

CITY AUDITOR'S OFFICE



AUDIT OF PARKS AND RECREATION DEPARTMENT GIFT CARD CONTROLS AND POLICY COMPLIANCE

Report PR015-2122-04

June 16, 2022

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CITY AUDITOR

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AUDIT OF PARKS AND RECREATION DEPARTMENT GIFT CARD CONTROLS AND POLICY COMPLIANCE

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BACKGROUND

The city's Parks and Recreation department (Parks and Recreation) periodically purchases gift cards for community event raffles or prizes and employee awards. Parks and Recreation is required to follow the city's Gift Card Policy/Procedure (FN212). According to this policy, gift cards are considered cash equivalents and as such, each department purchasing gift cards is required to obtain approval signatures from a department director or manager and from a Finance Department (Finance) manager using the Gift Card Purchase Request Form (purchase request form - see Exhibit A), maintain a Gift Card Inventory & Disbursement Log (gift card log - see Exhibit B), and ensure the physical security of the gift cards.

OBJECTIVES

Our objectives in completing this audit were as follows:

- Verify compliance with the city's gift card policies and procedures.
- Determine whether internal controls are adequately designed and operating effectively to sufficiently mitigate the risk of fraud.

SCOPE AND METHODOLOGY

The scope of the audit was limited to gift card purchase transactions during the period from July 1, 2019 through June 30, 2021. A total of 120 gift cards totaling \$2,664 were purchased by Parks and Recreation in 15 transactions during this period.

The scope of our work on internal control was limited to the controls within the context of the audit objectives and the scope of the audit. The audit methodology included:

- Conducting interviews with Parks and Recreation management and staff
- Reviewing relevant standards and city policies
- Analysis and detail testing of available data
- Observation of gift card inventory and reconciliation to records where possible

We conducted this performance audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. Those standards require that we plan and perform the audit 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 findings and conclusions based on our audit objectives. The last fieldwork date of this audit was April 21, 2022.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

The results of our audit procedures to each of our audit objectives are found below:

Objective 1:

Verify compliance with the city's gift card policy and procedures.

Conclusion:

Certain gift card purchase requests were found to be deficient or out of compliance with the gift card policy/procedure. (See Finding #1)

Gift card logs are not being maintained in accordance with the gift card policy/procedure. (See Finding #2)

Gift cards given to employees are not being reported to the city's Payroll division in accordance with policy. (See Finding #3)

Directors and/or division managers are not regularly inspecting and auditing the gift card logs and inventory of unissued gift cards to ensure compliance with policy. (See Finding #4)

Objective 2:

Determine whether internal controls are adequately designed and operating effectively to sufficiently mitigate the risk of gift card fraud.

Conclusion:

The management controls over gift card purchases and distributions are not operating effectively to sufficiently mitigate the risk of gift card fraud. The following deficiencies in management controls over gift cards were identified:

- Gift cards are sometimes purchased prior to receiving documented approval by management and Finance.
- Gift cards logs are not being used by all gift card purchasers.
- When gift cards are used, the gift cards are typically recorded on the log when distributed rather than when purchased as required by policy.
- Parks and Recreation management is not performing periodic independent reviews and reconciliations of the gift cards purchased, the entries on the gift card logs, and the gift cards on-hand.

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1. Gift Card Purchase Approval Deficiencies

Criteria

- **Gift Card Policy/Procedure FN212 (excerpts)**
 - City employees may purchase gift cards on a case-by-case basis provided the following conditions are met:
 - Department director or division manager has determined a gift card purchase is necessary for official city business.
 - Approval has been granted by original signatures from the department director or division manager and the Finance Department using the *Gift Card Purchase Request* form.
 - Payment for gift cards may only be made with a city issued procurement card (P-Card) in accordance with *FN605 Procurement Card Policy/Procedures*.
 - The P-Card holder/requestor completes a *Gift Card Purchase Request* form.
 - The P-Card holder/requestor maintains control and provides physical security for unissued gift cards.

Condition

During the period 7/1/2019 through 6/30/21, Parks and Recreation employees completed 9 purchase request forms. The following deficiencies and areas of non-compliance with city policy were noted on these forms:

- Gift card purchases were found to have been made prior to obtaining the required approvals on purchase request forms as follows:
 - 15 gift cards were purchased prior to the date of both the department's and Finance's approvals.

- 6 gift cards were purchased after the date of the department's approval but before the date of Finance's approval.
- 10 gift cards were purchased prior to the date of the department's approval on one of three purchase request forms signed by Finance without a date.
- 12 gift cards were purchased without any Finance signature or date on the purchase request form.
- The number of gift cards purchased was greater than the number of cards approved for purchase on 3 purchase request forms.
- 3 gift cards were found to have been used for a purpose different than that for which their purchase was approved.

