



**COST OF  
PROMOTIONAL ITEMS**

**From The Office Of State Auditor  
Claire McCaskill**

*State agencies spent up to \$1.2 million for unnecessary or extravagant promotional items to raise awareness of the agencies' programs.*

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**PERFORMANCE AUDIT**



Office of  
Missouri State Auditor  
Claire McCaskill

July 2004

### **Spending for Promotional Items and Gifts Was Sometimes Unnecessary and Excessive**

State agencies have the opportunity to reduce costs or redirect funds by discontinuing purchases and distribution of trivial promotional items and gifts. The audit sample determined 12 agencies unnecessarily spent up to \$1.2 million for promotional items and gifts during the 2 years ended June 30, 2003. Absent any statewide criteria to determine if promotional item purchases were reasonable, auditors established criteria based on what a prudent person would consider a reasonable taxpayer expense.

#### **Purchases for recruiting fairs, trade shows, State Fair and government meetings**

One agency spent \$11,546 for portfolios with calculators, mugs, lanyards (necklaces with hooks), post-it note pads, and mouse pads to be used for recruitment. Other agencies made similar purchases and officials said it was necessary to have an item to "draw" or "attract" individuals to their booths at fairs and trade shows. Some of the items purchased included pencils, pens, bandage dispensers, stress balls and key chains.

#### **Extravagant and excessive gifts**

Agencies could have used less costly items to recognize volunteers and employees. One agency gave out a \$195 Seiko watch as a special recognition award.

#### **Use of promotional items was questionable**

State agencies purchased and distributed promotional items to state legislators, state employees, and private organizations or functions. These distributions are not necessary to conduct state business or promote the agency or its programs.

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YELLOW SHEET

**COST OF  
PROMOTIONAL ITEMS**

**TABLE OF CONTENTS**

|   | <b><u>Page</u></b> |
|---|--------------------|
| <b>STATE AUDITOR'S REPORT .....</b>   | <b>1</b>           |
| <b>RESULTS AND RECOMMENDATIONS.....</b>                                     | <b>2</b>           |
| Spending for Promotional Items Was Sometimes Unnecessary and Excessive..... | 2                  |
| Conclusions.....  | 7                  |
| Recommendations.....  | 7                  |
| <br><b>APPENDIXES</b>   |                    |
| I.    OBJECTIVES, SCOPE AND METHODOLOGY.....                                | 17                 |
| II.   STATE AGENCY PURCHASES .....  | 19                 |
| III.  COUNT OF UNREASONABLE AND/OR UNNECESSARY PURCHASES.....               | 20                 |



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

Honorable Bob Holden, Governor  
and  
Members of the General Assembly  
and  
Agency Directors  
Jefferson City, MO 65102

The State Auditor's Office performed an audit of the purchase and use of promotional items by state agencies. Specifically, our objectives were to determine (1) the total cost of promotional items purchased by state agencies during fiscal years 2002 and 2003, and (2) the nature and justification of the promotional items being purchased by state agencies.

We found state agencies spent up to \$1.2 million for some items that were unnecessary or extravagant. State agencies have the opportunity to reduce costs or redirect funds by discontinuing purchases and distribution of trivial promotional items and gifts.

Our audit was conducted in accordance with applicable standards contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States and included such tests of the procedures and records as were considered appropriate under the circumstances.

A handwritten signature in black ink that reads "Claire McCaskill".

Claire McCaskill  
State Auditor

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## **RESULTS AND RECOMMENDATIONS**

### **Spending for Promotional Items Was Sometimes Unnecessary and Excessive**

State agencies have the opportunity to reduce costs or redirect funds by discontinuing purchases and distribution of trivial promotional items and gifts. The audit determined 12 agencies unnecessarily spent at least \$268,699 and up to \$1.2 million for promotional items and gifts during the 2 years ended June 30, 2003. Agencies purchased these items to use as "freebies" at recruitment fairs, trade shows, and other events to raise awareness of the agencies and programs. In some instances, state employees and legislators received these items. As a result, funds that could have been put to better use for the mission of the agency were wasted.

#### **Audit methodology**

The statewide accounting system identifies purchases for promotional items in a specific expenditure code. According to Office of Administration guidelines, promotional items include "T-shirts, paperweights, cups, glasses, and caps, etc. used to promote an agency activity or Missouri products." We selected 187 of 2,110 invoices (9 percent) for items in that expenditure code and discussed the purchases with pertinent agency personnel.<sup>1</sup> The reviewed invoices accounted for \$698,661 of \$3,236,503 spent for promotional items (21 percent) by state agencies during fiscal years 2002 and 2003. Absent any statewide criteria to determine if promotional item purchases were reasonable, we established our own criteria based on what a prudent person would consider a reasonable taxpayer expense. We set the following criteria for benchmarking the purchases:

- Did the purchased item promote a particular program or product of the agency?
- Was the purchased item a prudent method for conveying the agency message?
- Was the purchased item necessary to accomplish the business purpose?
- Did the purchased item have any effect on the success of the event?
- Was the purchased item given to employees?
- Was the purchased item extravagant for the purpose it was given?

We compared the selected purchases and agency explanations to the benchmark criteria to judge if the purchases were reasonable. We gave agency personnel the opportunity to review our conclusions, and their responses were considered in the final analysis.

