

**Transcript of Legislative Joint Auditing Committee  
September 17, 2012, Treasurer of State Testimony**

Co-Chair Senator Bill Pritchard: This is not a continuation of the meeting on Friday. We adjourned on Friday, so I call this meeting to order, a special meeting of the Legislative Joint Auditing Committee. We only have one item on the agenda. Let me just tell the members what we are going to do today and get a few of the ground rules down. First, Mr. Moore is going to present the three reports you have before you. He is going to present all three before we go to any questions or any comments. What I want you to do is to please pay close attention to these reports because we are going to do our best to, I'm going to do my best to keep us on point and keep us here for what are supposed to be doing and that is questions on this audit. Undoubtedly, there will be other questions come up, but as much as possible let's relate them to this report. As you go through the reports, as Mr. Moore goes through the reports, please make your notes and refer to the reports as much as possible when you go to questions. I think that's all we have, and with that, Mr. Moore, I'll turn it over to you.

Deputy Legislative Auditor Jon Moore: Thank you, Mr. Chairman. The first report today is the annual Financial Report for the Arkansas Treasurer of State for the year ended June 30, 2011. This is a normal financial report that we do every year, and this report has four findings.

The first finding is the office of Treasurer of state understated prepaid expenses by \$2,271 and accounts payable by \$9,932. Finding number two was the equipment total amount recorded in AASIS is greater than the amount reflected in the Treasurer's detailed equipment records that are maintained outside of AASIS, and the difference, as you can see from the slide, is approximately \$635,000. The third finding is that Arkansas State Treasurer investment policy requires that each security firm approved by the Treasurer submit semi-annual and annual reports, including audited financial statements. We asked to review these documents and were told that the Treasurer did not have them. Finding number four: The Treasurer sold bonds from its portfolio to selected brokers before the bonds reached maturity and subsequently purchased similar bonds from the same investment brokers, resulting in a net economic loss of \$58,172. This practice differs from the Treasury's previous practice of holding bonds until maturity. In November 2011, DLA staff advised the Treasurer that Generally Accepted Accounting Principles (GAAP) require that gains and losses from the sale of these bonds be recorded separately from interest income. The Department of Finance and Administration Office of Accounting agreed with our interpretation of these accounting principles. However, the Treasury did not record these transactions as advised. This concludes the findings of the Arkansas State Treasurer audit report for the year ended June 30, 2011.

Our second report is a review of selected bond investment transactions. The objective of this report was to review questioned bond transactions. Staff obtained supported documentation of information for each transaction and calculated the economic effect of these transactions. The period covered by this report is July 1, 2011 until May 17, 2012. As most of you know, the Treasurer is the custodian of all monies held in the Treasury. At June 30, 2011, this totaled \$3.27 billion. The Treasurer is responsible for investing Treasury funds in a manner prescribed by the Arkansas State Treasury Investment Policy, which is approved by the State Board of Finance.

As noted in the previous report, the Treasury began selling bonds back to brokers before they were called or reached their maturity, purchasing similar bonds from the same broker and then repeating this sale purchase activity. Historically, the Treasurer has held investments until maturity dates. The Treasury Investment Policy does not allow for speculation on future rates of

return or call dates. Also, we noted that a significant portion of the Treasury bond purchases were made from a single broker. We examined 12 bond transactions valued at over \$240 million dollars where the Treasury sold bonds and replaced them with similar bonds. The loss could have been avoided had the Treasurer continued to hold the original bonds to maturity. We were able to obtain information on these sales as well as the replacement bonds that were sold back to the Treasury for 11 of the 12 transactions. See Exhibit I on page 3 of the report for a summary of these transactions.

Three concerns resulted from our analysis of these transactions. The first concern is that the rate of the replacement bonds sold to the Treasury had lower rates of return than the bonds originally held. For example, in one transaction reviewed, the Treasury sold a bond at an interest rate of 2%, and that rate could have increased to 4% and they subsequently replaced it with a bond that paid a fixed rate of 1.5%. Of the 11 bonds reviewed that the Treasury sold back to the broker, 8 were replaced with bonds paying a lower rate of interest. Some of the bonds that the Treasurer sold back to the broker were sold at a premium, but when you compare the premium and the interest actually received to the interest income that the original bond would have received, our analysis shows the Treasury would have earned more by holding the original bond to the call or maturity date. Holding bond until the call or maturity date is reached, is more consistent with the Treasury's investment policy.

The second concern is that the new investment practices places more mutual funds in money market mutual accounts, which pay very low interest rates, currently approximately 0.01%. When the Treasury sells the bonds back to a broker, the proceeds are placed in a money market mutual account until a replacement bond is purchased. In one of the transactions reviewed, a \$25 million bond was sold back to the broker; the proceeds remained in a money market mutual account for 80 days. During this 80 days, \$548 in interest was earned, compared to \$91,667 in interest that the original bond would have earned. As seen in Exhibit I on page 3 of this report, these transactions led to large amounts of money held in money market mutual fund accounts drawing 0.01% in interest for a total of 218 days.

The third concern raised by our analysis is how quickly the replacement bonds sold to the Treasurer were either called by the bond issuer or sold back to a broker, resulting in the Treasurer again having to buy more replacement bonds. In 7 of the 11 transactions reviewed, the replacement bonds sold to the Treasurer were called or resold to the broker within six months. Participating in these transactions appears to yield no financial gain to the State; however, such transactions are attractive to the brokers involved because they create new sales and broker fees.

Since July 1, 2008, the Treasury has purchased a significant proportion of its bonds from an individual broker associated with two different Arkansas securities firms. We obtained purchase records from the Treasury for July 1, 2008 to March 31, 2012, and summarized the purchases by firm in Exhibit II on page 4 of this report. During this period, a single broker at two firms sold the Treasury \$1.69 billion in bonds, with the next largest firm selling the Treasury \$886 million in bonds. In order to determine the potential financial benefit to the Treasurer's concentrated use of this single firm, we calculated the dollar value weighted average yield by firm at June 30, 2011, as seen in Exhibit III. Based on our analysis, the individual firm with the Treasury's largest amount of purchases did not have the highest dollar value weighted average. Therefore, no advantage to the Treasurer's concentrated use of this firm was apparent.

We have a subsequent event that is not in this report. Subsequent to the completion of our report, we became aware that the Treasurer had been selling bonds to brokers before the

bonds were called as far back as fiscal year ended 2010. Of the 29 bonds sold from September 2009 to February 2012 – there were 29 in total – we examined 12 of them as a part of this report. There were 17 other bonds that we became aware of after the completion of this report. So far we have analyzed the net economic effect of only one these transactions that occurred in fiscal year 2010. This transaction resulted in a net economic loss to the State of \$835,000. We have also learned that St. Bernard Financial Services, the firm involved in the trade that resulted in this loss, was issued a letter of caution dated August 28, 2012, by the Arkansas Securities Commission for activities associated with Treasury bond transactions.

We have one recommendation: We recommend that the Treasury consult a third party money manager regarding investment purchase decisions and obtain input from the State Board of Finance before changing significant investment practices. In your report, management responses are provided in Appendix A on page A-1. That concludes our second report.

Our final report is a review of the State Board of Finance Investment Policy and Treasury investment practices. The Treasury is charged with serving as the custodian of monies as required by Arkansas Code. Historically, the Treasurer has been responsible for making specific investment decisions associated with state funds held in excess of immediate needs. The State Board of Finance is primarily responsible for the Arkansas State Treasury Investment Policy. Changes to the overall investment environment have made it increasingly difficult to maintain adequate safety, liquidity, and return on investment. The return on the Arkansas State Treasury investment portfolio has decreased steadily over the last five years from 5.35% for the year ended June 30, 2007, to 0.78% for the year ended June 30, 2011.

The objective of this report was to review the current Arkansas State Treasury Investment Policy and identify opportunities for enhancement. We reviewed the Arkansas State Treasury Investment Policy, Arkansas Code related to Treasury investments, and Treasury cash and investment holdings during the year ended June 30, 2011. Additionally, we analyzed each of the Treasury Investment Policy stated objectives of safety, liquidity, and return to identify possible opportunities for enhancement. The State Board of Finance is composed of the Governor, the Treasurer of State, the Auditor of State, Bank Commissioner, and the Director of the Department of Finance and Administration. The Governor chairs the Board, and the Treasurer of State serves as secretary. The Board generally meets twice a year to discuss changes to Treasury investment policy and to approve the rate required for Treasury certificates and deposits. The current Investment Policy was adopted June 25, 1997, and has been amended twice.

We compared the Treasury's investment practices of safety, liquidity, and rate of return with the investment practices of the Arkansas Public Employees Retirement System (APERS) and the Arkansas Teachers Retirement System (Teachers). Treasury investment practices were only compared to the fixed portion of APERS and Teachers because they are very similar to Treasury holdings. Other portions of APERS and Teachers portfolios, such as equity securities and real estate holdings, were not included in our analysis. Comparing the safety of investment in the Treasury versus APERS and Teachers revealed that the retirement systems can invest for longer periods of time, approximately 10 years, and the Treasurer is limited to investments of five years. Further, the Treasury's investments are primarily government obligations, while the retirement systems' bond portfolio contains higher proportions of corporate obligations or corporate bonds. Nearly all the Treasury's government obligation bonds are backed by mortgage-based instruments. Investing exclusively in these types of bonds could create a concentration risk in the Treasury investment portfolio.

Fixed income investments at the retirement systems are historically very safe. The Treasury investment practice of only investing in bonds backed by U.S. government is an even safer approach. However, in certain economic situations, depending on specific investment decisions made, losses are possible and have recently occurred in the fixed income portfolios at the retirement systems and at the Treasury. To authorize the Treasury to invest in longer-term bonds and certain corporate bonds, selected sections of Arkansas Code and the Treasury Investment Policy would have to be changed.

As seen in Exhibit I on page 3 of this report, at June 30, 2011, the Treasury held \$1.3 billion, which represented 40% of their investment portfolio in short-term cash and cash equivalents that could be accessed at any time for immediate needs. The percentages of cash and cash equivalents at APERS and Teachers were 2.5% and 1.9% of total holdings, respectively. Our analysis indicated that Treasury receipts generally supply most of the liquidity needs of the Treasury. When additional equality is needed, it is only needed for a short period of time, usually less than one month, and the amount is a very small fraction of the usual balance of cash and cash equivalents on hand. Our analysis revealed that the average Treasury holdings for the two-year period ending June 30, 2011, contained approximately \$1 billion more in cash and cash equivalents than was required to meet immediate needs. Maintaining excessive amounts of cash and cash equivalents negatively affects the overall return on Treasury holdings because the rate of return on these accounts are currently very low, approximately 0.01%. So, for example, if \$1 billion were moved from cash and cash equivalent, into U.S.-backed government obligations earning 2%, an additional \$20 million in annual earnings would result. Total Treasury investment earnings were \$24.9 million for the year ended June 30, 2011. As seen in Schedule 1 on page 6 of this report, the five-year average rate of return on fixed income at APERS and Teachers was 7.52% and 7.44% respectively, while the Treasury's rate of return was 2.74%. That's a difference of slightly less than 5%. To put this into perspective, each 1% increase in rate of return on all Treasury holdings at June 30, 2011, would have produced an additional \$32.66 million in earnings per year for the State.

Some significant investment practices at APERS and Teachers would provide better internal control over Treasury investments. Specifically, both APERS and Teachers contract with investment consultants who advise their boards on ranges and types of investments in their portfolio and assist the boards in assessing risk, evaluating money managers, and developing overall investment strategy. APERS and Teachers both contract with money managers to carry out specific investment objectives, and they also both use their boards to review performance targets and approve investment strategy and the hiring of consultants and money managers. The current Treasury Investment Policy allows the use of consultants and outside money managers, but the Treasury does not choose to use these services. Further, the State Board of Finance does not exercise oversight control over most Treasury investment decisions.

Our analysis of the internal controls over Treasury investment funds indicates a lack of segregation of duties associated with investment responsibilities of the Treasurer. Use of these other investment practices by the Treasurer would provide better internal controls and additional information and documentation related to investment decisions.

In summary, small increases in the rate of return on Treasury holdings would provide significant increases in earnings for the State. To achieve these increases, the State Board of Finance, the Treasurer, and the General Assembly should determine if a slight increase in the investment portfolio risk is acceptable. Also, the Treasury should develop better methods to evaluate and manage liquidity needs.

Cooperation from many offices will be essential for changing the State's method of investing Treasury funds. Specific changes to Arkansas law will be required, funding issues will need to be resolved, traditional duties may need to be reassigned or shared, and new policies may need to be developed. However, such efforts could result in a significant, continuous source of revenue for the State.

Our recommendations: We recommend the State Board of Finance and the Treasury should consider contracting with an independent investment consultant for a comprehensive analysis of Treasury investments. We also recommend the State Board of Finance and the Treasury should consider placing funds with outside money managers and allowing them to make specific investment decisions within given criteria. The State Board of Finance should consider developing a new Treasury Investment Policy. The State Board of Finance should take a more active role in oversight of Treasury investment activities. The General Assembly should consider expanding the composition of the State Board of Finance. Management's responses are in Appendix B on page B-1 of this report. Mr. Chairman, this concludes our reports.

Senator Pritchard: Thank you, Mr. Moore. Any members have any questions of Mr. Moore or staff about the reports? I don't have our little buttons to push so you'll have to raise your hand or wave your arms or something to get our attention. Representative Meeks, S. Meeks, you're recognized.

Representative S. Meeks: Thank you, Mr. Chairman. Question I have is on these bond transactions when they went back and forth. The brokerage commissions – do we have any idea what the cost of the state of those commissions were, to these brokerages?

Jon Moore: For one firm, for St. Bernard's, we've seen some trade tickets, and it's not for all of the transactions that totaled \$2.3 million.

Representative Meeks: So we're looking at least \$2.3 million. Alright, thank you. Thank you, Mr. Chairman.

Senator Pritchard: Seeing no more questions, of Mr. – oh, I'm sorry. You're recognized, Representative Burris.

Representative Burris: Thank you, Mr. Chairman. Uh, Mr. Moore, did you – I was trying to keep a running total. Based on the audit, the time that you looked back on, did you add up the total investment lost, um, based on just a few select things that you looked at?

Jon Moore: For the period covered under our second report, the total economical loss was \$58,000, and additionally, we went to one older transaction that occurred in 2010, and the economical loss on that one transaction was \$835,000.

Representative Burris: And so that figure, \$835,000 and then \$58,000, that figure does not include, I guess you're putting into a separate category, investment opportunity lost, what the, the \$20 million in revenue from the approximately the \$1 billion that you mentioned was uninvested. Those figures aren't calculated.

Jon Moore: No, those are separate calculations.

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Representative Burris: OK, do you have, and on that, you don't have an aggregate of what all that would add up to?

Jon Moore: No, no we haven't added those two things together.

Representative Burris: Ok. Because it was several hundred million by just me scratching it out. Thank you. Thank you, Mr. Chairman.

Senator Pritchard: Senator Dismang, you're recognized for a question.

Senator Dismang: That covered it. [Inaudible]

Senator Pritchard: Senator Williams, you're recognized for a question.

Senator Williams: One quick question. Mr. Moore, you said the spread between what LOPFI and the Teachers' retirement earned and what the Treasurer earns was about five points, give or take a little?

Jon Moore: Yes, sir.

Senator Williams: And each point represented about \$30 million?

Jon Moore: \$32.6 million.

Senator Williams: So the annual loss based on their calculation and what we did was, would be about \$150 million a year to the State?

Jon Moore: Well, that's if you assume that they could....

Senator Williams: I understand you give that authority to do that. But there's an assumption there with that amount of risk, we're talking about 150 more per year.

Jon Moore: Yes.

Senator Williams: Thank you.

Senator Pritchard: Is that all you had? Representative Rice, you're recognized.

Representative Rice: Thank you, Mr. Chairman. Would you cover again, did you say that there was not some records for some of the trade?

Jon Moore: The Treasurer's office didn't have the trade records. We obtained those from the Securities Department, and I think they got those directly from the broker firm.

Representative Rice: Did you say there were not some records, though? Did I hear that? I'm sorry I was distracted.

