

13-C-0115

First Reading

Committee _____
Date _____
Chair _____
Referred To _____

FINAL COUNCIL ACTION
 2nd 1st & 2nd 3rd

Readings
 Consent V Vote RC Vote

A COMMUNICATION BY CITY
AUDITOR LESLIE WARD:

SUBMITTING AN AUDIT REPORT
REGARDING DEPARTMENT GIFT
CARD PURCHASES.

Committee *Fin/Exec*
Date *1-30-13*
Chair *Jelicia A. Moore*
Action
Fav, Adv, Hold (see rev. side)
Other *Filed*
Members
Alesia
Hendrick

Committee _____
Date _____
Chair _____
Action
Fav, Adv, Hold (see rev. side)
Other _____
Members _____

CERTIFIED
CERTIFIED
FEB 04 2013
ATLANTA CITY COUNCIL PRESIDENT
[Signature]
CERTIFIED
FEB 04 2013
Randall Davidson Johnson
MUNICIPAL CLERK

FILED

FEB 04 2013
By Council

Filed
2/4/13
by full Council

Refer To _____

Refer To _____

- CONSENT REFER
- REGULAR REPORT REFER
- ADVERTISE & REFER
- 1ST ADOPT 2ND READ & REFER
- COMMUNICATIONS PERSONAL PAPER REFER

Committee _____
Date _____
Chair _____
Action
Fav, Adv, Hold (see rev. side)
Other _____
Members _____

Committee _____
Date _____
Chair _____
Action
Fav, Adv, Hold (see rev. side)
Other _____
Members _____

MAYOR'S ACTION

Date Referred: *01/22/2013*
Referred To: *Finance/Executive*
Date Referred: _____
Referred To: _____
Date Referred: _____
Referred To: _____

Refer To _____

Refer To _____

RCS# 2551
2/04/13
4:42 PM

Atlanta City Council

13-C-0115 CITY AUDITOR SUBMITTING REPORT REGARDING
 DEPARTMENT GIFT CARD PURCHASES
 FILE

YEAS: 13
NAYS: 0
ABSTENTIONS: 0
NOT VOTING: 3
EXCUSED: 0
ABSENT 0

Y Smith	Y Archibong	Y Moore	NV Bond
Y Hall	NV Wan	Y Martin	Y Watson
Y Young	Y Shook	Y Bottoms	Y Willis
Y Winslow	Y Adrean	Y Sheperd	NV Mitchell



13- C-0115

CITY OF ATLANTA

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Fred Williams, CPA, Chair
Donald T. Penovi, CPA, Vice Chair
Marion Cameron, CPA
C.O. Hollis, Jr., CPA, CIA
Ex-Officio: Mayor Kasim Reed

TO: Honorable Mayor Reed, Council President Mitchell, and City Council Members

FROM: Fred Williams, *Fred Williams*
Chair, Audit Committee

DATE: January 16, 2013

SUBJECT: Audit Report on Department Gift Card Purchases

The audit report listed above is attached for your review. The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. Feel free to contact City Auditor Leslie Ward if you have questions or want to discuss the report.

Cc : Duriya Farooqui, Chief Operating Officer
Hans Utz, Deputy Chief Operating Officer
Yvonne Cowser Yancy, Commissioner of Human Resources
J. Anthony "Jim" Beard, Chief Financial Officer
Gwendolyn Smith, Deputy Chief Financial Officer
Adam Smith, Chief Procurement Officer
Jo Ann Macrina, Commissioner of the Department of Watershed Management
Louis Miller, Aviation General Manager
George Dusenbury, Commissioner of the Department of Parks, Recreation & Cultural Affairs
George Turner, Chief of Police
Rosalie Joy, Interim Director of the Public Defender's Office
Candace Byrd, Chief of Staff
Katrina Taylor, Deputy Chief of Staff
Sonji J. Dade, Director of Communications
David Bennett, Senior Policy Advisor
Cathy Hampton, City Attorney
Nina Hickson, Ethics Officer
Rhonda Dauphin Johnson, Municipal Clerk
Tangela Williams, Council Director
Dexter Chambers, Director, City Council Officer of Communications
Reggie Grant, Committee Analyst
Audit Committee Members



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C.O. Hollis, Jr., CPA, CIA
Ex-Officio: Mayor Kasim Reed

TO: Honorable Mayor, City Council President, and City Council members

FROM: Leslie Ward, City Auditor 

DATE: January 16, 2013

SUBJECT: Department Gift Card Purchases

The purpose of this memo is to communicate the results our audit of city department gift card purchases. We undertook this audit at the request of the chief operating officer following allegations of improper and irregular handling of gift cards. The chief operating officer suspended purchase of gift cards in early October 2012 and directed departments to turn unused cards in to the Department of Human Resources. Four departments turned in 737 cards valued at \$33,875.