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<sup>1</sup> Our sample of invoices covered a limited number of purchases at several agencies. In another audit of the Office of Highway Safety a more in-depth review of the purchase of promotional items was performed and will be reported separately.

## Agencies have reduced spending for promotional items

Budget cuts impacted the amount of funds spent on promotional items. Table 1.1 shows the amounts and percent of decrease in spending.

**Table 1.1: Expenditures for Promotional Items**

| Fiscal Year | Amount for Promotional Items | Annual Decrease |
|-------------|------------------------------|-----------------|
| 2000        | \$2,956,003                  |                 |
| 2001        | 2,524,802                    | 15%             |
| 2002        | 1,811,458                    | 28%             |
| 2003        | 1,425,045                    | 21%             |

Source: SAO analysis

## Agencies could improve management of funds

Our analysis of the 187 invoices selected for review showed 38 percent of the dollars spent were for unnecessary purchases as shown in Table 1.2. The items we questioned were trivial and unnecessary to accomplish their intended purpose, or extravagant for their intended purpose. (See Appendix III, page 20, for a list of the items purchased). The items we did not question could be directly related to a business purpose and generally had a measurable outcome.

**Table 1.2: Test Results**

| Disposition                     | Invoices   | Amount           |
|---------------------------------|------------|------------------|
| Unnecessary Purchases           | 109        | \$268,699        |
| Appropriate Purchases           | 78         | 429,962          |
| <b>Total Purchases Reviewed</b> | <b>187</b> | <b>\$698,661</b> |

Source: SAO Analysis

The 187 invoices were representative of the purchases contained on all 2,110 invoices. We selected our sample invoices based on dollar value and item description. Therefore, the amount of unnecessary purchases could be as high as \$1.2 million (.38 x \$3,236,503).

## Purchases for recruiting fairs, trade shows, State Fair, and government meetings

Ten of the 12 state agencies purchased promotional items to give to (1) prospective employees on recruiting visits, (2) visitors to tradeshows and the State Fair, and (3) participants at various government sponsored meetings. Agencies said it was necessary to have an item to "draw" or "attract" individuals to their booths. Some of the items purchased included pencils, pens, bandage dispensers, stress balls and key chains.



- The Department of Corrections spent \$6,933 for toothpick dispensers, cubicle clips, pens, key chains, etc. These items were used at employee recruiting fairs or given to potential customers of the Missouri Vocational Enterprises (MVE) program. MVE officials said these items were "attention getters" to attract potential applicants for corrections officers and were necessary for them to compete for employees and business. During our interview with department officials, we noted many of these promotional items were being used in their and other employee workspaces, indicating promotional items were being given to employees.

- The Department of Public Safety, Missouri State Highway Patrol spent \$11,546 for portfolios with calculators, mugs, lanyards (necklaces with hooks), post-it note pads, and mouse pads to be used for recruitment. Department officials said "due in part of the distribution of these items, our application pool increased...."



- The Department of Economic Development spent \$907 for stress balls and tape measures to be used for recruitment. Department officials said "the agency has several positions that are difficult to fill.... Items, such as stress balls, key chains, and tape measures/levels that have the agency's name imprinted serve to remind applicants to consider the agency, as well as the State of Missouri, as a potential employer."
- The Department of Economic Development, Board of Embalmers, spent \$310 for toothpick dispensers that were given away at a convention booth. According to board officials "this convention is attended by various licensees.... After licensees are drawn to the booth to pick up the 'promotional giveaway', various personnel have the opportunity to visit with the licensees...."
- The Departments of Agriculture and Transportation, Office of Highway Safety bought tote bags, totaling \$4,480, to give to participants at meetings/conferences. Department officials said "the bags are a means of accumulating educational materials for participants, are a tool that will reinforce the message."
- The Department of Health and Senior Services spent \$5,886 for fold-up hair brushes and pens to give to clients who received free screening services, to remind them of the available services. Additionally, the department spent \$5,178 on cups, pens, post-it note pads, labels, decals, and t-shirts which were imprinted with the department's Public Health slogan and logo. These items were given to local public health agencies as a part of the department's campaign to market public health.
- The Department of Agriculture spent \$436 for 1,575 business card magnets to be distributed at tradeshow and fairs.

- The Department of Conservation spent \$842 for magnetic sculptures to be used for recruitment.
- Four agencies purchased promotional items, such as key chains, magnets, plastic litter bags, rub-on tattoos, and plastic cups for the State Fair, totaling \$22,928. Generally, agencies' said these giveaways promoted public awareness of the agency and/or the agency's programs.

**Extravagant and excessive gifts and other items**

Table 1.3 shows details of extravagant purchases for volunteers and employees. The cost of these items was excessive and other less costly means of recognition could have been used.

**Table 1.3: Extravagant Purchases**

| Quantity Purchased | Item Purchased           | Total Cost of Purchase <sup>1</sup> |
|--------------------|--------------------------|-------------------------------------|
| 2                  | Seiko Watches            | \$390                               |
| 5                  | Hand-made pottery pieces | 360                                 |
| 7                  | Polo shirts              | 310                                 |
| 15                 | Lands End denim shirts   | 505                                 |

<sup>1</sup>Total cost includes any applicable shipping and handling charges.  
Source: Agency invoices

- The Department of Conservation provided Seiko watches valued at \$195 each as special recognition awards. One watch was given to the volunteer Hunter Education Instructor of the Year and the other is still in inventory. While recognizing volunteers for their service is commendable, the extravagance of these awards is hard to justify. Certificates or inexpensive plaques would have been a less costly means of recognition.
- The Department of Economic Development provided handmade pottery vases and a bowl, as gifts to panelists at the Missouri Policy Academy and to the National Governor's Association for sponsoring the academy. One of the items cost \$100 and the other four cost \$50 each.
- The Department of Transportation purchased polo shirts, valued at \$44 each, as recognition gifts for employees who were instrumental in promoting a special project. Additionally, the department purchased denim shirts, valued at \$34 each for employees working at the State Fair.

