SYNOPSIS OF THE MINUTES OF THE
LEGISLATIVE JOINT AUDITING COMMITTEE
DECEMBER 14, 2012

ADOPTION OF MINUTES
A motion was adopted that the minutes of the October 12, 2012, meeting be filed.

REPORTS OF THE EXECUTIVE COMMITTEE AND STANDING COMMITTEES ON COUNTIES AND MUNICIPALITIES, EDUCATIONAL INSTITUTIONS, AND STATE AGENCIES
Motions were adopted that each of these reports be filed.

SUMMARY OF INTERCOLLEGIATE ATHLETIC REVENUES AND EXPENDITURES, 2011-12, DEPARTMENT OF HIGHER EDUCATION
A motion was adopted that this report be filed.

REPORTS PRESENTED AND FILED

- Summary of Intercollegiate Athletic Revenues and Expenditures, 2011-12 – Department of Higher Education

- Arkansas Department of Education – Summary of Grants for Year Ended June 30, 2012

- Special Report – Connect Arkansas – Review of Major Program Initiatives, Sources and Uses of Funds, and Working Relationships

- Performance Audit – Employee Benefits Division – Arkansas Department of Finance and Administration – Arkansas State and Public School Employees Fiscal Year 2012 Health and Benefit Plans

- Special Report Update – Arkansas State Treasury – Review of Selected Bond Investment Transactions

FUTURE MEETINGS OF THE LEGISLATIVE JOINT AUDITING COMMITTEE
The next meeting will be held on May 10, 2013, unless called by the Co-Chairs.

MINUTES OF THE MEETING OF THE
LEGISLATIVE JOINT AUDITING COMMITTEE
DECEMBER 14, 2012

The meeting was called to order by Co-Chair Senator Bill Pritchard at 9 a.m., Friday, December 14, 2012, in Committee Room A, MAC Building, Little Rock, Arkansas.

The following members were present: Co-Chairs Senator Bill Pritchard and Representative Tim Summers; Senators Cecile Bledsoe, Paul Bookout, Linda Chesterfield, Jack Crumbly, Jonathan Dismang, Stephanie Flowers, Missy Irvin, Gene Jeffress, Jimmy Jeffress, Michael Lamoureaux, Randy Laverty, Jason Rapert, Bill Sample, Larry Teague, Eddie Joe Williams, and David Wyatt; Senator-elect Alan Clark; Representatives Denny Altes, Jonathan Barnett, Nate Bell, Lori Benedict, Toni Bradford, David Branscum, John Burris, Ann Clemmer, Linda Collins-Smith, Gary Deffenbaugh, Jon Eubanks, Billy Gaskill, Jeremy Gillam, Kim Hammer, Justin Harris, Debra Hobbs, Allen Kerr, Bryan King, Sheilla Lampkin, Homer Lenderman, Kelley Linck, Buddy Lovell, Walls McCrary, David Meeks, Stephen Meeks, Jim Nickels, Betty Overbey, Mike Patterson, James Ratliff, Terry Rice, Johnnie Roebuck, Mary Slinkard, Garry L. Smith, Randy Stewart, Gary Stubblefield, John T. Vines, John W. Walker, Jeff Wardlaw, Henry "Hank" Wilkins, Jon Woods, and Tommy Wren; Representatives-elect Charles Armstrong, Ken Bragg, Harold Copenhaver, Andy Davis, Charlotte Douglas, David Hillman, Joe Jett, Micah Neal, and Sue Scott.

The following guests were present: from the Arkansas Department of Higher Education: Shane Broadway, Interim Director, and Rod Sweetman, Program Coordinator; from the Arkansas Department of Education: Anita Sacrey, Budget Manager; from the Arkansas Capital Corporation: Sam Walls, President; Emerson Evans, Chief Operating Officer, Connect Arkansas; and Leslie Lane, President, Connect Arkansas; from the State Treasurer's Office: Martha Shoffner, Treasurer of State; Debbie Rogers, Chief Deputy Treasurer; Autumn Sanson, Chief Investment Officer; Janice Lewis, Executive Assistant; and Hunter Johnson, Investment Manager; from the Department of Finance and Administration Employee Benefits Division: Jason Lee, Executive Director, and Doug Shackelford, Program Supervisor; from the Arkansas Securities Commission: Heath Abshure, Commissioner; citizens Carla Shepard, Joel Buckner, Debra Buckner, Charlotte Dumboski, Cord Rapert, David Crow, Janet Crow, and Cory Cox.

ADOPTION OF MINUTES

Co-Chair Senator Pritchard made a motion that the minutes of the October 12, 2012, meeting be approved. The motion was approved without objection and carried as stated by the Co-Chair.

OTHER BUSINESS

Co-Chair Senator Pritchard welcomed newly-elected senators and representatives attending the meeting. Roger Norman, Legislative Auditor, presented gavels to Senator Pritchard and Representative Summers in appreciation for their service as Co-Chairs and recognized other Committee members not returning in 2013. Co-Chairs Senator Pritchard and Representative Summers thanked Mr. Norman and the Division of Legislative Audit (DLA) staff for their work.

Senator Elliott asked for clarification regarding the Committee's policy on issuing subpoenas. Co-Chair Senator Pritchard and Mr. Norman explained that subpoenas are issued only after someone asked to attend a Committee or Subcommittee meeting multiple times has not complied, despite the absence of extenuating circumstances. Senator Elliott asked if individuals have been more cooperative about attending meetings in the past. Mr. Norman replied that it is standard procedure for officials to attend when a report regarding their entity is presented; however, some have chosen not to attend and have been subpoenaed.

REPORT OF THE EXECUTIVE COMMITTEE

Co-Chair Representative Summers presented the report of the Executive Committee and made a motion that the report be adopted. The motion was approved without objection and carried as stated by Co-Chair Senator Pritchard. (Note the minutes of the December 13, 2012, meeting of the Executive Committee for detailed information.)

REPORT OF THE STANDING COMMITTEE ON COUNTIES AND MUNICIPALITIES

Representative Mayberry presented the report of the Standing Committee on Counties and Municipalities and made a motion that the report be adopted. The motion was approved without objection and carried as stated by Co-Chair Senator Pritchard. (Note the minutes of the December 13, 2012, meeting of the Standing Committee for detailed information.)

REPORT OF THE STANDING COMMITTEE ON EDUCATIONAL INSTITUTIONS

Senator Bledsoe presented the report of the Standing Committee on Educational Institutions and made a motion that the report be adopted. The motion was approved without objection and carried as stated by Co-Chair Senator Pritchard. (Note the minutes of the December 13, 2012, meeting of the Standing Committee for detailed information.)