Our objectives were to answer the following questions:

- What is the magnitude of gift cards purchased and distributed by city departments?
- What are the recognized risks of distributing gift cards?
- Are there indicators of fraud requiring further investigation?

City departments spent approximately \$125,000 on gift cards valued at about \$128,000 between January 2008 and September 2012. Individual cards ranged in value from \$5 to \$300; 91% of the cards were in denominations of \$25, \$50, or \$100. Almost 93% of the cards were for Macy's or Target, or were prepaid American Express and Visa cards. Not all gift cards purchased, however, are identifiable from Oracle Financials. One department, for example, reported distributing gift cards for which we found no purchase transaction. Another department noted that a purchase included gift cards, among other items, but had no record of the individual items purchased.

Department records of card distribution and use, especially before fiscal year 2012, are inadequate to account for the disposition of individual gift cards. Therefore, while we found

no evidence to substantiate allegations of individual misconduct, it is not possible for us to determine whether cards were misused, nor is it possible to determine how many employees received cards as compensation or the amounts received. Federal and state guidelines identify gift cards as cash equivalents that should be computed as part of an employee's taxable compensation when provided as employee recognition. Further, a charter provision restricts increasing employee compensation except by ordinance adopted and approved in the first half of the fiscal year. Departments reported that most of the cards distributed were for employee recognition. Both Watershed Management and Aviation report having used some of the gift cards in lieu of small purchase cards or petty cash to purchase food for meetings, for work crews, or for stranded travelers. Departments also used gift cards as door prizes for parties and as incentives for completing surveys. These uses would not be considered taxable compensation. The Department of Watershed Management exceeded the \$20,000 annual small purchasing threshold from a single vendor in fiscal year 2009.

In addition to these compliance risks, gift cards are subject to the same risks as cash and must be safeguarded to prevent theft or use for unauthorized purposes. The city has no citywide policies authorizing use of petty cash and has no established central controls over its use. Typically such controls would establish a custodian, specify physical security, require records of purchase and disposition, require frequent reconciliation by someone other than the fund custodian, and would require periodic, unannounced audits.

The city's chief financial officer estimated that he retained custody of 162 gift cards, valued at \$9,600 and purchased with Department of Watershed Management funds, after he was appointed chief financial officer in October 2011. The Department of Watershed Management, however, assumed that these cards had been distributed. The Department of Finance subsequently purchased gift cards using the city's general fund, and the chief financial officer acknowledged that he distributed cards from both funds, attempting to use the oldest cards first. Based on available records, \$1,200 in cards distributed to Department of Finance employees between May and September 2012 were likely purchased with Department of Watershed Management funds.

Exhibit 1 Gift Cards Cost by Department

Department	Cost	% of Total
Watershed Management	\$94,627	75.3%
Airport	\$18,806	15.0%
Finance	\$9,386	7.5%
Parks and Recreation	\$1,000	0.8%
Mayor's Office	\$850	0.7%
Judicial Agencies	\$581	0.5%
Police	\$250	0.2%
Human Resources	\$110	
City Council Post 3 At Large	\$40	0.1%
Public Works	\$20	
Information Technology	\$10	
Total	\$125,680	100.0%

Source: Oracle Financials

Departments Spent \$125,000 on Gift Cards since January 2008; Records Are Inadequate To Account Fully for the Disposition of Individual Cards

Overall, city departments spent over \$125,000 on gift cards, including shipping and other fees, between January 2008 and September 2012 (see Exhibit 1). The Department of Watershed Management accounted for 75% of city spending on gift cards. The Department of Aviation accounted for 15% of the purchases and the Department of Finance accounted for 7.5% of the purchases. The other eight departments

that purchased gift cards jointly accounted for about 2.3% of the total purchases.

We queried Oracle Financials, the city’s financial system, to identify all invoices paid to two vendors that supply gift cards — Patriot Marketing Group and Target Corporation Business to Business Gift Cards — and any invoice with the phrase “gift card” entered into the description field. Using this method, we identified invoices paid to nine other suppliers and reimbursements to four employees for purchase of gift cards. We obtained copies of the identified invoices from the Accounts Payable Division of the Department of Finance and vendors to compile the number, denomination, and merchant of the cards purchased.

Departments purchased 2,774 gift cards between January 2008 and September 2012. The overall value of the gift cards purchased was about \$128,000 (see Exhibit 2). The value of individual cards ranged from \$5 to \$300; 90% of the cards were in denominations of \$25, \$50, or \$100. Almost 93% of the cards were for Macy’s or Target, or were prepaid American Express and Visa cards. For the most part, departments received a discount for buying the cards in bulk. The Department of Aviation paid a higher unit cost per card for prepaid American Express cards purchased from Mack II, Inc., one of its concessionaires.