Jon Moore: Well, early on, one of their findings was that they were supposed to keep financial statements from each of the firms that they invest with, and we didn't find those records.

Representative Rice: They're not available now?

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Jon Moore: We don't have 'em. I mean, we haven't seen 'em.

Representative Rice: Thank you, I just wanted to clarify that. Thank you, Mr. Chairman.

Senator Pritchard: Senator Rapert.

Senator Rapert: Thank you, Mr. Chairman. To the audit staff, do you have any records to indicate the practice of going in and selling the bonds early, prior to a call date or prior to maturity date? Is this something that, that has only occurred in the past few years with these specific transactions, or is this something you see that has been done for many years in the Treasurer's Office?

Jon Moore: As far as we know at this point, it began in the 2010 fiscal year.

Senator Rapert: And how many different firms did you see these transactions occurring with?

Jon Moore: So far, we've seen it occurring with three different firms.

Senator Rapert: And of those three firms, how many transactions approximately occurred with each of those individual firms?

Jon Moore: Let me check, see if we have that breakdown. Do you have a total?

In the background: I do not.

Jon Moore: We don't, we haven't totaled to be, see how many totals up to each firm.

Senator Rapert: Let me ask you this: For firms outside of St. Bernard's, do you recall how many transactions with each of the other two were had. Were there more than one?

Jon Moore: Well, for the ones we've looked at, which is for this period of time, we've looked at 11 transactions, plus the one extra that we found out subsequent to our audit report. You have.... [Pause] It looks like five of the transactions occurred with St. Bernard's and – how many? [Pause] Two with Morgan Keegan, and the rest would be with the Bank of Oklahoma.

Senator Rapert: And these all occurred in 2010?

Jon Moore: No, these transactions that were part of this report occurred just subsequent to June 30, 2011. We discovered them while we were doing our June 30, 2011 audit.

Senator Rapert: Okay. Thank you.

Senator Pritchard: Representative Hammer, you're recognized.

Representative Hammer: Thank you, Mr. Chair. Mr. Moore, would you enlighten me on what the activity was before 2008 with Apple Tree and St. Bernard's for the State of Arkansas? Can you give us a little history prior to 2008, please?

Jon Moore: We didn't look that far back, but we don't think there were any of these types of transactions or any of these transactions with Apple Tree and St. Bernard's.

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Representative Hammer: Thank you.

Senator Pritchard: Representative McCrary.

Representative McCrary: Thank you, Mr. Chairman. Little more explanation: step-up bonds, how they operate, why, from 1.6 to 4%.

Jon Moore: Well, I'm not sure if I'm qualified to give you a complete explanation of how they operate. But, at some point and time, the rate will increase, that has an option for the bond to increase in rates. I think the issuer, if the market doesn't bear that rate, they'll usually call it before they'll let it step up.

Representative McCrary: But these bonds were not called?

Jon Moore: No.

Representative McCrary: Okay. Thank you, sir.

Senator Pritchard: Representative Slinkard. She pass? Senator Williams, again.

Senator Williams: One more quick question. Why is Apple Tree and St. Bernard combined on one? I mean, I would think if they are two institutions, they would have two different lines.

Jon Moore: Well, there was one broker that was common to both firms. When the broker left Apple Tree and went to St. Bernard's, the investments started with St. Bernard's.

Senator Williams: So the investments followed the broker personally and not with their institution or their organization?

Jon Moore: Yes.

Senator Williams: Thank you.

Senator Pritchard: Senator Dismang.

Senator Dismang: And I realize it was not in scope of your audit and you did a little bit of look back, but I think you mentioned one transaction resulted in an \$ 893,000 loss. Do you think that that single finding would...do you think that we should open the scope, but maybe not this audit, but maybe another audit to examine from 2008 forward to see to see what the potential loss from these types of sales were?

Jon Moore: That's....

Senator Dismang: Up to the committee?

Jon Moore: Yes.

Senator Dismang: Then, I guess, I mean, we can save that, but I would like for us to think about at least looking back and see what our total loss has been from these short sales since 2008, since these entities came on board, engagement in the state of Arkansas.



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Senator Pritchard: Senator Dismang, if you will keep that in mind as we go through the process, you may want to make that in form of a motion. Chairman Summers.

Co-Chair Representative Summers: Thank you, sir. Mr. Moore, could you elaborate on the letter of caution to St. Bernard from the Securities Commission, please, sir?

Jon Moore: We have copies of this letter. I mean, I prefer to let the letter speak for itself. But perhaps, you know for the most part, their, it seems to be that they're citing, that they're suggesting that the firm should keep better records...I think better record-keeping related to the advice given to their clients.

Representative Summers: I'd just like to point out that the letter quotes, "The staff strongly cautions Keenan and St. Bernard concerning the following violations: In violation of Arkansas Code" and so on. "Keenan and St. Bernard failed to have a reliable electronic email retention system until the late fall of 2010. As a result of this failure, vital information contained in any emails that were not retained is currently unavailable for the staff to review. This information includes, but is not limited to, details about securities offered and sold by St. Bernard to Arkansas clients, risk and suitability information provided to Arkansas clients by St. Bernard, possible concerns or complaints Arkansas clients may have had concerning securities offered and sold by St. Bernard, and Arkansas clients' instructions concerning securities transactions handled by St. Bernard. The staff strongly cautions Stephens concerning the following violation. And it cannot produce any corroborated verbal or written evidence that at the time of the sale he provided the Arkansas State Treasurer's Office with necessary information concerning a replacement bond that was sold to this institutional customer in January 2010. Without this corroborated verbal or written evidence, the staff cannot determine whether Stephens met his suitability obligations to the Arkansas State Treasurer's Office under said rule. Specifically, it is impossible for the staff to determine that Stephens had a reasonable basis for concluding that the Arkansas State Treasurer's Office was making an independent investment decision, when this bond replacement was sold by Stephens, and the staff has serious concerns that the missing written records, as stated above, may have contained evidence of violations of certain codes, and in addition, the Staff has serious concerns that the missing written records, as stated above, may have contained evidence that Kennan and St. Bernard failed to fulfill the supervisory requirements contained in Ark. Code." And that letter Stephens referred to is a Mr. Steel V. Stephens. Thank you.

Senator Rapert: Thank you, Mr. Chairman. This actually is a, is a coming off of Mr. McCrary's question a while ago. On page 2 of the special report, it says the review of selected bond investment transactions, on page 2, starting at the bottom paragraph on the left, exchanging bonds for a lower rates of return, it states the first concerns that some of the replacement bonds sold to the Treasury had lower rates return than the bonds originally held and that's where he had the question regarding the bond paying 2% that would later pay 4%. I think it is important for the committee to understand that those particular bonds typically are called step-up notes. When a person purchases that note, it will pay them 2% for a specific period of time, and if it's not called away, it will pay the higher rate the next period of time and as many times and even at a higher rate later. And the reason I wanted to make statement on that is actually on the next report in Appendix B, this is of the review of investment policy. On Appendix B, B-1 on the back, this is from the response from the Treasurer's Office, in the second paragraph, they said, "One area of consideration for potential yields on the bonds Treasury sold were step-up bonds. Based on historical data, *none* of these bonds ever increased to the higher yield; therefore, selling the bonds at a profit was a logical choice." I would like to point out to Audit and ask you to follow up on that because, based upon my knowledge of the situation, that's not a true and accurate

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statement. I have clients that over the past several years have experienced step-ups and many step-up notes, and so to state that never has occurred is actually not accurate and is misleading. Thank you.

Senator Pritchard: Representative Mayberry.

Representative Mayberry: Thank you. Do I understand correctly when you said that one, one broker handled both Apple Tree and St. Bernard. Is that correct?

Jon Moore: Yes.

Representative Mayberry: Do we know how long that particular – and that broker is no longer involved, is that also correct?

Jon Moore: No, that broker is....

Representative Mayberry: That broker is. How long has that particular broker had a relationship with the Treasurer's office? Do we....

Jon Moore: Well, based on the records we looked at, we think it began with Apple Tree in 2008.

Representative Mayberry: So there had not be an existing relationship prior to 2008, to your knowledge?

Jon Moore: Not that we're aware of.

Senator Pritchard: Representative Mayberry, that may be a question you want to ask later.

Representative Mayberry: And, and I will follow up with that. I didn't know if Audit had looked specifically at that. Okay, thank you.

Senator Pritchard: Do you have anything else?

Representative Mayberry: No.

Senator Pritchard: Representative Hammer.

Representative Hammer: Thank you, Mr. Chair. Mr. Moore, can you tell me, the Apple Tree, the St. Bernard, and the Morgan Keegan, the top three, do we know, are they involved in investments with APERS or ATRS? Are you able to answer that question?

Jon Moore: I don't know just off the top of my head.

Representative Hammer: Okay. And then second question is, when we talk about Apple Tree and St. Bernard, are we talking about a firm or are we talking about a person who's representing themselves by these, by the names of these firms?

Jon Moore: They're firms.

Representative Hammer: They are firms?

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Jon Moore: I think Apple Tree no longer exists. And so St. Bernard has just taken up those investments.

Representative Hammer: Do we know when they went out of business? They went out of business during the 2008 to 2012 period?

Jon Moore: I'm not exactly sure. We probably have it in our records, but I don't have that before me.

Representative Hammer: Okay, thank you.

Senator Pritchard: Senator Chesterfield, you're recognized for questions.

Senator Chesterfield: Thank you, Mr. Chair. I, I apologize to the committee for not having been here Friday. There was a death in my family, and so that precluded my engagement, and what I know, all I know is what I read in the paper. I'm trying to find out, have there been allegations of misconduct as far as the Treasury's responsibilities have been concerned?

Senator Pritchard: Well, we didn't hear any testimony on Friday, Ms. Chesterfield. I'm sorry about your loss. With the....

Senator Chesterfield: In reading the audit reports then, I'm, I'm reading the findings, and I'm not noticing that's it's been turned over to the Prosecutor as happens many times when there are allegations of misconduct. So are there allegations of misconduct that perhaps led to the subpoena of the Treasurer?

Senator Pritchard: I think that's what here today to determine today. The reason we subpoenaed Ms. Shoffner is – and she'll have the opportunity to address this in a minute – she did not show up on Friday, and we couldn't get her, couldn't get her to come to the meeting, or we didn't have her at the meeting. So....

Senator Chesterfield: Were there any individuals who represented her office here?

Senator Pritchard: They were here, yes.

Senator Chesterfield: Were they unable to answer your questions to...?

Senator Pritchard: We did not go to the questions without Ms. Shoffner here because we felt that her testimony was important and should be, given her the opportunity to address the issues first.

Senator Chesterfield: So there were representatives from her office here?

Senator Pritchard: That's correct.

Senator Chesterfield: Alright.

Senator Pritchard: That's my understanding; no one ever came up to testify.

Senator Chesterfield: Okay, on page 5, of the special report, we recommend the Treasury consult a third party money manager regarding investment purchase decisions and obtain input

from the State Board of Finance before changing significant investment practices. Other recommendations: State Board of Finance and the Treasury should consider contracting with an independent investment consulting for comprehensive analysis of Treasury investments and recommendations. State Board of Finance and the Treasury should consider – should *consider* – placing funds with the outside money managers. The State Board of Finance should consider developing a new Treasury investment. All these are considerations have, has anyone expressed an aversion to doing any of this? Through the Chair to Mr. Norman.

Senator Pritchard: No, and that's what we'll, we'll get into that when we have the agency people up. And I'm sure you'll be able to ask those questions. Their written responses, on the, in the appendix.

Senator Chesterfield: I saw the responses, I'm just trying to get to, to the heart of the matter, I have not been privy to a subpoena before, so I'm just trying to figure out if there was something in the responses or something in the allegations that that spoke to prosecutorial misconduct on the part of the Treasurer of State that prompted our actions, and so, I don't find it in any of the appendix, but then my learned colleague was reading from a report to which I was not privy. So thank you, Mr. Chair, for allowing me to ask those questions.

Senator Pritchard: I appreciate that, and just to clarify, the subpoena was only to compel Ms. Shoffner to appear. Seeing no more questions... Oh, sorry, Representative Hammer.

Representative Hammer: The recommendation, Mr. Moore, Mr. Norman, the recommendations that you have on page 5. I would like to know, how do those compare with the method of operation of APERS and ATRS with their successful investment rates compared to the Arkansas State Treasury? Does your recommendation bring them more in line with what those two investment, those two retirement systems do?

Jon Moore: That's very similar to the practices employed at APERS and Teachers, yes.

Representative Hammer: So, if the, am I, am I correct to take the position then, that if Arkansas State Treasury follows the recommendation, then with time to correct the situation, we should see the returns come more in line with APERS and ATRS, because they all three will follow basically the same investment direct-, guidelines?

Jon Moore: Well, you know, I can't....

Representative Hammer: I know you can't predict the future as far as return. Otherwise, I'd give you my money to do that. But....

Legislative Auditor Roger Norman: Representative Hammer, there are probably different objectives for those systems, and the retirement systems would be looking at more long-term type. So I don't think that, you know, you have a strict comparison between those two, and at no time did we try to say that those comparisons are benchmarks, that the Teacher, I mean that the Treasurer's should be compared to those retirement systems for that. We were just giving examples. And, and so that's our comments basically that recommend that they hire some investment managers to look at that. We feel like the whole process needs to be looked at.

Representative Hammer: So it would be fair to say that behind the concept that you're proposing, falls more in line with the investment practices or mentality of APERS and ATRS. Is that a fair statement?

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Roger Norman: Yes, sir.

Representative Hammer: Alright, and one question of the Chair. Was Ms. Shoffner aware of the seriousness of the report before Friday's Legislative Audit meeting? And in what method was she aware of it? Was it verbal, written, or how was it that she was communicated of the seriousness of the findings of the audit report?

Jon Moore: Well, we had an exit conference with Ms. Shoffner, and we went over the findings and the recommendations for all three reports. So I think she was aware that there were some serious issues.

Representative Hammer: And how far in advance did she know the date before Friday that it was going to come up before Legislative Audit?

Jon Moore: It was late August. August 16<sup>th</sup>, and at that point she indicated that she could attend the meeting.

Representative Hammer: So better than two weeks time between the exit of which you met with her for going over the report and the actual meeting date. Is that correct?

Jon Moore: Yes.

Representative Hammer: Thank you.

Senator Pritchard: Senator Chesterfield, did I see another question?

Senator Chesterfield: Yes, sir. My, my learned colleague pricked my memory as a member of the Arkansas Teacher Retirement System, Mr. Norman, through the Chair to Mr. Norman. Is it not true that they have lost vast amounts of money over the last 10 years if we look at investments?

Mr. Norman: They have lost, I believe some monies. Most of those were in equity-type investments as opposed to the fixed income.

Senator Chesterfield: Perhaps so, but APERS has lost money. Teacher Retirement has lost money. And so has the Treasurer. To be fair, is that correct?

Jon Moore: The, no, not in the fixed income investments.

Senator Chesterfield: Fixed incomes, mixed income. Have you lost money, or haven't you lost money? In those systems?

Jon Moore: Overall the systems have lost money. Yes.

Senator Chesterfield: That's what I, so, we, I am not into whether it's fixed or the other. I know, as a member of the Arkansas Teacher Retirement System, the system has lost money at one point in time. And at one point in time, there were serious, serious losses, were there not?

Jon Moore: Yes, after 2008 both systems had some significant losses.

Senator Chesterfield: Thank you.

Senator Pritchard: Senator Dismang.

Senator Dismang: Thank you, Mr. Chairman, and I almost asked this earlier to make sure we had clarification what we were looking at. What you guys compared was the fixed investments of those entities for comparison, which is very low-risk. We weren't talking about the equities investments and everything else. I mean, ATRS and those organizations, I mean, their goal is to get as a high return as possible which occasionally means they take excess risk to accomplish that goal. This, then, does result in losses from time to time, and in this economy, it definitely would. However, but your comparison is – just so we know apples to apples and oranges to oranges – is that these are fixed investments, which means they are lots, I mean, they're secure and they're are going to have a fixed rate of return.

Jon Moore: Yes, it's primarily their bond investment portfolios.