**Items were distributed to state legislators, state employees, and private organizations**

Promotional items are to be purchased to promote an agency activity or Missouri product. However, state agencies purchased and distributed promotional items to state legislators, state employees, and private organizations or functions; none of which are necessary to conduct state business or promote the agency or its programs. Some examples of the items and the agencies' rationale for providing these items include:

Questionable use  
of promotional  
items



- The Department of Agriculture annually gives gifts to legislators to promote Missouri products. For the 2004 legislative session, the department gave the legislators a gift bag that contained two sticks of cotton candy and three bags of popcorn, plus cups and napkins. The department also purchased cups and napkins, totaling \$680, to be used at the 2003 mini-fair reception at the capitol for legislators, their staff, press and other invited dignitaries. Department officials indicated this reception was to promote the State Fair, and the cups and napkins contained the theme and dates of the fair. Additionally, the department bought snacks, totaling \$677, for the gift baskets that were distributed to state department directors to promote Missouri products to key decision makers and spent \$200 on blueberry cobblers which were sent to congressional members in Washington, D.C. to promote AgriMissouri products. Department officials explained these gifts and others given by the department are an integral part of an overall business strategy to showcase and raise awareness of Missouri agricultural products.

- The Department of Higher Education bought mini staplers, staple removers, and decals, totaling \$5,754. The agency's justification was these items were distributed to counselors and financial aid offices to be given to students applying for aid. Department officials also indicated "at times we are contacted by other agencies to donate/contribute items that provide information about our agency for staff appreciation events."



- The Lottery Commission<sup>2</sup> spent \$16,304 for expandable briefcases, vinyl portfolios, rain bonnets, and shoe horns and gave them to attendees at meetings/conferences to promote the lottery. Additionally, the Lottery Commission paid \$1,300 to sponsor a golf hole at the Petroleum Marketers Association annual golf event. This is a private event with very little exposure for the lottery.
- The Lottery Commission also spent \$3,119 for television sets and DVD players to give to retailers to enhance working relationships with them. These items were gifts to the retailers and the Lottery Commission has no knowledge of how they were used by the retailers. The premise for giving these items is flawed because it assumes the retailers would not sell the Missouri lottery games without the gifts.

Gifts to  
retailers

These gifts were unnecessary extravagances that represent waste in government spending and were made at the expense of programs directly related to the missions of the departments.

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<sup>2</sup> Department of Revenue

## **Agency representations**

Agency representatives supported their purchases of promotional items as necessary to promote programs and to recruit staff. We acknowledge there are some occasions where the promotional item would serve a useful purpose. One example is the litter bags the Department of Conservation gives to canoe rental companies. The bags promote the department and are placed in each canoe to encourage the public to keep trash out of the rivers. They are provided for immediate use and the bags are reusable. Additionally, the effectiveness of this promotion is easily measured. However, the items we questioned serve no specific business purpose and are merely giveaways or extravagances that should not occur.

## **Conclusions**

Although spending has decreased, state agencies have purchased promotional items that are not necessary and extravagant or excessive. State and federal funds spent could have been redirected from purchasing unnecessary promotional items and used for needed services or goods. State agencies should be more vigilant in their decision to purchase promotional items, and ensure that promotional items are reasonable and necessary.

## **Recommendations**

We recommend the Directors of the Departments of Agriculture, Conservation, Corrections, Economic Development, Health and Senior Services, Higher Education, Labor and Industrial Relations, Natural Resources, Public Safety, Revenue, Social Services, and Transportation:

- 1.1 Discontinue purchasing and distributing unnecessary and excessive promotional items and gifts.
- 1.2 Discontinue giving gifts and promotional items to state employees, legislators and private organizations.
- 1.3 Ensure promotional items serve a public purpose.

## **Department of Economic Development Comments**

- 1.1 *We concur, however we believe Department of Economic Development's current practice does not include the purchase and distribution of unnecessary and excessive promotional items and gifts. The audit report cited two instances when the Department distributed promotional items.*

*The first item was the expenditure of \$907 by the Public Service Commission for stress balls and tape measures used for recruitment at career and diversity employment fairs. Since distributing items that have the employment contact information located on them, the Public Service Commission has been much more successful in hiring employees for difficult to fill positions. Attendance at the career and diversity employment fairs resulted in the direct hire of three positions. The uses of these promotional items are*

*considered cost effective as the cost of only one employment advertisement in a metropolitan paper can exceed \$1,200.*

*The second item mentioned in the report is \$310 spent by the Board of Embalmers for toothpick dispensers. The dispensers were used as promotional items at a booth during the Missouri Funeral Directors Convention, which is attended by licensees and industry professionals. After licensees are drawn to the booth to pickup the "promotional giveaway" various personnel have the opportunity to visit with the licensees and educate them about any new regulations and potential violations. When licensees are better informed and comfortable with contacting board staff, risk of violations are lessened resulting in cost savings to the board. The board feels that \$309.62 for 250 toothpick dispensers is a minimal cost compared to the potential thousands of dollars in costs from a violation or complaint handled by the board.*

