

CITY AUDITOR'S OFFICE



AUDIT OF DEPARTMENT OF NEIGHBORHOOD SERVICES GIFT CARD CONTROLS AND POLICY COMPLIANCE

Report CS006-2223-01

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CITY AUDITOR

TABLE OF CONTENTS

BACKGROUND	1
OBJECTIVES	1
SCOPE AND METHODOLOGY	1
FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS	2
1. Gift Card Purchase Approval Deficiencies	4
2. Incomplete and Missing Gift Card Logs	5
3. Inadequate Gift Card Security	7
4. Inadequate Management Review of Gift Card Logs and Inventory	9
Exhibit A – Gift Card Purchase Request Form	10
Exhibit B – Gift Card Inventory & Disbursement Log	11
MANAGEMENT RESPONSE	12

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BACKGROUND

The Department of Neighborhood Services (Neighborhood Services), known as the Office of Community Services prior to August 17, 2022, provides programs and services focused on neighborhoods, homeless individuals, veterans, grants, seniors, and housing. Neighborhood Services oversees two city facilities as a part of their efforts to help homeless individuals, the Courtyard Homeless Resource Center (Courtyard) and the Recuperative Services Center. The Courtyard provides homeless individuals with access to medical, housing, legal, and employment services. The Recuperative Care Center provides beds for homeless individuals in need of recuperating from medical illness or injury.

Gift cards are utilized by Neighborhood Services to assist homeless individuals with needs such as groceries, clothing, and housing assistance and as awards during special events. During the COVID-19 pandemic, Neighborhood Services staff participated in the operation of an Isolation and Quarantine facility (ISO-Q) and various testing and vaccination events. Gift cards were distributed to homeless individuals at these events as incentives for them to participate.

Gift cards are considered cash equivalents and must be properly accounted for and secured. Departments purchasing gift cards must follow the city's Gift Card Policy/Procedure (FN212) (gift card policy). This policy requires that department staff obtain approval for gift card purchases from their department director or manager and a Finance Department (Finance) manager using the Gift Card Purchase Request Form (purchase request form - see Exhibit A). In addition, gift card purchases and distributions must be recorded on the Gift Card Inventory & Disbursement Log (gift card log - see Exhibit B). The policy also requires that gift cards be properly secured and that management regularly inspect and audit gift card records and unissued gift cards.

OBJECTIVES

Our objectives in completing this audit were as follows:

1. Verify compliance with the city's gift card policies and procedures.
2. Determine whether internal controls are effectively mitigating the risk of gift card fraud.

SCOPE AND METHODOLOGY

The scope of this audit was limited to gift card purchase transactions completed during the period from July 1, 2019 through June 30, 2021. This audit included the testing of 38 purchase transactions of 766 gift cards totaling \$29,112 as follows:

- Gift cards distributed to homeless individuals as an incentive to be tested and vaccinated for COVID-19:

- 157 gift cards totaling \$5,680 purchased by Neighborhood Services staff.
 - 485 gift cards totaling \$16,975 purchased by staff from the Department of Youth Development and Social Initiatives (YDSI) who were temporarily assigned to the ISO-Q team. These gift card purchases were authorized by the Neighborhood Services director who participated in management of the ISO-Q team.
- 124 gift cards totaling \$6,457 purchased by Neighborhood Services staff for a variety of other purposes.

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 Neighborhood Services management and staff
- Reviewing relevant regulations, standards, and city policies
- Analysis and detail testing of available data
- Performing a reconciliation of the gift card inventory to records

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 August 11, 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:

- Gift card purchase approval deficiencies were found. (See Finding #1)
- There were missing and incomplete gift card logs and unaccounted for gift cards. (See Finding #2)
- Gift cards held at the Recuperative Services Center are stored in a safe whose combination has not been changed in accordance with policy. (See Finding #3)
- Neighborhood Services management is not regularly inspecting and auditing the gift card inventory and logs as required by policy. (See Finding #4)

Objective 2:

Determine whether internal controls are effectively mitigating the risk of gift card fraud.

