

CITY AUDITOR'S OFFICE



AUDIT OF DEPARTMENT OF YOUTH DEVELOPMENT AND SOCIAL INITIATIVES

GIFT CARD CONTROLS AND POLICY COMPLIANCE

Report YD006-2223-02

September 20, 2022

RADFORD K. SNELDING, CPA, CIA, CFE

CITY AUDITOR

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AUDIT OF DEPARTMENT OF YOUTH DEVELOPMENT AND SOCIAL INITIATIVES GIFT CARD CONTROLS AND POLICY COMPLIANCE Report YD006-2223-02

BACKGROUND

The Department of Youth Development and Social Initiatives (YDSI) provides programs and services focusing on youth and education. These programs seek to improve educational achievement, attendance, and graduation rates. Gift cards are utilized by YDSI for employee recognition and community events.

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 policy.
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 6 gift card purchase transactions (27 gift cards totaling \$436) made by YDSI staff during the period from July 1, 2019 through June 30, 2021. While additional gift card purchases were made by YDSI staff during this period, these transactions were excluded from the scope of this audit due to the situation explained below.

We identified 26 gift card purchase transactions (512 gift cards totaling \$17,411) made by YDSI staff during the period from July 1, 2019 through June 30, 2021. During 2020, certain YDSI staff were temporarily assigned to work with the city's Isolation and Quarantine (ISO-Q) team during the COVID-19 pandemic. A couple of these YDSI staff who had city purchase cards were asked to purchase gift cards for the ISO-Q operations. These gift cards were distributed to homeless individuals as an incentive for getting tested for COVID-19. These purchases included 20 transactions totaling \$16,975 (485 gift cards). We included testing of these transactions in our *Audit of Department of Neighborhood Services Gift Card Controls and Policy Compliance* (CS006-2223-01) as Neighborhood Services management who were part of the ISO-Q team authorized purchase of these gift cards.

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 YDSI management and staff
- Reviewing relevant regulations, standards, and city policies
- Analysis and detail testing of available data
- Performing a reconciliation of 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 3, 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.

Conclusion:

- Gift card purchase approval deficiencies were found. (See Finding #1)
- There were missing gift card inventory and distribution logs. (See Finding #2)
- Gift cards given to employees were not reported to the city's Payroll division in accordance with policy. (See Finding #3)
- YDSI management does not regularly inspect and audit the gift card inventory and logs. (See Finding #4)

Objective 2:

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

Conclusion:

- Internal controls over the purchase and distribution of gift cards have not been adequately established within YDSI to mitigate the risk of gift card fraud. (See Findings #1, #2, #3, and #4)
- YDSI 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 and #2)

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- YDSI 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)

Contributors to this report included:

Radford K. Snelding, CPA, CIA, CFE
City Auditor

Bryan L. Smith, CPA, CFE
Internal Audit Section Manager

Nancy Cardoza
Senior Internal Auditor

Louis Hlad, CISA
Senior IT Auditor

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

The 6 gift card purchase transactions during the period of July 1, 2019 through June 30, 2021 were identified and reviewed for compliance with the purchase approval requirements within the city's gift card policy. The following deficiencies and areas of non-compliance were identified:

- 1 of the 6 gift card transactions did not have an approved gift card purchase request form.
- 1 of the 6 gift card transactions had a purchase request form that was not approved by department management until more than a month after the purchase and it lacked Finance's approval.

YDSI does not have any documented department procedures on the gift card purchase approval process 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 YDSI management should document and implement department procedures on the approval process to be followed by their staff when purchasing gift cards.
- 1.2 YDSI management should provide additional training to employees on the gift card purchase approval procedures.
- 1.3 YDSI management should periodically verify compliance by their employees with the gift card approval procedures.

2. Missing Gift Card Inventory and Disbursement Logs

Criteria

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

YDSI is required by policy to use a form known as the Gift Card Inventory & Disbursement Log (see Exhibit B) to record all gift card purchases and distributions. We examined the YDSI gift card logs to verify whether all required purchase and distribution information on the 6 gift card purchase transactions (27 gift cards totaling \$436) made from July 1, 2019 through June 30, 2021 was documented. We found that 23 of the 27 gift cards purchased totaling \$336 were not recorded on any gift card log.

