

An Administrative Review of the Department of Commerce

Members of the General Assembly requested that the Legislative Audit Council conduct an audit of the Department of Commerce (Commerce). Our review focused on whether the department's administrative expenditures have been reasonable and if controls were adequate to ensure accountability. We found that the department has not emphasized cost-effectiveness in its operations and that some expenditures of public funds were not authorized by law.

PRESENTATION CENTER

In 2001, Commerce completed a \$1.9 million presentation center where staff could convey information about South Carolina to industrial prospects using state-of-the-art audiovisual equipment. When the General Assembly did not appropriate funds for the center, Commerce obtained funds from related entities within the department even though the project was not central to the mission of these units.

FUNDS ALLOCATED FOR PRESENTATION CENTER	
SOURCE OF FUNDS	AMOUNT
S.C. Coordinating Council for Economic Development	\$1,200,000
S.C. Public Railways	800,000
Wireless communications company	100,000
TOTAL*	\$2,100,000

*Some funds from the presentation center account were spent for construction not related to the center.

COMMERCE WANTED THE CENTER TO BE
"WORLD CLASS IN EVERY DETAIL"

AND DID NOT PRIORITIZE COST-EFFECTIVENESS.

DECISIONS THAT INCREASED COSTS

Commerce made decisions on equipment, construction, and furniture that significantly increased the cost of the presentation center. The agency spent over \$80,000 on video conferencing equipment that was unnecessary and has been dismantled. During construction, Commerce decided to install larger video projection screens than had been planned. The larger screens were a

primary reason that the agency's construction costs increased by 80% from \$434,000 to \$780,000. Commerce spent almost \$800,000 renovating office space that is not state property. In addition, the department purchased expensive furniture for the center. Usage of the center has been limited, and the department has not marketed the facility to other agencies.

FURNITURE EXPENDITURES FOR THE PRESENTATION CENTER			
DESCRIPTION		COST PER ITEM	TOTAL COST
6	Lobby chairs	\$1,514 – \$1,883	\$10,079
40	Mid-back executive style chairs	\$1,217	48,694
8	High-back executive style chairs	\$1,446	11,569
10	Cherry tables 30 x 72	\$1,016	10,159
1	Credenza	\$2,169	2,169
1	Cherry fax machine cabinet	\$1,465	1,465
1	Table desk	\$2,174	2,174
TOTAL			\$86,309

SPECIAL EVENTS FUND

To supplement its revenues for recruiting businesses to South Carolina, the department solicits contributions from businesses and other organizations for its Special Events Fund. This practice creates a conflict of interest because Commerce officials have the authority to influence public subsidies for the organizations from which they solicit contributions.

Fund revenues totaled \$882,000 in FY 00-01. Revenues from private sources become public when they are received by the department. Under state law, public funds must directly promote a public purpose. Some of the department's expenditures from the fund for employee parties, picnics, lunches, dinners, and gifts violated state law.

Department officials stated these types of expenditures are no longer allowed under new guidelines adopted for the fund.

THE DEPARTMENT'S EXPENDITURES
FOR EMPLOYEE SOCIAL EVENTS
LESSENED THE AMOUNT OF FUNDS AVAILABLE FOR
BUSINESS RECRUITMENT.

QUESTIONABLE SPECIAL EVENTS FUND EXPENDITURES		
EVENT	DATE	AMOUNT
Dinner and alcohol for employee Christmas party	12/99	\$10,011
"Koozie bag" gifts for employee picnic	06/00	\$1,917
Food, alcohol, and facility rental for employee picnic	06/00	\$3,404
Division luncheon	08/00	\$191
Round-trip airfare to Orlando, Florida for employee's spouse	11/00	\$527
Lunch for employee training seminar	12/00	\$407
Sterling bracelet gifts for employee Christmas party	12/00	\$2,321
Travel alarm clock gifts for employee Christmas party	12/00	\$1,596
Entertainment for employee Christmas party	12/00	\$1,200
Christmas cards for employee Christmas party	12/00	\$772
Dinner and alcohol for employee Christmas party	12/00	\$9,741
Division luncheon	05/01	\$283
Food, alcohol, and facility rental for employee picnic	06/01	\$3,759
Apartment cleanings (21) for an employee	01/00-12/01	\$3,360
Flower arrangements (3) for families of employees	01/01-12/01	\$179

PROSPECT EXPENSES

Some Department of Commerce employees were reimbursed for "prospect expenses" when no economic development prospects were present. Also, we could not identify any legal authority for the department to fund state employees' meals when they are not traveling or to pay for meals in excess of state limits.

- # Commerce employees were reimbursed for meals in Columbia when they were meeting only with other Commerce employees.
- # Commerce employees who were not traveling were reimbursed for meals with staff from other state agencies and consultants to the department.
- # Commerce staff were reimbursed for meals with local government officials.

TRAVEL

STATE CONTRACT FOR AIRFARE

The department's expenditures for commercial airline tickets illustrate why a statewide contract for airfare would be beneficial. Commerce staff fly frequently and sometimes have to travel or change their plans on short notice. At these times, they pay high fares. The federal government and other southeastern states have contracts for airfare that increase convenience and result in significant savings. Because all of South Carolina state government spent more than \$8.3 million for airfare in FY 00-01, the potential for savings is great.

