



City-wide Gift Card Audit

City of Minneapolis
Internal Audit Department
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Executive Summary

As part of our risk-based audit plan approved by the Audit Committee, the City of Minneapolis (the “City”) Internal Audit department, in collaboration with the Finance Department, conducted an audit of City-wide gift card administrative and management processes.

The objective of this audit was to identify which City departments, programs and boards are handling gift cards, and to determine whether internal controls are adequately designed and operating effectively to sufficiently mitigate the risk of gift card fraud, waste and abuse. For details on the City’s gift card processes, see the Background section beginning on page 5. This audit does not include third party gift card incentives, such as Medica gift cards, employees can earn by completing health-related activities.

The audit results and conclusion are discussed below, followed by a detailed description of the audit background, scope and approach, and observations, recommendations and management action plans.

Audit Results

As a result of this audit, the following issues were identified:

1. The City lacks centralized gift card management policies and procedures. *(Moderate)*
2. Department-level gift card activity is not adequately monitored or reconciled. *(Moderate)*

Each issue is ranked as either high, moderate, or low risk. There are many areas of risk to consider including financial, operational, compliance, and reputation when determining the relative risk rating. Table 1 below contains the overall evaluation of the severity of the risk and the potential impact on operations.

High Risk: Some key controls do not exist or are not effective resulting in impaired control environment; high risk improvement opportunities require immediate corrective action

Moderate Risk: Adequate control environment in most areas; moderate risk improvement opportunities identified which require corrective action

Low Risk: Satisfactory overall control environment; small number of lower risk improvement opportunities identified which do not require a management action plan

Table 1

High	Moderate	Low
	1. The City lacks centralized gift card management policies and procedures.	
	2. Department-level gift card activity is not adequately monitored or reconciled.	

The details of these observations are included within the *Observations and Management's Action Plan* section of this report.

Conclusion

Overall, the policies, procedures, internal controls and oversight over gift card management processes need strengthening to ensure the risk of gift card fraud, waste and abuse is sufficiently mitigated. Although there are benefits to using gift cards, there are also many risks. City departments, programs and boards should carefully evaluate whether they are able to establish and maintain an adequate control environment for handling gift cards.

Internal Audit would like to thank staff from Finance and Property Services, Health Department, Race and Equity Division, Community Planning & Economic Development, Public Works, and Park Board for their cooperation and time during this engagement.

We conducted this audit 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 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.

Audit Team for this Engagement

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Background

Some City departments and programs purchase retailer gift cards with cash for disbursement to City residents to incentivize attendance at City-sponsored events such as the Youth Violence Prevention programs, or to encourage residents to receive services such as through the Lead and Healthy Homes programs. The holder of a gift card can redeem the card for merchandise or services. Visa gift cards which are processed differently and are typically associated with purchase, activation and other fees, should not be used. Department funding for gift cards is typically provided by grants, which may stipulate that gift cards must be purchased for specific purposes.

City departments must obtain approval from the Finance Department Controller to purchase gift cards; however, the Controller does not determine the appropriateness of gift card usage within the City programs. Departments or programs must state they have a process in place to track and account for the distribution and reconciliation of gift cards when requesting approval. Departments are accountable for managing gift cards internally from purchase through distribution and reconciliation. It is the responsibility of each department and program to ensure staff are adhering to gift card handling procedures and that gift card purchases and disbursements are in accordance with the applicable grant regulations. There is no centralized management or oversight of gift card activities.

Gift cards, considered cash equivalents, should be handled similar to cash, with appropriate controls and safeguards. Specifically:

- Gift cards, whether purchased or received from a funding source, should be tracked (maintaining a perpetual inventory), physically secured, safeguarded from unauthorized access, use or theft, and reconciled at least monthly.
- Proper segregation of duties ensures the same person does not purchase, maintain inventory records, and disburse gift cards.
- Receipts must be obtained to ensure proper disbursement of all gift cards. City departments should not distribute gift cards to employees. The IRS considers gift cards given to employees as cash equivalents and as such, are taxable income.

Audit Scope and Approach

The scope of this engagement included all City departments, functions, boards and commissions that have purchased, received or disbursed gift cards during the period January 1, 2018 to August 31, 2019¹. The scope did not include third party disbursement of gift cards to incentivize employee health best practices. To determine the departments in scope, audit interviewed Finance staff and sent a survey to managers in all City departments, boards and commissions listed in the City Directory, inquiring if the functional area handled gift cards during the audit period.

¹ The audit period for the health department-school based clinics is 7/1/17 – 6/30/19 to align with the school year calendar, when the majority of gift cards are purchased and distributed to the students.

