

CITY OF ALLENTOWN

REVIEW OF GIFT CARDS AND PRIZES

January 06, 2022

Date of Report: April 01, 2022

A gift card is a prepaid debit card and is considered a “cash equivalent” that contains a specific amount of money available for use for a variety of purchases. Store gift cards are designed to be used at specific merchants or retailers, while general-use prepaid gift cards are not affiliated with any specific merchant. The holder of a gift card can redeem the card for merchandise or services.

Gift cards, considered cash equivalents, should be handled like cash, with appropriate controls and safeguards. Gift cards, whether purchased or received from a funding source, should be tracked (a perpetual inventory), physically secured, and safeguarded from unauthorized access, use or theft.

Some departments/programs purchase gift cards for disbursement to employees or City residents as incentives.

The IRS considers gift cards given to employees as cash equivalents and as such, are taxable income. Departments are required to report the income for inclusion in the employee’s W-2.

Department funding for gift cards is typically provided by:

- Grants, which may stipulate that gift cards must be purchased for specific purposes,
- Capital Blue’s “Wellness Credit”,
- Or from the Bureaus’ budget.

Effective 09/08/2021, “all gift cards are to be purchased on a Purchase Order and not by a P-Card. The use of Visa/Mastercard Gift Cards should be avoided as they charge high fees for their activation... Safeguards must be in place to ensure their proper use.”

Human Resource (HR) periodically purchases prizes as employee incentives. In 2021, HR used the Capital “Wellness Credit” to fund the Family Fun Day including prizes.

OBJECTIVE

The objective of this audit was to:

- Identify which departments are handling gift cards and prizes, and to determine whether internal controls are adequately designed and operating effectively to sufficiently mitigate the risk of gift card and prize fraud, waste, and abuse.
- Perform a count of all the Gift Cards maintained in Treasury and tracing them to the internal gift card logs. To ensure the Gift Cards were present and properly reported.
- Ensure a proper segregation of duties (the same person does not purchase, maintain inventory records, and disburse gift cards and prizes).
- Determine the existing policies and procedures including AIMs were being followed and whether internal controls were adequate to ensure that Gift Cards and prizes were accurately recorded and safeguarded.
- Identify any potential internal control weaknesses including but not limited to the physical security of Gift Cards and prizes.
- Ensure gift cards and prizes given to employees were properly reported as taxable income.

PROCEDURES

This audit was conducted in accordance with generally accepted governmental auditing standards and utilized an approach that included counts, staff interviews, reviews of documents, and reports and examinations of individual financial transactions.

Our process began by counting the gift cards safeguarded in Treasury. The physical counts were compared to the prescribed system total (internal logs). Any discrepancies between the prescribed totals and the physical count were validated with the Department.

FINDINGS, RECOMMENDATIONS AND RESPONSES

INTERNAL CONTROL WEAKNESSES

1. Inadequate Employee Recognition Program Controls

In June 2021 a City of Allentown Recognition Program was implemented.

Using the “City of Allentown Recognition Program Nomination Form”, employees may be nominated for

“superior performance and/or contribution involving activities such as: internal or external citizen service, cost savings, productivity/work processes, or outstanding citizenship, leadership or demonstrating performance above and beyond expectations.”

“Team members need to be nominated by a Department Director or Deputy Director. Bureau Managers may initiate nomination; however, all nominations must be approved by a Department Director or Deputy Director”

“All nominations are subject to HR approval to ensure they align with the requirements for the program.”

There are 2 (two) logs for the “Employee Recognition” gift cards:

- 1 (one) log is maintained in Treasury and is a physical accounting of the gift cards and includes serial numbers of the gift cards, denomination, and sign-out for who removes the gift cards from Treasury.
- 1 (one) log is maintained by HR and is a spreadsheet of the employees who were awarded an “Employee Recognition” gift card. The gift cards list the employees name, department, and denomination of gift card. The spreadsheet does NOT record the serial number of the gift card being awarded nor provide a signature line to indicate receipt of the gift card.

Due to the lack of gift card number controls, there is no reconciliation possible between the 2 logs providing an opportunity for malfeasance.

