

An Administrative Review of the Department of Commerce (July 2002)

BACKGROUND

The 2002 audit of the Department of Commerce was prompted by concerns about the department's management of its resources. The audit focused on whether administrative expenditures had been reasonable and whether internal controls were adequate to ensure accountability. We did not review the department's management of economic development activities or program results.

Our objectives included a review of the department's new presentation facility, use of its Special Events Fund, expenditures for travel and entertaining economic development prospects, compliance with the Freedom of Information Act, and contract management. Since the audit, a new Secretary of Commerce has been appointed and the agency has reduced its staff and budget significantly.



In our July 2002 audit of the Department of Commerce, we made recommendations to the Department of Commerce and the General Assembly. In our follow-up, we found that both the department and the General Assembly have implemented some recommendations but not others. Below we indicate the extent to which our recommendations have been implemented in areas such as the solicitation and expenditure of contributions to the Special Events Fund, the entertainment of economic development prospects, employee lodging, and the use of aircraft.

PRESENTATION CENTER

In 2002, we found that Commerce had not emphasized cost-effectiveness in its operations, and some expenditures of public funds were not authorized by law. The department completed work on a \$1.9 million audio-visual presentation center in 2001. Included in this cost was more than \$800,000 for renovating office space that was not state property. The agency had no formal budget for the project, and made decisions on equipment, furniture, and construction that significantly increased the center's cost. The use of the center was limited.

In our follow-up, we found that the department has made the presentation center more available to outside agencies. The department has solicited proposals from private companies to both market and manage the center. We also found that the department took cost into consideration when it made \$60,000 in building renovations in 2003 as a result of consolidating its office operations into fewer square feet.

SPECIAL EVENTS FUND

In 2002, we found that the department's solicitation of contributions from businesses and other organizations for a Special Events Fund created a conflict of interest, because Commerce officials have the authority to influence public subsidies for those organizations. State law requires public expenditures to directly promote a public purpose. We found that some Special Events Fund expenditures for parties, picnics, lunches, dinners, and gifts for department employees were inappropriate uses of public funds and violated state law.

In our follow-up, we found that the General Assembly has not amended state law to prohibit the solicitation of contributions by Commerce. The department reports that it stopped soliciting contributions for its Special Events Fund following the 2002 LAC audit. Revenues of the fund declined from more than \$880,000 in 2001 to \$166,000 in 2003. According to a department official, they have not eliminated the possibility of soliciting contributions in the future. Also, in a limited review of Special Events Fund expenditures made by the department in 2003, we found no expenditures that were materially inconsistent with state law.

TRAVEL EXPENSES

In 2002, we did not find material noncompliance with state travel regulations, but the department's travel expenditures highlighted ways the state could save money.

PROSPECT EXPENSES AND MEALS

In 2002, Commerce did not have adequate controls over funds spent to entertain economic development prospects, and we could not identify legal authority for the department to reimburse employees for meals when they were not traveling or to pay for meals in excess of state limits.

METHODOLOGY

We reviewed information from the Department of Commerce and interviewed officials regarding the implementation of our recommendations. We also conducted limited samples of expenditures from the Special Events Fund, employee travel, prospect expenses, and agency flight records. We verified evidence supporting the department's information as appropriate.

FOR MORE INFORMATION

Our full report, its summary, and this document are published on the Internet at

www.state.sc.us/sclac

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In our follow-up, we reviewed a limited sample of the department's expenditures for entertaining economic development prospects and found that the department had improved its management controls. However, with the approval of the Comptroller General, Commerce employees were still being reimbursed for meals in Columbia (department headquarters) and near their homes when the purpose of the meal was to entertain economic development prospects. The cost of some meals exceeded state cost limits. The General Assembly has not amended state law to specifically address whether these meals should be allowable expenses when entertaining economic development prospects.

LODGING EXPENSES

In 2002, we found that, in contrast to other states and the federal government, South Carolina had no limits on reimbursements for lodging expenses. Commerce employees sometimes spent more than twice the federal limits for lodging. If South Carolina adopted the federal limits, it would avoid the expense of developing and updating its own.

In our follow-up, we found that the General Assembly has not amended state law to establish per night lodging limits for state agencies. In a limited review of lodging expenditures made from January 2003 through September 2003, we found that the department's employees sometimes exceeded the maximum amounts allowed by the federal government for its employees.

AIR TRAVEL

In 2002, we found that state government could obtain savings by contracting with airlines for discount airfares. We also found that Commerce was not reporting the full cost of operating and owning its aircraft. Some high-cost flights indicated a need for the department to consider less expensive alternatives.

In our follow-up, we found that the General Assembly has not amended the law to require the state to contract with airlines. Commerce has not changed its methodology for calculating the cost per flight hour of its aircraft to fully capture all operating costs as well as depreciation and the cost of capital. The department also has not reported cost per flight hour data in its annual accountability report.

Also, we found several instances where Commerce aircraft flew to Charleston to either pick up or drop off the Secretary of Commerce, who has a home in nearby Mount Pleasant. For example, on March 10, 2003, an aircraft flew without a passenger from Columbia to Charleston to pick up the secretary, flew him to Aiken, then flew him back to Charleston, and returned to Columbia without a passenger. A conservative estimate of the cost of this flight is \$3,600, excluding depreciation and the cost of capital. The department stated that such travel is sometimes required to ensure the secretary's attendance at significant meetings.

AUTOMOBILE TRAVEL

In 2002, we recommended that Commerce reduce the cost per mile for the vehicles it leases. In our follow-up, we found that department officials had reduced the number of cars they lease from 24 in July 2002 to 8 in December 2003.

FREEDOM OF INFORMATION ACT

In 2002, we found that Commerce adequately responded to citizens' requests for information, but recommended that the General Assembly consider amending the law to allow for increased disclosure of economic development incentives.

In our follow-up, we found that the General Assembly amended state law in 2003 to require the department to disclose economic development incentives and their fiscal impact after the company receiving the incentives agrees to locate in a South Carolina jurisdiction and a public announcement has been made.