Additionally, audit obtained the purchasing card (“p-card”) report and accounts payable (“AP”) report for the audit period to review all gift card purchases. Based on the survey responses and the purchasing reports, audit determined the following departments are handling gift cards:

- Community Planning & Economic Development (“CPED”)
- Health – Healthy Living
- Health – Lead and Healthy Homes - Lead Hazard Control Grant (“HUD”)
- Health – Lead and Healthy Homes - Northern Metals Settlement (“NM”)
- Health – Perinatal Early Child
- Health – School Based Clinics (“SBC”)
- Health – Youth Violence Prevention
- Park Board
- Public Works – Solid Waste and Recycling (“SWR”)
- Public Works – Transportation, Planning and Programming (“TPP”)
- Racial and Equity (“ReCAST”)

In addition to purchasing gift cards, departments may receive gift cards from other organizations or donations. \$87,000 of gift cards were purchased or received during the audit period, \$50,000 in 2018 and \$37,000 in 2019. Table 2 below shows the amount of gift cards purchased and/or received during the audit period by department.

Table 2

Department	Total Amount Purchased/Received			Purchase/Receipt Method
	2018	2019	Total	
Community Planning & Economic Development	\$ 4,300	\$ 120	\$ 4,420	P-card
Health - Healthy Living	\$ 925	\$ 500	\$ 1,425	P-card
Health - Lead and Healthy Homes - Lead Hazard Control Grant	\$ 2,750	\$ -	\$ 2,750	P-card
Health - Lead and Healthy Homes - Northern Metals Settlement	\$ -	\$ 30,800	\$ 30,800	AP, Expense Reimbursement
Health - Perinatal - early child	\$ 375	\$ 225	\$ 600	P-card
Health - School Based Clinics	\$ 34,955	\$ 5,065	\$ 40,020	AP, P-card, Henn County
Health - Youth Violence Prevention	\$ 750	\$ -	\$ 750	P-card
Park Board	\$ 630	\$ 430	\$ 1,060	Expense Reimbursement
Public Works - Solid Waste and Recycling	\$ 200	\$ 100	\$ 300	P-card
Public Works - Transportation, Planning and Programming	\$ 50	\$ -	\$ 50	P-card
Racial and Equity	\$ 5,200	\$ 20	\$ 5,220	AP and P-card
Total	\$ 50,135	\$ 37,260	\$ 87,395	

Key procedures performed in support of the audit objectives included the following:

1. Obtained and reviewed:
 - The departments’ policies, procedures and guidelines around the handling of gift cards to review the level of oversight and monitoring, and the adequacy of internal controls.
 - When available, tracking logs maintained by the department to record the movement of gift cards from the department to the gift card recipient.

2. Interviewed key process owners and stakeholders from each of the in-scope departments to further understand policies, procedures, and internal controls for purchasing, sourcing, receiving, storing, disbursing and recording gift card activity.
3. On a sample basis, performed detailed testing over gift card disbursements to determine whether the transactions and related activities were executed in accordance with department's policy, and to ensure sufficient documentation was maintained to support the transactions.

Observations and Management's Action Plans

Issue #1 The City lacks centralized gift card management policies and procedures.

Observation

City-wide gift card policies and procedures are not centralized; each department is responsible for developing procedures for managing gift cards. During this review, all departments that handled gift cards in 2018 or 2019 provided a procedure document. In some instances, a program gift card procedure document was adopted from another department without changing the language to reflect their current practices, purpose for handling gift cards, the program for which they are used, or the names of the individuals responsible for tracking and reconciling the gift cards. Overall, the departments and programs are not complying with the requirements outlined in the procedural documents, or with best practices.

The Controller reviews and approves/denies all gift card requests that are purchased via the p-card or AP process. Gift cards paid for through employee expense reimbursement bypass Controller's approval, increasing risk of fraud, waste and abuse. It is the responsibility of the departments to ensure the gift cards are used appropriately for the specific program. Currently, the request to the Controller must include the following information:

- Public purpose for the cards including the recipients and the purpose for which they are being provided;
- Number and dollar value(s) of the cards and total cost;
- Type of card;
- Funding source;
- Statement that there is a process in place to track and account for the distribution of all cards.

Via detailed testing, Audit noted the departments are not consistently adhering to the requirements outlined in their procedural documents and the communication sent to the Controller. Specifically:

- One (1) community member received \$500 worth of gift cards from December 2018 – March 2019 as an honorarium for facilitating a series of workshops for community members.
- \$370 in Health Department School-based Clincis gift cards were disbursed for administrative purposes such as purchasing food and coffee for school staff appreciation breakfasts and health fairs, and disbursed to volunteers at health fairs. \$150 of the gift card disbursements are not supported with a detailed vendor purchase receipt indicating how the gift card was used.
- None of the departments are tracking gift card purchases by gift card number.