YDSI does not have any documented department procedures on 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 gift card logs.

Effect

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

Recommendations

- 2.1 YDSI management should document and implement department procedures on how gift card purchases and distributions are to be recorded.
- 2.2 YDSI 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 YDSI management should verify compliance with the gift card policy by periodically reviewing the completed gift card logs.

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, YDSI 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 YDSI 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 YDSI 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. 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 YDSI 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 by YDSI

Effect

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

Recommendation

- 4.1 YDSI 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					

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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 YDSI management should document and implement department procedures on the approval process to be followed by their staff when purchasing gift cards.

Management Action Plan: YDSI leadership is currently in the process of updating and editing our YDSI Department Work Rules document, which serves as a supplemental document outlining departmental rules and expectations. YDSI Work Rules Training is provided to all YDSI full time staff annually and the training will include specific training on the adopted gift card procedures. The YDSI Director will draft language regarding expected department procedures outlining the approval process for YDSI staff when purchasing gift cards. The procedures will include:

- ✓ Prior written approval from the YDSI Director or Manager
- ✓ If approved by YDSI leadership, appropriate CLV approval
- ✓ Completed and approved Gift Card Purchase Request form
- ✓ Purchased gift cards will be listed on a Gift Card Inventory form by purchaser
- ✓ Gift Card Inventory form and gift cards will be placed in a cash box
- ✓ Cash box will be given to YDSI Administrative Support Assistant by purchaser
- ✓ Cash box will be locked in YDSI locked storage
- ✓ When gift cards are going to be distributed, the purchaser must check out the cards and identify the cards received on the Gift Card Disbursement Log
- ✓ After the distribution of gift cards, the completed log and any cards not disbursed will be returned to the YDSI Administrative Support Assistant for lock up
- ✓ Each month at the same time purchasing card reconciliation reports are reviewed and approved by Director/Manager, an audit will be done on gift cards by the supervisor of any purchaser of gift cards
- ✓ Gift cards will only be distributed to program participants, not staff

Estimated Date of Completion: YDSI Gift Card Procedures and related documents will be completed no later than September 30, 2022 and training on those procedures will be completed no later than October 31, 2022.

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

Management Action Plan: Upon completion of the YDSI Gift Card Procedures and related documents, training will be provided to all fulltime employees on procedures, documents, expectations and corrective action for those who do not comply with the new procedures and expectations.

Estimated Date of Completion: YDSI Gift Card Procedures and related documents will be completed no later than September 30, 2022 and training on those procedures will be completed no later than October 31, 2022.

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

Management Action Plan: Gift card audits will be completed by the supervisor, Director or Manager for any and all purchasers and distributors of gift cards. The audit will be conducted at the same time as the monthly purchasing card reconciliation review and approval. Any employee who does not comply with the YDSI Gift Card Procedures and completion of required documents, will receive corrective action as follows for failure to comply- Warning and corrective action plan for first violation, progressive discipline will be followed for any further violations.

Estimated Date of Completion: YDSI Gift Card Procedures and related documents will be completed no later than September 30, 2022 and training on those procedures will be completed no later than October 31, 2022. Monthly audits will begin for any gift cards on hand, including any gift cards that were purchased prior to the creation of the new procedures as well as any and all new purchases of gift cards, effective November 2022, and each month following.

2. Missing Gift Card Inventory and Disbursement Logs

- 2.1 YDSI management should document and implement department procedures on how gift card purchases and distributions are to be recorded.

