UTAH STATE FAIR CORPORATION
Review of Credit Card Internal Controls

Findings and Recommendations
For the Period June 1, 2015 through May 31, 2016

Report No. MAO-16-OA2

OFFICE OF THE
STATE AUDITOR

AUDIT LEADERSHIP:

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Report No. MAO-16-OA2

September 14, 2016

To the Board of Directors
Utah State Fair Corporation
155 North 1000 West
SLC, Utah 84116-0000
ATTN: Roger L. Beattie, Chair

Dear Board Members:

We have performed the procedures described below to Utah State Fair Corporation (SFC) credit card purchases made between June 1, 2015 and May 31, 2016. The purpose of these procedures is to assist SFC in evaluating its internal control over credit cards.

1. We reviewed SFC's written policies and procedures that govern the use of credit cards to determine whether they provide adequate internal control over credit card use.

2. We tested a sample of monthly purchases to determine who receives the original credit card statement and whether (a) a log of purchases was created by the card holder and reconciled to the monthly statement; (b) the log was signed by the supervisor to indicate charges were reviewed and approved in a timely manner; (c) original receipts were maintained for all purchases; and (d) purchases were reasonable and proper.

3. We compared the credit card statements provided by SFC to statements for other entities to ensure the statements were original; we then reviewed all credit card transactions for the audit period to determine the reasonableness and appropriateness of (a) purchases made on weekends and holidays; (b) frequent purchases with the same vendor just under the transaction limit and multiple transactions for the same amount; (c) purchases from potentially inappropriate vendors; and (d) the total volume and dollar amount of purchases made with credit cards.

Our findings resulting from the above procedures are noted in the Findings and Recommendations section of this report. We feel these findings are key internal control weakness to SFC.

Our procedures were more limited than would be necessary to express an audit opinion on the effectiveness of SFC's internal control or any part thereof. Accordingly, we do not express such opinion. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of SFC's internal control, other matters might have come to our attention that would have been reported to you.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by SFC's personnel during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,

Hollie Andrus

Hollie Andrus, Audit Director
handrus@utah.gov
801-808-0467

cc: Larry Mullenax, Executive Director
Holli Buxton, Finance Director

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FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JUNE 1, 2015 THROUGH MAY 31, 2016

1. INADEQUATE INTERNAL CONTROL OVER CREDIT CARDS

We reviewed both the September 2015 and March 2016 credit card reconciliations for all five credit cards held by the Utah State Fair Corporation (SFC) and all credit card purchases for June 1, 2015 through May 31, 2016 and noted the following:

- SFC has not updated its written credit card policies and procedures since May 2007. These written procedures are outdated and inadequate. SFC implemented new policies and procedures over credit card purchases in January 2016; however, at the time of our testwork, SFC had not yet documented the updated credit card policies and procedures.
- The Finance Manager accessed and used a credit card for several months. Based on conversations with all credit card holders, they represented that the Finance Manager also prepared credit card reconciliations, creating a separation of duties weakness.
- The reconciliation of the original monthly credit card statements to original receipts was not documented. The third-party accounting firm, acting as CFO, reconciles the general ledger to the statements; but, it was unclear during our audit whether the third-party CFO reconciled the ledger to original receipts.
- SFC did not maintain appropriate supporting documentation for four transactions totaling $91.
- None of the five credit card holders created weekly expense reports in March 2016 even though SFC had implemented a new control in January 2016 requiring each credit card holder to log purchases made each week.
- The Executive Director did not review or approve the March 2016 credit card reconciliations for three of SFC's five credit cards. Also, his review and approval of the remaining two credit cards occurred more than two weeks after the credit card statements had been paid. New procedures developed in January 2016 require the executive director to review all credit card reconciliations. In order to be effective, this review and approval should be performed before the credit card statement is paid.
- SFC does not have written policies which a) require documentation of attendees and purpose for business luncheons and b) restrict the amount that can be spent for business luncheons. As a result, we were unable to verify the validity and business purpose of restaurant transactions totaling $407 and coffee shop purchases totaling $78.

The term "internal controls" is used to describe processes put in place by the governing body, management, or others, to provide consistent and efficient operations, including reasonable assurance that funds will be properly safeguarded. Proper internal controls include separating certain responsibilities (e.g., using credit cards and reconciling credit card activity) so that no one person has the ability to improperly use money without detection.

They also include obtaining source documents, such as original receipts from the purchaser and original statements directly from the credit card company, to ensure that documents have not been altered to conceal inappropriate activity.

Recommendation:

We recommend SFC:

- **Update its written credit card policies and procedures;**
- **Separate access to credit cards and reconciliation duties;**
- **Retain all original, itemized credit card receipts;**
- **Reconcile original credit receipts, expense logs, and original credit card statements every month and document the employee preparing the reconciliation and the date the reconciliation is prepared;**
- **Create weekly expense reports (log of purchases) supported by original receipts;**
- **Review and approve all monthly credit card reconciliations; and,**
- **Document attendees and purpose, as well as restrictions on allowable amounts, for business meals.**

2. IMPROPER CREDIT CARD PURCHASES

SFC used credit cards to purchase gift cards and greeting cards, totaling $292.30, for employee birthday gifts. State Policy (FIACCT 05-09.00) prohibits the use of state funds for holidays, special occasions, funerals, etc. While SFC is not bound by this policy, we believe it is inappropriate for SFC to use public funds to purchase birthday gifts for employees. Management did not consider the purchases inappropriate.

Recommendation:

We recommend SFC discontinue the practice of purchasing employee gifts with public funds.

3. UNTIMELY CANCELLATION OF CREDIT CARDS

One of the credit cards we reviewed was assigned to an individual who had terminated employment six months earlier. The person who reconciles the monthly credit card statements was able to use this credit card to make purchases. SFC should immediately cancel a credit card when an authorized user terminates employment to avoid any unauthorized use of credit cards.

Recommendation:

We recommend SFC immediately cancel a credit card when an authorized user terminates employment.

4. INCREASED RISK BY USING CREDIT CARDS VERSUS PURCHASE CARDS

The use of credit cards can be an efficient method of making purchases, especially small dollar purchases or "micro-purchases." However, credit cards by their nature have a high risk of improper use because few controls exist over the creation of credit card accounts. Purchase cards, or p-cards, can effectively mitigate some of these risks, as the organization has more control in establishing p-card accounts. For example, organizations can mandate transaction limits unique to each p-card and, depending upon the p-card service provider, can limit purchases to certain merchant categories. Because p-cards are linked to an organization's bank, only authorized employees may create p-card accounts.

In addition, p-card transaction details are electronically transmitted to the purchasing entity, allowing an organization to review the purchases timelier. Transmitted information typically includes the amount, the vendor's name and address, and the date of the transaction. In some instances, p-card service providers may be able to transmit descriptions and quantities of items purchased; however, such line-item detail is only available from some merchants. Since p-cards accounts are more difficult to create and allow establishment of unique restrictions, SFC could minimize potential inappropriate purchases by using p-cards rather than credit cards. Sound controls, such as those recommended above, are still critical for ensuring proper use of any "micro-purchase" cards, be they credit cards or p-cards.

Recommendation:

We recommend that SFC consider replacing its credit cards with p-cards.