REPORT OF THE STANDING COMMITTEE ON STATE AGENCIES

Representative Hammer presented the report of the Standing Committee on State Agencies and made a motion that the report be adopted. The motion was approved without objection and carried as stated by Co-Chair Senator Pritchard. (Note the minutes of the December 13, 2012, meeting of the Standing Committee for detailed information.)

SUMMARY OF INTERCOLLEGIATE ATHLETIC REVENUES AND EXPENDITURES, 2011-12 – DEPARTMENT OF HIGHER EDUCATION

Mr. Norman explained the content of this annual report. The Committee had no questions, and the report was adopted as presented.

REVIEW OF REPORTS

Arkansas Department of Education – Summary of Grants for Year Ended June 30, 2012

David Webb, Field Audit Supervisor, presented the report Arkansas Department of Education – Summary of Grants for Year Ended June 30, 2012. Each year, DLA staff prepare a summary of all of the grants distributed by the Arkansas Department of Education. The fiscal year 2012 report summarizes the $3.25 billion that was provided as grants to school districts, education cooperatives, and other entities.

Grants are funded from both state and federal sources. During the last fiscal year, $2.5 billion was provided from the Public School Fund, approximately $46 million more than what was spent in fiscal year 2011. The amount of federal funds provided to subrecipients decreased from $769 million to just under $600 million. The majority of this decline was attributed to American Recovery and Reinvestment Act (ARRA) programs beginning to phase out.

A printed copy of the report was not provided at every chair in the Committee room this year; however, a few are available. This report – as well as the reports for prior years – are readily available in pdf form on the DLA website. To access these reports, click on the “Our Reports” tab, and type the word “grants” in the search box.

Arkansas Department of Education – Summary of Grants for Year Ended June 30, 2012 (continued)
In addition to a summary of all funds distributed by the Department of Education, the amount distributed to each school district and charter school is included, along with a comparison of the prior year's total. The current year amounts are further broken down in the various attachments of the report so that the individual programs where those funds came from are indicated. Finally, the back of the report contains brief narratives that describe each of the grant programs administered by the Department.

The Committee had no questions, and the report was adopted as presented.

Special Report – Connect Arkansas – Review of Major Program Initiatives, Sources and Uses of Funds, and Working Relationships
Doug Spencer, Field Audit Supervisor, presented the Special Report – Connect Arkansas – Review of Major Program Initiatives, Sources and Uses of Funds, and Working Relationships to inform the Committee of the activities of Connect Arkansas, Inc., for the period January 1, 2008 through September 30, 2012.

Connect Arkansas is a nonprofit corporation formed by the Arkansas Capital Corporation (ACC) on August 24, 2007. The purpose of Connect Arkansas is to prepare the people and businesses of Arkansas to secure the economic, educational, health, social, and other benefits available via broadband use and to facilitate the availability of broadband service to every home and business in Arkansas.

The objectives of the review were to determine if and how the objectives for the creation of Connect Arkansas, under Ark. Code Ann. §§ 4-113-103, -105, are being achieved; review Connect Arkansas's sources and uses of state funds; and document the working relationship between Connect Arkansas and ACC.

ACC is a privately owned, 501(c)(6) nonprofit organization established in 1957 with the stated objective of serving as an alternative financing source for Arkansas businesses. Its primary goal is to improve Arkansas's economic climate by providing long-term, fixed-rate loans to Arkansas businesses. The Governor's Office contacted ACC in 2007 to inquire if it would be willing to lead a new project named Connect Arkansas to facilitate statewide efforts to enable more Arkansans to subscribe to high-speed Internet services. ACC agreed to serve in this capacity as the arrangement was consistent with ACC's mission of improving the economic climate in the State. Subsequently, Act 604 of 2007 authorized ACC to form Connect Arkansas as a nonprofit organization promoting "broadband education and deployment in Arkansas." On August 24, 2007, ACC formally established Connect Arkansas as a 501(c)(3) nonprofit entity wholly owned by ACC.

Connect Arkansas's responsibilities include increasing high-speed Internet subscription, improving and sustaining Internet usage throughout Arkansas, and promoting broadband backbone networks that provide the bandwidth to support Arkansas home and business needs for the foreseeable future. However, Connect Arkansas does not act as an Internet service provider (ISP), and its responsibilities do not include the actual installation or regulation of broadband infrastructure. Connect Arkansas's responsibilities and objectives are explained in greater detail in Ark. Code Ann. §§ 4-113-103, -105.

Special Report – Connect Arkansas – Review of Major Program Initiatives, Sources and Uses of Funds, and Working Relationships (continued)
In order to determine if these responsibilities were achieved, DLA staff reviewed Connect Arkansas's major program initiatives and accomplishments since inception. These include mapping, planning, and sustainable broadband adoption activities. Connect Arkansas's mapping activities use data collected from Internet providers on speed, availability, and location of broadband services to identify the types of high-speed Internet technology available at specific locations. As a result, a geographic broadband inventory map of where broadband infrastructure exists can be created based on technology used (e.g., wireline, satellite). The mapping data can then be used to identify unserved or underserved areas. Specific programs related to mapping activities are described in the report.

Connect Arkansas's planning activities seek to raise awareness and facilitate discussion of communities' Internet needs, engage community and state leaders in strategic planning for the future at both the local and state level, and encourage collaboration between these leaders and ISPs. Specific programs related to planning activities are described in the report.

Sustainable broadband adoption activities are designed to encourage broadband usage, improve access to governmental and healthcare services, reduce cost barriers for broadband usage, and provide an educational outreach campaign. Specific programs related to sustainable broadband adoption activities are described in the report. DLA staff concluded that Connect Arkansas's existing programmatic activities are consistent with Act 604 of 2007, codified in Ark. Code Ann. §§ 4-113-103, -105, and are being achieved to the extent possible based on available resources.

To determine the sources and uses of state and federal funds, DLA staff reviewed grant award documentation, progress reports to the federal awarding agency, contracts, and accounting records. In addition, DLA staff reviewed the audited financial statement reports issued by a certified public accounting firm in accordance with federal Office of Management and Budget Circular A-133 requirements. All audits between 2008 and 2011 resulted in no findings. DLA staff also reviewed correspondence between Connect Arkansas and the National Telecommunications and Information Administration (NTIA) dated January 26, 2012, regarding the NTIA's field site visit to review grant outcomes.