Cause

- Inadequate training on the gift card policy and procedures.
- Lack of management review of the gift card transactions.

Effect

- Non-compliance with the gift card policy and procedure.
- Unapproved gift card purchases.

Recommendations

- 1.1 Parks and Recreation management should provide additional training to employees on the gift card purchase approval procedures.
- 1.2 Parks and Recreation management should periodically verify compliance by their employees with the gift card approval procedures.

2. Missing and Incomplete Gift Card Logs

Criteria

- **Gift Card Policy/Procedure FN212 (excerpts)**
 - Each department purchasing gift cards is responsible for maintaining a *Gift Card Inventory & Disbursement Log*, which is used as an inventory for the gift cards and to track the distribution of the gift cards.
 - Physical inventory of gift cards must be logged using the *Gift Card Inventory & Disbursement Log*.
 - When the gift cards are purchased, the P-Card holder (or employee who is responsible for maintaining gift card inventory) enters the card numbers, type of card and amount on the *Gift Card Inventory & Disbursement Log* to update the department's gift card physical inventory.

- It is the city's fiscal responsibility to document who distributed and received the cards.
- If the recipient is a city employee:
 - The P-Card holder or city employee distributing the card fills in the department's *Gift Card Inventory & Disbursement Log* with the date of issue in the Date box and purpose in the Event/Purpose box.
 - The city employee receiving the gift card enters the employee name and 6-digit employee number in the Employee box and signs the log in the Employee Signature box.
- If the gift cards are for a public event:
 - The P-Card holder or city employee responsible for maintaining gift card inventory will update the *Gift Card Inventory & Disbursement Log* by entering the date the cards were issued to the distributor in the *Date* box, and the name of the event in the *Event/Purpose* box for each card distributed.
 - The distributor prints his/her name in the *Distributor* box and signs in the *Distributor Signature* box for each card distributed.
- Departments are required to retain this log for seven years. This log is subject to audit at any time.

Condition

During the period from 7/1/2019 through 6/30/2021, Parks and Recreation employees purchased 120 gift cards.

58 of the 120 gift cards (48%) were not recorded on any gift card log as required by policy. 5 of the 58 gift cards not logged were found to still be on-hand and another 8 gift cards not logged were used for gaming subscriptions on a community center's gaming computers. Only 3 of the 6 P-Card holders who made gift card purchases during the audit period maintained logs.

62 of the 120 gift cards (52%) were recorded on gift card logs. The following deficiencies were noted in how these logs were maintained:

- While the gift card policy states that gift cards are to be recorded on the gift card logs when purchased, Parks and Recreation employees typically record the gift cards on the logs when they are distributed.
- 32 of the 62 gift cards were given to employees. 14 of these cards had the name of the employee to whom the cards were given on the gift card log but were missing the employee's signature on the log as required by policy. 6 gift card entries lacked both the name and the signature of the employee to whom the gift cards were given.
- 30 of the 62 gift cards were given to non-employees. 5 of these gift card entries lacked the name and signature of the "distributor" on the log as required by policy.

Cause

- Inadequate training on the gift card policy and procedures.
- Lack of management review of the completeness of the gift card logs.

Effect

- Without the gift card details (numbers, type, and amount) being recorded on the logs, the number of gift cards that should be on-hand cannot be verified.
- Risk of theft or loss of gift cards.
- Lack of accountability for purchased gift cards.
- Non-compliance with the gift card policy and procedure.

Recommendations

- 2.1 Parks and Recreation management should provide additional training to employees on the proper way to complete the gift card logs when purchasing and distributing gift cards.
- 2.2 Parks and Recreation management should periodically review the completed gift card logs to verify compliance with the gift card policy.

3. Missing Payroll Submittals

Criteria

- **Gift Card Policy/Procedures FN212 (excerpts)**
 - If the *Gift Card Inventory & Disbursement Log* contains entries for an employee recipient, a copy of the log must be scanned and emailed to Payroll by the end of the pay period. The dollar amount of a gift card issued to an employee is considered taxable income per IRS Code Section 102.
 - No individual recipient (non-employee) may receive more than \$600 in gift cards in a calendar year to avoid issuing a 1099.

Condition

City departments are required to scan and email copies of gift card logs that include entries of an employee receiving a gift card to the city's payroll division (Payroll) by the end of each pay period. According to Payroll, Parks and Recreation did not send any gift card logs to them during the period from 7/1/2019 through 6/30/2021 despite gift cards being given to employees during that period.

Per policy, a non-employee who receives more than \$600 in gift cards in a calendar year would need to be issued a 1099. The department does not have procedures in place to be able to track the amount of gift cards being given to non-employees.

