

CITY OF ALLENTOWN

GIFT CARD REVIEW - HUMAN RESOURCES

11/17/2023

Date of Report: April 05, 2024

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.

OBJECTIVE

The objective of this audit was to:

- Perform a count of all the Human Resource (HR) 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.

ADDITIONAL AUDITOR'S COMMENT

In 2017, the Controller's Office identified malfeasance with Human Resource (HR) Gift Card Controls. Recommendation for improvement were provided and the staff member responsible for the malfeasance was subsequently terminated.

In 2020, continued weaknesses with Gift Card controls were identified. HR Administration responded with action plans to correct the deficiencies.

In 2023, some of the continued weaknesses were identified.

(See Below)

FINDINGS, RECOMMENDATIONS AND RESPONSES

INTERNAL CONTROL WEAKNESSES

1. Gift Card Reward Process Inconsistencies

As previously reported, prizes in the form of gift cards are awarded to employees as part of the City's Employee Recognition Program or as prizes for City raffles.

For the Employee Recognition Program, an employee is nominated by a City employee thru the Program Nomination Form. The form is submitted to the employee's Department Director and if the nomination is approved, the form is submitted to the HUMAN RESOURCE (HR) Director for final approval.

Once the nomination is approved by HR, a gift card is signed out of the Treasury vault by HR. The gift card is then awarded to the employee who must complete the "City of Allentown Recognition Program Prize Acknowledgement Form". The Acknowledgment Form is used to track the gift card and for income reporting purposes.

For 2023, we identified 10 (ten) gift cards, totaling \$700.00, signed out from the Treasury vault by HR.

We located 8 (eight) "City of Allentown Program Nomination Forms".

- HR could not determine who was awarded the remaining 2 (two) gift cards or whether there was malfeasance.

Of the 8 (eight) "City of Allentown Program Nomination Forms" located:

- All were properly approved by the Department Director and the interim HR Director.
- 7 (seven) had a corresponding "City of Allentown Recognition Program Prize Acknowledgement Forms" completed.
 - 1 (one) "City of Allentown Recognition Program Prize Acknowledgement Form" could not be located. It is unclear whether the gift card was given to an employee.
- Due to the lack of gift card number detail on the acknowledgement form it could not be determined which gift card was awarded to which employee.

Recommendation

The gift card reward process should be amended to ensure the forms include the missing information and the process allows for a proper audit trail to insure no malfeasance.

Administration Response

The Human Resources Department will amend its process and ensure proper recording and filing is adhered to moving forward.

2. Inadequate Employee Recognition Program Controls

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

As identified in the April 01, 2022, Audit Report,

“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 by the employee.

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

Administration responded,

“HR is developing a policy that will delineate segregation of duties.”

We reviewed the process and noted the issue remains outstanding.

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 Response

Human Resources will re-evaluate this program and execute on a proper segregation of duties, and will address any above weaknesses.

3. Reporting of Gift Cards thru Payroll

As previously reported, 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.**”

An employee who receives a gift card or prize from the City must complete a “City of Allentown Recognition Program Prize Acknowledgement Form”.

Using the “City of Allentown Recognition Program Prize Acknowledgement Form”, the employee incentives awarded (either a gift card or prize) are tracked in the Payroll module in EDEN as code, “WELL”.

The value of the “WELL” code is included in the employee’s W-2 as taxable income.

A payroll report of the “WELL” code for 2023 was run and compared to the HR gift card logs. We noted:

- Of the 7 (seven) 2023 Recognition Program Prize Acknowledgement Forms located; none were coded as “WELL” in EDEN. Therefore, the income was not reported to the IRS.
- 2 (two) employees’ gym card membership was coded as “WELL”. The code for gym membership reimbursement is “WELPAY”.
- 1 (one) inactive HR employee was coded as “WELL” but there was no record of the employee receiving an award. HR had no recollection of the employee receiving an award. HR reached out to the employee who had no recollection of receiving the incentive.
 - The “WELL” code was not reversed, therefor the employee’s 2023 W-2 reflected income for the incentive.

Recommendation

HR should have employees receiving gift cards, or any other non de minimis benefits complete the “City of Allentown Recognition Program Prize Acknowledgement Form” before receiving their gift card.