- Seven (7) out of the eleven (11) programs tested are not tracking gift card disbursements by gift card number.
- Five (5) out of the eleven (11) programs tested are not purchasing gift cards from an approved vendor, as defined within their policy, which could conflict with grant regulations and the program's purpose and objective for the gift card.

Criteria

Audit tested adherence to each department's gift card policy/procedures as there is no City-wide centralized gift card policy. City departments should maintain an adequate control environment to manage gift cards and deter fraud. A strong control environment includes: policies and procedures, supporting documentation, reconciliation of all gift cards, finance approval for gift card purchases, oversight and monitoring.

Cause

Through discussions with key stakeholders for each department, Audit determined the procedures are generally not being adhered to for the following reasons:

- Lack of City-wide and functional level accountability and monitoring structure.
- Lack of communication and dissemination of the policy within the department.
- Lack of departmental understanding around roles and responsibilities regarding gift card management.
- Lack of departmental training for key personnel on appropriate gift card management procedures.

Risk

Gift cards should be tightly controlled, similar to City expectations for handling cash. A weak control environment around handling gift cards increases the risk of fraud, waste or abuse.

Recommendation

Internal Audit recommends management follow the agreed upon management action plan detailed below.

Management Action Plan

Finance Management will create a centralized gift card policy and/or procedures document that will instruct departments on the minimum requirements for managing gift cards. The Finance gift card document will establish roles, responsibilities, authority, and other expectations for managing gift cards. Gift card management includes purchasing, receiving gift cards, disbursing gift cards, obtaining receipts for gift card disbursements, safe storage of gift cards, safe transport of gift cards, reconciliation, and monitoring of appropriate usage.

The Finance Internal Controls team will periodically test reconciliations and segregation of duties in gift card handling processes City-wide. Departments will continue to be responsible for compliance with gift card policies and procedures. Finance will help facilitate communication of City-wide expectations for gift card management, but the Department leaders will be accountable for communication and implementation. Specifically, the policy will define requirements and acceptable practices with regards to the following:

1. Purchasing approvals
2. Purchasing thresholds
3. Vendor selection
4. Data tracking
5. Acknowledgement forms

6. Physical storage
7. Segregation of duties
8. Reconciliations
9. Inventory tracking and storage
10. Department expectations for strictly adhering to the policy and procedures

An example data tracking spreadsheet is attached in Appendix A. All departments should begin utilizing this template or equivalent documentation for all gift cards.

Target remediation date: April 30, 2020

Responsible party:

City Finance Department: Lyle Hodges, Lori Johnson

Park Board Finance Department: Sue Fosse, Julie Wiseman

Issue #2 Department-level gift card activity is not adequately monitored or reconciled.

Observation

Department-level gift card activity is not adequately monitored or reconciled by the departments issuing gift cards. Through detailed testing and inspection of internal records, Audit determined there are approximately \$4,000 of unaccounted or expired gift cards during the audit period. The table below includes cards that could not be accounted for, as well as the amount of gift cards that lost value or expired before they could be disbursed.

Since departments are not adequately performing reconciliations, the beginning inventory amount is unknown and tracking of gift card activity is incomplete. To be conservative a beginning inventory of \$0 was assumed for the departments, therefore unaccounted for gift cards are likely larger than the estimate below. Table 3 shows the amount of unaccounted gift cards, and lost value due to gift card expiration, by department and program for the audit period.

Table 3

Department	Total Purchased / Received	Unaccounted	Lost Value	Total Unaccounted & Lost Value	% Unaccounted / Loss
Community Planning & Economic Development	\$ 4,420	\$ 20	\$ -	\$ 20	0.5%
Health - Healthy Living	\$ 1,425	\$ 565	\$ -	\$ 565	39.6%
Health - Lead and Healthy Homes - Lead Hazard Control Grant	\$ 2,750	\$ -	\$ -	\$ -	0.0%
Health - Lead and Healthy Homes - Northern Metals Settlement ¹	\$ 30,800	\$ 1,400	\$ -	\$ 1,400	4.5%
Health - Perinatal - early child	\$ 600	\$ 100	\$ -	\$ 100	16.7%
Health - School Based Clinics	\$ 40,020	\$ 190	\$ -	\$ 190	0.5%
Health - Youth Violence Prevention	\$ 750	\$ 100	\$ -	\$ 100	13.3%
Park Board	\$ 1,060	\$ 155	\$ -	\$ 155	14.6%
Public Works - Solid Waste and Recycling	\$ 300	\$ 200	\$ -	\$ 200	66.7%
Public Works - Transportation, Planning and Programming	\$ 50	\$ 50	\$ -	\$ 50	100.0%
Racial and Equity	\$ 5,220	\$ 272	\$ 880	\$ 1,152	22.1%
Total	\$ 87,395	\$ 3,052	\$ 880	\$ 3,932	3.5%

¹ Inventory and disbursement receipts are managed in collaboration with two third parties. Receipts were verified but ending inventory with third parties was not verified.

