

CITY OF ALLENTOWN

Certification Award

Date of Report: May 19, 2025

Beginning in 2022, City of Allentown Non-Bargaining employees who attain nationally recognized professional certification or college degrees which benefit their current department will be awarded a **\$1,500.00** bonus upon completion of the degree or certification.

The purpose of the Certification Award program is to establish a method whereby eligible employees may receive repayment for part or all of the expenses they incur in continuing their education.

This applies to employees who attain certification beginning January 1, 2022, and applied retroactively.

In 2024, the Professional Certification bonus was increased to **\$2,000.00** for an initial certification and **\$1,000.00** for any additional relevant professional certification acquired thereafter.

The Certificate Awards Issued by Year are:

2022: \$13,500.00
2023: \$22,500.00
2024: \$18,000.00
01/2025 - 04/15/2025: \$11,000.00

OBJECTIVE

The objectives of the review were to:

- Identify any potential control weaknesses and opportunities for improvement for Certification Awards.
- Ensure proper supporting documentation is maintained, and
- Ensure proper reporting.

PROCEDURES

This audit was conducted in accordance with Generally Accepted Governmental Auditing standards and utilized an approach that included staff interviews, reviews of documents, and reports and examinations of individual financial transactions.

The period selected for testing was Reimbursement paid for Certificate Awards issued from 2022 – April 2025.

FINDINGS, RECOMMENDATIONS AND RESPONSES

INTERNAL CONTROL WEAKNESSES

1. Violation of IRS Publication 525 - Certification Awards Not Taxed

Per IRS Publication 525,

“In most cases, you must include in gross income everything you receive in payment for personal services. In addition to wages, salaries, commissions, fees, and tips, this includes other forms of compensation such as fringe benefits and stock options.”

“Bonuses and awards. Bonuses or awards you receive for outstanding work are included in your income and should be shown on your Form W-2.”

“Employee achievement award. If you receive tangible personal property (**other than cash, a gift certificate, or an equivalent item**) as an award for length of service or safety achievement, you must generally exclude its value from your income.”

None of the Certificate Awards totaling **\$65,000.00** for the period 01/01/2022 – 04/15/2025 were included in the employees’ income. This is a violation of IRS Publication 525.

The Certificate Awards are issued as an Accounts Payable (AP) check and are not included in the employees W-2 or issued as 1099 to the employee.

Recommendation

Certificate Awards are taxable income for the employee and should be reported to the IRS as required. Similar to Gift Card Award processing, consideration should be given to paying the Certificate Award through Payroll.

Administration’s Response

HR agrees to review the process currently in place and paying the award in accordance with IRS Publication 525.

2. Certificate Award Wording Weaknesses

Per the Emails from the Presiding HR Directors to the Presiding Mayors confirming their discussions:

12/21/2021:

“City of Allentown employees who attain nationally recognized, professional certification or college degrees which benefit their current department will be awarded a \$1500 bonus upon completion of the degree or certification. The bonus will be a one-time award and **will not be incorporated into their overall salary**. The certification or

degree must be approved by the Human Resources Director and Department Director to qualify for the bonus. This applies to employees who attain certification beginning January 1, 2022, and will not be applied retroactively.”

- The email states that the one-time award will not “be incorporated into their overall salary”. This is in violation of IRS Publication 525 as stated in Point #1.

03/10/2025:

“Professional Certification Bonus - The **one-time** Professional Certification bonus will be increased to \$2,000 for an initial certification and **\$1,000 for any additional relevant professional certification acquired thereafter**. Please note: If you received a certification award starting January 1, 2022, and before January 1, 2024, that would count as an initial award. Any additional relevant professional certification received in 2024 would count as an additional award. Also, this decision is retroactive to January 1, 2024. If you received a 1st time award of \$1500 in 2024, you would receive an additional \$500, bringing you into alignment with policy.”

- The email states that this is a “one-time Professional Certification bonus” but continues to say it is for “an initial certification and \$1,000 for any additional relevant professional certification acquired thereafter.”
 - “one-time” should be removed from the wording.
- The email states “\$1,000 for any additional relevant professional certification acquired thereafter.”
 - The statement does not set limits proving ambiguousness as to how many certificates are allowed on a yearly basis.

Recommendation

Consideration should be given to formalizing these E-Mails into a policy and procedure, SOP, addressing all the issues identified and providing clear directives for management and non-bargaining employees.

Administration’s Response

HR agrees to reword the stated award and establishing policy and procedure for future understanding and execution.

3. HR Records Do Not Agree with Certificate Awards

We requested a copy from HR of the Certificates Awards issued.

The listing was missing 1 (one) employee.

Recommendation

To ensure proper reporting a master list which includes the requests made for Certificate Awards by year should be maintained and compared at Year End to the inclusion in the employees W-2.

Administration's Response

HR agrees to include formalized, yearly tracking in the policy and procedures created.