Cause

- Lack of proper oversight of purchase and distribution of gift cards and compliance with the gift card policy and procedures.

Effect

- Non-compliance with the city's gift card policy and procedures.
- Employees were not properly taxed for gift cards received.

Recommendations

- 3.1 Parks and Recreation management should document and implement procedures requiring that gift card logs be scanned and emailed to Payroll before the end of each pay period when gift cards have been given to employees.
- 3.2 Parks and Recreation management should document and implement procedures to track the amount of gift cards being given to non-employees each calendar year and alert Finance if the amount ever exceeds \$600.

4. Lack of Management Review of Gift Card Inventory

Criteria

- **FN212 Gift Card Policy/Procedures (excerpt)**
 - Directors and/or division managers must regularly inspect and audit the Gift Card Inventory and Disbursement Log and inventory of unissued gift cards to ensure compliance with this policy and procedure.

Condition

The Parks and Recreation director and/or division managers do not regularly inspect and audit the gift card logs and inventory of unissued gift cards as required by policy.

Cause

- Gift card policy and procedures have not been fully implemented by Parks and Recreation.

Effect

- Risk of loss of gift cards.
- Lack of proper management controls over gift cards.
- Non-compliance with the city's gift card policy and procedures.

Recommendation

- 4.1 Parks and Recreation management should document and implement procedures requiring the director and/or division managers to regularly perform independent inspections and audits of the unissued gift cards and logs in accordance with policy.

Exhibit A – Gift Card Purchase Request Form

 GIFT CARD PURCHASE REQUEST					
P-CARD HOLDER					
DEPARTMENT			DATE		
FIRST	MI	LAST			
This form must be completed by the requesting department, signed by the department director or a division manager, and then forwarded to Finance. A signature from a Finance Department manager is required before purchase of gift cards. Once approved by Finance this document will be returned to the requesting department. This original form must be included with the procurement card (P-Card) reconciliation paperwork for the period in which gift cards were purchased. Failure to complete this form and/or include it with P-Card reconciliation paperwork can result in a strike being issued to the P-Card holder.					
# CARDS	AMOUNT	TOTAL	PURPOSE	TYPE OF CARD	
[]	x [] =	[]			
[]	x [] =	[]			
[]	x [] =	[]			
[]	x [] =	[]			
GRAND TOTAL		[]			
DEPARTMENT DIRECTOR/DIVISION MANAGER					
By my signature below I certify the above requested gift cards are intended for official and approved city of Las Vegas business interests. I further certify that I understand my department is required to secure these cards, and log when and to whom cards are issued using the Gift Card Log supplied by Finance. I understand this log is the responsibility of my department and it is to be maintained for no less than seven years and is subject to review/audit at any time.					
FIRST	MI	LAST			
SIGNATURE			DATE		
FOR FINANCE USE ONLY					
PRINT NAME					
SIGNATURE					

Exhibit B – Gift Card Inventory & Disbursement Log



GIFT CARD INVENTORY & DISBURSEMENT LOG

DEPARTMENT:

P-CARD HOLDER:

			Complete column if distributing to an employee.	Complete column if distributing at an event.
CARD NUMBER	TYPE	AMOUNT	EMPLOYEE INFORMATION EMPLOYEE (Print name) & CLV 6-DIGIT EMP # *	EVENT INFORMATION DISTRIBUTOR (Print name)
EVENT/PURPOSE	DATE		EMPLOYEE SIGNATURE	DISTRIBUTOR SIGNATURE
CARD NUMBER	TYPE	AMOUNT	EMPLOYEE INFORMATION EMPLOYEE (Print name) & CLV 6-DIGIT EMP # *	EVENT INFORMATION DISTRIBUTOR (Print name)
EVENT/PURPOSE	DATE		EMPLOYEE SIGNATURE	DISTRIBUTOR SIGNATURE
CARD NUMBER	TYPE	AMOUNT	EMPLOYEE INFORMATION EMPLOYEE (Print name) & CLV 6-DIGIT EMP # *	EVENT INFORMATION DISTRIBUTOR (Print name)
EVENT/PURPOSE	DATE		EMPLOYEE SIGNATURE	DISTRIBUTOR SIGNATURE
CARD NUMBER	TYPE	AMOUNT	EMPLOYEE INFORMATION EMPLOYEE (Print name) & CLV 6-DIGIT EMP # *	EVENT INFORMATION DISTRIBUTOR (Print name)
EVENT/PURPOSE	DATE		EMPLOYEE SIGNATURE	DISTRIBUTOR SIGNATURE
CARD NUMBER	TYPE	AMOUNT	EMPLOYEE INFORMATION EMPLOYEE (Print name) & CLV 6-DIGIT EMP # *	EVENT INFORMATION DISTRIBUTOR (Print name)
EVENT/PURPOSE	DATE		EMPLOYEE SIGNATURE	DISTRIBUTOR SIGNATURE

* REQUIRED FOR EMPLOYEE RECIPIENTS. GIFT CARDS ARE CONSIDERED TAXABLE INCOME PER IRS CODE SECTION 102.
 DEPARTMENTS ARE REQUIRED TO RETAIN THIS LOG FOR SEVEN YEARS. THIS LOG IS SUBJECT TO AUDIT AT ANY TIME.