Conclusion:

- Internal controls over the purchase, safekeeping, and distribution of gift cards have not been adequately established within Neighborhood Services to mitigate the risk of gift card fraud. (See Findings #1, #2, #3, and #4)
- Neighborhood Services does not have any documented department procedures which give direction to their staff on how to comply with the city's gift card policy. (See Findings #1, #2, and #3)
- Neighborhood Services staff are in need of additional training on how to appropriately comply with the city's gift card policy. (See Findings #1, #2, and #3)

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1. Gift Card Purchase Approval Deficiencies

Criteria

- **Gift Card Policy/Procedure FN212 (excerpt)**
 - 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

According to the city's gift card policy, gift card purchases must be approved by the department's director or division manager and Finance using the purchase request form (see Exhibit A) prior to purchases. The 38 gift card purchase transactions for the period of July 1, 2019 through June 30, 2021 were reviewed for compliance with the purchase approval requirements. The following deficiencies and areas of non-compliance were identified:

COVID-19 Testing and Vaccination Incentive Gift Cards

- 28 of the 38 gift card purchase transactions (642 gift cards totaling \$22,655) were for COVID-19 testing and vaccination events.
- 23 of these gift card purchase transactions (555 gift cards totaling \$19,425) were completed in May 2020 for gift cards to be used in the ISO-Q facility operations. There were no approved purchase request forms for these transactions. Following these purchases, emails from June 2020 show that Neighborhood Services management alerted Finance that they had authorized these purchases and that the gift cards would be tracked in accordance with the city's gift card policy.
- 2 of these gift card purchase transactions (38 gift cards totaling \$1,330) were made prior to the date of the department's approval identified on the purchase request form.
- 2 of these gift card purchase transactions (32 gift cards totaling \$1,120) were made by an employee with their personal credit card rather than with a p-card as required by policy. The employee stated that this was due to a restriction by the retailer on the number of gift

cards that could be purchased using the same credit card. This employee was subsequently reimbursed for this purchase.

Other Gift Cards

- 1 gift card purchase transaction (3 gift cards totaling \$2,242) for a purpose unrelated to COVID-19 testing and vaccination events did not have an approved purchase request form.
- 1 gift card purchase transaction of a \$15 gift card was made prior to the date of the department's approval identified on the purchase request form.

Neighborhood Services does not have any documented department procedures on how gift card purchases are to be approved within their department.

Cause

- Lack of documented department procedures on the gift card purchase approval process.
- Inadequate training on the gift card policy.
- Lack of management review of the gift card transactions.

Effect

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

Recommendations

- 1.1 Neighborhood Services management should document and implement department procedures outlining the approval process to be followed by their staff when purchasing gift cards.
- 1.2 Neighborhood Services management should provide additional training to employees on the gift card purchase approval procedures.
- 1.3 Neighborhood Services management should periodically verify compliance by their employees with the gift card approval procedures.

2. Incomplete and Missing 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.

- It is the city's fiscal responsibility to document who distributed and received the cards.
- 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.

Condition

According to the city's gift card policy, Neighborhood Services is required to use a gift card log (see Exhibit B) to record all gift card purchases and distributions. We examined the gift card logs for purchases made from July 1, 2019 through June 30, 2021 (766 gift cards purchased in 38 transactions) and verified whether all required purchase and distribution information was appropriately documented. We noted the following:

COVID-19 Testing Incentive Gift Cards

There were 23 purchase transactions (555 gift cards totaling \$19,425) completed in May 2020 for gift cards to be used in the ISO-Q operations. These gift cards were tracked on an electronic spreadsheet rather than on the required gift card log. While the spreadsheet contained much of the information included on the required gift card log, we noted the following deficiencies:

- Missing distributor names and no distributor signatures.
- Duplicate and incorrect gift card numbers.
- 84 gift cards were identified on the spreadsheet as still being on-hand. During our counts of the gift cards, none of these gift cards were found and there are no records showing they had been distributed.
- 33 gift cards were not found on this spreadsheet or any other inventory or distribution records.

Other Gift Cards

10 of the 38 gift card transactions (124 gift cards totaling \$6,457) were purchased for Neighborhood Services activities not related to the pandemic. We noted the following regarding these transactions:

- 2 of these 10 transactions (4 gift cards totaling \$2,257) were not recorded on any gift card log or spreadsheet.

- Gift cards used at the Recuperative Care Center are not being recorded on the required gift card log when purchased but rather on a spreadsheet. The gift cards are only recorded on the gift card log upon distribution.

Neighborhood Services does not have any documented department procedures outlining the proper recording of gift card purchases and distributions.

Cause

- Lack of departmental procedures on how gift card purchases and distributions are to be recorded.
- Inadequate training on the gift card policy.
- Lack of management review of the completeness of the gift card logs.

Effect

- Non-compliance with the gift card policy.
- Incomplete gift card logs.
- Unaccounted for gift cards.