- 1.2 *The Department of Economic Development concurs that extravagant and excessive gifts should not be given to private organizations. We believe that the pottery items from a Missouri-owned business purchased for panelists and the conference facilitator at the Missouri Policy Academy were neither extravagant nor excessive gifts. The Department does not routinely provide such items, but because of the following reasons it was determined appropriate to provide this token of appreciation for their participation while still promoting Missouri products.*

*The Department of Economic Development held the Missouri Policy Academy sponsored by the National Governor's Association (NGA). The NGA covered the cost of the conference. The panelists participated on their own time and no other fees or expenses were paid by the state. They assisted us in developing priorities and action plans to encourage small business growth and entrepreneurial development in Missouri. They provided the framework for analysis and helped us compare Missouri to the actions of ten other states. If the Department were to have organized and conducted this conference on our own, it would have resulted in the expenditure of several thousand dollars.*

- 1.3 *We concur that this should be done and we believe that the Department of Economic Development already ensures that promotional items serve a public purpose. The Department is involved in marketing the state, promoting state industry, informing individuals about opportunities within the state, and in the regulation of various professions. The limited use of nominal promotional items can be a valuable tool in conducting these activities.*

## **Department of Public Safety Comments**

- 1.1 *Beginning in the early 1990's the hiring practices came under review by the Department of Justice (DOJ). As a part of that review, it was recommended that the Patrol increase its attempts to hire qualified minorities. The Patrol's recruiting budget was increased to \$79,000 during the two years in question. This money covered the cost of attending recruiting events and advertising. The portfolios, mugs, lanyards, post-it notes and*

*mouse pads, in addition to pencils and pens, which are also kept in stock, were given out for the purpose of recruiting. All items list the toll free recruiting number specifically set up for recruiting. The items can be distributed at recruiting events along with informational pamphlets. The items are considered advertising just as if the money was used to purchase a billboard display, magazine and newspaper ads, or radio and television advertisements. Items of this nature are considered an accepted practice in private and public sector employment recruiting events. The Patrol aggressively searches for items that can be bought in a large volume with a minimal cost. The promotional items are not considered unnecessary or excessive by the Patrol.*

- 1.2 *The Patrol has a detailed recruiting plan with full-time and part-time recruiters. It also emphasizes that all employees should recruit qualified applicants. In order to keep employees in a recruiting mind set, they are given access to pencils, lanyards, etc. Our employees distribute these items to those they come into contact with. Patrol employees, uniformed and civilian as a whole, feel as if they are contributing to the public welfare. Some of the best recruiting comes from within the families of the Patrol. Numerous family members of Patrol employees have applied for a variety of positions with the agency. Legislators and private organizations or individuals, contact us to recommend excellent employment candidates on a regular basis. Due to the high volume of visitors to legislator's offices, we have found that this is also an excellent avenue for recruitment.*
- 1.3 *The Patrol is a public service agency with very high selection standards. We have a goal of selecting the best applicants. By circulating the toll free recruiting number, we have made every effort to recruit employees in compliance with the goals of the Department of Justice and the expectations of the citizens for Missouri.*

### **Department of Labor and Industrial Relations Comments**

- 1.1 *We concur; however, the Department will continue to purchase and distribute those promotional items that serve a public purpose.*
- 1.2 *We concur; however, the Department will continue to give length-of-service awards to our employees that are comparable in price to Missouri Vocational Enterprises plaques. We will compare prices periodically to ensure that the employee recognition program remains a modest expense. The Department does not condone gifts to legislators or private organizations.*
- 1.3 *We concur.*

### **Department of Conservation Comments**

*The Missouri Department of Conservation (MDC) will continue to review all expenditures to ensure they are reasonable and an appropriate use of public funds. We do not routinely provide gifts or promotional items to state employees or legislators; however, we will ensure all promotional items serve a public purpose and are in the best interest of the Department.*

*The MDC is extremely fortunate to have a large network of volunteers who help accomplish our mission. These volunteers provide well over 100,000 hours of service to the Department each year; these hours equate to approximately \$2,000,000. The amount of money spent by the MDC to provide gifts of appreciation, incentives and acknowledgements to these volunteers represents a small percentage compared to the value of the service volunteers provide. The \$195 Seiko watch awarded to the Hunter Education Instructor of the Year is one of the most expensive gifts awarded; however, this cost is minor in comparison to the value of the hours donated by all volunteer instructors who provide over 12,500 hours of hunter education each year.*

### **Department of Corrections Comments**

*Chapter 217.570 RSMo states "Open market sales may be made in case of excess inventories and at prevailing market prices for goods and services of like quality and kind, if it is considered to be in the best interest of the department." MVE promotes its goods and services to state agencies, other public entities, not-for-profit organizations, etc. through a variety of marketing efforts such as catalogs, trade-shows, direct mail, and promotional items. In addition to these markets, MVE has consistently engaged in open market sales to state employees but has relied on "word-of-mouth" advertising to do so. Because state employees are potential customers of MVE, it stands to reason the MVE would, from time to time, make some of its' promotional items available to state employees.*