Senator Dismang: And if they had invested in these types of fixed rate and returns, then they would have achieved the higher yield. Is, I mean, the big argument here is, I guess, what it comes down to is we have 40% of our funds sitting liquid, earning next to nothing, and there should be an incentive to move it to some type of secure funding or more, less risk-adverse funding that has a fixed rate and that will have higher yield. I mean, that's the bottom line.

Jon Moore: Yes, sir.

Senator Dismang: Thank you.

Senator Pritchard: We're going to move on to the Treasurer's response. Ms. Shoffner, if you would come forward please. And, by the way, I apologize to referring to that Constitutional Officer as an agency; it's far more than that. [Pause] Sometimes it's temperamental. Are there other mikes on?

Treasurer of State Martha Shoffner: Yes, yes, it's on.

Senator Pritchard: Would you state your name and title for the record, please?

Treasurer Shoffner: Yes, Martha Shoffner, Treasurer of State.

Senator Pritchard: Ms. Shoffner, I'm going to ask you to do take an oath. Please, if you would raise your right hand. And Ms. Shoffner, 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?

Treasurer Shoffner: Yes. So help me God. [Laughs]

Senator Pritchard: Okay, I assume these other people will be giving testimony, too?

Treasurer Shoffner: Yes, yes.

Senator Pritchard: Okay, well, let's go ahead and do that. If each of them will tell who they are and state their name and their position for the record.

Debbie Rogers: Debbie Rogers, Chief Deputy Treasurer.

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Senator Pritchard: Ms. Rogers, would you please raise your right hand? 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: I do.

Senator Pritchard: Okay.

Autumn Sanson: Autumn Sanson. I'm the Chief Investment Officer at the Arkansas State Treasury.

Senator Pritchard: Okay. Ms Samson, do you solemnly swear – oh, raise your right hand. Thank you. 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?

Autumn Sanson: Yes, sir.

Senator Pritchard: Okay.

Melissa Corrigan: Melissa Corrigan. Chief Financial Officer.

Senator Pritchard: Okay, Ms. Courtney, will you raise your right hand? Is it Courtney?

Melissa Corrigan: Corrigan.

Senator Pritchard: Corrigan, I'm sorry. These old ears don't hear so good. Raise your right hand, please. 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?

Melissa Corrigan: Yes, I do.

Senator Pritchard: Thank you. Ms. Shoffner, would you like to make some opening statements before the questions?

Treasurer Shoffner: Yes, Mr. Chairman. Thank you so much, and I want to apologize to the Committee for the chain of events that happened Friday. Senator Chesterfield was asking about the subpoena, and there was, you know, a lot of concern about that, and I just want to apologize, but I want you to know that the Treasurer of State is working for the people of Arkansas and to get the best investment that we can. And, and the testimony that I've heard this morning and the reports, I want go over some more, but on your reports or findings with us, I, I find them very interesting. I'm ready, I think I told Jon Moore this morning, that I want to work with, with Legislative Audit. I think the auditors have done a great job. We have an economic downturn, and the yields are low, so we try to get the best we have, and we certainly want to work to get the best returns on all the investments. So I think working with the Finance Council, with our office, with the Legislature, it's been since 1987, I think, Since we've had was amended the last time in '97, that we need to change because we're limited to 5 years out rather than 10. This morning, the Treasury was at 1.8 something and at a 10-year but a five-year was at a like 7.2, 7.6, so we can make some changes to take the liquidity. But we look at our, liquidity I guess, and I think we all do, that we pay all the bills in the State of Arkansas that goes to every school, every city, county, lease lands payments, so it all goes back to the county. So we pay everything, so we want to be liquid. But I see in your report where we can take some of that

money and put it to work. And on the billion dollars that you said that we could invest and know each month that we got to know from the Department of Finance, how much the receipts will be coming in and how much we'll need to pay the bills, so if we can work something out with all the entities, I think we can move forward and make this work for us. So I really applaud the auditors on your job on this because I have said in my statement that I want to work with you, and I think it's a great plan. Money managers, I don't know if that would be a different level that we would have to pay out, but in hiring more or whatever we have to do to make, make us yield better on our bonds, corporate bonds, or commercial paper we only go out 90 days. So, we feel stymied in some ways. I mean, the perimeters are there. But if we can move those around, I think we can do a better job. And that's what I want to do for the people of Arkansas, the taxpayers. It's their money. And, and we, we're trying to safe keep it. That's my job.

Senator Pritchard: Ms. Shoffner, backing up just a little bit. You heard some comments from Ms. from Senator Chesterfield and others about when you knew of this meeting and why it was necessary to subpoena you. Would you please tell us when you knew about this meeting and why you were not at the meeting on Friday?

Treasurer Shoffner: Thank you, Mr. Chairman. Yes, I think the auditors came in, like you said, two weeks ago or whatever. We've had the reports and gone over them, and we've made our recommendations or approval of the reports, responses. It's been several weeks, but my staff was here. I was not going to be available, I had, someone called, and they said I would be on the list. But, at the last moment, on Wednesday something came up with some economic development in my county. So I was very excited about it. It's a potential economic venture, so I just said that I won't attend. My staff was here. They were recognized, but they were never asked to come up and, you know, present. So I had gone to eastern Arkansas, and I had left early. I think, it was an assumption that maybe I had driven state car, which I had not. But I talked to the Chairman and told him I would not be here. So 10 o'clock, I arrived, in my part of the county, the world. And at 10 o'clock, and then by 11, I had a call from the State Police, and a subpoena had been ordered. And it was Trooper Dexter, and he asked where he could deliver it. And I said the address and he said, I said, "Where are you now?" And he said, "Little Rock." And I said, "Well, you know, I'm in the eastern part of the State." And he said, "Well, I'll tell you what, I can fax it to that station there." And so I waited for four hours, and I didn't do any business but wait there because I thought it was so important, that you kept reconvening, conv-

Senator Pritchard: Recessing.

Treasurer Shoffner: Recessing. My mouth is dry. Anybody got any water? Thank you. But you kept recessing and then, I think, coming back at 11 that they would, you know, that you would hear my staff and on our responses – thank you [inaudible] – on my responses. And then at 11, they, they had mentioned you, you recessed and said that you would reconvene at 1. I did not, I called the Chairman at 3, and I said, "This is going viral, and I have not heard nor seen anyone," and so after that, about 3 o'clock, they called and said that were coming to my house, and that was from eastern Arkansas, So I, I didn't get the subpoena until, you know, late Friday afternoon. So I, I apologize. I am so sorry. If, if I had known it would cause this, I certainly would have changed my plans. But I appreciate you.

Senator Pritchard: Okay. I don't want to belabor that point, but I guess I am. I had this conversation with you about 10 minutes to 9 on Friday when it came to my attention that you were not at the meeting and asked you if you were going to be there, and you indicated that you had an appointment with, the Highway Department?



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Treasurer Shoffner: No, it's a project that entails that, part of that, in an economic development project.

Senator Pritchard: Okay. And then I offered to, tell you, you told, you communicated to me – I'm just making sure that I understood you correctly – that you had staff there that could answer the questions and that you....

Treasurer Shoffner: I said they were very equipped and could answer, yes.

Senator Pritchard: And then I informed you that, no, we needed you there and that I could put the meeting off 'til later in the day, but you indicated that you would not be able to be there later in the day. Is that correct?

Treasurer Shoffner: That's correct. But did you talk to my staff after the subpoena or before the subpoena? Or they hadn't, knew nothing about it until they would, you know, come back to the meeting. Did you talk to my staff about "get her back" because I was told to stay there until I had been, you know, served, to stay put 'til I'd been served. So....

Senator Pritchard: Well, no, I certainly did tell...

Treasurer Shoffner: Thought that was a....

Senator Pritchard: I didn't tell anyone that, as I said to you in our conversation, that we did have subpoena powers, if you did not choose to come to the meeting that day, and so I, you indicated you would not be there, so I felt the need to, that we felt the need to....

Treasurer Shoffner: You felt that you needed to not to hear my staff but to subpoena me?

Senator Pritchard: Yes, that we wanted you there. So, anyway, that's what transpired. I hope that clears up the any misconception there. What happened, the second subpoena that, the first subpoena was....

Treasurer Shoffner: I never got the first or the second. All I got was the third for Monday.

Senator Pritchard: Actually, that was, the first subpoena was for 11 o'clock, and we weren't able to, they weren't able to serve that. And then we, we did recess until 1 o'clock, hoping that we could get the subpoena served, that we didn't know where you were, that you might be in town, and we could get you....

Treasurer Shoffner: Now, I talked to Trooper Dexter where I was, he knew where I was.

Senator Pritchard: Well, like I said, we didn't know. But then the second subpoena was since the time had already expired for the first subpoena. Obviously, you just can't subpoena somebody to be somewhere. You gotta tell them where and when. So the second subpoena was the one that....

Treasurer Shoffner: Well at 11, I could have come back for 1. Yes, I would have made it back.

Senator Pritchard: Okay, well....

Treasurer Shoffner: But I wasn't served.

Senator Pritchard: Okay. And then the second subpoena was for this meeting, 2 o'clock, Monday, so via date, time, place, certain that there'd be no question about your being here.

Treasurer Shoffner: Absolutely.

Senator Pritchard: And you honored that subpoena, thank you very much. Representative Burris.

Representative Burris: Oh I'm sorry.

Senator Pritchard: Before, was your question specifically about that?

Representative Burris: Yes, sir, it is.

Senator Pritchard: Well, go ahead, and then the Co-Chairman has some comments before we move on.

Representative Burris: Thank you, Mr. Chairman. I'm like, we're not here to dwell on, on that aspect of it. But given that conversation that just happened, I do think it's important to clarify a few things, mostly for the integrity of the Committee and the staff and everything that happened Friday. And so, I guess I just have a couple of questions and they're not, they're just honest questions. I mean, you mentioned that your staff was here. Did they make you aware of when the first subpoena was issued and at what time the Committee would reconvene, both at 11 and then subsequently at 2 o'clock?

Treasurer Shoffner: At 1 o'clock?

Representative Burris: Or 1 o'clock. I'm sorry.

Treasurer Shoffner: [Pause] No one called.

Representative Burris: You, we've abundantly established that your staff was present at the meeting. None of them informed you that a subpoena had been issued?

Treasurer Shoffner: Yes, but I was to wait for the subpoena. That was only the first one, the first subpoena.

Representative Burris: Who instructed you to wait?

Treasurer Shoffner: Well, my staff said that I would be breaching if I didn't wait. And then someone said that I, they would bring me in, you know. But I don't think that's true.

Representative Burris: No. I don't think....

Treasurer Shoffner: But we've never dealt with that before, so I didn't know what to do.

Representative Burris: Yeah, and like I said, I, we're not here to dwell on this but, but some of your statements have prompted me to ask because it, I think it was pretty clear that, what the expectation was. And I don't know a reason why that wasn't, wouldn't have been communicated. But the only thing I want to be clear about, at what point, at the exit interview

you intended to attend the meeting. Is that correct? When audit staff conducted the exit interview, your intent was to attend the audit committee?

Treasurer Shoffner: Yes. Yes, I agree and I applaud them, and I want to work on this to, to adjust our, our investment policy so that we can better serve.

Representative Burriss: At what point when did those plans change?

Treasurer Shoffner: On Wednesday.

Representative Burriss: The Wednesday before the Friday meeting?

Treasurer Shoffner: Well, just my plans because agency heads aren't generally here, I don't think. I think senior staff, my Chief Deputy could answer. So, you know, I just thought it was my prerogative if I didn't want to come. I understand now it wasn't.

Representative Burriss: Okay. And I'm just going to end by reading the memo, and this is more in, I think, a little bit in defense of Legislative Audit and their response. And this was from a memo dated August 22 where after they conducted the exit interview. And it just says we strongly encourage – this was from the four auditors that conducted the exit interview – it says, "We strongly encourage Ms. Shoffner to attend the meeting on Friday, September 14<sup>th</sup>. She directed her office assistance to check her schedule, and she determined that there were no scheduling conflicts and that Treasurer Shoffner would be able to attend. Ms. Shoffner told us that she planned to attend and would be accompanied by key staff members." And so, again, I'm really just saying this more at the defense of the actions Friday. I think the anticipation, the very, the expectation was very well communicated and abundantly communicated that for key staff but also you to be here to answer those key questions.

Treasurer Shoffner: Yes, I understand.

Representative Burriss: Thank you. Thank you, Mr. Chairman.

Senator Pritchard: Let, let me shortcut that. I noticed you were having a side bar over there. Ms. Rogers, did you have a conversation with Ms. Shoffner on Friday about the meeting, subpoena, and need to be at the meeting? At any point on Friday?

Ms. Rogers: After the 11 o'clock meeting and then you mentioned the subpoena again, that's when I spoke with Ms. Shoffner and told her to wait for the subpoena. That's when it was mentioned again.

Senator Pritchard: And you informed her that we had recessed until 1 o'clock?

Ms. Rogers: Yes, that's correct.

Senator Pritchard: Ms. Sanson, did you have any conversation to Ms. Shoffner about that particular issue?

Autumn Sanson: No sir, I did not have a conversation with Ms. Shoffner at that time.

Senator Pritchard: Ms. Corrigan?

Ms. Corrigan: No.

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Senator Pritchard: Thank you. Okay, Chairman Summers, you're recognized.

Representative Summers: Thank you, Mr. Chairman, and thank you, Madam Treasurer for being here today. We hope we can clear some of the items up. Previous to your term, as Treasurer, was there a relationship with either Apple Tree or St. Bernard?

Treasurer Shoffner: No, sir. No, sir.

Representative Summers: What is your previous relationship with them, if any?

Treasurer Shoffner: They're one of my investment bankers. The father of the broker is from my county. But many years ago he went to Washington, and then he was our icon, there on dance party, if anyone is old enough to remember it.

Representative Summers: Yes ma'am. But previous to your term, what was your relationship with them?

Treasurer Shoffner: Not, not any.

Representative Summers: Not in the business sense?

Treasurer Shoffner: No.

Representative Summers: Not at all.

Treasurer Shoffner: Not at all.

Representative Summers: Okay. How do you, what are your guidelines for determining a new broker? Do you put out bids, RFPs? How exactly so you select a new broker?

Treasurer Shoffner: Well, when I came in, of course we, we were, you know, in CD's a lot, or the previous administration was. We went to bonds because of better return because CD's are basically zero. They would come in, either interview with me, talk to me or my staff. And make a proposal, and when they had something to offer, they would bring it in, and we would review it.

Representative Summers: Can any broker approach your office?

Treasurer Shoffner: Absolutely.

Representative Summers: Make a presentation on it then?

Treasurer Shoffner: Absolutely.

Representative Summers: How many new brokers have you established a relationship with since Apple and St. Bernard?

Treasurer Shoffner: I'm not sure. Autumn? Autumn is my chief investment officer. [Inaudible]

Autumn Sanson: Mr. Chairman, could you repeat that question?

Representative Summers: How many new broker relationships since Apple and St. Bernard became affiliated with y'all? You understand my question?

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Autumn Sanson: Yes, sir, I do. I'm trying to think. I don't believe we've brought on any new brokers at that, since, since that point.

Representative Summers: Since that point? Okay.

Treasurer Shoffner: How many brokers do we have?

Autumn Sanson: We use anywhere from 14 to 20. Yeah, we have....

Representative Summers: 14 to 20.

Autumn Sanson: Yes, sir.

Representative Summers: Madam Treasurer, are you aware of any violation investment policy or violation of security laws by any of the brokers that you deal with?

Treasurer Shoffner: Absolutely not. No.

Representative Summers: Any violation or wrong doing by yourself?

Treasurer Shoffner: Absolutely not.

Representative Summers: By your staff?

Treasurer Shoffner: No. No.

Representative Summers: Thank you. Who is the person responsible for making the decisions and approving them, about transactions?

Treasurer Shoffner: Well, the three: Debbie Rogers, my Chief Deputy, and Autumn Sanson, the Investment Officer, and myself. Prior to Debbie becoming my Chief Deputy, Karla Shepherd was the Chief Deputy, and she was responsible then. She was there five years.

Representative Summers: Okay, so when you all make a transaction, then it's a decision made by the three of you?

Treasurer Shoffner: The three of us, uh huh.

Representative Summers: And then is that...