Recommendations

- 2.1 Neighborhood Services management should document and implement department procedures outlining how gift card purchases and distributions are to be recorded.
- 2.2 Neighborhood Services management should provide additional training to staff on the proper way to complete the gift card logs when purchasing and distributing gift cards.
- 2.3 Neighborhood Services management should verify compliance with the gift card policy by periodically reviewing the completed gift card logs.

3. Inadequate Gift Card Security

Criteria

- **Gift Card Policy/Procedure FN212 (excerpts)**
 - Once gift cards are purchased, employees are required to physically secure the gift cards as follows:
 - Gift cards are to be handled the same as cash and secured under lock and key by the P-Card holder until issued.

- The p-card holder/requester maintains control and provides physical security for unissued gift cards.
- **Cash Handling Policy/Procedure FN302 (excerpts)**
 - Combinations for department safes shall be changed annually or when an employee with safe access separates from employment.
 - The combination shall be restricted to the department director, or designee.
 - A log shall be kept of all people with access to the safe and when the safe combination was last changed.
 - The invoice from the locksmith shall be kept as backup.

Condition

Neighborhood Services maintains gift cards in a safe located at the Recuperative Services Center. While the safe is located within a limited access area, the gift cards are not adequately secured in this safe considering the following:

- The city locksmith has no record of the combination to the safe ever being changed despite the policy requiring that the combination be changed annually or when an employee with safe access separates from employment.
- There is no log of individuals with access to the safe as required by policy.

Cause

- Neighborhood Services management is not enforcing the safe combination change procedures within the city's cash handling procedure.

Effect

- Non-compliance with the gift card and cash handling policies.
- Increased risk of theft of gift cards.

Recommendation

- 3.1 Neighborhood Services management should document and implement department procedures requiring that gift cards be appropriately secured and that safe combination changes be made and documented in accordance with the city's cash handling policy. Management should periodically verify that gift cards are properly secured and that the combinations for safes being utilized for gift card storage are changed in accordance with policy.

4. Inadequate Management Review of Gift Card Logs and 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 Neighborhood Services director and/or division managers do not 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.

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 Neighborhood Services management should document and implement department procedures requiring the director and/or division managers to periodically 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 Neighborhood Services management should document and implement department procedures outlining the approval process to be followed by their staff when purchasing gift cards.

Management Action Plan: Management will develop procedures for documenting the approval process for gift card purchases. Please note, an approval process currently exists, developed by Finance.

Estimated Date of Completion: 10/30/2022

- 1.2 Neighborhood Services management should provide additional training to employees on the gift card purchase approval procedures.

Management Action Plan: Management will train team members on gift card purchase procedures once they are implemented.

Estimated Date of Completion: 11/30/2022

- 1.3 Neighborhood Services management should periodically verify compliance by their employees with the gift card approval procedures.

Management Action Plan: Management will develop a checklist to periodically verify compliance with gift card approval procedures.

Estimated Date of Completion: 10/30/2022

2. Incomplete and Missing Gift Card Logs

- 2.1 Neighborhood Services management should document and implement department procedures outlining how gift card purchases and distributions are to be recorded.

Management Action Plan: Management will develop procedures to document and record gift card purchases and distributions.

Estimated Date of Completion: 10/30/2022

- 2.2 Neighborhood Services management should provide additional training to staff on the proper way to complete the gift card logs when purchasing and distributing gift cards.

Management Action Plan: Management will provide training to staff once a procedure for documenting and completing gift card logs is developed.

Estimated Date of Completion: 11/30/2022

- 2.3 Neighborhood Services management should verify compliance with the gift card policy by periodically reviewing the completed gift card logs.

Management Action Plan: Management will develop a checklist to verify compliance with gift card log procedures.

Estimated Date of Completion: 10/30/2022

3. Inadequate Gift Card Security

- 3.1 Neighborhood Services management should document and implement department procedures requiring that gift cards be appropriately secured and that safe combination changes be made and documented in accordance with the city's cash handling policy. Management should periodically verify that gift cards are properly secured and that the combinations for safes being utilized for gift card storage are changed in accordance with policy.

Management Action Plan: Management will develop a procedure for securing gift cards.

Estimated Date of Completion: 10/30/2022

4. Inadequate Management Review of Gift Card Logs and Inventory

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

Management Action Plan: Management will develop a checklist for management to verify compliance with gift card security.

Estimated Date of Completion: 11/30/2022