### **Department of Health and Senior Services Comments**

*We would like to explain the two items we disagree with that you cited for our department in the report:*

- 1. Hairbrushes and pens: the fold-up hairbrushes and pens were related to the Breast and Cervical Cancer Control Project (BCCCP), which is funded through the Centers for Disease Control and Prevention (CDC). CDC considers these items as incentives to further public education and recruitment tools.*

*The BCCCP purchased 1,800 brushes at a unit cost of \$1.60 and 7,500 pens at a unit cost of .40 cents for a total unit cost of \$2. This is a minimal cost for the outreach efforts to educate and have a positive impact. It is one form of advertisement and more effective in that it is specifically directed to the client one wants to reach verses comparable methods, such as radio or billboards.*

- 2. Items with slogan and logo imprinted on them: these items were for a marketing campaign for the Center for Local Public Health Services to raise awareness of public health in Missouri. We feel the purchase conforms to the benchmarking criteria set forth in your audit report. The purpose and objective of a marketing campaign is not easily measurable as to its effectiveness. It is only through positive feedback from local agencies that we work with.*

*Recommendations:*

- 1.1 *We disagree for the reasons cited above. The department does not purchase unnecessary and excessive promotional items and gifts.*
- 1.2 *We disagree. The department did not and does not provide gifts and promotional items to state employees, legislators, and private organizations.*
- 1.3 *We concur with the objectives of the audit, and have, and will continue to follow it.*

**Department of Revenue, Lottery Commission Comments**

*As indicated in your audit (page 5, last paragraph), "Promotional items are to be purchased to promote an agency activity or Missouri product." We believe our responses below demonstrate that the expenditures mentioned did promote the Lottery and sale of its products. Additionally, this same paragraph states in part, "none of which are necessary to conduct state business or promote the agency or its programs." Again, we believe that our responses below demonstrate that the expenditures mentioned did promote the agency and its programs with very positive results and thus can be considered appropriate expenditures.*

*Audit Issue: "The Department of Revenue Lottery Commission spent \$16,304 for expandable briefcases, vinyl portfolios, rain bonnets, and shoehorns and gave them to attendees at meetings/conferences to promote the lottery."*

*The Missouri Lottery is mandated by the Missouri Lottery Law to achieve a 10% expenditure level with Minority Business Enterprises (MBE) and in addition a 5% expenditure with Women Business Enterprises (WBE) on an annual basis. In FY-03 the Lottery spent \$2,651,898 with MBE and \$1,325,949 with WBE; a total expenditure of \$3,977,847. The expenditure of \$16,304 referred to in the audit represents .004% of the Lottery's total MBE/WBE expenditure in FY-03. All of these items were purchased from MBE/WBE businesses and were utilized as in kind (as opposed to cash) support of community events which are an integral part of the program necessary to achieve the legislative mandated goals. These items all carry the Lottery imprint and logo which promotes the Lottery in many communities in the state. This in turn helps achieve the dual goal of meeting the legislative mandate and promoting lottery sales and support.*

*Audit Issue: "The Lottery Commission paid \$1,300 to sponsor a golf hole at the Petroleum Marketers Association annual golf event. This is a private event with very little exposure for the Lottery."*

*The Missouri Lottery does not concur in the conclusion that this event provides "very little exposure for the Lottery." The Missouri Lottery sells a very negligible amount of tickets direct to lottery players on an annual basis. By contrast, we rely on a network of approximately 5,000 retail locations throughout the state of Missouri to market, promote and sell lottery products. The money spent on this event is a small part of an integrated program to support and provide incentive to our retail partners to promote and merchandise our products to their customers.*

*The Missouri Petroleum Marketers and Convenience Store Association (MPCA) represents approximately 75 percent of all convenience stores in Missouri. Convenience stores represent the Lottery's largest business type both in number of retailers and in annual sales dollars. In FY03, fifty percent (50%) of all retail locations that registered lottery sales were in the convenience store category. Convenience stores generated 63.3 percent of all lottery sales and 72.6 percent of all Scratchers sales. Total sales in convenience stores will exceed \$500 million in FY04. In addition, Scratchers sales represent 55 percent of total lottery sales and have grown by 16 percent and 24 percent, respectively, in the last two fiscal years, primarily in these locations.*

*The MPCA represents the single most important category of retail locations selling lottery products. The individuals who participate in MPCA events are the owners, directors, managers and decision makers that decide on their individual participation in our programs, promotions and operations in their respective stores. We support this organization so the members will in turn support lottery programs and overall partnership. Many other convenience store vendors are also supporting and sponsoring MPCA events. Companies representing beverages, prepared foods, snack items and gasoline are but a few of those that also have a large stake in the convenience store business. We compete with these other companies and products for store space. The \$1,300 expenditure which is the subject of this issue represents about .0000002% of the \$500 million in annual sales generated by the Missouri Petroleum Marketers and Convenience Store Association (MPCA) membership. We believe this expenditure does in fact provide significant exposure for the Lottery. Sales and Lottery profits from these retailer outlets are a significant part of our success.*

*Audit Issue: "The Lottery Commission also spent \$3,119 for television sets and DVD players to give to retailers to enhance working relations with them. These items were gifts to the retailers and the Lottery Commission has no knowledge of how they were used by the retailers. The premise for giving these items assumes the retailers would not sell the Missouri Lottery games without the gifts."*