Treasurer Shoffner: And that's to get the best yield, that's what we concentrate on.

Representative Summers: What model do you use on your yield analysis? How do you determine?

Autumn Sanson: Basically, right now, we, we do get proposals from a lot of different brokers. And then we will weigh what yields look best for the time period that we are looking to invest. We don't, we're so basic in what we can do, we don't really look at a lot of models, so to speak.

Representative Summers: Okay.

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Autumn Sanson: It's just basically the yields and the term that we need to go out in our investment and then, you know, based on liquidity need as well.

Representative Summers: Okay. It looks like you've had two or three firms that have done the vast majority of your business in the past year. Would that be correct?

Treasurer Shoffner: Well, the three that were mentioned in the report.

Representative Summers: Right.

Treasurer Shoffner: The three that were mentioned in report, in the report, is that the three you're talking about?

Representative Summers: Yes, the three that had the most. Were their proposals so much better in terms of return or expenses? How would they – you understand my question?

Treasurer Shoffner: Yes, I do, and I think it deter – it depends on what you're investing in, whether it's Fannie Mae, Freddie Mac, whatever the bond is. One might present more of a yield than the other. So it just depends on the bond and if it's a fixed, if it's a step-up. I know one thing: We're not selling any more. We've determined that. The last one was in February, I think. We're not gonna sell, and we're not gonna buy premiums.

Representative Summers: Okay, if your, if your brokers have access to the same types of bonds, then is the difference gonna be basically in the yield and the expense to the Treasurer's Office?

Treasurer Shoffner: Yes.

Representative Summers: So St. Bernard's and Apple and Bank of Oklahoma and one other....

Treasurer Shoffner: Morgan Keegan.

Representative Summers: ...had lower expense costs than than the other brokers. Is that correct? You may not know that just right off hand.

Treasurer Shoffner: No, I don't.

Representative Summers: Okay. And another question about the liquidity: When you do your monthly reports and everything, I would assume you have adequate information to know how many dollars are needed, and you mention getting reports from DFA....

Treasurer Shoffner: Yes.

Representative Summers: Who makes that decision about liquidity?

Treasurer Shoffner: Debbie? Do you want to? Or Melissa?

Representative Summers: You're the CFO, right?

Treasurer Shoffner: Yes.

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Representative Summers: Thank you.

Melissa Corrigan: Yes, yes, sir.

Representative Summers: Could you, your name?

Melissa Corrigan: We look on a daily basis. Excuse me?

Representative Summers: Announce your name.

Melissa Corrigan: Oh, Melissa Corrigan. Kind of go on a daily basis. We know every two weeks there's gonna be a payroll for state employees, anyway, so we're gonna have money that we need to pay out that day. The months of March and April, we have a lot of income tax returns that we have to pay out. So usually on those two months, on Fridays, anyway, we pay out large sums of money for income tax returns. And in May and then, or April, people start paying their income tax, and anyway, we have money coming in then so.... And there's certain times of the year, like teachers, anyway, have some payments, and anyway.... So we get, I was gonna say on like direct deposits that we have to pay out every day for warrants issued, we can, right now, we have a report in our office that we can run – it's two days in advance? – two days in advance, but we might be able to get information earlier in any way and stretch it out in any way that there might be reports available to us.

Representative Summers: With the current amount of dollars that are available, which appears to be about a billion and a quarter, what would you say is a fair amount of liquidity that you need? Do you agree with the \$250 million number? You're the CFO, remember?

Melissa Corrigan: Yes, indeed. I, I guess it just depends. It just varies on what time of year, what month it is. I was gonna say, you know, like I said, March and April, I was gonna say, we paid out a lot of money, anyways, so we make sure, we have to make sure we have money there. Now, the rest of the months, anyway, we might could, I was gonna say, anyway, have more invested, with more information available, in any way, long-term.

Representative Summers: One other question. Madam Treasurer, were you aware of the letter of caution from the Securities Department to the brokers?

Treasurer Shoffner: Yes, it was reported to me, but it was on emails, I thought, or what was it? Emails? Personal emails was what I thought it was from the Securities Commission. It was on documentation of emails. Phone and emails?

Representative Summers: What actions did you take to clarify this or clear it up? What...?

Treasurer Shoffner: I just actually found out that today.

Representative Summers: Okay, it's dated August 29<sup>th</sup>. Ma'am?

Treasurer Shoffner: That there was a finding by the Commission? There wasn't, was there? The Securities Commission?

Representative Summers: Right, it's a letter of caution.

Treasurer Shoffner: Oh, okay.

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Representative Summers: Okay, Ms. Rogers, you feeling better today? Good, good. Thank you, Mr. Chairman.

Senator Pritchard: Go ahead. Someone, did you have something else?

Treasurer Shoffner: Mr. Chairman, I just, I would like to add that the total interest deposited in the State for the people of Arkansas was \$162 million for those four years. So we're trying to be safe, but I think we've got potential in the recommendation of the auditors on this new procedure, and I look forward to it.

Senator Pritchard: Just a couple of follow-ups on Chairman Summers. You said that three of you make that decision, but I'd just like to hear from each of you, just very briefly, if you concur in that and then what you do or who makes the final decision if you should disagree on what decision should be made. I think that's important. Ms. Rogers, you want to go first?

Debbie Rogers: Yes, we do concur. We get, Autumn speaks directly with the brokers and communicates with them and gets the offers for the bonds that are being offered. Then, she compiles that, and we look at them side-by-side. And then we take into account the yield as well as the call. It could be a longer call or a shorter call, based on the yield. And then the three of us do come to a mutual decision every time.

Senator Pritchard: Okay.

Debbie Rogers: We discuss it at length.

Senator Pritchard: Okay. Ms. Sanson?

Autumn Sanson: We do discuss every investment, but the final decision is up to the State Treasurer.

Senator Pritchard: To the Treasurer. Okay.

Autumn Sanson: Yes.

Senator Pritchard: Along that same line, we talked a little bit about liquidity, and I understand the importance of being liquid, unlike some of these other investments where you may have large sums of money. And I see that in 2011, particularly when this report was done, short-terms holdings were \$1.3 billion, so that should have been sufficient. I ask that to say that, normally, you know, we had some discussions about us selling bonds before maturity or before call. Can you think – any of you – can you think – or any of the four of you – think of any instances where it was necessary to sell these bonds before maturity or before call to take care of short-term cash needs? [Pause] Anybody?

Treasurer Shoffner: No, but I don't remember which legislator mentioned the...well, now I've lost my train of thought. The step-up, what? Say the question again because I had a point here, and I lost it.

Senator Pritchard: Okay. Alright. Let me try again. There's been some discussion about the, they're questioning the wisdom of selling bonds before they're called or maturity. And I, my question was, my next question was gonna be, who makes that decision as to whether you sell the bonds before the call or maturity, and has that been necessary when that has happened? I



think we all acknowledge it has happened. Was that necessary? Why was that necessary? Was it to make up a cash shortfall, or why was the decision made, and who made it?

[Inaudible; Pause]

Debbie Rogers: It's not, to my knowledge, there were no sold bonds to meet a liquidity, a short-term investment issue. We didn't sell them because we needed the money to pay the bond, to pay for warrants.

Senator Pritchard: Okay, but you did sell some bonds before call or before maturity.

Debbie Rogers: That's correct.

Senator Pritchard: Who made that decision?

Debbie Rogers: Well, during this time period, the three of us did. After, after I became Chief Deputy, then the three of us made the decisions together to sell those bonds.

Senator Pritchard: Um....

Treasurer Shoffner: May I say, Mr. Chairman, that we will not be selling again. [Laughs]

Senator Pritchard: Ms. Sanson, do you agree with those comments? Or do you want to make your own comments, maybe I should say? I'll ask you the question, if you'd rather I do that.

Autumn Sanson: I don't. I agree with what our Chief Deputy said, that we did not sell them at the time for liquidity needs.

Treasurer Shoffner: Okay. Who made the decision to sell them?

Autumn Sanson: It's the State Treasurer's final decision to sell bonds.

Senator Pritchard: Okay. Ms. Corrigan, anything you want to add? Thank you. Chairman Summers, you're recognized.

Representative Summers: One thing I wanted to clarify. Ms. Shoffner, you had said that the three of you made decisions, but I hear Ms. Sanson say that you had the final approval on it. Which is correct?

Treasurer Shoffner: Well, I sign it, but we do collaborate and talk about it.

Representative Summers: But you do have the yes or no on it?

Treasurer Shoffner: Well, yes.

Representative Summers: And there may be times in the future when you have to sell before.

Treasurer Shoffner: That's right. I think it was mentioned that they have a, none of the step-ups have ever gone to the step-up, you know, to the 4% or whatever, but then someone, and I think that was my point a while ago, I think had mentioned that it actually had so....

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Representative Summers: But you're the Treasurer and you have the final...?

Treasurer Shoffner: Yes.

Representative Summers: Okay. Thank you.

Treasurer Shoffner: Thank you.

Senator Pritchard: Representative Mayberry.

Representative Mayberry: Thank you, Mr. Chair.

Senator Pritchard: Let me, let me just tell the members so no one feels picked on. As you know, my policy is that as the list is starting to grow, at some point we'll put you on the clock. You can go back to the end of the line if you choose but members first.

Representative Mayberry: You're starting the clock with me? [Laughs]

Senator Pritchard: No, I haven't started it yet, but if we're not pretty quick, we're gonna, we're gonna put you on the clock to give everyone an opportunity.

Representative Mayberry: I understand. I understand. I've got a couple of other questions here. I do want to step back quickly to the events of Friday for just a moment. At, I think you indicated that you were not aware of the subpoena until 11 o'clock. Is that correct? You got a phone call at 11 o'clock. Your staff was in the room at 9 a.m. when it was first announced by the Chairman that a subpoena would be issued for you to be here. So, just to clarify, no one from your staff at that point in time picked up the phone and called you and said there's a subpoena? Is that...?

[Inaudible]

Debbie Rogers: We didn't see the subpoena.

Representative Mayberry: Well, I, I'm aware that you didn't see the subpoena.

Senator Pritchard: Everybody just, let's use our mics. This is being recorded, and everyone deserves to hear, so if you have a comment, please use the mic.

Debbie Rogers: We were not shown the subpoena, and honestly, I didn't know the procedure for the subpoena.

Representative Mayberry: Were you aware that it had been announced at 9 a.m. that a subpoena would be issued?

Debbie Rogers: Yes, I was in the room when it was announced.

Representative Mayberry: And you didn't think that was something important to share with the Treasurer?

Debbie Rogers: I didn't know the procedure. I didn't want to break any protocol on how a subpoena was supposed to be issued.

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Representative Mayberry: Okay. Ms. Shoffner, you say that you received a telephone call at approximately 11 o'clock saying that a subpoena, and this was from an officer with the State Police, is that correct?

Treasurer Shoffner: Yes.

Representative Mayberry: And he indicated that he was in Little Rock, and you were in another part of the State. And you said that "At 11 I could have made it back at 1, but I wasn't served." Did it occur to you that you possibly could have indicated, "I will meet you in Little Rock. I'm on my way back"?

Treasurer Shoffner: Well, he was gone by then, and then I....

Representative Mayberry: Well, as you were speaking with him on the phone, and he indicated that he was in Little Rock....

Treasurer Shoffner: I was shocked, basically, you know, so I didn't think of that. I wish I had've. I wish I could've. I wish I could take it all, you know, Friday back.

Representative Mayberry: Okay.

Treasurer Shoffner: I wish it was Groundhog Day.

Representative Mayberry: Okay, moving on. You had, we were talking about the broker, the new broker being selected and that any brokers can approach you, and then you look at different criteria as to whether or not they are taking a more, and you haven't brought on any additional brokers since this particular broker that we're talking about with Apple Tree and St. Bernard. Is that correct? Is that what you indicated earlier?

Treasurer Shoffner: Yes. Yes. Yes.

Representative Mayberry: Have there been any other brokers during that time who have approached you with a proposal that you, you looked at and decided that they were not...? No other brokers?

Treasurer Shoffner: No. No. No. No.

Representative Mayberry: None approached?

Treasurer Shoffner: Some have been there with the Treasury for many years.

Representative Mayberry: Okay. In your response, you mentioned that – looking for it here – that you're going to take a, you felt obligatory to try a different approach to generate more money. The different approach that you took, what was that based on? As we see, it hasn't, you haven't looked at outside consultants. You haven't, this was an approach that you determined internally. Is that correct?

Treasurer Shoffner: Yes, but I will be looking at consultants. Yes.

Representative Mayberry: Right. I understand that. I'm just talking about what's taking place right now.

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Treasurer Shoffner: Yeah. Yeah.

Representative Mayberry: So that was an internal decision with the three of you, I assume? Can you, if you wouldn't mind, explaining or providing us very briefly what your – each of you – what your investment background is, prior to being in the position that you're in right now. Ms. Sanson?

Autumn Sanson: I've worked at the Treasury for 12 years in different capacities, and I hold a finance degree from Arkansas State University.

Representative Mayberry: Okay. What are the different capacities?

Autumn Sanson: I worked in the Cash Management Division for many years. I worked in the Investment Division, which handles the CDs that we give to state banks. And then I've been in this capacity for going on six years now.

Representative Mayberry: Okay, thank you. Ms. Rogers?

Debbie Rogers: I've been in the State Treasury since 1984. I, too, have been in several areas of the office. I started out in the Investment Division, working in the CD program. I never, I never was involved in the investment part of it back then. And then I moved to Receipts Manager, where I worked with the Fiscal Administrator at the time to learn city and county turnback and local sales and use tax. And then, when he passed away, I took over that position, and that position was changed to Local Government, Manager of Local Government Services. So I worked in there for several years...

Representative Mayberry: Okay.

Debbie Rogers: ...Working with cities and counties.

Representative Mayberry: Ms. Shoffner?

Treasurer Shoffner: Well, it's more limited. I was a legislator on Joint Budget so.... [Laughs]

Representative Mayberry: Are any of you Series 7 licensed?

Treasurer Shoffner: No.

[Pause]

Representative Mayberry: So none of you are Series 7 licensed?

Treasurer Shoffner: No.

Representative Mayberry: But you made all of the decisions regarding the investment of extremely large sums of money internally without consultation from any outside entities or groups. Is that correct?

Treasurer Shoffner: That's correct.

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Representative Mayberry: And I know none of us have a crystal ball, but it appears as though the results of that have, have cost the State of Arkansas a tremendous amount of money. Would you agree?

Senator Pritchard: Mr. Mayberry, excuse me. Let me back up to the previous question. We're watching the three people. You're asking have any of them had any experience, and this is being recorded. We're sitting here, not a court of law, of course, but we're sitting here, and we're seeing people shaking their heads or nod their heads. So we need to have each one, if you could, when you ask a question of all three, have each one respond verbally, so we'll have that for the record.

Representative Mayberry: Okay. I'll ask the question again. Are any of you Series 7 licensed? Ms. Sanson, are you Series 7 licensed?

Autumn Sanson: No, sir.

Representative Mayberry: Ms. Shoffner, are you Series 7?

Treasurer Shoffner: No.

Representative Mayberry: And Ms. Rogers, are you?

Senator Pritchard: I was referring to the question after that. Can you remember what it was? [Laughs]

Representative Mayberry: Can you help me? [Laughs]

Senator Pritchard: We'll go. In the future, just be careful. Be sure ask, that we give everyone a chance to respond verbally.

Autumn Sanson: And, if I can interrupt. I think the question was, do we get any kind of consultation?

Senator Pritchard: Exactly.

Autumn Sanson: We do rely on our brokers to give us valuable information when we make trades. So we do put a lot of stock in the role that they play because of the amount of money that we do handle.

Representative Mayberry: So the broker who has received the most business from the State provided the consultation that you considered chief in making the decisions regarding investments that went through that broker. Is that correct?

Autumn Sanson: That's a correct statement.

Representative Mayberry: Okay. I have no other questions right now.

Senator Pritchard: Ms. Rogers, you were nodding your head the first part of that question. Would you respond that whether...?

Debbie Rogers: Yes, I agree that we rely on the brokers for the information that we use to decide on our investments.

Senator Pritchard: When it's something that they would be wanting to sell you, a bond or repurchase a bond?

