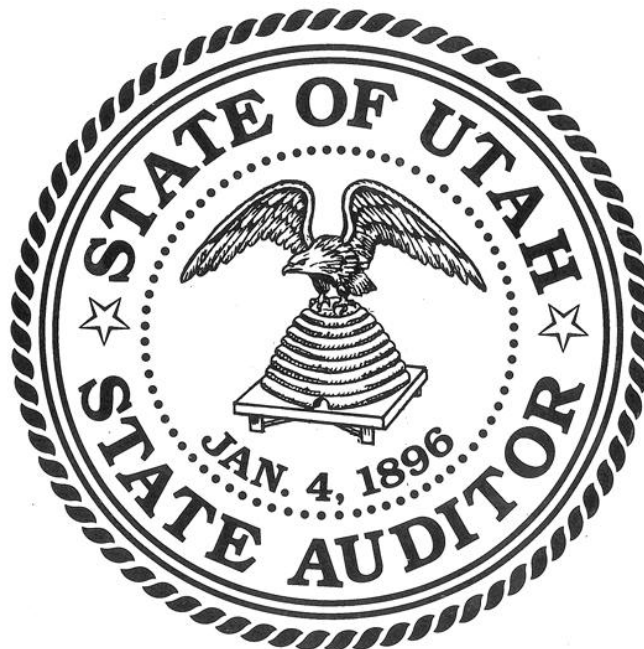


HEBER VALLEY HISTORIC RAILROAD AUTHORITY

Review of Credit Card Internal Controls

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

Report No. MAO-16-OA3



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-OA3

September 14, 2016

To the Board of Directors
Heber Valley Historic Railroad Authority
450 South 600 West
Heber City, Utah 84032

Dear Board Members:

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

1. We reviewed HVR'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 statements for HVR's one credit card to a download from the bank website to ensure the statements were original; and then 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 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 HVR.

Our procedures were more limited than would be necessary to express an audit opinion on the effectiveness of HVR'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 HVR'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 HVR 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,

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

Hollie Andrus, Audit Director

801-808-0467

handrus@utah.gov

cc: Mark Nelson, Executive Director

HEBER VALLEY HISTORIC RAILROAD AUTHORITY

Review of Credit Card Internal Controls

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

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HEBER VALLEY HISTORIC RAILROAD AUTHORITY

Review of Credit Card Internal Controls

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

BACKGROUND

The Heber Valley Historic Railroad is a heritage railroad based in Heber City, Utah. It operates passenger excursion trains along a line between Heber City and Vivian Park, located in Provo Canyon. During the 1970s and 1980s the railroad operated as the “Heber Creeper.” In the late 1980s this railroad went out of business.

Citizens in the Heber area successfully petitioned the State of Utah to help save the railroad, leading to creation of the Heber Valley Historic Railroad Authority in the early 1990s.

FINDINGS AND RECOMMENDATIONS

1. INADEQUATE INTERNAL CONTROL OVER CREDIT CARDS

We reviewed the credit card purchases and credit card reconciliations for the Heber Valley Historic Railroad Authority (HVR) for June 1, 2015 through May 31, 2016 and identified the following weaknesses:

- HVR does not have formal written policies and procedures establishing internal controls over credit card purchases; thus, HVR incurred 58 credit card purchases totaling \$10,405 for which there were no original receipts or descriptions. Original, itemized receipts or, in rare instances, acceptable substitutes should be retained for all credit card purchases as evidence that purchases are reasonable and proper. In addition, the retention of original receipts is necessary to perform a proper reconciliation.
- A supervisor to the cardholder does not review and match the credit card transactions to the monthly statements. Although a subordinate to the HVR cardholder reviews the detail of the credit card transactions, we do not consider the subordinate’s review effective as a subordinate is much less likely to critically review or question purchases made by a superior. A cardholder’s supervisor, e.g., a member of the Board, should perform a detailed review of credit card transactions, including a reconciliation of the original receipts to the original credit card statement.
- The HVR accountant did not document her signature, initial, or date on the monthly credit card reconciliations. Documentation of internal controls over credit cards should include either a signature or initial by the individual performing the reconciliation to indicate that the reconciliation is complete and charges are appropriate. Also, a date should be recorded to indicate that the reconciliation was completed in a timely manner.

HEBER VALLEY HISTORIC RAILROAD AUTHORITY

Review of Credit Card Internal Controls

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

- HVR discovered a fraudulent credit card transaction for \$254.73 but did not dispute the charge in a timely manner. All unauthorized charges should be disputed in a timely manner to ensure that a credit is received.
- Nine credit card charges, totaling \$139.52, were made at restaurants but did not have documentation specifying the purpose of the meal or who attended. Adequate documentation should be kept to ensure transactions are appropriate and serve a business purpose.
- HVR does not document the delivery of items purchased. In addition, HVR has no control in place to ensure that someone other than the cardholder who made the purchase receives and inspects the items. Someone other than the cardholder should document receipt and condition of the items by signing and dating the packing slip.

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 or incorporating compensating reviews 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. A lack of properly designed internal controls over credit card purchases can result in the inappropriate use of credit cards.

Recommendation:

We recommend HVR:

- **Create written credit card policies and procedures;**
- **Retain all original, itemized receipts, and include the receipts with the reconciliation to the statement;**
- **Have a superior to the cardholder, e.g., a member of the HVR Board of Directors, reconcile original credit receipts and original credit card statements every month;**
- **Document the signature or initials of the reviewer and the date the reconciliation was performed;**
- **Dispute fraudulent transactions in a timely manner;**
- **Document attendees and purpose, as well as restrictions on allowable amounts, for business meals; and,**

HEBER VALLEY HISTORIC RAILROAD AUTHORITY

Review of Credit Card Internal Controls

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

- **Separate the purchasing responsibility from the receipting of goods and document the receipt and condition of the items by signing and dating the packing slip.**

2. INADEQUATE PURCHASING POLICIES AND PROCEDURES

HVR does not have policies and procedures governing purchases in general. Although it has been considering establishing such policies and procedures, it has yet to do so. HVR should establish written policies and procedures governing all purchases. Failure to have policies and procedures governing purchasing can result in improper purchases or misappropriation of funds.

Recommendation:

We recommend HVR implement written policies and procedures governing all purchases.

3. 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, HVR 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 HVR consider replacing its credit card with a p-card.