*The Lottery does not concur in the conclusions that these items were "gifts" and that our "premise for giving these items assumes the retailers would not sell Missouri Lottery games without the gifts."*

*First of all, these items are incentives provided to encourage retailers to participate in programs designed to expand their sales and thus profits for the state; they are not gifts. A gift would suggest that no value is expected to be received by the State; we believe the examples following support the fact that the state does receive significant value for the expenditures.*

*Secondly, we recognize that many of these retailers would sell our products without these incentives; however, we also recognize that significant improvement in sales volume, promotional support and overall positive working relationships have been achieved with these incentives. Consider the following examples (we have omitted specific retailer names for confidentiality reasons and we have presented only six examples for space considerations although numerous other examples can be provided):*

*Corporate Account 1: This account increased sales from FY00 to FY01 by more than 44% up to \$784,586. In FY03 total sales for this account grew 168% to \$1,416,398. The Lottery recognized sales growth of 168% in three years with this account.*

*Corporate Account 2: This account is one of the highest volume accounts in our network of retailers and sold approximately \$28 million in FY01. We've asked this store to expand the number of games they carry and improve merchandising at the on-line terminal sales area; as a result, sales in the last two years have increased almost \$4 million, up to \$32 million.*

*Corporate Account 3: As a result of our continuing partnership sales have grown from \$1.4 million in FY00 to \$2.7 million in FY03. This account's management perceives the Lottery partnership as very valuable to their bottom line and willingly participates in all Lottery programs and promotions.*

*Corporate Account 4: This account has worked with Lottery staff to provide better merchandising for Lottery products in their stores. Since FY00 total sales have grown from \$5.8 million to \$8.6 million in FY03. Annual Scratcher sales now exceed total sales levels in FY00.*

*Corporate Account 5: This account is a convenience store account with 70+ retail locations statewide. We have improved the number of games carried as well as a more consistent merchandising methodology in all their stores. Sales in FY01 for this account were \$10.6 million. Since that time, sales have grown over 48% to \$15 million at the end of FY03.*

*Corporate Account 6: This account of 22 grocery stores is in the metro St. Louis area. In FY01, this chain sold primarily Scratcher products with only one or two locations selling on-line products. We have been able to demonstrate the benefits of increasing on-line game terminals and on-line sales to this account and as a result, Scratcher sales increased \$2 million in two year (83% growth) and online sales tripled to \$1.2 million. Total Lottery sales increased 100% from \$2.8 million to \$5.6 million in FY03.*

*Finally, television sets and DVD players are used for incentives based on their relative low costs and high-perceived value. In every case, these items were used as a sponsorship contribution to various associations or corporate events whose members are responsible for making corporate decisions for issues representing a significant portion of Lottery sales. These associations and corporate events are supported by many vendors that have a stake in that business category or geographic region, e.g. Missouri Grocers Assn., St. Louis Oilman's Assn., Ozark Empire Grocers Assn.*

*Increasing sales requires increased retailer participation, utilizing more space in the retail location and requires more work by store personnel. Supporting retailers and their associations is a small part of achieving our desired result of additional net revenue for education. In the last 12 years, sales have grown from \$220 million to \$708 million while revenues for education have improved from \$66 million to over \$196 million. Retailers who previously averaged 4-6 lottery games at each retail location now offer an average of 16 Scratcher games and 5 terminal games. With this related, significantly increased workload, our retail partnerships are more important and valuable than ever before.*



*When individual retailers or associations make decisions about expanding Lottery sales our positive support and partnership is beneficial for the Lottery. Expanding product facings, expanding promotional support, expanding in store point of sale, etc. all contribute to new, additional sales.*

*The \$3,119 expenditure that is the subject of this issue represents an infinitesimal percentage of the annual sales generated by these retail partners. The items were used at events for drawings, door prizes or competition prizes for participants.*

*In conclusion, we believe that providing low cost, high perceived value incentives to our retailer partners is not a flawed premise; it is a sound business premise with demonstrated results.*

### **Department of Higher Education Comments**

- 1.1 DHE has not and will not purchase and distribute unnecessary and excessive promotional items and gifts.*
- 1.2 As mentioned by the SAO in the audit report, promotional items are to be purchased to promote an agency activity. DHE will continue to perform such activities that inform customers of the availability of student financial aid, provide information related to the process of obtaining student financial aid, and educate Missourians about the importance of participating in the state's system of higher education.*
- 1.3 DHE will continue to ensure its promotional items serve a public purpose.*

### **Department of Social Services Comments**

*The Department of Social Services has and will continue to purchase promotional items that are:*

*Necessary, not extravagant, and purchased in the quantity needed to promote the programs of DSS;*

*Purchased to serve a public purpose; and*

*Not purchased as gifts for state employees, legislators or private organizations.*

### **Department of Transportation Comments**

*We agree that promotional items should serve a public purpose, and not be excessive or provided solely to state employees, legislators, or private organizations. Promotional items purchased by the Department of Transportation are intended to educate the public about the department's programs and services and are distributed at public venues such as the State Fair, Earth Day, public meetings and other special events. We base purchasing decisions on cost and products available to most effectively and economically promote the department's programs and services.*