As of 12/31/2021, 9 (nine) “Employee Recognition” gift cards were awarded. Of the 9 (nine) “Employee Recognition” gift cards awarded:

- 5 (five) did not have a City of Allentown Recognition Program Nomination Form on file therefore it is unknown why the employee was awarded an “Employee Recognition” gift card,
 - Of the 4 (four) that did have a nomination form, 2 (two) of the forms were nominated, approved as Department Director, and approved as HR

Director. 1 (one) of the awards was for an HR direct report. This is not a proper segregation of duty.

- 5 (five) did not have a City of HR Employee Incentive Acknowledgment on file therefore there is no proof that the employee received the gift card nor is there proof that the award information was submitted to payroll for inclusion in the employee's income,
 - Additionally, 1 (one) of 4 (four) forms completed was dated 02/24/2022 well after the gift card was presumed to have been awarded and after the Controller's Office requested a copy of the form.
- 8 (eight) of the Gift Cards were not reported as employee income,
 - 1 (one) that was reported did not have a copy of the HR Employee Incentive Acknowledgment on file so it unknown how the income was reported.

Lastly, 2 gift cards that are listed on the log as being awarded to a group and another to an individual for \$100.00 each, has only 1 (one) HR Employee Incentive Acknowledgment for a \$50.00 gift card which was signed on 02/24/2022. A difference of \$50.00.

When questioned neither the department nor HR were clear as to what had happened and only the HR Director had a recollection of the 2 cards being issued.

It is unclear why the log listed the gift cards as \$100.00 but the employee acknowledgement was \$50.00. Due to the lack of gift card tracking it is unclear whether malfeasance exists.

Recommendation

Consideration should be given to re-evaluating this program so that there is a proper segregation of duty and the weaknesses identified above are addressed.

Administration should consider investigating the gift card inconsistency to determine whether there is malfeasance.

Lastly, Administration should consider publicizing the winners so that it can serve as an incentive to employees.

HR Response

HR is developing a policy that will delineate segregation of duties. HR does publicize winners, for wellness gifts and will consider publicizing winners of the recognition gift cards as well.

Additional Auditor's Comment

It was unclear by everyone why the log listed the gift cards as \$100.00, and the employee acknowledgement was \$50.00.

2. Lack of Formal Gift Card/Prize, Policy or Procedure

During our review we noted disparity and confusion between departments as to the gift card/prize process including but not limited to:

- Who can purchase gift cards/prizes: Not all purchases were made thru the Purchasing department thereby circumventing the internal controls implemented by Administration,
- The physical storage of gift cards/prizes: Where should the gift cards and prizes be safeguarded and what should be safeguarded,
- The Gift Card Control logs (which provide evidence of receipt of the prizes): How should they be maintained, do they need to be maintained,
- The value of De Minimus and what was deemed as reportable income to employees,
- The income reporting of gift cards/prizes of 3rd party donations to the City: Although the gift cards and prizes were donated to the City by a 3rd party and City funds were not used, are the awards taxable to the employee?
- Different control logs were used by the Departments resulting in some information missing on the logs. There was no evidence of control logs for prizes.

Currently there is a suggested procedure for gift cards but not a formal policy addressing these issues.

Recommendation

Administration should develop a policy and procedure for gift card and prizes addressing these issues.

A standardized log for gift cards should be developed to ensure all pertinent information is available. A separate log should be maintained for prizes to ensure the prizes do not become obsolete.

The Solicitor's Office should be consulted to help define items such as the reporting of 3rd party donations awarded to employees and De Minimus value criteria.

HR Response

The gift card log for non-wellness gift card has been updated to include the gift card numbers.

Finance Response

The Finance Department agrees with this recommendation. The Purchasing Department is developing a gift card policy. The policy will be complete by 03/23/22 and will address the issues discovered in this audit.

The Purchasing Department did an LSR to determine a De Minimis value. Once we have that response, we will update the policy accordingly.

3. Gift Cards and Prizes Are Not Consistently Reported as Income

Per the IRS,

” Gift Certificates – Cash or cash equivalent items provided by the employer are never excludable from income... Gift certificates that are redeemable for general merchandise or have a cash equivalent value are not de minimis benefits and **are taxable.**”

Per the HR Employee Incentive Acknowledgment,

” Pursuant to IRS Regulations wellness incentives or more than a "De Minimis" amount is taxable as income and subject to federal income tax withholding, FICA and Medicare tax. This is known as imputed income. Imputed income will be applied to your payroll receipt for the pay period or month in which it is received by you. Taxable wellness incentives include, but are not limited to, gym memberships, gym membership reimbursements, prizes awarded as part of a wellness program (including gift cards, vouchers, fitness equipment, etc.). **These items are taxable even if provided directly to you by a third party or other source as part of a program adopted by or through the City.**”

