

Office of the City Auditor

City of
Gainesville,
Florida

Citywide Gift Card Audit

March 7, 2022





City of Gainesville Office of the City Auditor

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Citywide Gift Card Audit

Executive Summary

What We Did

The objective of this engagement was to review the policies, procedures, controls and security around the handling of gift cards and determine if internal controls are adequately designed and operating effectively to sufficiently mitigate the risk of gift card fraud, waste and abuse. This audit was included in the 2021 Audit Plan.

Through inquiry, observation, and substantive testing, we assessed the adequacy of the design and operating effectiveness of controls related to citywide gift card administration processes. Specifically:

- We reviewed gift card purchases for compliance with internal controls procedures and appropriate *authorization*.
- We assessed the adequacy of documentation supporting the *distribution* of gift cards.
- We assessed the adequacy of gift card storage to ensure they are properly *safeguarded* from loss or theft.
- We assessed the availability, completeness and accuracy of *reconciliations* and reporting of gift card purchases, storage and distribution.

We would like to thank Utility and General Government personnel, for their cooperation and professionalism throughout this audit.

What We Found

The City lacks centralized gift card policy and procedures to effectively govern gift card administration activities. In six of nine City programs reviewed, gift card internal controls do not sufficiently mitigate the risk of loss or theft.

Citywide, there is no standard gift card approval process. Gift cards purchased by General Government departments were approved by the City Manager prior to purchase. There is no pre-approval process for the purchase of gift cards by the City Utility department; however, City Commission approval was obtained prior to purchasing gift cards for one Water Wastewater program.

There is no standard requirement for storing gift cards. The police department utilized a vault for storage while other areas used locked drawers or cabinets.

Evidence that cards were distributed was not retained for 469 gift cards with a value of \$17,054. Of the 469 cards, recipient names were provided for 451 cards with a value of \$16,529. We reached out to 30 recipients to validate receipt. Two respondents indicated they did not receive the gift cards. No evidence of distribution or recipient names were provided for the remaining 18 gift cards with a value of \$525.

Citywide there is no formal reconciliation process in place for monitoring gift card activities. Reconciliation should be performed by personnel with appropriate expertise who have no gift card purchase or distribution responsibility.



INTRODUCTION

The objective of the Citywide Gift Card Audit was to review the policies, procedures, controls and security around the handling of gift cards and determine if internal controls are adequately designed and operating effectively to sufficiently mitigate the risk of gift card fraud, waste and abuse. This audit was included in the City Auditor's Audit Plan. Audit scope and methodology, results and conclusion are summarized below while background discussion begins on page 6.

SCOPE AND METHODOLOGY

The scope of this engagement included an assessment of the design and operating effectiveness of controls related to citywide gift card administration processes from January 1, 2020, through December 31, 2021. We performed the audit through inquiry, observation, and substantive testing for processes in scope. Specifically, the audit team:

Governance

- Assessed the adequacy and completeness of *policies and procedures* governing the procurement, issuance and management of gift cards.
- Assessed adequacy of management *oversight and monitoring* related to gift card administration.

Gift Card Administration Processes

- Reviewed gift card purchases for *compliance* with internal controls procedures and appropriate authorization.
- Assessed the adequacy of documentation supporting the distribution of gift cards.
- Assessed the adequacy of gift card storage to ensure they were properly *safeguarded* from loss or theft.
- Assessed the availability, completeness and accuracy of *reconciliations* and reporting of gift card purchases, storage and distribution.

RESULTS AND CONCLUSION

As a result of our review, we identified opportunity for improvement around citywide gift card administration activities. The City lacks a centralized gift card policy or procedures to effectively govern citywide gift card administration that includes the following activities: approved gift card purchases, secure storage, chain of custody processes to document gift card distribution, periodic reconciliation, and overall monitoring for compliance.

The audit **issue #1 Inadequate Policy and Procedures** (moderate risk) details and management action plan are included within the *Audit Issues and Management Action Plans* section beginning on page 10.