*The Department of Transportation purchase amount in Table II.1 contains approximately \$252,000 of Highway Safety purchases. Highway Safety was part of the Department of Public Safety for the period audited and those purchases should be included with the DPS expenditures. Highway Safety became a part of the Department of Transportation in August 2003. The tote bags discussed on page 4 of the report were also purchased by Highway Safety while it was still under the Department of Public Safety. It is important to note that reducing deaths, injuries and property damage caused by traffic crashes is Highway Safety's mission. That involves providing resources, including items that might be considered promotional items, and technical information to law enforcement agencies and safety advocates. The tote bags mentioned on page 4 were purchased for conference participants to accumulate educational materials and reinforce the safety message, and to use subsequently in their jobs.*

*We would also like to clarify that MoDOT purchased the denim shirts mentioned on page 5 of the report to provide a uniform to the department's Highway Gardens/Roadside employees working at the State Fair, not as gifts for working at the fair. The shirts were worn for two years.*

### **Department of Natural Resources Comments**

- 1.1 We agree. Unnecessary and excessive promotional items will not be purchased. The department has not purchased these types of items. In the past, the department has only purchased and distributed promotional items that are educational in nature or that serve a public purpose.*
- 1.2 We partially agree. We will only purchase and distribute promotional items and gifts which are educational in nature or that serve a public purpose, to appropriate audiences.*
- 1.3 We agree. The department fully supports that all promotional items should serve a public purpose, especially those that are educational in nature.*

### **Department of Agriculture Comments**

- 1.1 We respectfully disagree with your claim that the purchasing and distribution of card-holder magnets is "unnecessary and excessive". As indicated in the audit, the Missouri Department of Agriculture (MDA) paid \$436 for over 1,500 magnetic card holders for distribution to our constituents. The magnets provide a quick reference for targeted communities, which help MDA build stronger contacts in agri-business, and ensure better communication -- and thereby, better public safety -- in the regulated community.*
- 1.2 Building the AgriMissouri brand and promoting the Missouri State Fair are long term goals of MDA. We disagree that promoting Missouri products through distribution of AgriMissouri baskets or through providing information on the state fair in an innovative format is an "unnecessary extravagances that represent waste in government spending". Both of these practices are intended to work as communications tools. They work to build, through the state legislature, linkages to constituents by word-of-mouth endorsements of both products. MDA is, in many ways, a unique agency. We believe*

*that these unique promotional approaches mirror the cost-effective and targeted marketing techniques utilized by the private sector.*

- 1.3 *MDA believes that the promotional items discussed in the audit were directed toward legitimate public purposes. Section 261.235 RSMo. clearly authorizes the AgriMissouri program – through its commission on marketing -- to advance the objective of, “Enabling and encouraging expanded advertising efforts for Missouri agricultural products.” Additionally, the state fair annually develops a marketing campaign that includes outreach efforts for building attendance. We believe that expanding fair attendance and knowledge of Missouri agriculture while and building demand for its products, helps maintain and expand agriculture’s \$4.7 billion annual contribution to Missouri economy. Further, we believe that these items help build recognition of Missouri agriculture within critical policymaking communities and help establish partnerships between industry, universities and government (local, state and federal) that facilitate expansion of Missouri’s rural economy.*

## OBJECTIVES, SCOPE AND METHODOLOGY

### Objective

The objectives of the audit were to:

- Determine the total cost of promotional items purchased by state agencies during fiscal years 2002 and 2003.
- Review the nature and justification of the promotional items being purchased by state agencies.

### Scope and Methodology

To accomplish the audit objectives the auditors:

- Obtained and reviewed a database of fiscal years 2002 and 2003 expenditures charged to expenditure code 2301, promotional items, from the state's centralized accounting system. The database was sorted by agency to determine how much each agency charged to this code. The review of expenditures was limited to those agencies charging in excess of \$15,000 in fiscal year 2003. *(See Appendix II, page 19, for the total purchases of promotional items by agency for fiscal years 2002 and 2003.)*
- Designed and distributed surveys to state agencies to determine which codes agencies were coding expenditures for promotional items and to identify purchasing guidelines for promotional items, if any.
- Scanned the Office of Administration's (OA) listing of contracts to identify promotional type items that were not charged to expenditure code 2301.
- Judgmentally selected 187 expenditures and reviewed the invoices and/or supporting documentation submitted by those agencies to the OA. We selected the 187 invoices from a broad group of agencies to get coverage and selected the items based on their descriptions in the invoices. We targeted items that appeared to be trivial purchases and followed up with the agencies. In addition, we met with 12 state agencies and discussed:
  - Why the item(s) on the invoices were purchased?
  - What value did the agency receive in return for the purchase?
  - How did the agency or State of Missouri benefit from the purchase, and how was that benefit determined?
  - If the items were to be distributed, who was the intended recipient for the items?

- Are the items ever distributed to, or made available for employee's personal use?
- Determined if the expenditures were reasonable, correctly coded, and proper and necessary to conduct state business. To determine the reasonableness and/or necessity of the expenditure, we considered the following:
  - Did the purchased item promote a particular program or product of the agency?
  - Was the purchased item a prudent method for conveying the agency message?
  - Was the purchased item necessary to accomplish the business purpose?
  - Did the purchased item have any effect on the success of the event?
  - Was the purchased item given to employees?
  - Was the purchased item extravagant for the purpose it was given?
- Reviewed similar invoices that were charged to other expenditure codes to determine if promotional items were being charged to codes other than 2301.

**Limitations**

We planned to review 226 expenditures; however, OA could not locate the invoices and/or supporting documentation for 39 expenditures.