Total funds reimbursed through awards to Connect Arkansas from 2008 through 2012 totaled $6.1 million. State funds of $1.3 million consisted of grants through the Arkansas Economic Development Commission (AEDC) and the Arkansas Science and Technology Authority (ASTA). Federal funds of $4.5 million consisted of funding under ARRA through the NTIA and non-ARRA funds from the U.S. Department of Agriculture (USDA). Other funds of $230,000 consisted of private sector donations and support from the Foundation for the Mid-South and the Delta Regional Authority. Additional federal funds have been awarded but not drawn; these funds total $5.3 million, with the last federal award period ending September 2014. Federal grants are incurred on a reimbursement basis as expenditures occur.

Connect Arkansas's sources and uses of state, federal, and other funds for January 1, 2008 through October 24, 2012 are summarized in Appendix A on pages A-1 and A-2 of the report. As a result of this review, DLA staff concluded that Connect Arkansas's uses of state and federal funds are consistent with its stated objectives.

Special Report – Connect Arkansas – Review of Major Program Initiatives, Sources and Uses of Funds, and Working Relationships (continued)
To determine the relationship between Connect Arkansas and ACC, DLA staff reviewed the Management Services Agreement between the two entities, executed January 1, 2008. In this agreement, ACC agrees to provide specific management services to Connect Arkansas. As outlined in the agreement, ACC is reimbursed for actual costs incurred on behalf of Connect Arkansas, including "all salaries, wages, fringe benefits, and travel, entertainment and other expenses of the Manager's officers and employees." In addition, DLA staff interviewed ACC staff, reviewed a time and effort report from management and staff, and reviewed a monthly cost allocation to verify that actual expenses reimbursed to ACC from the grants are documented according to internal policies consistent with the Federal Office of Management and Budget.

To enable Connect Arkansas to become operational prior to the agreement, ACC utilized existing staff and infrastructure to prepare a business plan, seek grant funding, and develop the Board of Directors. As resources became available, employees were hired by ACC and assigned to Connect Arkansas to meet operational objectives. ACC elected to house the Connect Arkansas staff in ACC's current offices and to oversee the staff with existing management. Total expenditures reimbursed to ACC by year total $3.1 million and are summarized in Exhibit V on page 10 of the report. The process of allocating the major areas of salary and office cost expenditures is described on page 10 as well.

All of Connect Arkansas's salaries and fringe benefits are processed and paid by ACC and reimbursed from Connect Arkansas's grants. Connect Arkansas has 10 full-time staff members. The working hours of 10 part-time staff members, in areas such as Human Resources and Marketing, are divided between Connect Arkansas and ACC. ACC's senior management has also allocated time in the past to Connect Arkansas. However, in 2012 they also contributed "in-kind" services to assist with meeting the federal grant matching requirements.

Time and effort certification reports are maintained by Connect Arkansas to support any compensation charges made to the grants for senior management, full-time staff, and part-time staff when reimbursing ACC. Total salaries allocated to Connect Arkansas between 2008 and 2012 totaled $2.6 million.

Total monthly office costs paid by ACC, including rent, parking, and Internet service, are allocated monthly by employee and by time and effort reports based on total square footage (e.g., common space square footage and personal office space square footage). For example, if an employee dedicated 50% of his or her time to ACC and 50% to Connect Arkansas, the common space cost for that employee and his or her personal office space square footage would be divided evenly between ACC and Connect Arkansas. The expenditures reimbursed by Connect Arkansas to ACC are reasonable and consistent with the Management Services Agreement.

With ARRA funds fully deployed, Connect Arkansas does not expect to receive additional federal grant awards. The NTIA Sustainable Broadband Adoptions grant funding, intended for 57 counties, will end in September 2013. The NTIA State Broadband Data and Development grant funding, intended for the 17 counties previously mentioned and a statewide map, will end in September 2014. Connect Arkansas will be unable to expand its programs to a statewide initiative in all 75 counties when this funding is exhausted.

Special Report – Connect Arkansas – Review of Major Program Initiatives, Sources and Uses of Funds, and Working Relationships (continued)
Broadband coverage by county and technology is summarized in Exhibit VI on pages 12 and 13 of the report. It should be noted that the information presented represents availability and does not indicate subscriber rates. Connect Arkansas has found that, in addition to focusing on availability of infrastructure, low Internet usage (i.e., demand) must also be addressed. For broadband infrastructure to translate into productivity gains and job growth, it must first be used in all aspects of healthcare, education, business, and economic development.

On November 1, 2012, ACC was recognized with an award from the Arkansas Community Development Society for its work with Connect Arkansas in local communities. In addition, the NTIA has selected Connect Arkansas as one of 15 participants in a research study to evaluate the economic and social impacts of the Broadband Technology Opportunities Program grants and to increase NTIA's understanding of the grants' effects and accomplishments, as well as lessons learned and best practices related to Connect Arkansas's activities around the State.

Based on review of Connect Arkansas, DLA staff concluded that Connect Arkansas's existing programmatic activities are consistent with Act 604 of 2007, codified in Ark. Code Ann. §§ 4-113-103, -105, and are being achieved. Connect Arkansas's uses of state and federal funds are consistent with its stated objectives. The working relationship between ACC and Connect Arkansas is reasonable and consistent with the Management Services Agreement.

Based on the figures presented in the report, Representative Meeks asked if staff salaries averaged $130,000 per year for each employee. Mr. Spencer stated that this amount included benefits, and Senator Chesterfield clarified that the salary total was for a four-year period. Senator Chesterfield expressed her appreciation for the work of Connect Arkansas and the leadership of Mr. Sam Walls, ACC President, for the benefit of the State.

The Committee adopted the report as presented.

Performance Audit – Employee Benefits Division – Arkansas Department of Finance and Administration – Arkansas State and Public School Employees Fiscal Year 2012 Health and Benefit Plans
Mr. Spencer presented the Performance Audit – Employee Benefits Division – Arkansas Department of Finance and Administration – Arkansas State and Public School Employees Fiscal Year 2012 Health and Benefit Plans. Ark. Code Ann. § 21-5-416 mandates that the Committee conduct a performance audit of the entity administering the claims of the State Employee Health and Life Insurance Program. Claim payments for Arkansas state and public school employees are administered by the Department of Finance and Administration (DFA) Employee Benefits Division (EBD). This report is designed to fulfill the Committee's responsibilities under Arkansas Code and provide information to assist in the legislative decision-making process.

DLA staff reviewed health and pharmacy claims for member eligibility, allowable benefit, proper copay and coinsurance, and appropriate diagnostic and procedure codes. As detailed in Exhibit IV on page 5 of the report, DLA's review of claims noted no material exceptions related to claims paid in fiscal year 2012.