- **High Risk:** Key controls do not exist or are not effective, resulting in an impaired control environment. High Risk control weaknesses require immediate corrective action detailed in the management action plan.



- **Moderate Risk:** Adequate control environment exists for most processes. Moderate risk control weaknesses require corrective action detailed in the management action plan.
- **Low Risk:** Satisfactory overall control environment with a small number of low risk control improvement opportunities that do not require corrective action or a management action plan.

We would like to thank General Government and Gainesville Regional Utilities management and staff for their professionalism and cooperation during this engagement.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this audit engagement in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

INTERNAL AUDIT TEAM

Ginger Bigbie, CPA, CFE, City Auditor
Brecka Anderson, CIA, CFE, Assistant City Auditor
Ryan Timmons, CISSP, IT Audit Manager
Internal Audit Manager [new hire starting soon]
Diana Ferguson-Satterthwaite, FCCA, CIA, Senior Internal Auditor



BACKGROUND

Gift cards are cash-like instruments given in lieu of cash or check and allows the recipient to purchase goods or services at retail or other *business* establishments. Internal controls around handling gift cards must be as strong as controls around cash management. While gift cards are an easy way to provide special recognition or other incentives, the risks for loss or theft is very high.

While there is no citywide policy governing the appropriate use of gift cards, management has utilized gift cards for community *recognition*, police firearm buyback, employee incentives and other purposes. During the period January 1, 2020, to December 31, 2021, the departments outlined in Table 1 below purchased and distributed gift cards to City employees or the public.

Table 1 – City Departments That Handle Gift Cards

Department	Gift Card Recipient –Employee				Gift Card Recipient – Public				
	Safety Incentive	Retirement & Bereavement	Motivational Activities	Holiday Events & Luncheon	E-bill & Drop Savers Contest	Sing-Along Concert	Customer Damage Replacement	Marketing & Promotion	Gun Buy Back Program
Communications *					✓				
Utility Customer Service Support	✓	✓	✓						
Energy Delivery		✓							
Energy Supply	✓								
Gainesville Police Department *									✓
GRU.com	✓							✓	
Information Technology		✓							
Parks Recreation and Cultural Affairs*						✓			
Water/Wastewater	✓	✓		✓	✓		✓		

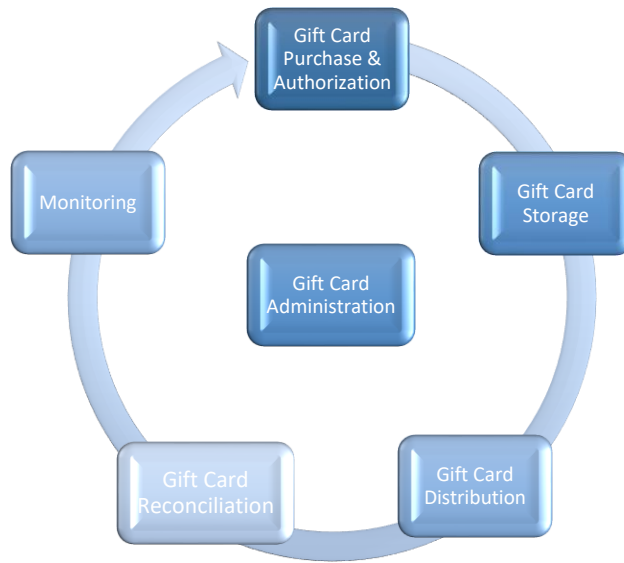
*** Note:** While there is no overall reconciliation process, the department properly followed all other internal control best practices.

Gift Card Administration

Gift card administration includes the following activities: establishing policy and procedures, approved purchases, secured storage, *documented* distribution, reconciliation, and oversight and monitoring to ensure policy compliance. See Figure 1 below.