Debbie Rogers: Right.

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

Senator Chesterfield: Thank you, Mr. Chair, and I thank my friend Mr. Branscum for putting or providing me with the information that I really needed to ask more cogent questions. I did not hear the response from the lady at the end as to whether or not she had certification or what her background was in investment.

Senator Pritchard: That's Ms. Corrigan.

Melissa Corrigan: I'm not Series 7. I'm the Chief Financial Officer. My main duties, I've been in the Treasury – excuse me, I'll back up – I've been in the State Treasury for 23 years. I started in the Cash Management Section. I cashed checks at the window, and I moved up a way in the Cash Management Section. I've also done payroll and personnel and purchasing several years ago. Mainly, I stayed in the Cash Management Section.

Senator Chesterfield: But you haven't done any investment?

Melissa Corrigan: No, ma'am. I do not do investments.

Senator Chesterfield: So among you, which one, only this young lady has done, has any background in investment? Is that correct? What is your name, in the striped shirt, striped jacket?

Autumn Sanson: My name is Autumn Sanson. Yes, ma'am.

Senator Chesterfield: Okay. Well, let me just ask. Why did you sell the bonds for less? I guess that's just the heart of the question for me. [Pause] And I've heard my colleagues ask a whole bunch of questions, but at the end of the day, to me basically the question is. why did you sell the bonds for a loss?

Autumn Sanson: Mr. Chairman, I'm gonna have to ask if I'm going to be protected under the Whistleblower Act at this time.

[Inaudible; Pause]

Senator Pritchard: That's not a determination – I just talked to our counsel – that's not a determination I can make. You would have to consult with an attorney in order for that, it's not my decision to make.

Senator Chesterfield: Mr. Chair, if she wishes to not answer on the grounds that it may incriminate her or something, does she have the right to do that?

Senator Rapert: Mr. Chairman, can I have a point of order?

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Senator Chesterfield: Well....

Senator Pritchard: What's your point?

Senator Chesterfield: I'm asking just a question of the Chair. Could I have my question answered by the Chair first?

Senator Rapert: I'll let Senator Chesterfield proceed, but after that I'd like to ask a question.

Senator Pritchard: Thank you. Ms. Chesterfield.

Senator Chesterfield: Would you ask our attorneys if she has the right to remain silent in this proceeding if she feels it will incriminate her? And if not, I would like to continue with that question of each and every one of them: Why did you sell the bonds for a loss? [Pause] And, ultimately, Martha's responsible. Should I direct that question to her? Martha, why were the bonds sold for a loss?

Treasurer Shoffner: What bonds are you talking about?

Senator Chesterfield: Because ultimately – and you are, you are my friend and I love you dearly – but I need to know why these bonds were sold for a loss. So far, I haven't heard anything that makes sense to me.

Treasurer Shoffner: Which bond are you talking about, Representative, Senator?

Senator Chesterfield: The \$58,000. I'm trying to get a grasp. Am I in the right park here with the auditors? Were there not bonds that were sold for a loss that were fixed bonds? That's what I'm getting at. Am I correct?

Debbie Rogers: From Legislative Audit's point of view, when they examined the sale....

Senator Chesterfield: Ma'am, I'm asking Treasurer Shoffner, with all due respect, with all due respect, because ultimately the buck stops there.

Treasurer Shoffner: Representative, with all due respect, please let me allow my Chief Deputy to answer that.

Senator Chesterfield: Was she the one who made the decision?

Treasurer Shoffner: To sell it? I can't identify which one it is. [Inaudible] On the sale...Okay. Is that an economic loss?

Senator Pritchard: Ms. Chesterfield, if we could, perhaps Mr. Moore could help you with that clarification.

Senator Chesterfield: I yield to the Chair. Yes, sir. Mr. Moore?

Jon Moore: We analyzed 12 bond transactions where the bonds were sold prior to maturity, and we calculated an economic loss for each of those transactions that meant, did the State, would the State have earned more money by keeping the bonds? There was not a loss at the point of sale, but when you analyze it to see if it was a good deal for the State, the economic loss was \$58,000 on 12 transactions that we analyzed. Right.

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Senator Chesterfield: So why did we not keep them?

[Pause]

Autumn Sanson: I cannot answer why we did that. No.

Senator Chesterfield: I'm speaking, you've already told you won't, that you feel uncomfortable answering the question. I think ultimately the buck stops with the person who is at the head, that's what everybody has agreed should happen, and so I am asking my former colleague in the House...

Treasurer Shoffner: Yes.

Senator Chesterfield: ....why that happened.

Treasurer Shoffner: Is it a combination of 11? Eleven sells. And it's an economic loss.

Senator Chesterfield: Uh huh.

Treasurer Shoffner: It's not an actual loss. And why did we sell each time? Was it for a better return?

Senator Chesterfield: No, it couldn't have been for a better because it was a loss.

Treasurer Shoffner: No, but when we sold each individual one. [Pause] On some, it was a net gain, she said.

Senator Chesterfield: I'm gonna ask Audit one more time to state this for you, and I don't want to beat it to death, Mr. Chair. I just want it stated so that you, 'cause I'm getting, I'm getting an education over here from my learned colleague because I thought that monies lost were monies lost, but there is a difference between that which is fixed and what I am talking about. I'm a pretty quick study. I'm not the brightest bulb in the lampshade, but I get it. So I'm trying to figure out why you would sell. While you're trying to figure that out, is anybody a CPA in the Department? [Pause] We don't have a Certified Public Accountant in Treasury?

Treasurer Shoffner: No.

Senator Chesterfield: I'll wait on the answer to the other question, and then, Mr. Chair, I shall be through, and I'll yield then to my learned colleague Mr. Rapert. But if I could get some help here. Would you repeat once again why this is different from losses that have accrued at APERS and at ATRS? I understand now, which is a big thing for me. I try to listen, but why would we sell short – which is what I'm calling it, for lack of a better word – on something that could have caused so much difficulty as far as loss of funds? Hello?

Jon Moore: The answer as to why they would sell the bonds, I mean, that's for the Treasurer to answer.

Senator Chesterfield: [Inaudible]

Jon Moore: If you look on Exhibit I on page 3, we've got each of the 12 transactions listed on the table. And if you look on the far left, we've got the economic gain or loss on each transaction set out to the side. In total, they come up to a negative \$58,172. Again, we calculated that by taking



the information known at the time of the sale, and at the time of the sale you knew what instrument was being sold, and you knew what instrument the investment was going to go into. And you also knew, so if you calculated the interest that you would have received if you had held the investment and compared it with what you did actually receive by selling the investment, in several cases there was a loss.

Senator Chesterfield: Okay, can I put it in just simple Joe Blow terms? If it was gonna mature on Friday, you sold it on Wednesday, the Wednesday before the Friday. Why would you do that when the maturity was gonna take place on Friday? Is that correct? Do I have that right? Why was that done?

Treasurer Shoffner: Representative, I don't know that answer. I'll have to research it. I honestly don't.

Senator Chesterfield: Does anybody out there know? No, from the Treasurer, you have to be in the Treasurer's Office to know why it was done. We can speculate.

Debbie Rogers: We could sell it at a premium and get money in addition to what would, what would be sold at the time.

Senator Chesterfield: Did that happen?

Debbie Rogers: Yes, ma'am, it did. Because what was not, what was not in our calculations, as was in the calculations for Legislative Audit, was the time that that money sat in the money markets at a reduced rate.

Senator Chesterfield: Okie dokie. I'm gonna yield then to Senator Rapert, Mr. Chair, unless somebody else is on the list ahead of him.

Senator Pritchard: I would like a slight follow-up there, please.

Senator Chesterfield: Yes, I yield.

Senator Pritchard: Thank you. I didn't mean to cut you short. I hope I didn't. Back to the decision to sell. You know, that's a pretty easy question. Before, as I understood you, you said that you relied on the advice of the broker. In these particular cases, did the broker recommend to you that you sell those before their maturity or before they were called?

Autumn Sanson: Yes, he did.

Senator Pritchard: He did recommend that?

Autumn Sanson: Yes, sir.

Senator Pritchard: Okay, and he would, so you, then you sold them based on his recommendation to sell them?

Autumn Sanson: That's correct.

Senator Pritchard: Okay and, by the way, I have a, I'm prepared to, if you want to plead the Fifth again, I'm prepared to have our counsel explain to you your rights there, if choose to. So, that,

do you want to...so, the next question I was gonna ask was that if the decision was made to do it, to do that, to sell it, based on the broker's recommendation, did they give a reason, or did you have a reason to take that advice? [Pause] And who made, Ms. Shoffner, did you make the decision to go ahead and sell them based on the...?

Treasurer Shoffner: No, I haven't. On the 11 bonds that were sold, like I said, we won't do it again, but I don't remember the incident or the broker or why we sold.

Senator Pritchard: Ms. Rogers, did you make the decision to sell the bonds?

Debbie Rogers: The three of us together made the decisions each time to sell these bonds.

Senator Pritchard: Okay.

Debbie Rogers: From October on.

Senator Pritchard: Ms. Sanson?

Autumn Sanson: I just really need to know if I can be protected under the Whistleblower Act.

Senator Pritchard: Okay. I'm sorry. I already, I answered that question. I do not know. So you want to plead the Fifth Amendment?

Senator Rapert: Mr. Chairman, Mr. Chairman. The Whistleblower Protection Act is a statute in the State of Arkansas, and she has that protection whether we say she has it or....

Senator Pritchard: Wait just a minute, just a minute. I didn't say whether she had it or not.

Senator Rapert: Right.

Senator Pritchard: The Chair cannot determine whether she has it or not.

Senator Rapert: I know you can't, and I just wanted to say I've read that.

Senator Pritchard: Okay.

Senator Rapert: And that Act....

Senator Pritchard: Well, I'm gonna rely, with all due respect, Senator Rapert, I'm gonna rely on my counsel back here. Okay? So do you, would you like to hear what your question, what your rights under pleading the Fifth Amendment? [Pause] Oh, you're not pleading the Fifth? Oh, okay, I'm sorry. I apologize. I apologize. Okay. So the decision was made to, the three of you made the decision to go ahead and sell the bonds at the recommendation of the broker. Where did that money go, and when were bonds repurchased? Ms. Rogers?

Debbie Rogers: Each, each time the money, once the sale was made, the money went back into the money markets. The, the replacement bonds were, a decision was made on a replacement bond, and then we put the money back out....

Senator Pritchard: The decision....

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Debbie Rogers: ...based on these length of days that are in the chart.

Senator Pritchard: So, so as little as 7 days and as much as 28 days or 80 days, but most of them, very short time, sold the bond and within a week the decision was made to reinvest the money.

Debbie Rogers: Or sometimes the decision was made to reinvest that same day.

Senator Pritchard: Okay. That would have been preferable to letting it just sit in a money market where it was earning nothing, right?

Debbie Rogers: I'm sorry?

Senator Pritchard: That would be preferable to invest it immediately...

Debbie Rogers: Yes. Yes.

Senator Pritchard: ...rather than let it sit in a money market where we all know it draws very little revenue. Did the, did the bonds that you repurchased pay a higher yield?

Debbie Rogers: I can't answer that for sure, sir.

Senator Pritchard: Okay, and you, there again the, and did the bond salesman make a commission off of both selling that bond, buying that bond back and selling you another bond?

Debbie Rogers: I don't have any information on commissions.

Senator Pritchard: Okay, well, we'll ask somebody else that. Okay, I'm sorry. That was all I had. Senator Sample, you're recognized. And, I'm, since you've been waiting so long, after this one, we're going on the clock, folks.

Senator Sample: Mr. Chairman, mine is not gonna be about when the subpoena was made or anything else like that. Ms. Sanson?

Autumn Sanson: Yes, sir.

Senator Sample: When you, when the three of you decided or decide on a broker, what's the criteria that you use to take and choose that broker?

Autumn Sanson: Normally, we look at other agencies, possibly, the reputation they have with the other agencies, what type of yield they've given to other agencies. We've not really added a lot of brokers in the past few years, so we don't, that's just something we don't have to do a lot.

Senator Sample: So you, you look at experience that they've had with....

Autumn Sanson: Their financials....

Senator Sample: But you said with other agencies that, because you mean...?

Autumn Sanson: Well, most of the time you would want to know what type of reputation they have a relationship with, with other agencies.

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Senator Sample: That's a good enough answer. It's not about the product that's being offered, is it?

Autumn Sanson: I'm sorry?

Senator Sample: I said it's not just the product that they're offering?

Autumn Sanson: No, sir.

Senator Sample: Okay. Now, we're gonna go back. Can you give me some of the rationale that y'all used, the three of you used, to sell the bonds before the maturity date or before the call date? Because that's what I think we've all been trying to get to is, what the rationale, what prompted you to sell those bonds, the three of you to come to that decision?

Autumn Sanson: We had the brokers come to us and tell us that we would make a profit on those bonds if we sold them early.

Senator Sample: By a premium that someone was offering 'cause they wanted them more than you?

Autumn Sanson: Yes, sir.

Senator Sample: Okay. Alright. Mr. Chair, I'm gonna yield for the time being.

Senator Pritchard: Put you back in the queue? Want to put you back in the queue? [Laughs] Okay. Senator Rapert.

Senator Rapert: Thank you, Mr. Chair. I've got a few questions here and, pertaining to that, and I'm sorry, I just want to make sure that that is a statue. It's not something that we can say that we give them, and I was trying to offer that information to you, Mr. Chairman. Ms. Shoffner, I have a couple of questions for you. Regarding this investment decision, regarding the statement you made that all three of you make the decisions, is there an actual signed authorization on trades are made in your office?

Treasurer Shoffner: Yes. Yes.

Senator Rapert: So who signs those authorizations?

Treasurer Shoffner: Well, we all do. Autumn and I do.

Senator Rapert: So you sign those authorizations?

Treasurer Shoffner: Yes.

Senator Rapert: Okay. Regarding your consultation, did anyone on your staff tell you not to make those bonds sales early, that it was not precedent?

Treasurer Shoffner: No.

Senator Rapert: No? Ms. Rogers, if you would, did anyone on your staff ever advise the Treasurer that it was not customary to sell bonds previous to the call date or the maturity date?

Ms. Rogers: Not to my knowledge.

Senator Rapert: Okay. Not to your knowledge. Ms. Sanson, did anyone in the Treasurer's Office advise the Treasurer that it was not customary to sell these bonds previous to call dates or maturity dates?

Autumn Sanson: Yes, sir. I have.

Senator Rapert: You have?

Autumn Sanson: Yes, sir.

Senator Rapert: Ms. Corrigan?

Melissa Corrigan replies: I am not in on those meetings when those decisions were made. So no, sir, I have not heard that.

Senator Rapert: In your capacity as Chief Financial Officer, have you ever heard in your office the fact that they were advising the Treasurer not to make these sales prior to call dates or maturity dates?

Melissa Corrigan: No, I did not hear that.

Senator Pritchard: Excuse me, I know it's difficult using two mics, but we're having trouble getting the, so if you'll pull that a little closer and make your answers a little bit. You soft-spoken young ladies are not like us big booming boys. But we're having a little trouble hearing them on the tape, so answer that question again, please.

Melissa Corrigan: I am not in the meetings when these discussions are being made. I have not heard any advice one way or the other. The decision has already been made by the time it gets to my desk anyway. My official capacity is that, after the decisions are made, that I transfer the money. I either pay for the purchase or, anyway, the money is coming in to us, and anyway, so I have no knowledge of any decision-making.

Senator Rapert: Ms. Rogers, you're the Chief Deputy? Okay. Were you in the office previous to you becoming the Chief Deputy?

Debbie Rogers: Yes, I was.

Senator Rapert: Did the prior Chief Deputy, to your knowledge, ever tell the State Treasurer that it is not customary to make these trades previous to a call or maturity date?

Debbie Rogers: I have no knowledge of that.

Senator Rapert: No knowledge. Alright. Thank you.

Senator Rapert: Ms. Shoffner, what reason can you give that your office decided to start selling these bonds previous to a call or maturity date?

Treasurer Shoffner: I'll, I'll research that, Senator, I mean Representative Rapert. Is it Senator or Representative?

Senator Rapert: Senator.