Performance Audit – Employee Benefits Division – Arkansas Department of Finance and Administration – Arkansas State and Public School Employees Fiscal Year 2012 Health and Benefit Plans (continued)
Overall, the ASE Fund balance remained flat at $85.2 million in fiscal year 2012 (see Exhibit I on page 3 of the report). The employer contribution declined $1.7 million due to a reduction of 313 budgeted positions, while enrollment increased the amount of employee contributions by $600,000. Pharmacy rebates, investment revenue, and federal grant revenue for the Fund also declined. Health and pharmacy claims increased $9.7 million over fiscal year 2011, and professional fees increased $1.3 million over the same period.

The PSE Fund balance decreased $10.9 million to $27.6 million (see Exhibit II on page 3 of the report). Participant contributions increased $1.9 million, and the Arkansas Department of Education provided $35 million to the Fund in 2012 in accordance with Ark. Code Ann. § 6-17-1117 and an additional $15 million through Act 1075 of 2011 for a total of $50 million. In addition, health and pharmacy claims increased $8.0 million, and professional fees increased $2.6 million over the previous period, resulting in the overall decline of the fund.

The Committee had no questions, and the report was adopted as presented.

Special Report Update – Arkansas State Treasury – Review of Selected Bond Investment Transactions
Co-Chair Senator Pritchard administered an oath to each of the following individuals from the State Treasurer's Office: Martha Shoffner, Treasurer of State; Debbie Rogers, Chief Deputy Treasurer; Autumn Sanson, Chief Investment Officer; and Janice Lewis, Executive Assistant.

Ms. Shoffner read a prepared statement thanking DLA staff for its analysis of bond transaction history and recommendations for improvements at the Treasury. Ms. Shoffner further described new measures to strengthen internal controls and stated the Treasury's desire to continue working with the Committee and DLA staff to enhance investment practices to benefit the State and its citizens.

Co-Chair Representative Summers asked Ms. Shoffner if she thought changing the State's investment policy to allow longer bond maturity dates and to allow investments in high-quality corporate bond obligations could improve the rate of return on Treasury investments without significantly increasing risk, if she had you ever tried to get the investment policy changed, when the present policy was adopted, and if it had been amended since adoption? Ms. Shoffner replied that the investment policy was established in 1997 and that being able to invest in bonds for longer periods would provide the Treasury with more flexibility.

Co-Chair Representative Summers asked Ms. Shoffner if the State Board of Finance reviews the investment policy annually to address changes in the investment market. Ms. Shoffner replied that the economic downturn is causing investment losses every year. Co-Chair Representative Summers stated that the investment policy should be reviewed regularly.

Stating that, at June 30, 2011, the Treasury had $1.3 billion in cash and cash equivalents, Co-Chair Representative Summers asked Ms. Shoffner if she thought this much liquidity was necessary and, if so, why. Ms. Shoffner deferred to Ms. Rogers, who responded that the Treasury reviews liquidity daily because expenses fluctuate based on the State's obligations. Co-Chair Representative Summers asked if $250 million would be sufficient liquidity; Ms. Rogers replied that it would not be on some days.

Special Report Update – Arkansas State Treasury – Review of Selected Bond Investment Transactions (continued)
Co-Chair Representative Summers asked Ms. Shoffner if the overall rate of return on investments is negatively affected by excess liquidity and if any actions have been taken in recent months to reduce excess liquidity. Ms. Shoffner replied that the Treasury has recently placed some money into bonds that had previously been in money market mutual fund accounts.

Co-Chair Representative Summers asked why, in 2009, the Treasury began selling bonds before maturity. Ms. Sanson stated that some brokers provided analysis showing advantages of selling bonds early. Co-Chair Representative Summers asked if these decisions were made based on the management of the Treasurer's Office or advice from brokers; Ms. Sanson replied that it was based on both, which Ms. Shoffner confirmed. Co-Chair Representative Summers asked if the Treasury analyzed transactions for potential net economic gain or loss to determine if the transactions were in the State's best interest. Ms. Sanson replied that the Treasury relied on broker analysis in the past but is now beginning its own analysis efforts. Co-Chair Representative Summers asked if records of broker analysis were kept, to which Ms. Sanson and Ms. Shoffner replied no. Co-Chair Representative Summers asked if the Treasury relied on broker advice to determine if bond transactions were profitable for the State, to which Ms. Shoffner, Ms. Sanson, and Ms. Rogers replied yes. Ms. Sanson added that the brokers have an ethical responsibility to give sound advice based on economic conditions. Co-Chair Representative Summers asked which brokers provided analysis. Ms. Sanson cited brokers with Crews and Associates, Morgan Keegan, and Delta Bank and Trust. Co-Chair Representative Summers asked if documentation from these brokers was maintained, to which Ms. Sanson replied no. Co-Chair Representative Summers asked if transaction results were ever analyzed to determine if brokers were giving sound advice. Ms. Shoffner replied yes but stated that the Treasury has no record of this analysis. Ms. Rogers stated that, since the September 17 meeting, the Treasury has obtained documentation for these transactions. Ms. Sanson added that analysis was done over the phone in the past, with no records kept on paper until the past few months.

Co-Chair Representative Summers asked who discussed investment decisions with brokers and made transaction decisions. Mr. Sanson stated that she, Ms. Shoffner, and Ms. Rogers made collective decisions after discussion and that she and Ms. Shoffner signed related documents. Co-Chair Representative Summers asked if brokers gave advice regarding funds in money market mutual fund accounts and what advice they gave. Ms. Shoffner stated that St. Bernard Financial Services advised the Treasury to move funds from money market accounts to higher yield bonds. Co-Chair Representative Summers asked if written documentation of this advice exists, to which Ms. Shoffner replied yes. Co-Chair Representative Summers asked for how long such documentation has been maintained; Ms. Shoffner replied, and Ms. Sanson and Ms. Rogers confirmed, that such documentation has been kept only over the past few months. Co-Chair Representative Summers asked if these transactions have been completed; Ms. Shoffner, Ms. Sanson, and Ms. Rogers all confirmed that they have.

Co-Chair Representative Summers asked Ms. Shoffner if she or anyone in the Treasurer's Office received any compensation or campaign contributions from any firm or individual involved in Treasury investment transactions and, if so, who made those contributions. Ms. Shoffner stated that she received campaign contributions but would have to look up who made them. Ms. Rogers and Ms. Sanson replied that they were unaware of any other compensation or contributions to anyone in the Treasurer's Office. Co-Chair Representative Summers asked Ms. Shoffner if she reported these contributions, and she replied that she did.