Exhibit 2 Amount, Card Value and Total Value of Cards Purchased by Merchant

Merchant	Gift Card Value											Total #	Total Value	
	\$5	\$10	\$15	\$20	\$25	\$50	\$75	\$100	\$150	\$200	\$250			\$300
Sears		1											1	\$10
Subway	2												2	\$10
Wal-Mart				2									2	\$40
Dunkin' Donuts					10								10	\$250
I-tunes Store						5							5	\$250
Home Depot					12								12	\$300
Krispy Kreme					10	6							16	\$550
Shell					12	5							17	\$550
McDonald's		85											85	\$850
Dave & Busters					13	16							29	\$1,125
Red Lobster					13	16							29	\$1,125
Target			95		97	41		10	13				256	\$8,850
VISA					23	136	37	15	2	2	1	1	217	\$12,900
AMEX					525	15		28					568	\$16,675
Macy's					165	1,170		170			20		1,525	\$84,625
Office Depot													Unknown	
Total Cards	2	86	95	2	880	1,410	37	223	15	2	21	1	2,774	\$128,110

Source: Vendor and Department of Finance copies of invoices

Not all gift card purchases are identifiable from Oracle Financials. Neither the Accounts Payable Division nor the Public Defender’s Office could provide a copy of an invoice for Office Depot for a \$581 purchase in 2008 that, according to the description, included office supplies, a digital camera, and gift cards. We were therefore unable to confirm the number and

Exhibit 3 Inventory of Gift Cards Turned In to Human Resources

Merchant	Gift Card Value				Total #	Total Value
	\$25	\$50	\$100	\$250		
Dave & Busters		2			2	\$100
Home Depot	5				5	\$125
Krispy Kreme	7				7	\$175
Dunkin' Donuts	8				8	\$200
Shell Gas	9				9	\$225
Kroger	10				10	\$250
Target	20				20	\$500
Visa Gift Card		67	6		73	\$3,950
AMEX	340				340	\$8,500
Macy's	12	171	60	20	263	\$19,850
Total Cards	411	240	66	20	737	\$33,875

Source: Gift cards collected by Human Resources

denomination of cards purchased. We also found cards in the inventory turned in to the Department of Human Resources for which we did not identify an invoice in Oracle. The Department of Parks, Recreation, and Cultural Affairs turned in ten \$25 Kroger cards. The only invoice we found for the department in our Oracle search was for forty \$25 Target cards purchased in May 2011. The department subsequently provided an Oracle record of a \$1,000 purchase from Kroger in June 2011 for "Incentive rewards

for Energy Conservation Project," which is not included in our analysis. Exhibit 3 shows the inventory of cards that departments turned in to the Department of Human Resources at the direction of the chief operating officer.

Departments reported distributing over \$90,000 in gift cards (see Exhibit 4). Department records of card distribution and use, especially before fiscal year 2012, however, are inadequate to account for the disposition of individual gift cards.

Exhibit 4 Reconciliation of Cards Purchased, Distributed, and Turned In

Department	Invoiced Amount	Gift Card Value	Distributed According to Department	Turned In	Difference
Watershed Management	\$94,627.37	\$98,825.00	\$78,550.00	\$14,775.00 ¹	(\$5,500.00)
Airport	\$18,805.95	\$16,675.00	\$7,505.00	\$8,500.00	(\$670.00)
Finance	\$9,386.00	\$10,350.00	\$1,700.00	\$9,850.00	\$1,200.00
Parks, Recreation and Cultural Affairs	\$1,000.00	\$1,000.00	\$1,200.00	\$750.00	\$950.00
Mayor's Office – Bloomberg Grant	\$850.00	\$850.00	\$850.00	\$0.00	\$0.00
Atlanta Police Department	\$250.00	\$250.00	\$250.00	\$0.00	\$0.00
Human Resources	\$109.60	\$100.00	\$100.00	\$0.00	\$0.00
City Council Post 3 At Large	\$40.00	\$40.00	\$40.00	\$0.00	\$0.00
Information Technology	\$10.00	\$10.00	\$10.00	\$0.00	\$0.00
Judicial Agencies	\$581.11	?	?	\$0.00	?
TOTAL	\$125,660.03	\$128,100.00	\$90,205.00	\$33,875.00	(\$4,020.00)

Sources: Invoices for gift cards, inventory of gift cards turned in to Human Resources, and department reports of gift card distribution

¹ Includes \$7,900 turned in by the chief financial officer

While we found no evidence to substantiate allegations of individual misconduct, it is not possible for us to determine whether cards were misused. Nor is it possible to determine how many employees received cards as compensation or the amounts received.

