



Dave Yost • Auditor of State

Reforming Credit and Debit Card Usage in Local Government

The use of credit cards by local governments has become more prevalent in recent years; however, so too has the incidence of credit card fraud by local government officials. Credit card fraud can have a negative financial impact as demonstrated in our investigations of Perrysburg Exempted Village School District and the Village of Mount Sterling.

Perrysburg Village Exempted School District

- District had 53 total cards, 26 of them were unknown to the Treasurer.
- A fiscal clerk in the department made 39 of those fraudulent transactions spending \$84,331.
 - Used the card for personal travel expenses, sporting event tickets, fitness equipment, and booster expenses for a University.

Village of Mount Sterling

- Village Administrator made fraudulent credit card transactions totaling \$724,239 over a 4 year period.
- Made purchases of vehicles, auto parts, televisions, and other items for personal use.
- Sentenced to 10 years in prison in addition to restitution in the amount stolen from the Village.

As shown above, an individual can make hundreds of thousands of dollars of transactions and accumulate a considerable amount of debt while potentially paying a minimum balance on the card, and with no recourse to the local government entity after the fact. Based on the foregoing, the Auditor of State (“AOS”) is proposing legislation to tighten controls over credit card use by local governments.

Local governments will have two options when implementing the new controls being proposed by this legislation. The first model, the “Custody and Control Model”, is a stronger control system and is currently utilized by some local governments in different formats. The second model, the “Compliance Officer Model”, encourages more oversight by an independent officer along with stronger controls. Both models achieve the same goal: protecting the local government and taxpayer from those wishing to defraud them.

Custody and Control Model

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 will be allowed to operate as they currently do. The entity would be required to enact a credit card policy, if they have not already done so. This particular model requires an entity to utilize a system to check out cards and requires the individual using the card to present an itemized receipt upon returning the card to the treasurer. Failure to do so in a timely manner shall result in the employee paying the balance back to the

entity. Any unpaid outstanding balances will constitute misuse of a credit card.

Compliance Officer Model

Treasurers who do not have physical control of the credit cards and have the name of the entity present on the card shall do all of the following:

- Enact a credit card policy which will include:
 - The procedure for use of a credit card.
 - Who can use them.
 - How often cards are to be reissued.
 - Credit limits on each card being issued.
 - A quarterly review process by which the fiscal officer and governing/legislative body reviews the number of cards the entity has, the number of active cards the entity has, and the credit limit for each card.
 - Address what qualifies as an allowable expense.
- Appoint a compliance officer that may not be the treasurer of the entity to and perform the quarterly review process.
 - The compliance officer shall not have the ability to authorize the use of a credit card by an individual nor shall they be authorized to use a credit card.

Definition of a Credit Card

Local governments are afforded a variety of credit card options to make transactions. The language in the bill broadly defines what constitutes a credit card while exempting procurement cards and other similarly functioning cards. These cards utilize merchant category codes also known as MCC's. The MCC's only allow the card to be used for specific transactions and kinds of goods and services. These cards are not likely to be used for fraudulent transactions.

"Credit card" means any bank-issued credit card, store-issued credit card, procurement card, gasoline or telephone credit card, and any other card allowing the holder to purchase goods or services on credit. Credit card in this section does not mean a procurement card, gasoline or telephone credit card, or any other card where merchant category codes are in place as a system of control for use of the card.

Credit Card Reward Reporting

Credit card reward programs are a safe and convenient way for local governments to generate cost savings when conducting business. However without proper oversight and controls, the rewards being offered by credit card companies are ripe for abuse. While the AOS has previously issued guidance in this area to avoid the use of cards where airline miles are rewarded, we understand the benefit to taxpayers when a local government uses "cash-back" cards. Most local governments who take advantage of this option just have the cash back credited to their account. However, local governments choosing to use these cards should be transparent in the amount and kinds of rewards they receive by using the cards.

Language included in the bill directs the AOS to establish a procedure directing local governments as to how they should disclose these items to our office. The rules would allow our office some flexibility in mandating reporting in this area. All of the local governments in Ohio file annual reports with our office via the HINKLE Financial Reporting System. Some of the information being filed with our office is non-material to the financial statement which our office reviews, but is required to be provided by law as is being proposed in this legislation. Our proposal would ensure that these rewards cards are providing a benefit to the entities who use them while promoting transparency.

Enacting a Penalty for Misuse of a Credit Card

Similar to a provision in R. C. §301.27(county credit card statute), we are proposing the a penalty for all governments under R. C. §2913.21 for misuse of a credit card with purpose to defraud. This language would ensure all local government officials are being held accountable at all levels, not just the counties.

“The use of a credit card for expenses beyond those authorized by the authority constitutes misuse of a credit card. Misuse by an officer or employee of a credit card held by the legislative authority, with purpose to defraud, is a violation of section 2913.21 of the Revised Code.”

The penalty would give a local prosecutor more discretion when bringing charges against the accused. The theft in office penalty would already apply in cases surrounding credit and debit card fraud.

Prohibiting the Use of a Debit Card

Due to vulnerabilities for abuse/fraud, we recommend eliminating the use of debit cards by local governments except for law enforcement purposes. Debit cards result in immediate withdrawal without recourse in the case of fraudulent or prohibited transactions. Additionally, debit cards permit cash withdrawals which present a difficulty when trying to track funds.

Exemption for Home Rule Townships and Small Villages

We are also proposing an exemption for home rule townships and villages who do not have the ability to operate a mayor’s court from these requirements should they fall into the category of the compliance officer model. The legislative or executive body will have to approve all credit card expenditures on a monthly basis as presented by the fiscal officer. The presiding officer of the body will be required to sign an attestation verifying the body has reviewed and approved the expenditures.