Treasurer Shoffner: Senator Rapert. Your son, um, nephew worked in my office. Cord Rapert?

Senator Rapert: Actually, no.

Treasurer Shoffner: Oh, I thought he was your nephew.

Senator Rapert: I don't, he's not my nephew.

Treasurer Shoffner: Cousin? [Laughs] Okay, but he was in my office. I'll have to research that.

Senator Pritchard: That annoying sound was time is up. I'll let you ask one more question, and then we're gonna move on. You can come back. Since we don't have our neat little buttons to push, you'll need to let me know that you want right back on the list.

Senator Rapert: Okay. I'll definitely be back on the list. In terms of purchases, frequency of bond transactions, on page 2 of the special report, it states on the right hand side, the bottom paragraph, it says, "In 7 of the 11 transactions reviewed, the replacement bonds that were sold to the Treasury were called or resold to a broker within six months." I would like to point out to staff the information given to us Friday said three months. So is it three, or is it six?

Jon Moore: That was a typo in the report. It's six months.

Senator Rapert: It's 6. Okay. Why on certain days – this will be my question and I'll come back again – why on certain days would you give St. Bernard a total of \$100 million in trades or transactions and other brokers just \$25 million when they both offered the same bonds with the same yields? Why would you make such a distinction between the firms?

Treasurer Shoffner: I'm not sure what the trade is, and I will research that. Debbie, are you seeing that?

Senator Rapert: Let me rephrase then, and I'll be done. Are there times in which you had those transactions, made those transactions that you showed preference to one firm over another?

Treasurer Shoffner: Did he bring that to us? The hundred – yeah, did he bring that to us? [Pause] I'll research that also, Senator.

Senator Pritchard: Representative Hammer, you're recognized.

Representative Hammer: Thank you, Mr. Chair. I have a couple of questions, but I would like to ask the Chair something, please. I don't know if anybody else in this room has ever sat in this position, but I sure haven't, and I would like to ask a question regarding Ms. Sampson's – that's correct? Sampson?

Autumn Sanson: Sanson.

Representative Hammer: Sanson. Thank you. Her request. This is for my purpose and for my information. I would like to know, what are the procedures if someone wants to plead the Fifth under oath before this Committee, number one? And number two, that if somebody seeks

Whistleblower Protection Act under oath before this committee, could you give me a quick explanation of what those options are, please?

Senator Pritchard: To show you what an easy question that is, I'm going to ask Mr. Arey to answer it.

Legislative Audit Attorney Frank Arey: Mr. Chairman, the Whistleblower Protection Act is an act that prohibits punishing public employees who have spoken to an appropriate authority about concerns over waste or violations of law. It provides a cause of action that is determined by a court as to whether the Act applies, which is why the Chair can't make that decision. Ultimately, it is a decision for a court to make. But if a state employee believes that he or she is being punished for reporting violations of law or waste, he or she can go to court and seek that remedy. In terms of the Fifth Amendment, the Fifth Amendment to the United States constitution protects a witness from giving statements that might tend to incriminate him or her in a court of law. Any witness can invoke the Fifth Amendment. There is not, at the federal level, for example, there's a procedure for forcing immunity from prosecution on a witness so that he or she may continue to testify. That ability to force immunity does not exist, as far as I can tell, and if Steve Cook, the Senate's counsel, is aware of anything, I'm not aware of a way to do that under Arkansas law in this committee. But any witness can invoke the Fifth Amendment at any time he or she feels they need to do so. However, they need to specifically do so and say that they are invoking their rights under the Fifth Amendment to the U.S. Constitution.

Representative Hammer: Would you tell me if we are a proper authority, that if Ms. Sanson has requested whistleblower protection, are we a proper authority, as you stated just a minute ago, do we fit that definition in this capacity as a body?

Frank Arey: The Legislative Joint Auditing Committee is named and the Division of Legislative Audit are both named in the statute as appropriate authorities when reports are being made.

Representative Hammer: So in her request a while ago, should we honor that request under that definition that you just gave us, or can we honor that request under the definition you just gave us?

Frank Arey: Mr. Hammer, I cannot tell you that your honoring of it would carry any weight in a court of law. The court would have to make that decision.

Representative Hammer: Have you ever know it to be done before where a situation like this has occurred, and how the court ruled on it?

Frank Arey: I'm not an expert on the Whistleblower Protection Act, but no, sir, I'm not aware of it.

Representative Hammer: Thank you. May I ask my questions now, Mr. Chair?

[Inaudible]

Representative Hammer: Ms. Sanson, to your comfort level, I'd like to ask you to answer these questions. You are the investment officer; is that correct?

Autumn Sanson: Yes, sir.

Representative Hammer: There is a five-year history that shown in our report that's given to us of continued losses, especially against APERS and the Teacher Retirement system. Could you tell me if, during that five-year history of losses, did you ever make that information available, or was that ever discussed in any of the meetings with Ms. Shoffner?

Autumn Sanson: The losses of what? I may not understand your question. I'm sorry.

Representative Hammer: In a report that's been provided to us, it shows that, historically, over the last five years that the, that the Treasurer has experienced a decline, not losses – poor terminology on my part – has shown a decline over the last five years. It's on page 6 of this report. I'm just curious. In all the reports that ya'll discussed with the Treasurer, did you ever once discuss that the Treasury was heading in the wrong direction?

Autumn Sanson: We did understand that the yield was going down. We felt like that was, a lot of that was due to the economic situation.

Representative Hammer: Okay. What, what requirements – not trying to be redundant – but what requirements do you have on brokers, and what made the broker affiliated with the two firms, Apple Tree and the other one, St. Bernard, called into question? What was it that made ya'll three choose to use them above the others?

Autumn Sanson: Just as brokers or on individual trades?

Representative Hammer: Well, as brokers. Why did you use, why Apple Tree and St. Bernard if historically, over a five-year period, the losses have been occurring? Why did you just stick with them? At what point did you decide we are not going to use them anymore? Are we still using them?

Autumn Sanson: We still use them.

Representative Hammer: We still use them?

Autumn Sanson: Yes, sir.

Representative Hammer: Even after, even after a history of recorded decline, we're still using them? Or am I wrong in that interpretation?

Autumn Sanson: I don't think we can blame the decline necessarily on just the one broker. I'm afraid that's not what, the decline is going to be over all the brokers.

Representative Hammer: So all the brokers were experiencing....

Autumn Sanson: All the brokers were actually experiencing a decline in yield in what they were offering us.

Representative Hammer: Okay. Alright. Thank you for that. Thank you, Mr. Chair.

Senator Pritchard: Chairman Summers.

Representative Summers: Bottom line: Ms. Sanson, I'm going to ask you this question, if you choose to answer it or not. Pardon me. Bottom line: Ms. Sanson, I'm going to ask you this



question. You can choose to answer it or not. But why you feel you needed whistleblower protection?

[Pause]

Autumn Sanson: There are some things that I made the Treasurer aware of, some advice that I've given her over the past year that I feel like has not been listened to. And we've gone in a wrong direction because of that.

Representative Summers: Do you fear for your position by answering these questions?

Autumn Sanson: Yes, sir. I do.

Representative Summers: Thank you.

[Inaudible]

Senator Pritchard: Senator Dismang, you are recognized. On the clock.

Senator Dismang: Thank you, Mr. Chairman. I'll try to be quick. I think we kinda of need to get a summary of everything we've been talking about today. I think we've got multiple issues with a lot of different layers. We have a CFO that didn't take into account the seasonal fluctuations of when cash was needed and when it wasn't, and so we've always let – or I guess since you've come into office – we've let a significant amount of money sit in very, very low interest-bearing money market accounts. That's an issue.

The second is, I think the one thing that we need to make sure that we do acknowledge, because we've kind of whispered around it, but the Treasurer has the final signing authority on *all* transactions. And so for you to sit there today, knowing that you had to honor the report, been through the exit interview, and not be able to answer any of the questions on the transactions that were, you know, specifically stated, I think that's a problem. And maybe it's just a show of leadership or a lack of diligence on your part to care about the issue or to care about the audit report. But we're talking about significant sum of money, and if we can call it mismanagement, that's what it may be, but at the same time, we're also just not planning. We're not being effective with the Treasurer's department, with the Arkansas taxpayers' money, and that's a problem, especially when we're talking about budgeting and we had a fight over \$20 million last fiscal session that was less than what we're talking about you may have lost because you did not properly oversee the funds and take into account the seasonal fluctuations and deal with that appropriately. So, as a summary, I think that's kind of where we are.

But one thing that I want to come back to and then I think – and this is for you, Madam Treasurer – back on October 29, 2011, I believe when the reporters in the back of the room here made it, made you aware that you had a significant sum of money with one broker, and at the time, it was approximately \$480 million that you had with one broker. And your response to the questioning by that reporter was, "I didn't realize that it had gotten out of hand." What, so you recognized something was out of hand, and so what steps have you taken since then to reign in control and make sure you don't have too much money appropriated to one entity? And that one entity was St. Bernard's.

Treasurer Shoffner: I don't remember, I don't recall saying it was out of control. Was that \$300 million?

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Senator Dismang: \$480 million is what I have here, and I could be wrong on that. But I believe that was roughly the amount of money....

Treasurer Shoffner: That was when, St. Bernard's?

Senator Dismang: Yes, ma'am. Remember the newspaper called and asked you some questions.

Treasurer Shoffner: Yes, it had gone to \$300 million.

Senator Dismang: Oh, \$300 million. Okay. [Inaudible] Sorry.

Treasurer Shoffner: Yeah. With that, I got with our auditors because Ms. Sanson had made me aware of that. And I got with auditors, and I was told it's not how much or who you invest with. It is *what* you invest in. So we have very, you know, narrow guidelines, so you can't go very out. So we can't go into equities. So, but it's not who or how much, I was told, so I didn't see that as a problem. We got....

Senator Dismang: So you were just appeasing the press when you said that you didn't realize it had gotten out of hand.

Treasurer Shoffner: No, it went from 3 to 5, and I didn't say I....

Senator Dismang: What are we up to now? What was the holdings as of this audit report, I guess, with St. Bernard's? What was the total amount invested? If I recall correctly, you essentially doubled down on St. Bernard's investments. [Pause] So it was going from you saying that you realize or didn't realize it had gotten out of hand to the point that you just doubled down and pressed on. And I think, I understand your comment about how you weren't, or it matters more about the type of investment. But at the same time, I also think we also understand the importance of diversifying among, you know, your clients and the entities that you work with and how important that is. So again, so what persuaded you to double the investments with that one entity?

Treasurer Shoffner: Well, you build relationships with all your clients or your brokers, and we all work on different levels, I guess, of relationships. I mean, it's....

Senator Dismang: So you had a personal relationship with these brokers?

Treasurer Shoffner: No, no, no. I just, no, no, absolutely not. The family, I do. I mean, I know them.

Senator Dismang: Oh, earlier I didn't think...okay. Earlier you kind of blew that away but you....

Treasurer Shoffner: Well, no, it's a past....

Senator Dismang: But you do have a relationship that was more than just someone was from that county?

Treasurer Shoffner: You have to build business relationships. There is no relationship other than business.

Senator Dismang: What was the incentive to have that much money with St. Bernard's? Did they offer something that no one else offered?

Treasurer Shoffner: A good yield. And they've....

Senator Dismang: A good yield that was different than what other entities promised?

Treasurer Shoffner: Well, it depended on what they were in. Autumn is my Chief Investment Officer, and she did say that on the \$300 million that I don't know why when the auditor told me that that was okay....

Senator Dismang: I'm going to ask you directly then: Were you ever advised on those 11 trades that that was a bad decision? Were you ever advised by anyone – and you are under oath – by anyone that that was a bad decision?

Treasurer Shoffner: No, no.

Senator Dismang: Thank you.

Treasurer Shoffner: Do you know something, Senator, that I don't know?

Senator Dismang: Ma'am?

Senator Pritchard: We get to ask the questions. Ms. Sanson, to follow up on Senator Dismang's question, did you ever advise Ms. Shoffner that it was a bad deal, a bad decision?

Autumn Sanson: A bad decision on what?

Senator Pritchard: Selling the bonds. I assume he was asking on selling the bonds before call and having so much with one particular broker?

Autumn Sanson: Yes, sir. I have.

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

Senator Williams: Thank you. Just one simple question. Ms. Shoffner, have you ever received email correspondence concerning advice on selling these instruments early?

Treasurer Shoffner: No. Who's talking? I can't...oh.

Senator Williams: I'm sorry.

Treasurer Shoffner: That's alright.

Senator Williams: Ms. Sanson, have you ever sent Ms. Shoffner emails, or are you aware of any emails concerning selling these instruments early?

Autumn Sanson: No. Usually, our communication was by telephone or a face-to-face meeting.

Senator Williams: So was there correspondence with the broker that said, "We don't feel like we should be selling these early, these instruments, because of the downside of the loss"? Surely, someone was advising the broker. The broker wasn't advising you all the time.

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Autumn Sanson: Can you rephrase the question?

Senator Williams: Did you ever question the broker?

Autumn Sanson: Yes, sir, I did.

Senator Williams: Is there correspondence with that?

Autumn Sanson: No, sir. That was by phone as well.

Senator Williams: So we're dealing with hundreds of millions of dollars – in this case billions of dollars – and there's not one piece of paper? You're sitting here saying there's not one piece of paper where you advised someone in a leadership position in your organization that this was incorrect? Or there was some exposure, or there's some concern, or "my professional advice is we shouldn't do this"?

Autumn Sanson: I have it documented myself, but no, I don't.

Senator Williams: When you say you have it documented, what do you mean?

Autumn Sanson: I have written documentation of what I've said to people and when I've said it to people.

Senator Williams: Is it a log, or is it a daily ledger? Hourly?

Autumn Sanson: It's just my own log that I keep.

Senator Williams: So, Ms. Shoffner, I guess my next question – I'll move on – but did you take that advice seriously? You said you didn't receive that advice.

Treasurer Shoffner: No, no. On the 300 million, I went to my auditors with that.

Senator Williams: I talking about specifically these 12 instruments that were sold early.

Treasurer Shoffner: No, I did not.

Senator Williams: At no time, no one advised you that it was...

Treasurer Shoffner: No.

Senator Williams: ...not prudent?

Treasurer Shoffner: No. The only thing that was ever said was about the \$300 million, and I went to the auditors on that to get their, you know, decision or, you know, recommendation or if that was okay to have that much in an account, and it's not how much or who you're with but what you're in, what instrument you're in.

Senator Williams: Let me, one more point of clarification. You said all three of you originally agreed.

Treasurer Shoffner: Well....

Senator Williams: But it's down to maybe one or two now. You said originally all three and the committee there with you made these decisions.

Treasurer Shoffner: That we made the decisions....

Senator Williams: But your CFO said she has no knowledge at all of any of the sales, wasn't privy to the discussion that took place, and she just obviously made the transaction when she was asked to.

Autumn Sanson: No, I was privy in the meeting....

Senator Williams: No, the CFO.

Autumn Sanson: I'm sorry.

Melissa Corrigan: Correct. I was not in the meetings or any discussions regarding the sales.

Senator Williams: So I guess, Ms. Shoffner, I'm confused because, you know, originally, we talked about all three had equal input, and all three agreed, and no one ever disagreed, and you made the decision. So which is correct?

Treasurer Shoffner: Well, it was a collective decision. If one had disagreed, I certainly would.

Senator Williams: But no one in any of those meetings ever disagreed?

Treasurer Shoffner. No, no. The only question that I was told that I might be, you know, that the \$300 million might be too much to have with one broker. That was when I went to the auditors.

Senator Williams: And what was your response to that?

Treasurer Shoffner: I went to the auditors.

Senator Williams: Who was that? Who was the auditor?

Treasurer Shoffner: Joey. Joey Buddenberg.

Senator Williams: And Joey said go ahead and bump it to \$1.3 billion?

Treasurer Shoffner: No, no, no. He said that it's not how much – it was \$300 million that it had gotten to in the account. Is that correct? And that it wasn't how much or who you were, you know, the broker was. It was on what you were investing in.

Senator Williams: One quick question, Mr. Chair. Is there anyone here from St. Bernard's?

Senator Pritchard: Yes.

