investors, brokers for, people that deal with securities that you have given to the Secretary of State's office for distribution to other state agencies?

Heath Abshire: I'm not sure that I understand your question. We have rules and regulations that, of course, go through the administrative procedures process. And those, in terms of notice of particular matters, whether it's a consent order or enforcement action or anything like that, our enforcement matters don't go through a process involving the Secretary of State's office.

Senator Flowers: Okay. And then, Ms. Shoffner, of course he just noted the encouragement that is noted on this second page – I don't know if you have it or not – of this FINRA document, and it indicates a suggestion and encouragement that investors use this broker check to check the background of securities brokers and brokerage firms before deciding to conduct or continue to conduct business with them. Does your office have a policy that you would initially, before making investments, go online and check with this FINRA source?

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Treasurer Shoffner: Well, yes, yes, we could, but also we're putting into place [inaudible].

Senator Flowers: I guess my...

Autumn Sanson: I currently do check the FINRA's website on our, on our brokers periodically.

Senator Flowers: Okay, and so do you know whether that was done prior to these investments that we're talking about today?

Autumn Sanson: The broker check was done on the brokers, so it was not done on Keenan. It was done on Steele and Steve Stephens.

Senator Flowers: Okay, and so then the other question I have is, you know, you have, I think, it's a committee or something that involves Mr. Weiss' office as well to discuss or kind of provide oversight to your office or the transactions, Ms. Shoffner, is that correct?

Treasurer Shoffner: Yes, that's correct.

Senator Flowers: And so....

Treasurer Shoffner: It's the Finance Council.

Senator Flowers: Finance Council. So has there been any discussion concerning or any advice from that Council to check with FINRA before any of these investments were made or while at the time you came to office even?

Treasurer Shoffner: Yeah, no, we will look into that, and we're gonna be reporting to the Finance Council every quarter.

Senator Flowers: And exactly....

Senator Pritchard: Thank you. I'm sorry, Senator Flowers. I've already let you go long already, and we still have more people on the list.

Senator Flowers: Well, I'd like to be placed back on the list, if I might.

Senator Pritchard: After you come off, you can be put back on the list.

Treasurer Shoffner: Thank you. Could we take a quick break?

Senator Pritchard: I'm sorry?

Treasurer Shoffner: I'm sorry, but could we take a quick break?

Senator Pritchard: Yeah, quick. Alright, I understand, y'all have been sitting there a long time. The rest of us are able to jump up and down, so if you need a break, just go ahead and....

Treasurer Shoffner: Just me, just personally, a break, to maybe go...?

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Senator Pritchard: Yeah, go. Yeah, absolutely.

Treasurer Shoffner: Thank you.

Senator Pritchard: Members, please stay in your seat. Looking at the hour, I know how it is, it's like herding chickens, and when we get out of here and go answer our phones and all, so let's please stay here, and is there, anyone else need a break? Okay. We need to wind this up, of course, and as I said, members, as I said, I don't want to cut anybody short, but please, let's try not to...we're kind of getting off the subject a little bit. That's fine, but we need to, looking at the hour, we need to get back. We're not gonna go through lunch, so we need to get back to questions that haven't already been asked and to try to get this thing concluded. We will have some, we have some recommendations to some of the, to Ms. Chesterfield's question. Ms. Chesterfield, to the question you asked, or suggestion you had, we are going to make, part of this, the report makes recommendations, and also there will be looking at legislation for you folks in the next session that are returning, we've already started working, the staff has already started working on drafting some legislation that could clean this up and have a better procedure. So that question, that has already been handled, so we'll be moving forward with assuring, *you* will be moving forward with assuring that we tighten this up so these kinds of things don't happen in the, in the future, and I understand there will be significant discussion with DFA and all the folks involved as that legislation moves forward. So, that's my little, my little filler, there. So we're gonna take these last few questions, and then we will wind it up with where we go from here. We've heard, the last meeting, I think, went two hours. This one's gone at least that now. So, we're gonna wind this up pretty shortly, the next 10 minutes. And, thank you, somebody just dropped off the list. I appreciate that. Senator [inaudible] did we wear you out?

[Inaudible]

Senator Pritchard: Fortunately or unfortunately, the Chair can't do that.

[Inaudible]

[Pause]

Senator Pritchard: Okay, let's call the meeting; we're back out of recess. Next on there is Representative Harris. You're recognized for question.