We identified:

- The “Lights in the Parkway” (LIP) City volunteers were awarded a \$50.00 Amazon Gift Card for each night they worked at the event. Per Special Events, the HR Employee Incentive Acknowledgment were completed for all employees and submitted to HR for inclusion in the employee’s income. None of the gift cards for the “Lights in the Parkway” City volunteers were reported in the employee’s income resulting in **\$3,350.00** in unreported employee income.
 - 1 (one) employee was awarded **\$850.00** in gift cards. Per the IRS, “Businesses are required to issue a 1099 form to a taxpayer (other than a corporation) who has received at least **\$600.00** or more in non-employment income during the tax year.”
- Of the 9 (nine) Employee Recognition Gift Cards awarded in 2021, 8 (eight) gift cards totaling **\$550.00 (or \$500.00** See Point #1) were not reported in the employee’s income.
- Of the 21 (twenty-one) Safety Day gift cards and prizes awarded, 6 (six) prizes totaling **\$379.94** were not reported in the employee’s income.

- Of the 34 (thirty-four) gift card and prizes awarded for Family Fun Day only 5 were awarded to employees. 1 (one) prize totaling **\$34.99** was not reported in the employee's income. Although the event took place on 08/28/2021, the HR Employee Incentive Acknowledgment was dated 02/24/2022 which was during our Audit testing.

Recommendation

As previously reported, Gift cards and prizes should be recorded in the employees' income as required by the IRS. Failure to properly report income may impact an employees' earnings and subject the employee to IRS scrutiny.

The proper policy should be communicated to the City and incorporated in a Policy and Procedure to insure consistency throughout the City and avoid possible IRS issues for the City and the employees.

HR Response

All wellness gift cards were recorded. HR was not aware that it was an HR responsibility to record the non-wellness gift cards as income and has been simply emailing them to Payroll. Now that HR is aware that it is an HR responsibility, the Labor Relations Manager has been charged with adding a new code in Eden to record all non-wellness gift cards.

This will be covered in the policy.

Community & Economic Development (CED) Response

The income not reported from LIP volunteers was accurately reported to HR by LIP staff – it is not the responsibility of LIP staff to enter that income into wages on payroll, nor can they.

Finance Response

Payroll has stated that they have not received these forms in Payroll. Since HR is responsible for distributing the gift cards, and collecting the signatures, the Finance Department agrees that they should be the one to enter the codes in Eden for processing.

4. Weak Safeguarding of Physical Gift Cards

Gift cards, considered cash equivalents, should be handled like cash, with appropriate controls and safeguards. The risk exists that the gift cards could be lost, stolen, or forgotten if they are not properly safeguarded and logged.

We identified:

- 6 (six) gift cards totaling **\$57.72** being stored in the Senior Planner's unlocked file cabinet,
- 8 (eight) gift cards totaling **\$40.00** being stored in the Health Department. It is unclear where the 8 (eight) gift cards are safeguarded.

Additionally, we noted:

- 10 (ten) vendor gift cards totaling **\$225.00** were purchased by the HR staff for the Family Fun Day cards using the Director's P-Card circumventing the controls established by PURCHASING. There is no evidence that the gift cards were ever logged, nor serial numbers obtained, nor that the gift cards were ever safeguarded in Treasury.

Recommendation

Gift Cards should be safeguarded in the Treasury vault. Proper log procedures should be maintained. Proper control procedures should be established and maintained.

CED Response

The six gift cards totaling \$57.72 are no longer stored in an unlocked file cabinet in Planning. The cabinet has been locked and these cards will be distributed 3/24 at a community meeting.

The eight gift cards totaling \$40 in Health are in a locked cabinet and were distributed.

5. Lack of De Minimis Definition

Per the IRS,

"In general, a De Minimis benefit is one for which, considering its value and the frequency with which it is provided, is so small as to make accounting for it unreasonable or impractical. De Minimis benefits are excluded under Internal Revenue Code section 132(a)(4) and include items which are not specifically excluded under other sections of the Code...

Whether an item or service is de minimis depends on all the facts and circumstances. In addition, if a benefit is too large to be considered de minimis, the entire value of the benefit is taxable to the employee, not just the excess over a designated de minimis amount. The IRS has ruled previously in a particular case that items with a value exceeding \$100 could not be considered de minimis, even under unusual circumstances."