Figure 1 – Gift Card Administration Activities



POLICY AND PROCEDURES

The City of Gainesville has not established a citywide gift card policy or consistent procedures to govern gift card administration and related internal controls. On May 24, 2017, City departments that fall under general government were *directed* by the City Manager’s Administrative Procedure to discontinue the purchase of gift cards using City issued purchasing cards. The *Utility Administrative Guideline 2.16 Purchasing Card* permits the purchase of gift cards for authorized business purposes including employee recognition. *Utility Administrative Guideline 4.1 Special Events Expense* includes death acknowledgement and retirement recognition as approved special events. The current guideline states that bereavement may be acknowledged with cards and/or flowers or other forms of recognition, and that the funds should not exceed \$75 per person. The method of recognition for retirement includes plaques, gifts, receptions, luncheon and gift certificates (gift cards). The IRS treats tangible awards and gifts differently from cash and cash equivalent awards and gifts.

Employee Taxable Income

Utility Administrative Guidelines 2.16 and 4.1 stipulate employee gifts which have a cash or cash equivalent value are subject to income and employment taxes. *IRS publication 15-B (2022) Employer’s Tax Guide to Fringe Benefits* states tangible employee awards for length of service or safety achievement are excluded from an employee’s taxable income unless the awards are cash, cash equivalents, gift cards, gift coupons, or gift certificates. Inclusion in employee income also applies to vacations, meals, lodging, tickets to theater or sporting events, stocks, bonds, other securities, and other similar items.

Gift cards issued to employees must be reported to City Payroll via email on form 19B Non-Cash Fringe Benefit by the gift card custodian. During this engagement auditors could not verify all gift cards given to employees were reported to payroll.



PURCHASE AND AUTHORIZATION

The City does not have a standard gift card approval process. Gift cards purchased by departments that fall under General Government were approved by the City Manager prior to purchase. There is no pre-approval process for the purchase of gift cards by departments that fall under City utility programs; however, one program administered by the Water Wastewater department was taken to the City Commission for approval prior to purchase.

STORAGE

There is no guideline covering gift card storage for General Government or the utility. Gift cards should be handled like cash and secured at all times. The level of security should be determined based on risk, which can be determined by the number and value of cards stored and the average storage period. During our review we observed gift cards on hand for six of nine areas. GPD stored gift cards in a vault while the others used locked drawers. Gift cards on hand during auditor field visits are outlined in Table 2 below.

Table 2 – City Departments Gift Card Storage

Department	Gift Card On Hand At Time of Audit Yes/No	Number of Gift Cards on Hand	Total \$ Value of Cards Hand	Storage Method	Average Time in Storage
Communications	Yes	2	100	GRU Admin Security Office	> 1 month
Customer Service Support	Yes	70	800	Desk Drawer	> 1 month
Energy Delivery	No	0	0	Not Observed	< 1 Week
Energy Supply	Yes	2	20	Desk Drawer	> 1 month
Gainesville Police Department	Yes	50	6,800	Vault	> 1 month
GRUCom	Yes	12	470	Desk Drawer	> 1 month
Information Technology	No	0	0	Not Observed	< 1 Week
Parks Recreation and Cultural Affairs	No	0	0	Not Observed	>1 Week
Water/Wastewater	Yes	48	1,875	Desk Drawer	> 1 Week
Grand Total		184	\$10,065		

DISTRIBUTION OF GIFT CARDS

There is no Citywide formal requirement to document and evidence distribution of gift cards. The gift card distribution process varies based on the department and the purpose for which gift cards were purchased. 2,442 gift cards were noted by the departments as being distributed to employees and the public during the period January 1, 2020 and December 31, 2021. Documentation of distribution is not standardized. Some departments prepare a distribution list of gift cards purchased. Some departments also require a signature or other evidence of receipt. See **Table 3** in the *Audit Issue and Management Action Plan* section beginning on page 10, for detail of the distribution method and number of gift cards distributed by each department.