Representative Harris: Thank you, Mr. Chair. I just would like to say I appreciate what the Audit Committee has done. I think my oldest son, who's in sixth grade is learning right now about checks and balances and what the legislative body does. They check what the executive body does, so I think the work we're doing is very good, checking what the Treasurer has done. But Ms. Sanson made a comment earlier, and I want to go back to it. So the question's for Ms. Sanson. You made a comment that St. Bernard's, you were using them because they've been good to Ms. Shoffner. What did you mean by that?

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Autumn Sanson: I wasn't the one that said that statement. That statement was said to me, so I...

Representative Harris: That's what, that's what I mean.

Autumn Sanson: ...I'm not sure what that was referring to.

Representative Harris: But it was said to you?

Autumn Sanson: Yes.

Representative Harris: Okay, by Ms. Shoffner?

Autumn Sanson: Yes.

Representative Harris: Okay, what did you mean, Ms. Shoffner?

Treasurer Shoffner: I don't recall saying that they'd been good to me. That they're very nice. They're from my home county. They, you know, have been supporters of mine. So, but I don't remembers saying "been good to me" in any way. Just that, you know, I've known the family's a prominent family from my county, and we just recognize, you know, their accomplishments.

Representative Harris: Okay, I have some other members just want me to ask a question. Have anyone from St. Bernard's or, ever given to your campaign, any campaigns?

Treasurer Shoffner: Yes. Yes.

Representative Harris: Okay.

Treasurer Shoffner: It was at a fundraiser.

Representative Harris: Okay, under what names?

Treasurer Shoffner: It was personal. I mean individual names, not a company name.

Representative Harris: Okay, would that have influenced....?

Treasurer Shoffner: Steve Stephens, yes.

Representative Harris: Okay, would that have influenced you in any way to use them?

Treasurer Shoffner: Well, no. No.

Representative Harris: Okay, but under oath....

Treasurer Shoffner: Because it was all bankers or investment bankers, you know, that were invited and, you know, the public.

Representative Harris: Do you see where I would kind of get a little, a little concerned when Ms. Sanson made the comment that "they've been good to me" where I would get that concern?

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Treasurer Shoffner: Yes. Yes. Absolutely not, not in that aspect.

Representative Harris: Alright. Thank you.

Treasurer Shoffner: Thank you.

Senator Pritchard: Okay. Seeing no more, well one more question, and then we're gonna wind this up. Representative Lenderman, you're recognized for the final three minutes, and then we're gonna....

Representative Lenderman: Thank you. This question is for Ms. Shoffner, and this goes in – I'm right over here, to your left – this goes hand in hand with what Representative Harris just asked. I noticed that there was a firm of Kaplan, Fox, and Kilsheimer that had given a total, I believe, of \$20,000 to your campaign. Did they or were they involved with any of these 30 transactions that we have in question at this time?

Treasurer Shoffner: Absolutely not. They're attorneys, and that money was returned, but it was \$10,000. And it was to be in five names, but it came in one check, so it was, it was sent back to their firm in New York.

Representative Lenderman: Okay. There was also a....

Treasurer Shoffner: [Inaudible]

Representative Lenderman: ...a firm, Nix, Patterson, and Roach, in Austin, Texas, that showed five attorneys from their firm gave about \$10,000. Were they involved in any of these 30 transactions?

Treasurer Shoffner: No. No.

Representative Lenderman: Okay. Thank you. Thank you, Mr. Chair.

Senator Pritchard: Thank you. Thank you for everyone's patience. We went two hours last time, and I guess two hours more this time. So, you know, we got a good discussion. As you know, we have heard, both in the last meeting and this meeting, some conflicting testimony and some questions about, you know, what went on and who knew what and who knew it when. And, with that in mind, we're gonna finish this meeting, but I have a, Co-Chair Summers would like to make a, to wind this up, would like to make a motion.

Representative Summers: Mr. Chairman, I move the referral of this special report to federal and state law enforcement agencies for further review.

Senator Pritchard: Do we have a motion and a second? Any discussion of the motion? Seeing none, I'll call the question. All those in favor of the motion, signify by saying "Aye."

Multiple voices: Aye.

Senator Pritchard: Opposed, "No."

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Senator Pritchard: The “Ayes” have it. The motion passes. Thank you very much for all....

[Inaudible]

Senator Pritchard: Okay, we do have to make the decision whether to hold the report or file it. Without objection, we'll go ahead and file the report. Thank you, members, and thank you, all the people that testified. Thank you for all your patience. And the motion that never fails: we are adjourned.