Senator Williams: So we have the owner? I was just curious because I'd heard some rumors they were in the room, so that may be something we want to, if that's appropriate, to address.

Senator Pritchard: At some point in time, I think that suggestion will be made.

Senator Williams: Thank you, Mr. Chair.

Senator Pritchard: Just a quick sidebar. Two questions: One, Ms. Shoffner, all three of you, we've had, you do remember and you understand completely that all of these proceedings are being recorded and that you're all under oath.

Multiple voices: Yes.

Senator Pritchard: Okay, I just want to make sure because we've had a couple of conflicting statements, and I just want to be sure that everyone is aware that those are not just off-the-cuff statements, that they're being recorded and under oath. My other question for Ms. Corrigan is, the CFO, and you weren't in any of these discussions, procedures?

Melissa Corrigan: No, sir. My main duty in the office is I do the general and special distributions on month-end, and anyway, I work primarily with DFA and fund transfers and between the agencies and the month-end distributions. In my capacity of paying for daily warrants and stuff, I have wiring capability for the banks, so when trades are processed, that how....

Senator Pritchard: That answers my question. It's a very important job. Thank you very much.

Autumn Sanson: If I could elaborate, that is checks and balances in our office. The person that makes the trade would not be the same one to move the money.

Senator Pritchard: Okay. Thank you very much for that clarification. We are.... Representative Meeks.

Representative Meeks: Thank you, Mr. Chairman. The first question I have is for Ms. Sanson. A while ago you had requested whistleblower protection, so it sounds like that you want to do the right thing in front of this committee. So the first question that I have – and again remembering that you're all under oath and you can plead the Fifth to this question – but the question that I have, kind of getting down into the mean. Do you believe that, throughout these transactions and in this office, that there have been any ethical violations or violations of the law?

Autumn Sanson: I just advised that we do not sell bonds early. I don't know that that's my duty to tell what's unethical or what is not or illegal, for that matter. It's just something I do not feel like we should be doing in the office.

Representative Meeks: Okay, so your testimony is that you were just uncomfortable with the sales, but you don't believe that there was any legal or ethical violations to the best of your knowledge.

Autumn Sanson: I don't know the law well enough on that to say that.

Representative Meeks: Okay. The next question I have is for our State Treasurer. One of the findings – and this is one of the ones that concerns me and makes it tough for Audit to do their job – is finding number, looks like finding number 3 here. It says the State Treasury Investment Policy requires each security firm to submit financial statements. Then, when asked to review these documents, we were told the Treasury did not have them. And I would think that general accounting practices would be that you would have these financial statements on hand, both for Audit and for public knowledge of what's going on. So I guess that first question I have is, why were these statements not maintained? And what are we doing forward to fix that?

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Treasurer Shoffner: Well, we have reconciled that, I would ask the same question.

Representative Meeks: That you don't know why you haven't had those or..."

Treasurer Shoffner: I don't know who's to retain them other than my Chief Investment Officer.

Representative Meeks: Okay, so have you assigned that to your Chief Investment Officer to make sure these are maintained in the future so that....

Debbie Rogers: Yes, sir. We have, and she has already obtained all of the financial reports from all the current brokers that we have, and they are in the file.

Representative Meeks: Okay, so next year, the auditors, they'll have access to all that?

Debbie Rogers: Yes, sir, and we intend to get updated ones. I'm sure they're on a calendar year, so come January, we will be requesting new reports.

Representative Meeks: Alright. Thank you. Thank you, Mr. Chairman.

Senator Pritchard: Okay. Senator Key, you're recognized finally.

Senator Key: Thank you, Mr. Chairman. Madam Treasurer, I'm over here to your right, way over here. I noticed on page 3, Exhibit I – this is in the special report. From fiscal year 2009 to fiscal year '10, there seemed to be a very substantial shift in funds going to the U.S.-backed bond obligations. These are Freddie Mac, Fannie Mae type investments. [Pause] Was that a, was there a conscious decision to do that during that time? And are these the same types of bonds that we're talking about here today in these 11 transactions that were talked about in the audit?

Treasurer Shoffner: In the sale?

Senator Key: Yes. First of all, was there a conscious decision to make that shift in what looks like a substantial shift in strategy?

Debbie Rogers: From what time?

Senator Key: Well, from it looks like it was in money market funds to the U.S.-backed. Mainly, it appears to be mortgage-backed bonds. Fannie Mae, Freddie Mac, Home Loan Bank, and Farm Credit Bank.

[Pause]

Treasurer Shoffner: Yes. No, we'll have to research that.

Senator Key: Okay. Alright. Madam Treasurer, earlier you said you didn't know about the commissions. Do ya'll get the settlement statements for these transactions?

Autumn Sanson: Yes, sir. We do get settlement statements, but I don't believe that there's a commission on those settlement statements.

Senator Key: Nowhere? No fees or anything that...?

Autumn Sanson: I've never seen fees on those. No.

Senator Key: Alright. Do you know if the commission on a called bond is different from a commission on a bond that may be sold early? It's my understanding that on these federally-backed bonds, the commissions are very little difference, maybe not any difference at all on called bonds. But I'm curious if they're different on bonds that are sold prior to call.

Autumn Sanson: I do know that there's a commission made when you sell a bond. I'm not for sure if there's a commission made on a call or a maturity that would be regularly scheduled. Is that the question you're asking?

Senator Key: Well, I'm just asking if there's a difference between ones that are mature, sales of mature bonds versus sales of bonds that are early.

Autumn Sanson: We don't keep up with what commissions the brokers make, so I'm unaware. My question would be, I mean my answer would be, no, I don't know the difference.

Senator Key: I'm just trying to understand, you know, why the recommendation from brokers, regardless of who they are, would be selling early. And I don't know if this, if Madam Treasurer you know this or if this is something Audit staff: Who is the fiduciary in this situation? Is it the Treasurer? Is it the Treasurer's Office? Is it the broker? Or is there a fiduciary responsibility in these transactions?

Jon Moore: Are you talking about who holds the, who processes...I think the Treasurer uses the Banker's Bank as their fiduciary?

Autumn Sanson: Yes, that is now First National Banker's Bank.

Senator Key: Okay. But as far as, when I'm talking fiduciary, I'm talking about who's responsible for seeking the best deal for...and I don't know, is it the taxpayers? Is it the...?

Jon Moore: Well, that would be the Treasurer.

Senator Key: Okay. Alright. That's...okay. Thank you. Put me back in the queue, Mr. Chairman.

Senator Pritchard: Representative Burris.

Representative Burris: Thank you, Mr. Chairman. Two questions: One is, I mean, it's a little bit uncomfortable to ask, but I think, given the testimony, it has to be, and I'd like for all members of the, at the table to answer. To your knowledge, is there anybody in the office of the Treasurer that's receiving any sort of personal benefit, financial or otherwise, from anybody associated with the sale or purchasing of the bonds in question?

Autumn Sanson: I'm not aware of any.

Representative Burris: Okay.

Debbie Rogers: I'm not aware of any.

Treasurer Shoffner: No.



Melissa Corrigan: No, neither am I.

Representative Burriss: Okay. Alright. Thank you. And then I think we could sit here probably all day and ask questions that need to be asked, but from what's happened in Committee so far would lead me to believe that we wouldn't get the answers that we need. And so, Ms. Sanson, what I would advise you to do, even though I'm not an attorney, I guess the question is, have you retained counsel at this point?

Autumn Sanson: No, I haven't.

Representative Burriss: I would advise very strongly for you to do that, given your testimony here today and some questions on whether or not the Whistleblower Protection Act will pertain to you and at what point it will. Ms. Shoffner, because of her testimony, I think it's just better off if we all call this what it is instead of ignore it. What I would ask you to do and would like your commitment to do is, for the four, the three of your employees sitting at the table, I would like your commitment to this Audit Committee, to the Legislature, to make no personnel changes, be it demotions, dismissals, any change in staffing or personnel for the three people at the table until Audit has a chance to fully investigate what we believe is necessary to investigate and concludes a report that we have a chance to review. Can I have your commitment to do that?

Treasurer Shoffner: Yes.

Representative Burriss: Okay. Thank you. Thank you, Mr. Chairman.

Senator Pritchard: Senator Sample.

Senator Sample: Thank you, Mr. Chairman. Ms. Shoffner, did I hear you correctly? Did you deny having been given advice from Ms. Sanson not to sell the bonds before the call date?

Treasurer Shoffner: No, I was not given advice not to sell.

Senator Sample: So....

Treasurer Shoffner: She did not tell me....

Senator Sample: Ms. Sanson did not give you advice about selling the bonds before the maturity date? Is...?

Treasurer Shoffner: I think Ms. Sanson was selling. She was the first one on selling the bonds. When was that?

Senator Sample: Thank you, Mr. Chairman.

Senator Pritchard: Representative Lovell. A new face, give you an extra minute.

Representative Lovell: Thank you. Thank you, Mr. Chairman. We've gone way beyond what, what my question's gonna be, and they're not, at least at this point in time, the four people at the table can rest a minute. I'd like to ask some questions of DLA and Mr. Moore, and it pertains to the Exhibit I on page 3. You still here?

Jon Moore: Yes.

Representative Lovell: Good.

Senator Pritchard: Mr. Lovell, could I interrupt you just a moment?

Representative Lovell: Sure.

Senator Pritchard: In light of the fact that just realized how long we've been sitting here, would y'all like to take a brief break?

Treasurer Shoffner: No.

Senator Pritchard: Nobody needs a break? Okay. See, we have the ability to scoot out the back and come back, but if you don't need a break, that's fine. Okay. I'm sorry, Representative Lovell, you're....

Representative Lovell: Okay, Mr. Moore, I understand from an hour and a half ago, I guess, or two, that this chart represents the difference in what the bonds that were sold was paying compared to the money market that it went into for the time that it was out of investment in bonds. Is that true?

Jon Moore: That's, that's part of the calculation. When a, when a, we compared what the bonds were earning, and then we looked at what happened to the proceeds of the bond. If the proceeds of the bond were put in a money market account for a period of time, we gave them credit for whatever interest they would have earned while they were in that account, and then they would come out of that account and subsequently be reinvested in another bond, and from that point forward, we would calculate the interest earned on that replacement bond.

Representative Lovell: Okay, did you, I've also heard testimony that said that they may have got a premium for selling the bond early. Did you include the gain that they may have received from that bond?

Jon Moore: Yes.

Representative Lovell: It's a net in the last column?

Jon Moore: Yes.

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

Senator Pritchard: Senator Rapert.

Senator Rapert: Thank you, Mr. Chairman. Can I give a clarification that was asked that nobody answered on Committee before I ask my question? This was off Senator Key's specific question about the commission situation.

Senator Pritchard: We're not gonna give somebody legal advice, are we?

Senator Rapert: No, I'm not an attorney. I'm a Series 7 licensed representative, though, and I know exactly....

Senator Pritchard: Okay, if you can be very brief.

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Senator Rapert: Senator Key, you were asking....

Senator Pritchard: I reserve the right to cut you off at any time.

Senator Rapert: You bet because I've got my questions, and I'm done. You talked about the difference about a called bond and the commissions related. When a bond is called, it's returned back to the investor, in this case the State, the Treasury, without any commissionable action whatsoever. But when a broker actually sells a bond, they will generate a transaction. Many firms have the discretion to change the amount of commission that they make on a bond transaction on that sell side. So the bottom line is, is that every time that they sold a bond previous to the call date or maturity date, that allowed the broker of record to make money and commissions. Now, can I ask my, I'll ask my questions, and I'll be finished, Mr. Chairman. Page 2 – excuse me, I turned the page – page 4 of the special report on Review of Selected Bond Investment Transactions, Exhibit number II, and I don't know if anybody's still able to put that on the screen, but Exhibit number II on that page, if you can get back to it. I'm gonna go ahead and ask my question. There it is. That states that bond purchases by each of those securities firms. Ms. Shoffner, in relation to that question, why is it that you chose to do \$1.69 billion in transactions with one firm, and the next highest in transactions was only \$886 million? Why is it that you showed that kind of favoritism between firms?

Treasurer Shoffner: Well, it's not that I showed favoritism. Was that buying and selling? Purchases only? Oh.

Senator Rapert: That means that that firm made purchases, sometimes on the same money which may have been redeemed or called or sold to the tune of \$1.69 billion, which is \$804 million than the next highest firm in transactions. Do you have a reason why?

Treasurer Shoffner: No, but I will research that.

Senator Rapert: Okay.

Treasurer Shoffner: I don't.

Senator Rapert: Alright. I want to ask you this question. It relates to the decisions being made. Related to your former Deputy, Ms. Karla Shepherd...

Treasurer Shoffner: Yes.

Senator Rapert: ...Did she ever advise you specifically that you should not make the transactions or that the Treasurer's Office should not sell bonds early?

Treasurer Shoffner: No.

Senator Rapert: She never did?

Treasurer Shoffner: No.

Senator Rapert: Okay. You were asked a question, but I'm gonna make sure to expand this to the fullest, and I'm finished, Mr. Chairman. Have you ever received any remuneration, financial benefit, or donations from St. Bernard or any of their employees?

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Treasurer Shoffner: Are you speaking to me?

Senator Rapert: Yes.

Treasurer Shoffner: No.

Senator Rapert: You've not received any donations, any financial benefit, any remuneration whatsoever from St. Bernard the entity or any of their employees?

Treasurer Shoffner: Well, do you mean political?

Senator Rapert: That's, you can answer however you wish.

Treasurer Shoffner: Well, yes.

Senator Rapert: Okay.

Treasurer Shoffner: Campaign contribution.

Senator Rapert: Okay.

Treasurer Shoffner: That's it.

Senator Rapert: Alright. Thank you.

Treasurer Shoffner: Thank you.

Senator Pritchard: Representative Mayberry, you're recognized.

Representative Mayberry: Ms. Shoffner, you've testified that, that Ms. Sanson did not make these statements to you regarding the selling prior to the maturity dates being not, non-traditional and also that she did not advise, advise you that those were bad decisions to sell those investments. Do you have any idea why Ms. Sanson would testify in contradiction to that? Were you surprised by her answers today?

Treasurer Shoffner: Very, very. I was surprised. But the only thing she ever told me was that on the \$300 million, which I said that I went to the auditor, that's the only thing she said that might, auditors might frown upon. So I went to the auditors to see, and that was the only thing she's ever advised me not to do or to be aware that it might, you know, the auditors, it might raise a flag. So I did go to them.

Representative Mayberry: Does Ms. Sanson receive a personnel review on a periodic basis of any type?

Treasurer Shoffner: No. No.

Representative Mayberry: Have you, how would you characterize her job performance to date in your office?

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Treasurer Shoffner: It's good, but right now, I can see it's lacking. I see that mine is lacking, you know. Of course, I'm the elected official, but I see that it's lacking, and I'm very disappointed that she's made this decision, and I don't know why.

Representative Mayberry: I'm going switch, switch gears for just a moment. You said that you know the family of the broker?

Treasurer Shoffner: Well, when I say "the family," I did not know the, the son, the broker, but his father was from my county.

Representative Mayberry: Can, can you expound a bit on, on your relationship with the family? How far back that goes, what, how close that is?

Treasurer Shoffner: '50s, '50s or '60s. The father's now in the hall of fame of our town, and, but it was the '50s, '60s. He worked in Washington for McClellan. I think it was McClellan. Bu, a prominent family there, but I did not know the broker. And then he came to us and very nice and had the best yields, I thought were the best yields, and so we did go with him on a lot of them.

Representative Mayberry: I'm going to expound just a bit, or expand just a bit, upon what Representative Burriss and Senator Rapert have asked. With regards to receiving, I'm going to say anything of perceived value, not just you necessarily, but any of your friends, acquaintances, family members, from anyone associated with this broker – and by "associated" I mean business-wise or family-wise, and this could, this could include any sort of monetary or gifts or trips or a job by a relative or – can you think of anything of perceived value that, that you've ever received under that...?

Treasurer Shoffner: No. No. Brokers might give me golf balls, chocolate candy at Christmas, so it's, now small things like that, but it's \$100 limit, I think, on a gift.

Representative Mayberry: Okay. Thank you.

Senator Pritchard: Senator Dismang.