**STATE AGENCY PURCHASES****Table II.1: Purchases Charged to Promotional Items for  
the 2 Years Ended June 30, 2003**

| <b>Agency</b>                                | <b>Total</b>       |
|--|--------------------|
| Lottery Commission <sup>1</sup>              | \$1,000,326        |
| Department of Transportation <sup>2</sup>    | 466,104            |
| Department of Conservation                   | 418,155            |
| Department of Public Safety                  | 268,635            |
| Department of Health and Senior Services     | 216,404            |
| Department of Economic Development           | 190,917            |
| Department of Social Services                | 187,633            |
| Department of Natural Resources              | 170,511            |
| Department of Corrections                    | 88,073             |
| Department of Higher Education               | 67,045             |
| Department of Agriculture                    | 52,763             |
| Department of Labor and Industrial Relations | 49,237             |
| Others                                       | 60,700             |
| <b>Total</b>                                 | <b>\$3,236,503</b> |

<sup>1</sup> Department of Revenue

<sup>2</sup> Includes \$253,088 for the Office of Highway Safety, which moved to the Department of Transportation from the Department of Public Safety, August 2003.

Source: SAO Analysis

**COUNT OF UNREASONABLE AND/OR UNNECESSARY PURCHASES****Table III.1: Items Purchased**

| <b>Items Purchased</b>   | <b>Quantity Purchased<sup>1</sup></b> | <b>Total Amount</b> |
|--------------------------|---------------------------------------|---------------------|
| Pens/Pencils             | 350,717                               | \$ 31,771           |
| Trash Bags               | 127,600                               | 12,060              |
| Erasers                  | 80,600                                | 32,240              |
| Key Chains               | 65,796                                | 35,683              |
| Decals                   | 50,394                                | 5,807               |
| Bumper Stickers          | 30,000                                | 2,509               |
| Labels                   | 25,000                                | 500                 |
| Cups/Glasses             | 21,402                                | 9,152               |
| Zipper Pulls             | 20,000                                | 3,608               |
| Magnets                  | 17,075                                | 3,599               |
| Rub-On Tattoos           | 15,000                                | 827                 |
| Lapel Pins               | 7,750                                 | 7,475               |
| Water Bottles            | 7,000                                 | 5,850               |
| Post-It Note Pads        | 5,520                                 | 2,390               |
| Bandage Dispensers       | 5,250                                 | 2,100               |
| Chip Clips               | 5,000                                 | 1,700               |
| Lanyards                 | 5,000                                 | 6,975               |
| Sunglass Holders         | 4,901                                 | 5,710               |
| Golf Balls               | 3,600                                 | 5,242               |
| Cubicle Clips            | 2,600                                 | 1,110               |
| Letter Openers           | 2,500                                 | 1,271               |
| Computer Screen Sweepers | 2,100                                 | 2,168               |
| Briefcases               | 2,000                                 | 23,957              |
| Napkins                  | 2,000                                 | 241                 |
| Hairbrushes              | 1,800                                 | 2,888               |
| Shirts                   | 1,651                                 | 15,231              |
| Can Holders              | 1,549                                 | 1,717               |
| Flashlights              | 1,525                                 | 2,534               |
| Rulers                   | 1,500                                 | 1,735               |
| Mini Fans                | 1,400                                 | 2,958               |
| Folders/Portfolios       | 1,355                                 | 4,351               |
| Tote Bags                | 1,109                                 | 4,508               |
| Mouse Pads               | 1,000                                 | 1,970               |
| Rain Bonnets             | 800                                   | 515                 |

<sup>1</sup> "Quantity Purchased" only includes those items we considered not reasonable and/or necessary to conduct state business, during our review of items charged to object code 2301.

APPENDIX III

| Items Purchased       | Quantity Purchased <sup>1</sup> | Total Amount      |
|-----------------------|---------------------------------|-------------------|
| Stress Balls          | 600                             | 1,456             |
| Calendars             | 525                             | 551               |
| Measuring Sticks      | 524                             | 1,540             |
| Clip-It Lights        | 511                             | 1,916             |
| Tape Measures         | 500                             | 644               |
| CD Cases              | 500                             | 2,655             |
| Globe Lights          | 500                             | 625               |
| Shoehorns             | 500                             | 221               |
| Squeeze Bottles       | 500                             | 358               |
| Notebooks             | 460                             | 1,123             |
| Mini Staplers         | 312                             | 800               |
| Staple Removers       | 303                             | 596               |
| Toothpick Holders     | 250                             | 310               |
| Snacks                | 220                             | 353               |
| Clocks/Calculators    | 206                             | 1,618             |
| Magnetic Sculptors    | 200                             | 842               |
| Hats                  | 156                             | 2,082             |
| Cameras               | 80                              | 444               |
| Umbrellas             | 50                              | 450               |
| Lights                | 22                              | 377               |
| Blueberry Cobblers    | 20                              | 200               |
| DVD Players           | 12                              | 1,559             |
| Magnavox Televisions  | 12                              | 1,560             |
| Golf Sponsorship Fees | 1                               | 1,300             |
| Others                | 33                              | 2,767             |
| <b>Total</b>          |                                 | <b>\$ 268,699</b> |

<sup>1</sup>"Quantity Purchased" only includes those items we considered not reasonable and/or necessary to conduct state business, during our review of items charged to object code 2301.

Source: SAO computations of invoices reviewed