Special Report Update – Arkansas State Treasury – Review of Selected Bond Investment Transactions (continued)
Co-Chair Representative Summers asked how the Treasury chooses brokers to use and, specifically, how it began using St. Bernard. Ms. Shoffner stated that Arkansas firms approach the Treasurer to present their qualifications. Co-Chair Representative Summers asked Ms. Shoffner if the Treasury used St. Bernard before her term in office. Ms. Shoffner replied no and stated that St. Bernard approached the Treasury in 2008/2009. Co-Chair Representative Summers asked Ms. Shoffner why the Treasury began using St. Bernard for most of its investments; she replied that St. Bernard offered good rates. Co-Chair Representative Summers asked Ms. Shoffner if St. Bernard offered better rates than other firms, to which she replied no. Ms. Sanson stated that new brokers respond to requests for proposals and provide their financial backgrounds and company strengths. Co-Chair Representative Summers asked if St. Bernard provided better rates, service, or returns; Ms. Sanson said no and added that any broker would provide about the same rate. Co-Chair Representative Summers asked why St. Bernard was used if its rates, service, and returns were not better than other firms. Ms. Shoffner stated that many brokers are considered, no preference was consciously shown to St. Bernard, and she was unaware of the accumulation of business with St. Bernard until the DLA report; Ms. Shoffner added that the Treasury's additional internal controls and new portfolio analysis system would prevent similar occurrences. Co-Chair Representative Summers asked Ms. Shoffner if she or anyone else in the Treasurer's Office had another connection with St. Bernard's principals prior to Ms. Shoffner taking office. Ms. Shoffner stated that the family of the principals is from her home county but no preference was shown as a result.

Co-Chair Senator Pritchard asked Ms. Sanson why St. Bernard was used so much. Ms. Sanson replied that Ms. Shoffner instructed her to invest with St. Bernard because it had been "good to her" and that the Treasurer's Office could justify using St. Bernard.

Co-Chair Representative Summers stated that the Treasurer purchased $1.69 billion in bonds from St. Bernard between July 2008 and March 2012. At the September 17 meeting, Senator Dismang asked Ms. Shoffner to provide an investment proposal demonstrating that St. Bernard's yields were higher than those of other firms. Ms. Shoffner agreed to do so, but Co-Chair Representative Summers stated that her written response only summarizes information contained in a previous DLA report. Co-Chair Representative Summers asked Ms. Shoffner if she has written proposals from St. Bernard prepared *at the time of investment* demonstrating a higher yield than other firms. Ms. Shoffner first stated that she did and then that she did not. Co-Chair Representative Summers asked when the most recent bond purchases had been made with St. Bernard; Ms. Sanson replied that some purchases had been made from St. Bernard during the past week. Co-Chair Representative Summers asked if bond purchases were made with other firms recently, to which Ms. Sanson stated yes.

Co-Chair Representative Summers asked Ms. Shoffner if investment decisions were directed by her. Ms. Shoffner stated that decisions are made collectively by her, Ms. Sanson, and Ms. Rogers. Co-Chair Representative Summers asked if a non-collective decision has ever been made. Ms. Rogers recalled one instance when Ms. Sanson was absent and she and Ms. Shoffner decided to invest with St. Bernard and UBS Financial. Ms. Sanson stated that Ms. Shoffner directs her to make investments with brokers and recalled instances in which non-collective decisions were made regarding investments with St. Bernard, Stephens, and Bank of Oklahoma. Co-Chair Representative Summers asked Ms. Sanson what would have happened if she had disagreed with Ms. Shoffner's direction; Ms. Sanson stated that she did not know. Ms. Shoffner stated that she would have considered Ms. Sanson's opinion.

Special Report Update – Arkansas State Treasury – Review of Selected Bond Investment Transactions (continued)
Co-Chair Representative Summers asked Ms. Shoffner if she agreed that the current DLA report and the prior report found a lack of internal control because proper checks and balances were not present in the State's investment process. Ms. Shoffner replied that documentation was lacking in the past, though she was not aware of it before the audit, and that new policies and procedures will address the lack of internal controls, which Ms. Rogers and Ms. Sanson confirmed. Co-Chair Representative Summers asked Ms. Shoffner if she could demonstrate how the current State Treasury investment process properly separates the duties of authorization, record keeping, and custody of assets required for basic internal control. Ms. Shoffner identified new documentation policies, a quarterly report to be submitted to the State Board of Finance, and potential legislation amending the State's investment policy.

Co-Chair Representative Summers asked about new staff at the Treasury, and Ms. Shoffner identified Hunter Johnson, Investment Manager, as a newly-hired staff member. Co-Chair Representative Summers asked for clarification of Ms. Sanson's job duties and job title. Ms. Shoffner deferred to Ms. Rogers, who stated that Ms. Sanson, as Chief Investment Officer, makes investments and gives relevant information to Chief Financial Officer Melissa Corrigan, who moves the actual funds. Co-Chair Representative Summers asked how Mr. Johnson's position fits with existing positions. Ms. Rogers stated that Mr. Johnson's position is not new but that Mr. Johnson replaced an employee who retired and will work with Ms. Sanson to evaluate broker offers. Co-Chair Representative Summers asked if Mr. Johnson would be part of investment decision discussions, to which Ms. Rogers replied yes. Co-Chair Representative Summers asked if this structure is outlined in writing, to which Ms. Rogers replied no. Co-Chair Representative Summers asked who would supervise Mr. Johnson; Ms. Rogers identified herself and Ms. Sanson. Co-Chair Representative Summers asked Ms. Shoffner if she has plans to terminate Ms. Sanson's employment, to which Ms. Shoffner replied no.

Co-Chair Representative Summers asked why bond proceeds were placed in money market accounts paying low interest for 28 to 81 days. Ms. Sanson replied that placing proceeds into money market accounts is typical after bond sale, call, or maturity and that it takes three to four weeks for the next settlement of a new issue. Ms. Sanson added that new procedures should speed up the process of settlement in the secondary market. Co-Chair Representative Summers asked if 28 days is sufficient for fund reinvestment, to which Ms. Sanson replied yes regarding new issues. Co-Chair Representative Summers asked if it takes a long period of time to make new investments. Ms. Sanson said new investments may be made on the same day as a bond's call or maturity; however, it often takes two to four weeks for a new issue to settle.

Co-Chair Representative Summers asked if the Treasury tries to reinvest funds with the same broker. Ms. Sanson stated that it does if the bond rates are good but considers options from all brokers. Co-Chair Representative Summers asked why St. Bernard's share of Treasury bond transactions grew to nearly twice the amount of bond investments as the next highest firm during July 2008 and March 2012 if the Treasury tries to reinvest bond proceeds with the same brokerage firm. Ms. Shoffner, Ms. Sanson, and Ms. Rogers all stated that they did not know. Co-Chair Representative Summers asked if Treasury staff know how they will reinvest bond proceeds at the time of bond sale. Ms. Sanson replied that they usually know but not always.