Management Action Plan: YDSI leadership is currently in the process of updating and editing our YDSI Department Work Rules document, which serves as a supplemental document outlining departmental rules and expectations. YDSI Work Rules Training is provided to all YDSI full time staff annually and the training will include specific training on the adopted gift card procedures. The YDSI Director will draft language regarding expected department procedures outlining the approval process for YDSI staff when purchasing gift cards. The procedures will include:

- ✓ Prior written approval from the YDSI Director or Manager
- ✓ If approved by YDSI leadership, appropriate CLV approval
- ✓ Completed and approved Gift Card Purchase Request form
- ✓ Purchased gift cards will be listed on a Gift Card Inventory form by purchaser
- ✓ Gift Card Inventory form and gift cards will be placed in a cash box
- ✓ Cash box will be given to YDSI Administrative Support Assistant by purchaser
- ✓ Cash box will be locked in YDSI locked storage
- ✓ When gift cards are going to be distributed, the purchaser must check out the cards and identify the cards received on the Gift Card Disbursement Log
- ✓ After the distribution of gift cards, the completed log and any cards not disbursed will be returned to the YDSI Administrative Support Assistant for lock up
- ✓ Each month at the same time purchasing card reconciliation reports are reviewed and approved by Director/Manager, an audit will be done on gift cards by the supervisor of any purchaser of gift cards
- ✓ Gift cards will only be distributed to program participants, not staff

Estimated Date of Completion: YDSI Gift Card Procedures and related documents will be completed no later than September 30, 2022 and training on those procedures will be completed no later than October 31, 2022. Monthly audits will begin for any gift cards on hand, including any gift cards that were purchased prior to the creation of the new procedures as well as any and all new purchases of gift cards, effective November 2022, and each month following.

- 2.2 YDSI 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: Upon completion of the YDSI Gift Card Procedures and related documents, training will be provided to all fulltime employees on procedures, documents, expectations and corrective action for those who do not comply with the new procedures and expectations.

Estimated Date of Completion: YDSI Gift Card Procedures and related documents will be completed no later than September 30, 2022 and training on those procedures will be completed no later than October 31, 2022.

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

Management Action Plan: Gift card audits will be completed by the supervisor, Director or Manager, for any and all purchasers and distributors of gift cards. The audit will be conducted at the same time as the monthly purchasing card reconciliation review and approval. Any employee who does not comply with the YDSI Gift Card Procedures and completion of required documents, will receive corrective action as follows for failure to comply- Warning and corrective action plan for first violation, progressive discipline will be followed for any further violations.

Estimated Date of Completion: YDSI Gift Card Procedures and related documents will be completed no later than September 30, 2022 and training on those procedures will be completed no later than October 31, 2022. Monthly audits will begin for any gift cards on hand, including any gift cards that were purchased prior to the creation of the new procedures as well as any and all new purchases of gift cards, effective November 2022, and each month following.

3. Missing Payroll Submittals

- 3.1 YDSI 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 Action Plan: YDSI Gift Card Procedures will include the prohibition of issuing gift cards to CLV employees, including YDSI employees and all other CLV employees.

Estimated Date of Completion: YDSI Gift Card Procedures and related documents will be completed no later than September 30, 2022 and training on those procedures will be completed no later than October 31, 2022.

- 3.2 YDSI 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 Action Plan: The YDSI Gift Card Disbursement Log will include each recipient's name and upon submittal of the log following each disbursement will be entered into an electronic master spreadsheet log. The log will be reviewed following each disbursement, sorted by recipient name. In the event a participant receives a total, collective amount of \$500, all gift card issuers and the recipient will be notified that additional gift card disbursements that result in a total of \$600 will result in notice to CLV Finance Department and subjected to completion of necessary documents and reporting to the IRS of the total of all disbursements.

Estimated Date of Completion: YDSI Gift Card Procedures and related documents will be completed no later than September 30, 2022 and training on those procedures will be completed no later than October 31, 2022.

4. Inadequate Management Review of Gift Card Logs and Inventory

- 4.1 YDSI 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: Gift card audits will be completed by the supervisor, Director or Manager, for any and all purchasers and distributors of gift cards. The audit will be conducted at the same time as the monthly purchasing card reconciliation review and approval. Any employee who does not comply with the YDSI Gift Card Procedures and completion of required documents, will receive corrective action as follows for failure to comply- Warning and corrective action plan for first violation, progressive discipline will be followed for any further violations.

Estimated Date of Completion: YDSI Gift Card Procedures and related documents will be completed no later than September 30, 2022 and training on those procedures will be completed no later than October 31, 2022. Monthly audits will begin for any gift cards on hand, including any gift cards that were purchased prior to the creation of the new procedures as well as any and all new purchases of gift cards, effective November 2022, and each month following.