MANAGEMENT RESPONSE

1. Gift Card Purchase Approval Deficiencies

- 1.1 Parks and Recreation management should provide additional training to employees on the gift card purchase approval procedures.

Management's Action Plan: Management will provide additional training to full time staff on the correct procedures for purchasing gift cards. Training emphasis will include, pre-approval purchase process, gift card log tracking requirements, location gift cards are to be stored, monitoring guidelines, distribution of gift cards and reporting.

Estimated Date of Completion: September 2022 – Annual all staff training

- 1.2 Parks and Recreation management should periodically verify compliance by their employees with the gift card approval procedures.

Management's Action Plan: Employees requesting to purchase gift cards are required to get approval through their Manager, Budget Analyst and Finance before purchasing. Employees are to submit the Gift Card Purchase Request via email to their manager for original signature and copy the Budget Analyst then the Manager routes the hard copy to the Budget Analyst who sends it to Finance via inner office. Once the Budget Analyst receives the final signed copy from Finance, they will email a copy to the coordinator and manager for their records confirming their request was approved and they can move forward with purchasing the gift cards. Budget Analyst tracks all Gift Card Purchase Requests. Managers confirm with staff that they need to wait for Finance's approval before they purchase the gift cards.

Estimated Date of Completion: September 2022 – Review at annual staff training

2. Missing and Incomplete Gift Card Logs

- 2.1 Parks and Recreation management should provide additional training to employees on the proper way to complete the gift card logs when purchasing and distributing gift cards.

Management's Action Plan: Management will provide additional training to full time staff on the proper way to complete the gift card logs. Training will highlight samples of properly filled out gift card logs focused on when the gift cards were purchases to final distribution. Key factors include, the person who purchases the gift cards is responsible for completing the log, the gift cards need to be secured in their safe, notate when the gift cards were distributed, what event/activity they were used for, who issued them and send an email copy of the completed Gift Card Log to the Budget Analyst and their manager. There should be one log per p-card person. The Budget Analyst will maintain the Department's gift card physical inventory list and copies of the completed Gift Card Logs.

Estimated Date of Completion: September 2022 – Annual all staff training

- 2.2 Parks and Recreation management should periodically review the completed gift card logs to verify compliance with the gift card policy.

Management's Action Plan: The Budget Analyst will maintain the completed Gift Card Logs. Once they receive the logs from the staff, they will copy the managers for review. Any errors will be corrected at that time with the staff.

Estimated Date of Completion: September 2022 – Annual all staff training

3. Missing Payroll Submittals

- 3.1 Parks and Recreation management should document and implement procedures requiring that gift card logs be scanned and emailed to Payroll before the end of each pay period when gift cards have been given to employees.

Management's Action Plan: Management will no longer be purchasing or distributing gift cards to employees.

Estimated Date of Completion: Effective April 2022

- 3.2 Parks and Recreation management should document and implement procedures to track the amount of gift cards being given to non-employees each calendar year and alert Finance if the amount ever exceeds \$600.

Management's Action Plan: Gift card raffle prizes are minimal amounts \$10-\$25 each and limited to special event functions, therefore it is highly unlikely that any one person would ever exceed \$600 in a calendar year. Names of recipients of gift cards will be documented on the gift card log and/or attached to the log. During training, we will ensure staff is aware of the policy and ask staff to report to management if a recipient has or will receive more than \$600 in gift cards. The Budget Analyst will review all names of gift card winners twice a year (June and December) and notify Finance if any exceed \$600 in a calendar year.

Estimated Date of Completion: September 2022 – Annual all staff training

4. Lack of Management Review of Gift Card Inventory

- 4.1 Parks and Recreation management should document and implement procedures requiring the director and/or division managers to regularly perform independent inspections and audits of the unissued gift cards and logs in accordance with policy.

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Management's Action Plan: The director and/or division manager will complete quarterly audits, review the gift card logs, and make note of any unissued gift cards. Managers will follow up with the staff who purchased the unused gift cards to verify future use.

Estimated Date of Completion: Quarterly inspections beginning January 2023