Special Report Update – Arkansas State Treasury – Review of Selected Bond Investment Transactions (continued)
Jon Moore, Deputy Legislative Auditor, presented *Special Report Update – Arkansas State Treasury – Review of Selected Bond Investment Transactions*, an update of a special report issued September 14, 2012, titled *Arkansas State Treasury – Review of Selected Bond Investment Transactions*. This report discussed investment practices and questioned transactions at the Treasury for the fiscal year ended June 30, 2011. As directed by the Committee, DLA expanded its review to include bond investment transactions occurring between January 1, 2007 and May 17, 2012, in which a bond was sold before it was called or reached its maturity date.

For the bond investment transactions reviewed that occurred from January 1, 2007 to May 17, 2012, DLA staff noted the following: Thirty bonds valued at over $615 million were sold and replaced with similar bonds between September 2009 and May 2012, resulting in a net economic loss of $434,249. This net economic loss was calculated by comparing what the Treasury would have earned by holding the original bonds to their call or maturity date to what the Treasury earned by selling the bonds. Schedule 1 on pages 6 and 7 of the report summarizes these transactions.

Three concerns resulted from DLA analysis. The first concern was that the Treasury exchanged bonds for lower rates of return. In one transaction reviewed, the Treasury sold St. Bernard a $25 million non-callable bond that paid a fixed interest rate of 4.25% and replaced it with a bond that paid an interest rate of 2.00% until it was called. While the bond was sold to the broker at a premium of $1.78 million, the large decrease in the rate of return combined with the non-callable feature of the original bond led to an economic loss of $788,239 on this transaction. For 10 of the 30 transactions reviewed, the replacement bonds sold to the Treasury had lower rates of return than the bonds originally held. As seen in Schedule 1 on pages 6 and 7, 3 of these 10 transactions occurred with Bank of Oklahoma, and the remaining 7 occurred with St. Bernard.

The second concern was that selling bonds before they were called or reached their maturity date led to the Treasury holding excess funds in money market mutual fund accounts that paid low interest rates (0.06% average in fiscal year 2010, falling to 0.01% average currently) for extended periods of time. When the Treasury sells a bond to a broker, the proceeds are placed in a money market mutual fund account until the settlement date of the replacement purchase. For example, the $25 million non-callable bond discussed previously had a maturity date of June 14, 2013. As of October 5, 2012, three replacement bonds purchased with the proceeds from selling this bond had been called. This activity caused the funds related to this transaction to be placed in money market mutual fund accounts for a total of 79 days. During those 79 days, $1,692 in interest was earned, compared to the $233,160 in interest that the original bond would have earned at its 4.25% interest rate. In another transaction reviewed, a $25 million bond was sold to Bank of Oklahoma, and the proceeds were placed in a money market mutual fund account for 80 days. During those 80 days, $548 in interest was earned, compared to the $91,667 in interest that the original bond would have earned at its 1.65% interest rate.

The third concern was how quickly the replacement bonds sold to the Treasury were either called by the bond issuer or sold to a broker, resulting in the Treasury having to buy additional replacement bonds. In total, 21 of the replacement bonds sold to the Treasury were either called or sold to the broker within six months. Such transactions are attractive to bond brokers because they create new sales and broker fees.

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Exhibit I on page 3 of the report provides a summary of economic gains and losses by broker on the bond transactions reviewed. Transactions with 3 of the 5 brokers produced an economic net loss for the State. The eight bond transactions with St. Bernard resulted in the largest net economic loss of $783,835. As shown in Exhibit II on page 4 of the report, from July 1, 2008 to March 31, 2012, the Treasury purchased $1.69 billion in bonds (almost double the amount purchased from any other broker) from a broker associated with Apple Tree Investments, Inc. (May 2008 to May 2009), and St. Bernard (June 2009 to present). The Treasury did not maintain documentation that bonds were purchased from the broker providing the best price. Without this documentation, no advantage to the State is apparent from the concentrated use of this one broker.

As originally stated in the *Arkansas State Treasury - Review of Selected Bond Investment Transactions* special report issued September 14, 2012, DLA analysis continued to show the Treasury lacks internal controls over its investment processes because it does not operate with the checks and balances of an independent oversight authority or the assistance of outside investment consultants and professional money managers. The Treasury acted on advice from brokers without analyzing the merits of selling a bond. To create stronger internal controls at the Treasury, the Treasurer, investment consultants, and the State Board of Finance could place funds with a money manager, who would make investments within given criteria. The custodian of funds would then report investment results back to the Treasurer and the State Board of Finance.

As stated in the September 14, 2012, special report *Review of State Board of Finance Investment Policy and Arkansas State Treasury Investment Practices*, DLA staff recommend the following: First, the State Board of Finance and the Treasury should consider contracting with an independent investment consultant for a comprehensive analysis of Treasury investments and recommendations for new investment policies and practices. Second, 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. Third, the State Board of Finance should consider developing a new Treasury Investment Policy, based on recommendations from an independent investment consultant, with the intent of enhancing Treasury investment options and ensuring the Treasury is obtaining the maximum rate of return on its investments without significantly increasing risk. Fourth, the State Board of Finance and the Treasury should develop procedures that facilitate the Board serving a more active role in oversight of Treasury investment activities. Fifth, the Treasury should ask members of the General Assembly to consider expanding the composition of the State Board of Finance to include private citizens who are experts in financial investment to allow the Board a greater opportunity to provide experienced financial oversight to the Treasury. Finally, the Treasury or the State Board of Finance should ask members of the General Assembly to consider changes in investment law requiring better segregation of duties associated with investment practices.

Representative Altes asked for clarification regarding DLA's indication of net economic loss on Treasury investments and the Treasury's indication of financial gain in its response to questions from September 17 meeting. Mr. Moore and Mr. Norman clarified that DLA staff compared profit from early bond sales to profit that could have been gained if the bonds had been held to call or maturity. Representative Altes asked if the Treasury's money managers are paid a fee above any commission they earn; Ms. Sanson replied that the Treasury does not hire money managers.

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Representative Kerr asked if anyone in the Treasurer's Office has securities licensing or training. Ms. Shoffner replied no but added that Mr. Johnson desires to become Series 7 licensed. Representative Kerr asked if Mr. Johnson has any investment training, to which Ms. Shoffner replied yes. Representative Kerr asked if anyone who has worked at the Treasury prior to Mr. Johnson has had securities training or licensing, to which Ms. Shoffner replied no. Representative Kerr asked if the Treasury is continuing to invest with St. Bernard, to which Ms. Sanson replied yes. Representative Kerr asked why the Treasury would continue to invest with St. Bernard when returns were low for an extended period. Ms. Sanson explained that placing investments with St. Bernard is a separate issue from selling and repurchasing bonds and that she believes the Treasury should not sell bonds before call or maturity in the future; Ms. Shoffner and Representative Kerr stated their agreement. Representative Kerr added that the Treasurer's Office should employ staff with extensive securities training; Ms. Shoffner agreed.