**A LOUISIANA OFFICIAL REPORTED THAT BECAUSE
OF THEIR CONTRACTS THEY SAVE
\$4 – \$5 MILLION A YEAR IN AIRFARE.**

HIGH-COST AIRFARES PAID BY COMMERCE		
DATE	DESTINATION*	FARE
09/99	Memphis, TN	\$813
05/00	Nashville, TN	\$830
09/00	Toronto, Ontario	\$1,283
09/00	Pittsburgh, PA	\$859
10/00	Los Angeles, CA	\$2,108
10/00	Chicago, IL	\$1,008
10/00	Detroit, MI	\$992
01/01	Montgomery, AL	\$824
01/01	Portland, OR	\$1,426
02/01	Philadelphia, PA	\$1,024

*All flights were round-trip from Columbia.

LODGING

DEPARTMENT OF COMMERCE LODGING EXPENDITURES					
DATE	LOCATION	COST PER NIGHT*	NUMBER OF NIGHTS	FEDERAL LIMIT	% OVER FEDERAL LIMIT
07/98	Chicago	\$249	1	\$120	108%
03/99	Washington, DC	\$219	2	\$115	90%
04/99	Boston	\$275	1	\$105	162%
10/99	Los Angeles	\$245	5	\$95	158%
11/99	New York	\$390	2	\$195	100%
11/99	Las Vegas	\$305	3	\$55	455%
03/00	San Francisco	\$375	2	\$139	170%
06/00	Milan, Italy	\$757	1	\$144	426%
06/00	Paris, France	\$879	1	\$146	502%

*Cost does not include taxes.

We did not identify material noncompliance with state law in a sample of the department's travel vouchers. However, lodging expenditures revealed an area where the state could exercise more cost-effective management. In contrast to other states and the federal government, South Carolina has no limits on reimbursements for lodging expenses. Commerce employees sometimes spent more than twice the federal limits for lodging.

Also, over a two-year period, the department paid more than \$20,000 for an apartment in Columbia for the Secretary of Commerce. This expense was not authorized by law.

DEPARTMENT OF COMMERCE AIRCRAFT

Commerce owns one aircraft and a fractional share of another. The department has not reported the full cost of operating and owning these aircraft. For its fully-owned aircraft, Commerce excludes personnel expenditures from cost per flight hour calculations. For both aircraft, the department excludes the ownership costs of depreciation and capital. We also identified some high-cost flights that indicate a need for the department to give greater attention to the use of its aircraft and consider less expensive alternatives.

- # In December 2000, the department spent more than \$5,300 in operating costs to fly an employee one-way from West Palm Beach, Florida, to Columbia.
- # In August 2001, the department spent more than \$33,000 in operating costs to fly two "confidential" passengers round-trip from Los Angeles, California, to Columbia.

FREEDOM OF INFORMATION ACT COMPLIANCE

The Department of Commerce adequately responded to citizens' requests for public information submitted from FY 96-97 through FY 00-01. Amendments to the Freedom of Information Act (FOIA) in 1998 required the department to disclose more information about incentives offered to prospective industries. However, there may be a need for increased disclosure.

Commerce does not disclose company-specific information regarding prospects that decide not to locate in South Carolina. Also, we found the department charged some requesters but not others for processing information requests.

CONTRACT MANAGEMENT

We reviewed a sample of the department's contracts for professional services and found that the required services were provided. While we did not find material problems with contract management, in some cases the department reimbursed its contractors for travel expenses that could be considered excessive. For example, the lodging rates shown in the table all exceeded federal per diem rates by at least 139%.

EXAMPLES OF CONTRACTOR EXPENSES		
EXPENSE	DATES	TOTAL COST
Four nights in a London, England, hotel	05/08/99 – 05/11/99	\$2,408
Two nights in a Milan, Italy, hotel	05/17/00 – 05/18/00	\$913
Four nights in a Paris, France, hotel	05/19/00 – 05/22/00	\$1,679
Four nights in a Maui, Hawaii, hotel	11/11/00 – 11/14/00	\$2,246
Round-trip plane ticket from Austin, TX, to Maui	11/11/00 – 11/17/00	\$3,363

LEASED VEHICLES

Commerce should monitor the cost of the cars it leases from the Budget and Control Board. In FY 00-01, the department spent 47¢ per mile for leased cars. It could have saved approximately \$60,000 if it had reimbursed its employees for the use of their own vehicles.

STATE AVIATION FUND

We found that expenditures from the department's state aviation fund were appropriate. This fund is used to pave runways and make airfield improvements to South Carolina airports. However, the ability to carry forward state appropriations for airport capital improvements is needed to complete ongoing projects.



This document summarizes our full report, *An Administrative Review of the Department of Commerce*. A response from the Department of Commerce is included in the full report. All LAC audits are free of charge. Audit reports and information about the LAC are also published on the Internet at www.state.sc.us/sclac. If you have questions, contact George L. Schroeder, Director.