RECONCILIATION AND MONITORING

Citywide there is no formal gift card reconciliation process or oversight and monitoring of gift card activities. Gift cards should be reconciled periodically by personnel who are independent of gift card purchasing and distribution responsibilities. The reconciliation should track quantity of cards on hand at the start of the period with card serial number, cards purchased, cards distributed during the period (with evidence of distribution), and the quantity of cards remaining at the time of reconciliation. There should also be periodic monitoring of gift card activities for compliance with policies and procedures. The chain of custody of gift cards must be maintained at all times.



ISSUE #1 Inadequate Policy and Procedures

Risk rating: [Moderate]

Observation

The City does not have a citywide policy or procedure governing gift card administration, including the allowable uses of gift cards. Current gift card administration processes are inconsistent across departments and do not provide adequate controls over the purchase, storage, distribution and reconciliation of gift cards. Additionally, the inconsistent use of gift cards as employee incentives can pose risk of inequitable treatment for City staff.

Through inquiry, observation, and review of purchasing card data, nine departments were identified that purchased and distributed gift cards during the period January 2020 to December 2021 timeframe, as outlined in table 3 below.

TABLE 3

Department	Gift Cards Purchased 1.1.2020 - 12.31.2021		Distribution								Remaining Cards on Hand		Variance
	Number of Cards	Total \$ Value	Documented Evidence of Distribution		No Evidence of Distribution - Recipient Name Recorded A		No Evidence of Distribution - Recipient Unknown B		Total Distribution		Number of Cards	Total \$ Value	Number of Cards
			Number of Cards	Total \$ Value	Number of Cards	Total \$ Value	Number of Cards	Total \$ Value	Number of Cards	Total \$ Value			
Communications	5	250	3	150	-	-	-	-	3	150	2	100	-
Customer Service Support	1012	20,529	590	11,800	381	8,319	3	30	974	20,149	45	520	(7)*
Energy Delivery	8	3,000	1	75	7	2,925	-	-	8	3,000			-
Energy Supply	22	660	4	160	16	480	-	-	20	640	2	20	-
Gainesville Police Department (GPD)	233	33,900	183	27,100	-	-	-	-	183	27,100	50	6,800	-
GRUCom	39	3,025	27	2,555	1	30	1	70	29	2,655	10	370	-
Information Technology	9	1,950	-	-	9	1,950	-	-	9	1,950			-
Parks Recreation and Cultural Affairs (PRCA)	18	1,800	18	1,800	-	-	-	-	18	1,800	-	-	-
Water/Wastewater	1159	31,000	1,147	28,725	37	2,825	14	425	1,198	31,975	2	50	(41)*
Totals	2505	96,114	1,973	72,365	451	16,529	18	525	2442	89,419	111	7,860	(48)*

Please note that of 2,505 cards, we could not verify the distribution of 469 cards totaling \$17,054. Of the 469 cards, no recipient name was provided for 18 cards. We contacted 30 of the 451 gift card recipients whose names were provided to validate the cards were received. Two respondents did not receive gift cards.

* Some cards purchased outside of the scope period are included in the distribution.



Gift Card Purchases and Authorization

Citywide, there is no standard gift card approval process. Gift cards purchased by General Government departments were approved by the City Manager prior to purchase. There is no pre-approval process for the purchase of gift cards by City Utility departments; however, City Commission approval was obtained prior to purchasing gift cards for one Water Wastewater program.

Not all gift card purchases awarded to employees were reported as income to the Internal Revenue Service. While the City may want to honor a long serving employee with a retirement party, condolences to an employee, or award safety practices, the use of gift cards for these purposes is effectively providing additional taxable wages for the employee. Some of the gift card purchases awarded to employees through the Safety Incentive Program were not reported to the IRS as income. In the case of bereavement and retirement, gift cards were not reported as employee income for any cards distributed as required by Internal Revenue Service regulations.

Some utility departments provide gift cards as incentives to encourage employees to more closely follow safety standards. However, individual departments have developed gift card incentive programs that are not consistent across departments and do not include all City employees leading to potentially inequitable handling of gift card incentive programs.