A gift card is considered unaccounted for if either of the two instances occurred:

- There was no gift card receipt acknowledgement form signed by the gift card recipient.
- The gift card was purchased but not yet disbursed and it could not be located in the department’s storage location.

All policies require that gift cards are to be tracked and that receipt acknowledgement forms are to be signed by the recipient.

Criteria

Gift card activity must be tracked, managed and monitored through a reconciliation process to mitigate the risk of fraud, waste and abuse.

Cause

Gift cards could not be accounted for for the following reasons:

- Departments are not verifying that all acknowledgement forms are signed by the gift card recipient and maintained by the department.
- The department tracking spreadsheets do not consistently track the gift card number or when gift cards are purchased, therefore it is difficult to determine the number and amount of gift cards the department should have on-hand at a given point in time.
- Reconciliations by the departments are not occurring to verify there has been no loss of gift cards over a specified time period.

Risk

A lack of adequate monitoring and reconciliation of gift card activity at the department or functional level increases the risk of fraud, waste and abuse.

Recommendation

Internal Audit recommends management follow the agreed upon management action plan detailed below.

Management Action Plan

The Finance Department, in collaboration with Audit, developed a reconciliation template at Appendix B that should be completed by all departments who manage gift cards. The reconciliation process will be included in

Finance's policy/procedures document. Each department or program that is approved to handle gift cards must reconcile and monitor their gift card activity at least monthly. At any point in time, the reconciliation workbook should indicate how many cards are on hand, which can be verified with a physical inventory count.

Signed receipts for all disbursed gift cards must be on hand at all times. Should obtaining signed gift card receipt forms require exception, the department must obtain approval from Finance and demonstrate how they will ensure the gift cards are appropriately distributed. The agreed upon process must be documented.

The Finance Internal Controls team will periodically review gift card reconciliations for accuracy and completeness and verify appropriate usage on a sample basis. All departments and programs are subject to audit at all times. If any gift cards cannot be accounted for, the program will no longer be permitted to handle gift cards.

Target remediation date: The earlier of November 30, 2019 or the next gift card purchase

Responsible party:

CPED: Karuan Mahajan

Health: Gretchen Musicant

Park Board: Sue Fosse, Julie Wiseman

Public Works: Brette Hjelle

City Coordinator's Office – Division of Race & Equity: Joy Stephens

Management of any City department, program or board that handles gift cards

Appendix A – Gift Card Tracking Spreadsheet Template

To appropriately track gift card purchases, receipts and disbursements departments shall maintain a spreadsheet that, at a minimum, includes the following columns:

- Grant Name (if applicable)
- Gift Card Number
- Date Purchased/Received
- Purchasing Method (AP/ P-card/3rd party)
- Vendor
- Amount
- Date Distributed
- Acknowledgement Form Completed (Y/N)
- Recipient Name (printed and signed)
- Event/Reason

Should a grant or project require additional details for reporting purposes, columns can be added and updated as needed. Access to the spreadsheet should be limited to one or two key individuals who are not receiving or distributing gift cards, in order to minimize the risk of gift card misappropriation. Lastly, the tracking spreadsheet should be maintained in real-time to ensure no loss of gift cards (i.e. updated when gift cards are purchased/received and again when distributed).



Appendix A - Gift
Card Tracking Sprea

Appendix B – Gift Card Reconciliation Template

At least monthly, departments must complete a reconciliation to ensure all gift cards are accounted for. Having an updated gift card tracking spreadsheet, outlined at Appendix A, is essential in order to have the necessary information to complete the reconciliation. The reconciliation will be a requirement within Finance's policy/procedures. The reconciliation should include, at minimum, the following information in both number of gift cards and dollar value, and should be "as-of" a specified date:

- Beginning Inventory
- Purchases
- Receipts from 3rd Party
- Disbursements
- Ending Inventory
- Missing Gift Cards



Appendix B - Gift
Card Reconciliation.xls