

CITY OF ALLENTOWN

REVIEW OF LIGHTS IN THE PARKWAY “LIP” GIFT CARDS

April 09, 2025

Date of Report: May 13, 2025

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.

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

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.

OBJECTIVE

The objective of this audit was to:

- To determine whether internal controls are adequately designed and operating effectively to sufficiently mitigate the risk of gift card fraud, waste, and abuse.
- Perform a count of all the Gift Cards maintained in PARKS and tracing them to the internal gift card logs. To ensure the Gift Cards were present and properly reported. Identify any potential internal control weaknesses including but not limited to the physical security of Gift Cards.
- 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 were accurately recorded and safeguarded.
- 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 in PARKS. 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. Safeguarding of LIP 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 1 (one) gift card with a \$0.00 value in the PARKS vault. The notes on the gift card stated, “unusable not returnable”.

We contacted the vendor who issued the gift card and were told the gift card had not been activated BUT on 01/01/2024 someone had tried to use it at a local Lehigh Valley merchant.

Because of the lack of information and the age of the card it could not be determined if the gift card was used to “replace” an activated card and malfeasance occurred.

Additionally, we identified:

- 4 (four) gift cards totaling **\$200.00** being stored in the PARKS department vault. The gift cards are for Lights in the Parkway.

Recommendation

Unused Gift Cards should be safeguarded in the Treasury vault until they need to be distributed. Proper log procedures should be maintained. Proper control procedures should be established and maintained.

The inactive gift card should be given to Finance for investigation and/or destruction.

Administration’s Response

We agree with the recommendation and will include this in our process moving forward. Gift cards have been delivered to Treasury.

2. Issuance of LIP Gift Cards to Special Events Management

During our review of issued Gift Cards we noted that the Special Events Manager who oversees LIP received 5 (five) gift cards totaling **\$250.00** as a LIP volunteer. The Deputy Director of Parks and Recreation, who supervises the Special Events Manager, approved the distribution of the gift card to the employee.

Per the Special Events Manager job description,

“Plan and coordinate special events...addressing any issues or concerns that may arise during events...perform related work as required.”

“The duties listed above are intended only as illustrations of the various types of work that may be performed. The omission of specific statements of duties does not exclude them from the position if the work is similar, related or logical assignment of the position.”

Additionally, we noted the Deputy Director of Parks and Recreation who supervises the Special Events Manager received 5 (five) gift cards totaling **\$250.00** as a LIP volunteer. The gift card request was approved by the Special Events Manager.

Recommendation

LIP is a Special Event, which is part of the Special Events Manager job responsibilities. Administration should seek a Solicitor opinion regarding the propriety of the issuance of LIP Volunteer gift cards for job responsibility.

To ensure a proper segregation of duties and ensure that there is no duress, an employee should not authorize their manager's request for gift cards. The Deputy Director of Parks and Recreation request for LIP gift cards should be submitted for approval to their Supervisor.

PARK'S Response

We agree with the proper segregation of duties and will ensure proper authorization of gift cards based on chain of command.

HR'S Response

HR agrees to review the policy along with the job descriptions of the Special Events Manager and the Deputy Director of Parks and Recreation. HR will reach out to the Solicitor's Office to get their counsel on any possible impropriety HR may see as a result of the research.

3. Purchase of Gift Cards

Yearly gift cards are purchased for LIP and used as an Employee Volunteer incentive.

For 2024 LIP, 34 - **\$50.00** Amazon Gift Cards (**\$1,700.00**) were purchased for the event.

In 01/2022, we aged the gift card inventory maintained in Treasury and noted Human Resource (HR) had unused Amazon gift cards as follows:

DEPARTMENT	YEAR	#	\$
HR	2021	23	1,650
	2019	5	500
	Pre-2017	25	2,500
TOTAL		53	\$4,650.00

Recommendation

Before purchasing additional gift cards, Administration should consider working with the other department to use the gift cards currently available.

PARK'S Response

We agree with this recommendation and will work with HR and Treasury to try to utilize unused gift cards for LITP.

SAVINGS IMPROVEMENT OPPORTUNITY

4. Purchase of Gift Cards with Fees

Some non-vendor gift cards charge additional fees to the face value of their gift cards.

For 2024 LIP, 34 - **\$50.00** Amazon Gift Cards (**\$1,700.00**) were purchased. Each card included a purchasing fee of \$4.95 for a total of **\$168.30**.

Recommendation

Consideration should be given to using a different type of gift card or incentive which does not access a service fee or a direct monetary distribution to the employee's income through payroll.

PURCHASING'S Response

Purchasing currently is working on finalizing a policy for gifts cards that will not allow for any activation fees when purchasing gift cards. This will require departments to purchase gift cards that do not have activation fees.