Gift Card Storage

While GPD gift cards on hand are stored in a vault, the remaining areas with gift cards on hand are stored in locked drawers which may not provide adequate security. We identified 134 gift cards on hand in various areas, valued at \$3,265, stored in locked desk drawers or cabinets. There should be an established threshold, such as \$100, for storage in locked office drawers. Greater amounts should be placed in a more secure location, such as safe or vault.

Gift Card Distribution

Recipients of gift cards are not always required to sign for the cards they receive or provide other support to provide evidence to acknowledge receipt of the gift card. Additionally, some areas that log distribution of gift cards do not always maintain those logs. 469 gift cards with value of \$17,054 (see sections A and B in Table 3 above) could not be verified as disbursed. We contacted 30 of the 451 gift card recipients whose names were provided (depicted in Table 3) to validate the cards were received. Two respondents did not receive gift cards.

Three departments – Communications, Gainesville Police Department, and Parks, Recreation and Cultural Affairs – maintained proper custody of gift cards and obtained signatures or other supporting evidence for all gift cards distributed.



Gift Card Reconciliation

The gift cards purchased were not reconciled with distributed and remaining quantity on hand for four departments: Utility Customer Service Support, GRUCom, Water Wastewater and Energy Supply.

In addition, there is no centralized monitoring or periodic review of gift card administration internal controls. Please see Appendix A for an example gift card reconciliation. The first tab demonstrates overall tracking and the second tab demonstrates chain of custody through disbursement.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission, Internal Control – Integrated Framework (2013 Framework), Control Activities Principle 12 states, “the organization deploys control activities through policies that establish what is expected and procedures that put policies into action.”

The Committee of Sponsoring Organizations of the Treadway Commission, Internal Control – Integrated Framework (2013 Framework), Control Activities Principle 16 states, “the organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.”

The Department of the Treasury Internal Revenue Service Publication 15-B (2022) Employer’s Tax Guide to Fringe Benefits states tangible employee awards for length of service or safety achievement are excluded from an employee’s taxable income unless the awards are cash, cash equivalents, gift cards, gift coupons, or gift certificates. Inclusion in employee income also applies to vacations, meals, lodging, tickets to theater or sporting events, stocks, bonds, other securities, and other similar items.

Cause

Due to lack of centralized policy and procedures, some department staff are unaware of risks or strong internal controls that should be in place to govern gift card administration activities. Decentralized and informal gift card administration resulted in inconsistent practices and internal controls.

Risk

Use of gift cards for employee incentives, rewards, or other employee purposes increases the risk payments are not reported to payroll for proper tracking and reporting, and risk of inequitable programs that may adversely impact staff morale, productivity, or staff retention.

The likelihood of fraud or misappropriation of gift cards is inherently high, and remains high when there are inadequate policies and procedures to govern the purchase, storage, distribution, reconciliation and monitoring of gift cards activities.

Recommendation

The City Auditor recommends and agrees with the following management action plan.



Management Action Plan

The City Manager and General Manager are developing a draft gift card policy. In addition, we are still considering the need for gift cards for both employees and external. If we decide to continue to use gift cards under some circumstances then we will follow the guidelines.

Policy or procedures should require any functional area permitted to use gift cards to establish strong internal controls for the following gift card processes:

- Authorization for purchase*
- Storage requirements*
- Documentation requirements to verify proper distribution of gift cards*
- Reconciliation requirements to track gift card activities from purchase through distribution and completed by someone who does not purchase or distribute the gift cards*
- Monitoring for policy compliance*

Due date: *December 15, 2022*

Responsible Party: *Len Loria, Utility Controller*

Accountable Party: *Claudia Rasnick, Utility Chief Financial Officer*

Consulted Parties: *Scott Heffner, Labor and Relations Manager,
Jane Brockes, GG Internal Control Manager*

Informed Parties: *Cynthia Curry, Interim City Manager
Tony Cunningham, Interim General Manager*