Senator Dismang: Thank you, thank you, Mr. Chairman. There is no written record of y'all's meetings when you decide if you are going to buy or sell or anything else. It's just a meeting that you all get together, and you three take a vote. Is that the way that I understand it?

Treasurer Shoffner: Well, we discuss it.

Senator Dismang: We discuss it, but the final decision is up to you, then. So you make all final decisions?

Treasurer Shoffner: Well, we make it collectively.

Senator Dismang: Well, but you sign the deal.

Treasurer Shoffner: If they were against it, I would, you know, see why.

Senator Dismang: Okay. Okay. And so there's really no way....Okay. Just a minute ago, you'd said that St. Bernard's presented you, I guess, with a package showing that they had the best yields. Is that correct? Some kind, they gave you some type of information that led you to

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believe that they were gonna produce the best yields and would allow, and, I mean, so that's the reason you invested so much, correct?

Treasurer Shoffner: Gave me a package or when they would bring one trade in? No, they didn't come to me necessarily. It was to our investment side. That's across the street from me.

Senator Dismang: Okay. Is there a way that I could get a copy of that packet, that proposal that demonstrates that their yields were higher that would then lead to the decision to invest so much with that one entity? Surely, there's a record of something, surely.

Treasurer Shoffner: Yes. Yes.

Senator Dismang: Okay, good. And then I would like to go back to prior comment and motion, if we can.

Senator Pritchard: I'm sorry, I was....

Senator Dismang: Just so we make sure we get a full scope of what we're talking about, we're talking about \$58,000 within this audit period on these short sales. I would like to request that we expand either the scope of this audit or enter in a new one in which we examine the prior four years to see if there was similar types of sales, not limited to that one that had a loss of \$893,000.

Senator Pritchard: Mr. Moore, do you understand the question?

Senator Dismang: You tell me how you want it worded.

Jon Moore: Well, we'll be glad to do, so far we know of 20....

Senator Dismang: An examination of....

Jon Moore: So far we know of 29, and we've looked at 11 of those. So, I guess would you be asking for us to look at the other ones that we're aware of?

Senator Dismang: Right.

Jon Moore: Going back to 2010?

Senator Dismang: Yeah, and let's calculate what the net loss on those were or if it were a gain. Maybe, perhaps it could be a gain.

Senator Pritchard: Okay, do we, we need a motion?

Senator Dismang: We would have to have a motion to expand....

Senator Pritchard: So that's your motion?

Senator Dismang: Yeah.

Senator Pritchard: Okay, does everyone? Do we have a second? Second. Does everyone understand the motion? Okay, repeat the motion one more time, Senator Dismang. A couple of us were asleep up here.

Senator Dismang: I move that we expand the scope of this audit to include similar transactions in the prior four years.

Senator Pritchard: Alright. Discussion of the motion. Representative Meeks.

Representative Meeks: I wonder if the Senator would be willing to expand his motion that at the conclusion, and it may be a foregone conclusion, because the Treasurer has mentioned that she wants to go back and research some stuff herself, that maybe the proper course of action would be to have them come back before this committee at a given date and time once they've had the chance to do research on their own and once the Audit staff has had a chance to broaden the scope. So, maybe substitute motion that we – I don't know, if adjourn right now or what, if that would be best – but that we meet following Senator Dismang's audit.

Senator Pritchard: That would, that would be, I don't think we need a motion for that, that would be a given that, when staff does additional work, they always come back to the Committee, to the Executive Committee and then to the full Committee with the results. So that satisfy you?

[Inaudible]

Senator Pritchard: Alright. Any more discussion on the motion? If not, members only, please vote. All those that approve the motion, signify by saying, "Aye."

Multiple voices: Aye.

Senator Pritchard: Opposed? Motion carries.

Senator Dismang: Thank you, Mr. Chairman. I'm done.

Senator Pritchard: Okay. Representative Hammer.

Representative Hammer: Thank you for the promotion, sir. I know this question was asked, but I'm, I want a follow-up question, so I want to make sure that it's right. Whenever the four of you get together or the three of y'all get together, Ms. Corrigan, do you keep any minutes of the record, do you keep any minutes of the meetings whenever you are together collectively as a group?

Melissa Corrigan: We are never four collectively together in those meetings. I'm not in that meeting.

Representative Hammer: Okay. Ms. Sanson, do you keep minutes, or do you keep records of the discussions that y'all have when you're together as a group?

Autumn Sanson: Sometimes I do, yes.

Representative Hammer: Ms. Shoffner, do you keep minutes or keep notes of when you're together as a group making the decisions that have been discussed?

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Treasurer Shoffner: Yes and sometimes recordings.

Representative Hammer: And so there are some possible recordings out there?

Treasurer Shoffner: Well, not on our meetings. I'm sorry. No. No, I'm sorry.

Representative Hammer: That's alright. Ms. Rogers, do you keep any minutes or notes of the meetings when you all three are together?

Debbie Rogers: I do have some notes, yes.

Representative Hammer: Okay. My understanding, correct me if I'm wrong, I'm gonna address this to Ms. Shoffner. Based on what I'm reading in the Arkansas State Treasurer's report, twice, twice a year, I think I read, the Arkansas State Treasury Investment Policy, you guys get together, is it my understanding that you all get together as the Board of Finance, made up of the Governor, Treasurer of State, Auditor, Bank Commissioner, Director of Department Finance and Administration, twice a year. Is that correct? Did I read that in here?

Treasurer Shoffner: [Inaudible]

Representative Hammer: In any of those meetings that you had, number one, are there minutes, or are those meetings recorded?

Treasurer Shoffner: Yes.

Representative Hammer: And was it ever discussed in any of those meetings the severity of the, of the decline of the investments? Was that ever discussed as a, as a Board?

Treasurer Shoffner: Not to my knowledge, but I will research it.

Representative Hammer: Okay, but those, those meetings are, have minutes or are recorded, so we could go back and look at those and see if, if the nature of what was under discussion today was ever brought to the Board's attention?

Treasurer Shoffner: Right. Yes.

Representative Hammer: But, to your knowledge it was never brought to the Board's attention, so it just kind of confined right here in your department. Is that correct?

Treasurer Shoffner: Yes.

Representative Hammer: Okay, and then, Ms. Shoffner, in the, in the response that you gave to Legislative Audit, the phrase "will be considered," and given the content of discussion of the meeting today, I'd kind of like to ask you to define, and it says, "As currently allowed in the Treasurer Investment Policy, DLA's recommendation to hire one or several outside money managers will be considered." Would you define for me, please, and the body, now what the word "consider" means to you, please?

Treasurer Shoffner: Well, let's look at what it would cost, but I do want, you know, more coverage. I really do, in our office, just like the investment reports we didn't have from the brokers, and, yes, I think we need counselors.



Representative Hammer: Okay, and you said...

Treasurer Shoffner: Consultants, I mean, I'm sorry. I'm tired.

Representative Hammer: Okay. How is that gonna cost us money?

Treasurer Shoffner: The money managers, I'm not sure, and we checked with Teacher Retirement on money managers to see if we need an RFP or whatever, you know, what it would cost. I don't know if they take a percentage of the trade or what, how they, you know, you pay for them.

Representative Hammer: I'll just put....

Treasurer Shoffner: If it's affordable, yes.

Representative Hammer: Okay. I would just echo this maybe to the Legislative Audit, given the amount of losses that it appears that we have incurred if there could be a cost comparison for what this report shows that we have lost versus what it will cost to take that consideration. If we could get a comparison, I'd like to have that when we reconvene and come back together, please. And then, two last questions. Ms. Shoffner, what measureable criteria do you use currently to determine that you're gonna quit using a broker when their performance does not measure up to what they initially told you they could do?

Treasurer Shoffner: Not really any. So I'm...when they tell me what they can't do? Or what, what did you, I'm sorry?

Representative Hammer: Okay. I'll restate the question. What, what measurable criteria do, do you use or do you use as a group to decide we're not gonna use this broker anymore because they came in and said we could do this and then it turns out they didn't? So, when do you decide to quit using a broker?

Treasurer Shoffner: I really haven't. You know, Arkansas's a small state, and you want to help your banks and your brokers and spread it a little bit, but they all have been pretty consistent on the yields.

Representative Hammer: Okay. I would just say this in response to that, it appears we haven't spread it, so we might reexamine that. And my final question to you is, Ms. Sanson, given the level to which this meeting has gone, I would just like to ask why, if you were that uncomfortable and you saw that things were going in the wrong direction and you were not being listened to, why didn't you just resign?

Autumn Sanson: Because I wasn't doing anything wrong.

Representative Hammer: Thank you. Thank you, Mr. Chair.

Senator Pritchard: Good answer. Senator Key. Almost put him back to Representative.

Senator Key: Thank you, Mr. Chairman. I wanted to get some clarification on the, the way this process works, because you said that it was, that this one organization, this one broker comes in and gives the better yield – I'm over here, Ms. Shoffner – gives a, presents a better yield opportunity. How often do you have groups coming in, making these proposals to you? And

when that happens, are they, are they multiple at one time, or is it just a constant flow of things? How does that work?

Treasurer Shoffner: Con-, no, it's multiple, not multiple, but occasionally. Autumn, they usually call my Chief Investment Officer.

Senator Key: Okay. Ms. Sanson, what, when they call you, are they calling you with, "I've got an opportunity here," and then at that point you, you just take what they give you to consider at the time, or are there more than one offers, proposals on the table when y'all make these decisions?

Autumn Sanson: Yes, there are usually more proposals on the table for when we make decisions. We like to get four or five different offers to look over before we make our decisions on our....

Senator Key: So do you solicit those if someone brings something to you, do you call the others?

Autumn Sanson: We – I'm sorry. Some days we do solicit. Some days we don't have to solicit because our brokers regularly send us what they're seeing on a daily basis.

Senator Key: And they do that based on changing market conditions...

Autumn Sanson: Correct.

Senator Key: ...where they think they may have something to present for the dollar amounts that you have?

Autumn Sanson: That's correct.

Senator Key: Okay, and that does make a difference because they're not gonna offer some of these things to smaller, to folks with smaller dollar amounts.

Autumn Sanson: Exactly.

Senator Key: Y'all are a big target.

Autumn Sanson: The amount of money that, you know, a \$25 million trade versus a \$200,000 trade, yeah, there could be a difference in, in the yields. Yes.

Senator Key: Okay, and...

Treasurer Shoffner: But we don't, we don't use new money, do we? I mean, we haven't used new money in a long time. It just goes back in the calls....

Autumn Sanson: No, but I, that's right. I think you're just, you mean if we have a replacement that we need to go back with?

Senator Key: Yes, right. That's what I'm talking about.

Autumn Sanson: Or a call that you need to go back with?

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Senator Key: Yes, you got cash set aside in reserve somewhere that's not necessarily new money. It's just money you've got. I don't – Mr. Weiss is gone. We haven't had any new money in a long time, I think, so.... Well, the reason, I'm trying to get a handle on how consistently one rises to the top above the others.

Treasurer Shoffner: Could I just make a statement here?

Senator Key: Please do.

Treasurer Shoffner: When we have a broker that offers 2% or, say, 1½%, or 1.15, and then another broker comes in with the same at .75. Well, it's the one with the .75, it's his bond that's being called. Do we go back in with him at .75, or do we go in with 1.15? So if that broker can come up and match the other one, we try to get our brokers to be competitive, and if one comes in consistently high, we try to get the others to match that.

Senator Key: Okay.

Treasurer Shoffner: But we're fair in letting them go back, you know, with the....

Senator Key: You give them the opportunity to change their numbers....

Treasurer Shoffner: I give them the opportunity to raise that up. Can you meet this? You know.

Senator Key: Alright. Thank you.

Treasurer Shoffner: And they do, and we give them that. We give it back to them, not to the other broker that had the most, you know.

Senator Key: Alright. Alright. Thank you, Mr. Chairman.

Senator Pritchard: After just three short hours, or four hours, whatever it is now, Mr. Weiss has returned. Do you still have a question for him?

Senator Key: No, I was just wanting him to hear my crack about no new money. That's all.

Senator Pritchard: [Laughs] Okay. Alright, that concludes the questioning. You've heard the motion of what we're gonna go from here. I want to thank everyone: the staff, they did their usual fine job; for all the members who stayed for so long; for the four of you who sat there for, what, three hours now, almost three hours without a break; and I appreciate you coming before us and answering the questions. And, wait, I've got one more late arrival here. Be brief, please.

Representative Burriss: Well, you know, I know everybody's gonna hate me, but we're in 2:45 into this, and we might could make it around 3 even and have the broker who's here offer any words. Is that accommodation we want to offer? I would be interested in hearing it. I'll just put it that way.

[Inaudible]

Senator Pritchard: I don't think. I don't know, we'd.... I don't know that that....

Representative Burriss: I'll leave it up to you. Just a reminder. Thank you, Mr. Chairman.

Senator Pritchard: Yeah, at this late hour, I don't think we can, that he could add anything germane to the audit, especially since we're going to get additional information. Senator Key? Oh, yea. I'm sorry. Does that answer your question? Senator Key?

Senator Key: Well, what you said was what I was gonna ask. Are we gonna have Audit staff follow up on these questions that they said they needed time to research?

Senator Pritchard: Yes, we are gonna do that. We had a sidebar up here. As of now, they do not feel that they can, and they're gonna do the additional research from Senator Dismang's motion, and to get the information from the secretary, Treasurer, from the Treasury Department. We don't think we can get it done by October, and we don't plan to meet in November. However, if we get that information, we will go before the Executive Committee or at the call of the Chairs and possibly look at that in late October if they have all the information.

Senator Key: Okay. Well, not, understanding that the audit's gonna take a little longer, can, when we get the information that they've said that they need time to go research, can we get that when they make it available instead of waiting until the next meeting?

Senator Pritchard: Yes. Yes. That would be different from the regular audit. We'll make that available to the members.

Senator Key: Thank you.

Senator Pritchard: Mr. Weiss?

[Inaudible]

Senator Pritchard: No, there's no new money. [Laughs] Take a mike, please. Identify yourself for the record.

Richard Weiss: Thank you. Thank you, Mr. Chairman. I'm Richard Weiss, the Department of Finance and Administration, and in this particular setting, I'm also here representing the State Board of Finance. We did have a small audit here. I don't know if there's any questions about it, but I wanted to appreciate or pass on our appreciation to Legislative Audit for looking at the various policies. We will look at those closely. We will talk with the other members of the Board. Other than that, I didn't really have any reason for being here, sir.

Senator Pritchard: [Laughs] Thank you. Alright. Okay. State your name for the record and who you represent.

Heath Abshure: I'm Health Abshure, Arkansas Securities Commissioner. We were asked to be here on Friday and today. Hopefully, maybe not the next time, but if any of you have any questions about the inquiry of the Arkansas Securities Department to the broker-dealer or any trades of the Treasury and specifically the letter of caution we issued to the broker-dealer, please feel free to contact me at the office, and I'll be happy to walk you straight through it.

Senator Pritchard: Thank you, and I, and I, if you read the report and you've heard some conversation, undoubtedly there'll be some discussion in the next session about possible changes. Those returning members will, I'm sure, be a part of that. Mr. Bell, do you have anything?

Representative Bell: Yes. Thank you, Mr. Chair. Just briefly, there was reference to information being collected and sent to members. I'd just like to ask that that list be expanded to include all attendees today, all the legislators who were present today, in addition to Committee members.

Senator Pritchard: We could make it to all members of the legislature or all the members that are here.

Representative Bell: Thank you very much.

Senator Pritchard: Or everybody, for that matter. Okay, members, I think that concludes our business, but we have one brief, one brief housekeeping thing. You ladies may be excused. Thank you very much for being here. We have one brief housekeeping measure that did not come up on Thursday at our Executive Committee. Mr. Norman.

Roger Norman: Thank you, Mr. Chairman. We had one request that we failed to have on the agenda at the Executive meeting and that was to look at, do a little report on, Connect Arkansas, and it deals with making the Internet available, more available, and there's some questions, and Representative King has asked us to do that. So, without opposition, we will be pulling that information and visiting with Mr. King to prepare a report on that. Thank you.

Senator Pritchard: Seeing no objection, we will instruct the staff to do that. Thanks everybody for coming and for staying. The motion that never fails. We're adjourned.