For income reporting, there is no formal or consistent value for De Minimis value of awards and prizes. For prizes, we noted HR was independently deciding if something was De Minimis for their department only.

Recommendation

Administration should seek guidance from the Solicitor's Office as to what is considered De Minimus and incorporate the definition into a policy and procedure to ensure uniformity within the City.

HR Response

Anything with a value of under \$20 is considered De Minimus.

Finance Response

The Purchasing Department has completed an LSR for the Solicitor's Office to provide input into determining a De Minimus value. Once that value is determined, the policy will be updated accordingly.

6. Aged Gift Cards

We aged the gift card inventory maintained in Treasury and other departments as follows:

DEPARTMENT	YEAR	#	\$
HEALTH	2021	208	1,540
	2019	9	900
	2017	11	200
HR	2021	23	1,650
	2019	5	500
	Pre-2017	25	2,500
PLANNING	2021	6	58
RISK	2017	4	100
SPECIAL EVENT	2021	3	150
TOTAL		294	\$7,598.00

It should be noted that some of the Gift Cards (i.e., HEALTH) are grant related and may have specific criteria for distribution.

As previously reported, for HR the gift cards are NOT awarded in any order such as first in/first out.

Recommendation

Before purchasing additional gift cards, the departments should consider using the gift cards currently available.

As previously recommended and agreed to by Administration, to decrease the risk of loss or obsolescence, issuance of the HR gift cards should be done in first in, first out method.

In general, a system should be developed to ensure the older cards are awarded first. To ensure uniformity throughout the City, the process should be incorporated into a policy and procedure.

HR Response

HR will adopt a FIFO approach to using the gift cards.

CED Response

Health uses gift cards for incentives for compliance with TB treatment and as random drawing winners from Million Clicks. In both cases, the gift cards utilized are chosen by the recipient at a location they can easily access. None of the older gift cards have an expiration date or diminish in value over time.

Additional Auditor's Comment

The HR portion of this issue was originally reported in 2020 (See Prior Year Audit Status).

7. Potential Violations to Capital Wellness Credit

Per the Capital Blue contract,

“Capital will offer a Wellness Credit of \$30,000 (thirty thousand dollars) for use 01/01/2021 through 12/31/2023 on a reimbursement basis for eligible expenses. The credit utilized each contract year may not exceed \$10,000 (ten thousand dollars) and there will be no rollover.”

We noted that although Capital Wellness Credit was used to purchase prizes (bikes, Halos, gift cards, etc.) for Family Fun Day, prizes were awarded to non-Capital Blue family members, a City vendor and to the talent supporting the event.

Neither the vendor nor the talent was an employee nor a family member of an employee. The other winners included family members of non-participating employees. This practice may be a violation to the Capital Wellness Credit guidelines.

Additionally, to be eligible for the prizes employees needed to attend the event during non-business hours.

Recommendation

Administration should ensure that the Capital Wellness Credit is being properly used and that all employees are eligible to participate in the prizes. The propriety of awarding prizes purchased with Capital Wellness Credit to non-employees should be confirmed to ensure the City is not in violation of the usage of the funds and is not at risk of jeopardizing the Capital Wellness Credit.

HR Response

There is no violation of the Capital Wellness Credit. The 10,000 is to be used for prizes for wellness activities or for food for wellness activities. That is exactly what the money has been used for.

SAVINGS IMPROVEMENT OPPORTUNITY

8. Purchase of Gift Cards with Fees

Some non-vendor gift cards charge additional fees to the face value of their gift cards. We identified \$189.25 (over 7.1%) in fees paid for \$2,650.00 in Amazon Gift Cards.

Recommendation

Consideration should be given to using a different type of gift card or incentive including but not limited to an Allentown business, AMP Card which does not access a service fee or a direct monetary distribution to the employee's income thru payroll.

HR Response

This has already been solved in that once HR was informed that gift card purchases should be done through purchasing, all gift cards were then purchased through Purchasing.

Since HR was not aware of this policy prior to purchasing the first batch of gift cards, they were purchased outside of the Purchasing team.

Finance Response

The gift card policy will address that any gift cards that require an activation fee will be prohibited.

The Finance Department will also look into the option of giving a one-time payment in an employee's paycheck as opposed to gift cards as an alternative.