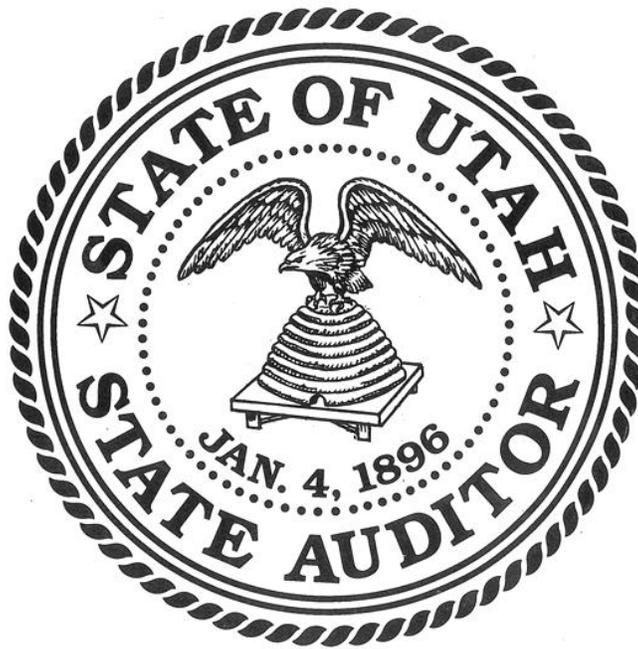


Military Installation Development Authority

Review of Credit Card Internal Controls

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

Report No. MAO-16-OA1



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
Nancy Watson, CPA, Audit Supervisor



OFFICE OF THE
UTAH STATE AUDITOR

Report No. MAO-16-OA1

September 7, 2016

Board of Directors
Military Installation Development Authority
450 Simmons Way, Suite 400
Kaysville 84037-0112
ATTN: Stuart Adams, Chair

Dear Board Members:

We have performed the procedures described below to Military Installation Development Authority (MIDA) credit card purchases made between June 1, 2015 and May 31, 2016. The purpose of these procedures is to assist MIDA in evaluating its internal control over credit cards.

1. We reviewed MIDA'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 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 that were just under the transaction limit or which involved 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 MIDA.

Our procedures were more limited than would be necessary to express an audit opinion on the effectiveness of MIDA'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 MIDA'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 MIDA personnel during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please feel free to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Hollie Andrus".

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

cc: Ron Richins, Executive Director & Purchasing Manager
Detlef Galke, Assistant Finance Manager

MILITARY INSTALLATION DEVELOPMENT AUTHORITY

Review of Credit Card Internal Controls

FOR THE PERIOD JUNE 1, 2015 THROUGH MAY 31, 2016

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MIDA'S RESPONSE

ATTACHMENT A

MILITARY INSTALLATION DEVELOPMENT AUTHORITY

Review of Credit Card Internal Controls

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

1. INADEQUATE INTERNAL CONTROL OVER CREDIT CARDS

Military Installation Development Authority (MIDA) does not have formal written policies and procedures establishing internal controls over credit card purchases. In addition, no individuals other than the MIDA credit card users reviewed the credit card purchases for appropriateness. Management thought a board member performed an independent review of all credit card transactions; however, based on discussion with this board member, the review was not functioning as management perceived. Someone other than the credit card users should review credit card purchases to ensure the purchases are reasonable and for appropriate business purposes.

MIDA has only two employees who share the same credit card. We discourage the use of credit cards by anyone other than the authorized card holder. However, if MIDA allows the practice to continue, it is even more important for MIDA's board of directors to review each credit card purchase by reconciling original receipts to the original credit card statement. In the past, MIDA's board of directors has only performed a high level review of credit card purchases because it was not aware of the need to perform a thorough review. The absence of an effective review and approval of credit card purchases can result in the inappropriate use of credit cards.

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 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:

- **MIDA establish formal written policies and procedures over credit card purchases; and**
- **At least one member of MIDA's board of directors perform a detailed review and approval of all credit card purchases, including a reconciliation of the original receipts to the original credit card statement.**

MILITARY INSTALLATION DEVELOPMENT AUTHORITY

Review of Credit Card Internal Controls

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

2. 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, MIDA 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 MIDA consider replacing its credit cards with p-cards.



Military Installation Development Authority

August 31, 2016

Hollie Andrus
Audit Director
Office of the State Auditor
East Office Building Suite E-310
Salt Lake City, Utah 84114-2310
Email: handrus@utah.gov

Re: Report No. MAO-16-OA1
Military Installation Development Authority
Review of Credit Card Internal Controls

Dear Hollie,

This letter is in response to the above referenced audit report received by the Military Installation Development Authority, it's board members and staff. Thank you for you and your staff's effort's with regard to this Audit. Each board member has received a copy of the complete Audit Report. The Audit's finding and recommendations will be reviewed and discussed at our next board meeting. Necessary changes to our current procedures will be implemented as determined by the MIDA board. Written Credit Card policies and procedures will be put in to place.

Regards,

A handwritten signature in blue ink, appearing to read "J. Adams", is written over a white background.

J. Stuart Adams
Chairman
Military Installation Development Authority