The gift card should be distributed by HR and not by the Department Manager.

The form should then be immediately entered into the EDEN Payroll Module as code “WELL” to ensure the income is properly reported.

At the end of the year, a “WELL” code EDEN report should be run and compared that years “City of Allentown Recognition Program Prize Acknowledgement Forms” to ensure the income is being reported and the City is complying with the IRS requirements.

Administration’s Response

The Human Resources Department agrees with the above recommendations and will implement any necessary changes.

4. Potential Obsolescence of Gift Cards

As previously reported, we reviewed the HR Gift Cards maintained in the Treasury vault and noted the following:

- In 2016, 76 Amazon gift cards were purchased as Employee Wellness incentives. In 2018, a new log was prepared of the remaining 55 gift cards. As of 11/17/2023, 18 (eighteen) gift cards remain.
- In 2017, Gift Cards from various establishments were obtained for the Safety Committee. As of 11/17/2023, 4 (four) gift cards remain.
- In 2019, 9 (nine) Amazon gift cards were purchased as Employee Wellness incentives. As of 11/17/2023, 5 (five) gift cards remain.
- In 2021, 25 (twenty-five) Mastercard gift cards were purchased as Employee Recognition incentives. As of 11/17/2023, 2 (two) gift cards remain.

Year Purchased	# GC Remaining	\$ Value
2016	18	1,800.00
2017	4	100.00
2019	5	500.00
2021	2	100.00
Total	29	2,500.00

As previously reported in 2020, the gift cards are NOT awarded in any order such as first in/first out.

Recommendation

To decrease risk of loss or obsolescence, issuance of the gift cards should be done in first in, first out method or a system should be developed to ensure the older gift cards are awarded first.

Administration’s Response

The Human Resources Department will review and make changes to the issuance system to ensure that older gift cards are awarded first.

5. Gift Card Log Weaknesses

As previously reported, we reviewed the Gift Card logs being used to record the recipient information and noted:

- Except for the Safety Committee Employee Safety Awards log, the gift cards logs do not provide enough space to identify the person awarded the gift card.
- Although the Gift Card logs have numeric assignment of the gift cards, the physical gift cards do not, and the gift cards can only be matched to the logs by serial number which complicates how the gift cards are awarded.

Recommendation

- The log should be revised to allow for enough space to identify the person who is awarded the gift card.
- To facilitate assignment and identification of the gift cards, the physical gift cards should be tagged with a sticker that matches the log to easily identify the gift card.

Administration's Response

The Human Resources Department agrees with the above recommendations and will implement any necessary changes.

6. "WELL" vs. "WELPAY" EDEN Codes

Gift Cards are tracked in the EDEN Payroll module as code, "WELL".

Gym Membership reimbursements are tracked in the EDEN Payroll module as code, "WELPAY".

Per the IRS, both incentives are taxable income.

For 2023, we identified 2 (two) individuals who had income coded as "WELL", but the reimbursement was for Gym Membership Reimbursement.

The coding is provided by HR.

Recommendation

To ensure proper reporting the EDEN codes should be properly used.

At the end of the year, a "WELL" and "WELPAY" EDEN code report should be run and verified to the amount paid and the documentation provided.

Administration's Response

The Human Resources Department will be trained to understand the difference between "WELL" and "WELPAY" Eden codes, and a report will be run at the end of the year to ensure proper documentation.

7. Undocumented Gym Membership Reimbursement Policy

In addition to the Capital Blue Health Insurance provided Gym Membership benefit, there is an undocumented Gym Memberships policy for Non-Bargaining employees only. The undocumented policy provides an additional \$100.00 gym membership reimbursement every 6 months.

It is unclear whether this is for the employee only or for all Capital Blue Health participants. It is also unclear how many employees partake of this benefit.

We identified 1 (one) employee who is coded as "single" for Health Benefits and received more than the undocumented Gym Membership benefit amount for 2023.

Recommendation

The Gym Membership Policy should be properly documented and codified.

Administration's Response

Human Resources will re-evaluate the current Gym Membership Reimbursement Policy to ensure clarity and will create a process for proper documentation.