



Dave Yost • Auditor of State

House Government Accountability and Oversight Committee

Dave Yost, Auditor of State

**House Bill 312
October 11, 2017**

Chairman Blessing, Vice-Chair Reineke, Ranking Member Clyde and members of the House Government Accountability and Oversight Committee, thank you for allowing me to testify today in support of Substitute House Bill 312.

HB 312 would add additional controls to the way local governments use credit cards. The use of credit cards by local governments has become more prevalent in recent years; and, unfortunately, so too has the incidence of credit card fraud by local government officials. There is no uniformity among the different statutes governing how local governments may use credit cards, let alone guidance on controls for proper use of the cards. It is high time for the State to provide additional safeguards to protect taxpayer dollars from credit card abuse.

Credit Card Dangers: Local Governments at Risk of Theft

As detailed in a report our Office issued this summer, taxpayers and local governments have had more than \$1.2 million stolen from them since 2011 from the use of credit cards. I have attached this report to my testimony for further inspection by the committee. In a survey conducted by the Office, more than 1600 local governments responded to a variety of questions inquiring about their own controls and oversight of their credit and debit card use. The good news is, most local governments are acting in the taxpayer's best interest by providing the baseline controls that a credit card policy should have.

However there are some areas that should be concerning to Bob and Betty Buckeye. There was at least one local government with a credit limit greater than \$1 million! Can you imagine the amount of damage someone with the worst intentions in mind can do with that much credit? The Auditor of State's Office identified credit card misuse in amounts ranging as small as \$154 from the Lawrence County ESC to as big as \$422,781 from the Cincinnati College Preparatory Academy. Each dollar being misspent is significant and ought to be brought up for further inspection. Other notable findings of the report:

- 5% of the entities use a debit card to conduct business
- 10% do not have a credit card policy
- 53% of the entities do not have a policy on what constitutes an allowable expenditure

- 27% of entities have more than 6 cards in use
- 7% of entities have more than 20 cards in use
- 3% have a credit limit greater than \$100,000 with 1 entity being over \$5,000,000

Credit card rewards are another area the Auditor of State's office has provided guidance to local governments on proper use. Under Auditor Betty Montgomery, the Office issued a bulletin advising against the use of flier mile cards as they could be used for personal trips. 75% of the entities we surveyed use a credit card reward program. While credit card rewards are a cost effective way to conduct business, we need to ensure those rewards are being credited back to the entity.

Through our experience from this report and our local government audits, we have found that the majority of local governments utilize some combination of internal controls and independent oversight over the cards. This legislation will help ensure all local governments are using all available means to protect themselves from credit card fraud.

During the course of meeting with numerous local governments, we found that they generally fall into two categories. We have adapted these two categories into models with some proposed additional controls and oversight for each type government. In some entities, the treasurer has control over all of the cards and signs them out – what we call a custody and control model. Entities utilizing this system already have good controls in place and are only required to ensure certain elements are contained in their credit card policies, nothing further. We found that other entities have credit cards spread widely throughout the entity, such as school districts where, in some cases every teacher has a card and cards are spread among all departments. Since there is heightened risk, these entities are required to provide another layer of oversight.

Custody and Control

As noted above, treasurers who have physical control over all credit cards, utilize a system for individual use of the card, and have the name of the entity on the card are said to have a “custody and control” model and can retain their system. These entities require the individual using the card to present an itemized receipt upon returning the card to the treasurer or their designee. Failure to do so in a timely manner results in the employee paying the balance back to the entity.

Compliance Officer Model

Entities where treasurers or fiscal officers do not have physical control of the credit cards, and the name of the entity present, are required to appoint a compliance officer to regularly review the total number of cards, the number of active cards, the expiration dates, and the credit limits for each card. This requirement stems from the Perrysburg Exempted Local School District where the district had 53 total cards, 26 of which were unknown to the district treasurer. In that case, the fiscal clerk used a ghost card to rack up \$91,558 in charges for personal travel expenses, sporting event tickets, and fitness equipment among other unauthorized purchases. While the fiscal clerk is the primary person to blame in this instance, the poor oversight of the treasurer provided the opportunity for fraud to happen. Perhaps if the school district had stronger oversight of the cards, the district might not have become a victim themselves.

Treasurers approve numerous expenditures and cut checks to credit card companies that they believe are proper. However if a treasurer is given the sole responsibility to be the one reviewing the cards and cutting the checks, they could have too much power in the process. To preserve the segregation of duties created by the compliance officer, the treasurer may not serve as the compliance officer and the compliance officer may not utilize a credit card. This requirement would not require hiring additional personnel; rather, the duties would be added to those of an existing employee.

Credit Card Policy

As detailed in Representative Greenspan's sponsor testimony, all of the political subdivisions throughout the state will be required to adopt a credit card policy with a minimum set of guidelines. These minimum requirements establish a baseline from which entities can then tailor policies to their unique circumstances. Again, any credit card system in a political subdivision should have two basic things: strong internal controls and constant, independent oversight.

This bill comes as a result of more than a year and a half of work and meetings with interested parties. I'd like to thank the Ohio Municipal League, Ohio Township Association, Ohio Library Council, Ohio Parks and Recreation Association, the Ohio Fair Managers Association, the respective school board groups – OASBO, OSBA, BASA, representatives from VISA and MasterCard, and the Ohio Banker's League for their feedback to make this a better bill. I'd also like to take a moment to thank Alyssa Bethel from LSC for her help on drafting this legislation in its many revisions.

The Auditor of State's office supports HB 312 and would like to thank Representatives Schuring and Greenspan for their leadership on this issue. Thank you Chairman Blessing and members of the committee, I would be happy to answer any questions you may have at this time.