Senator Rapert asked if Mr. Johnson is Series 7 licensed now or has been in the past; Ms. Shoffner replied no. Senator Rapert asked how hiring Mr. Johnson could be called a resolution to past issues if he has never been Series 7 licensed. Ms. Shoffner stated that Mr. Johnson would work with Ms. Sanson and that the person in Mr. Johnson's position for the previous 35 years was not Series 7 licensed.

Senator Rapert asked Ms. Shoffner if investment transaction decisions are ultimately hers, to which Ms. Shoffner replied no. Senator Rapert stated that Ms. Shoffner said at the September 17 meeting that she had ultimate authority over investment decisions; Ms. Shoffner disputed this statement. Senator Rapert asked Ms. Shoffner if she makes the final decision regarding investment transactions; Ms. Shoffner replied that she is considered the custodian of the Treasury but that collective decisions are made.

Stating that Ms. Shoffner's written responses to legislator questions did not contain enough detail, Senator Rapert asked for the value of current state assets under management at St. Bernard; Ms. Sanson identified $447 million. Senator Rapert asked for the Securities Investor Protection Corporation (SIPC) coverage and maximum insurance loss exposure per account at St. Bernard. Ms. Sanson stated that she did not know and added that she believes the brokerages are covered under the FDIC's Transaction Account Guarantee (TAG) program. Senator Rapert asked if the Treasury ever considered the limits of exposure per firm under SIPC limits or allowable excess insurance coverage when making decisions to place assets, adding that the limit per account is only $500,000 of SIPC coverage and that firms individually negotiate for excess coverage. Senator Rapert stated that $400 million invested at one firm is high unless a firm's coverage policy says "up to account limits" and asked if anyone at the Treasury has seen St. Bernard's policy. Ms. Sanson stated that she has not seen St. Bernard's policy. Senator Rapert asked if representatives from St. Bernard were present at the meeting to respond to his question about limits of exposure; St. Bernard representatives were not present. Senator Rapert asked the Treasurer's Office find out the total exposure limit per account at St. Bernard and report it to the Committee and pointed out the Treasury's lack of regard for potential exposure to the State if St. Bernard were to close.

Senator Rapert asked if anyone at the Treasurer's Office has ever examined Financial Industry Regulatory Authority (FINRA) broker check records for infractions by Robert Keenan, Chief Financial Officer for St. Bernard. Ms. Sanson replied that they did examine FINRA records for other brokers but not Mr. Keenan.

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Senator Rapert asked Ms. Shoffner if she was aware that Mr. Keenan has three infractions with penalties; Ms. Shoffner replied no. Senator Rapert asked Ms. Shoffner if this knowledge would have changed her mind about investing with St. Bernard. Ms. Shoffner replied that it probably would have and stated that she thought Mr. Keenan was only cautioned.

Co-Chair Representative Summers asked Heath Abshure, Commissioner of the Arkansas Securities Commission, if he was familiar with FINRA and if the report the Committee had received regarding Mr. Keenan was legitimate. Mr. Abshure answered yes to both questions and explained that FINRA is a self-regulatory entity that governs broker/dealers. Mr. Abshure stated that one of Mr. Keenan's violations was from the Securities Commission for letting his license lapse; another was for having insufficient net capital in 2003 and 2007. Senator Chesterfield asked for a copy of the FINRA report. Mr. Abshure added that a lapse in licensing is common among brokers and that Mr. Keenan was unlicensed for a two-year period. Mr. Abshure explained that the brokers who oversee Treasury accounts at St. Bernard are Steve and Steele Stephens and that FINRA contacted Mr. Abshure approximately three years ago because the Stephens' only broker/dealer business is with the State. Co-Chair Representative Summers asked if other firms with whom the State does business have been cited similarly to Mr. Keenan; Mr. Abshure replied most firms and brokers have had some sort of regulatory action against them in the past. Co-Chair Representative Summers asked if it is important for the Treasury to know this information about all brokers with whom it does business. Mr. Abshure replied yes, adding that the Securities Commission encourages all investors to know this information.

Senator Chesterfield asked if the FINRA findings would have precluded the State's use of St. Bernard. Mr. Abshure said no.

Senator Rapert asked Mr. Abshure if he knew the excess coverage per account at St. Bernard. Mr. Abshure replied that he did not but would obtain that information. Senator Rapert stated that knowing coverage per account is important so that excess investments are not exposed to unnecessary risk. Senator Rapert stated that, after hearing testimony, he still did not understand why the Treasury directed so much business to St. Bernard and Steve and Steele Stephens. Senator Rapert asked Ms. Shoffner if she has ever received any cash contributions or remuneration from St. Bernard or its employees, to which Ms. Shoffner replied no.

Representative Stubblefield stated that he was perplexed by the Treasury's premature sale of bonds, lack of proper documentation, and repeated business with firms having a history of economic losses.

Representative Mayberry asked if appropriate investment analysis documentation could be produced retrospectively; Ms. Rogers replied yes and stated that the Treasury now has this documentation. Representative Mayberry asked if Mr. Johnson's duties would be different from those of his predecessor. Ms. Rogers stated that the previous Investment Manager primarily placed trust funds and certificates of deposit with banks; Mr. Johnson's duties will be the same but will also include working with Ms. Sanson on securities investments. Representative Mayberry asked if Mr. Johnson would review broker proposals, to which Ms. Rogers replied yes. Representative Mayberry asked if Mr. Johnson is more qualified than his predecessor, to which Ms. Rogers replied yes.

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Representative Mayberry asked how Mr. Johnson's qualifications compare to Ms. Sanson's. Ms. Sanson stated that Mr. Johnson's primary experience has been in the banking industry, while hers has been primarily at the Treasurer's Office for the past 12 years. Based on the concern Ms. Sanson expressed at the September 17 meeting about the transactions being conducted, Representative Mayberry asked Ms. Sanson if she agrees with Ms. Shoffner's statement that working relationships have been good in the Treasurer's Office since the September meeting and asked Ms. Sanson if she feels that the new processes being put into place will help prevent inappropriate transactions. Ms. Sanson replied that Ms. Shoffner assured her that her job is secure and that her duties will remain the same; Ms. Sanson added that future analysis will be given to Ms. Shoffner so that she can make investment decisions.

On behalf of Representative Hammer, who had to leave the meeting, Representative Rice asked Ms. Sanson if she advised Ms. Shoffner to buy bonds at a loss from St. Bernard, to which Ms. Sanson replied no. Representative Rice asked Ms. Sanson if Ms. Shoffner directed her to sell bonds when Ms. Shoffner knew a loss would result; Ms. Sanson replied yes. Representative Rice asked which brokers had a history of giving the Treasury advice that created premature sales and resulted in losses; Ms. Sanson identified St. Bernard. Representative Rice asked Ms. Sanson if she was aware of any activities or events that could be considered "churning"; Ms. Sanson said that she is familiar with the concept of churning. Representative Rice asked Ms. Shoffner if she took the lead as State Treasurer in dealing with brokers, to which Ms. Shoffner replied no. Representative Rice asked Ms. Shoffner if she showed any preference to certain brokers or had any personal relationships with any brokers before or after taking office, to which Ms. Shoffner replied no. Representative Rice asked at what point Ms. Shoffner determines that the Treasury is not receiving good service from a broker; Ms. Shoffner replied that she relies on her staff and asked to which transactions Representative Rice was referring. Representative Rice stated that he was referring to the transactions resulting in losses, and Ms. Shoffner responded that she relied on information from brokers and Treasury staff. Representative Rice asked Ms. Shoffner if she is aware of any events or actions referred to as churning; Ms. Shoffner replied no.

Representative Branscum asked Ms. Shoffner how brokers are paid. Ms. Shoffner stated that she was not sure. Ms. Sanson stated that brokers earn a commission from the yield for each transaction. Representative Branscum asked if charging a flat rate for service by brokers had ever been considered; Ms. Sanson replied no. Representative Branscum indicated that brokers could be seeking more transactions to earn higher commissions, resulting in less profit for the State.

Representative Bell asked why the State is purchasing bonds through secondary dealers instead of primary dealers, especially considering the State's volume of investment business. Ms. Shoffner stated that the Treasury has discussed that option. Representative Bell asked why it has not been done in the past. Ms. Sanson stated that the State initiating trades rather than using a broker has never been done, though she is not sure why. Representative Bell asked if doing so would financially benefit the State. Ms. Sanson stated that the issue would have to be explored but that hiring someone qualified would require an increased Treasury budget. Representative Bell suggested that higher yields might justify increasing the Treasury budget to hire someone with these qualifications; Ms. Sanson agreed. Co-Chair Senator Pritchard stated that recommendations regarding this issue would be dealt with in the next legislative session.

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Senator Irvin asked if Steele and Steve Stephens' only broker business is with the State. Mr. Abshure stated that after December 2007, the Stephens worked with Apple Tree Investments, and their only broker business was with the State and perhaps one other client. Senator Irvin asked for clarification regarding the violations cited by the Securities Commission; Mr. Abshure stated that the violations were by Mr. Keenan. Mr. Abshure added that broker/dealers are always paid through commissions and investment advisors are typically paid a percentage of assets under management. Mr. Abshure also clarified that Mr. Keenan owns St. Bernard and Steele and Steve Stephens are agents of St. Bernard.

Senator Chesterfield stated that the Treasurer's Office is a separate entity of government, has been "called on the carpet," has been given advice, and has responded with "grace under fire." Senator Chesterfield suggested that legislators with investment expertise put their suggestions in writing to help Ms. Shoffner address the identified deficiencies so that the Treasurer's Office can more forward without repeat findings. Senator Chesterfield added that, unfortunately, investment background and training are not required to be elected Treasurer of State.

Senator Flowers asked how information given to FINRA by the Securities Commission is distributed to investors. Mr. Abshure stated that FINRA maintains the information on its website, or citizens can call the Securities Commission to receive that information. Senator Flowers asked if any other information is published. Mr. Abshure stated that the Securities Commission's consent orders and press releases are maintained on its website. Senator Flowers asked if notice of violations by or sanctions of brokers are sent to the Secretary of State's office for distribution to state agencies. Mr. Abshure stated that the required administrative procedures do not include the Secretary of State's Office. Senator Flowers asked if the Treasurer's Office has a policy regarding use of broker checks before conducting business with brokers; Ms. Sanson stated that she does check brokers with FINRA periodically. Senator Flowers asked if these checks were performed prior to making the investments being discussed; Ms. Sanson stated that they were conducted on Steele and Steve Stephens but not on Mr. Keenan. Senator Flowers asked if the State Board of Finance had discussed or advised the Treasurer's Office to check with FINRA before making investments. Ms. Shoffner said no but that it will in the future.

Ms. Shoffner asked to take a short break. Regarding Senator Chesterfield's suggestions, Co-Chair Senator Pritchard noted that DLA's report offers suggestions to the Treasury and that DLA is currently drafting proposed legislation to address the deficiencies in the Treasurer's Office.

Representative Harris expressed his appreciation to the Committee regarding its work related to checks and balances and asked Ms. Sanson about her comment that St. Bernard had been "good" to Ms. Shoffner. Ms. Sanson clarified that Ms. Shoffner made that statement to her and that she did not know what Ms. Shoffner meant by the statement. Ms. Shoffner stated that she did not recall making the statement. Representative Harris asked Ms. Shoffner if she received any campaign contributions from St. Bernard, to which Ms. Shoffner replied yes, identifying a campaign fundraiser. Representative Harris asked Ms. Shoffner under what names the contributions were made. Ms. Shoffner identified Steve Stephens. Representative Harris asked if these contributions influenced Ms. Shoffner to invest with St. Bernard, to which Ms. Shoffner replied no and added that many investment bankers were invited to the fundraiser.

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Representative Lenderman identified the law firm Kaplan, Fox, and Kilsheimer of New York as contributing $20,000 to Ms. Shoffner's campaign and asked if the firm was involved in any of the 30 Treasury transactions being discussed. Ms. Shoffner stated that it was not and added that $10,000 was returned to the firm. Representative Lenderman identified five attorneys at the firm Nix, Patterson, and Roach of Austin, Texas, as giving $10,000 to Ms. Shoffner's campaign and asked if they were involved in any of the 30 Treasury investments; Ms. Shoffner replied no.

Co-Chair Representative Summers made a motion to refer special report update issued December 14, 2012, titled *Arkansas State Treasury – Review of Selected Bond Investment Transactions* to federal and state law enforcement agencies for further review. Representative Bradford seconded the motion, which the Committee adopted.

After no further questions, the report was filed.

FUTURE MEETINGS OF THE LEGISLATIVE JOINT AUDITING COMMITTEE
The next meeting will be held on May 10, 2013, unless called by the Co-Chairs.

There being no further business, the meeting was adjourned.

[A complete recording of the proceedings of this meeting may be obtained on CD upon request to our office.]

Legislative Auditor

Chair