While the overall difference between the total value of cards purchased, turned in, and distributed is about \$4,000 (3.1%), this amount understates the value of the cards unaccounted for because purchase records are incomplete and department reports of cards distributed lack detail to verify accuracy. Two departments reported distributing more cards than the balance of cards purchased and turned in. The Department of Parks, Recreation, and Cultural Affairs reported distributing 28 \$25 Kroger cards that we did not identify in our Oracle search because the purchase description did not include "gift cards." The chief financial officer acknowledged that he distributed cards purchased with both Department of Finance and the Department of Watershed Management funds; some of the cards distributed in Finance were likely purchased with Watershed funds.

We asked departments to provide us with records documenting card distribution. The nature of the reports varied by department and over time. Most of the reports are not verifiable because they lack detail, including the individual receiving a card and the value and type of card awarded.

- **Watershed Management.** The Department of Watershed Management reported distributing 1,469 cards with a total value of \$76,575 for employee recognition.
 - Records list individual recipients for 95 of these gift cards valued at \$4,350 (5.7%) distributed in 2012.
 - Fifty of these recipients signed a form acknowledging receipt of the gift card.
 - We confirmed by phone or email that an additional 19 individuals listed received gift cards.
 - Two individuals that we contacted denied receiving cards.
 - Six recipients responded that they received a different type of card than the type recorded.
 - The department reported distributing all 1,363 gift cards purchased through nine purchase orders between February 2008 and May 2011 at employee award programs, but provided no detail on the number of cards, their value, and who received them. It appears that 162 of these cards were in the custody of the chief financial officer and subsequently distributed to employees or turned in to the Department of Human Resources.²

The department's report excluded 331 cards valued at \$14,075. All but eight of the cards, with a total value of \$350, were purchased before June 2009.

The department reported using 42 cards with a total value of \$1,975 to provide snacks for meetings or meals for work crews.

² We requested card serial numbers for 1,866 cards issued under 24 purchase orders from the vendor in order to reconcile the cards that departments turned in to the Department of Human Resources with the purchase order. The vendor was able to provide serial numbers for only 379 cards.

The department turned in 142 gift cards with a total value of \$6,875 to the Department of Human Resources.

- **Finance.** The Department of Finance reported distributing 27 cards with a total value of \$1,700 between May 2011 and September 2012.
 - Information provided included the individual recipient and the amount of the card awarded.
 - We confirmed by phone or email that 20 of the individuals listed received gift cards of the type listed. We found no contact information for three recipients and received no response to a voicemail and/or email message from the remaining four recipients.
 - Nine of the cards, worth \$450, were reported as distributed in May and early June 2012, before the Department of Finance purchased most of its gift cards.
 - Two cards (\$350) were awarded to contest winners, 9 (\$450) were distributed as door prizes at meetings and events, and 16 (\$900) were awarded for employee recognition.

- **Gift cards distributed across funds.** The chief financial officer told us that he retained custody of 162 gift cards valued at \$9,600, and purchased with Department of Watershed Management funds after he was appointed chief financial officer of the city in October 2011. He had custody of the cards due to his position as the Deputy Commissioner of Finance and Management for the Department of Watershed Management, and kept the cards to safeguard them. He told us three watershed management staff members were aware that he possessed the cards, and they requested them as needed. He acknowledged that he commingled cards purchased by the two departments by storing all of the cards in the safe in his office. He further acknowledged that he distributed cards from both funds, attempting to use the oldest cards first. He distributed some of the cards purchased with Watershed Management funds because he knew that the Department of Finance had ordered gift cards and believed the older watershed management cards may have been subject to fees or expiration. In October 2012, the chief financial officer turned in to the Department of Human resources 94 cards valued at \$9,850 from finance and 131 cards valued at \$7,900 from watershed management.

- **Aviation.** The Department of Aviation reported distributing \$3,550 in gift cards for employee recognition.
 - The department reported the individual receiving the award for 11 of 17 awards and the total amount of the award but not the number of cards. Three of the awards were for \$1,000 and two of the awards were \$500. The department purchased no gift cards over \$100, and over 90% of the cards were a \$25 denomination.
 - We did not seek to confirm receipt of gift cards from the recipients listed.
 - The department reported distributing \$2,750 worth of gift cards at volunteer award luncheons in 2009 and 2010.

- The department reported using \$550 for snacks, \$325 for supplies, \$300 for training incentives, and \$30 to assist two stranded travelers.
- **Parks.** The Department of Parks, Recreation, and Cultural Affairs reported distributing 20 Target cards and 28 - Kroger cards, all worth \$25 each, and provided contemporaneous emails and a sign-out log as support.
 - 12 (\$300) of the Target cards were distributed for employee recognition. The department provided the names of the recipients.
 - We confirmed by phone or email that 7 of the cards were received. One recipient is no longer with the city and four did not respond.
 - 8 (\$200) of the Target cards were distributed as door prizes during a holiday party.
 - All Kroger cards were distributed for employee recognition. The department listed recipients.
 - We did not seek to confirm receipt of the Kroger gift cards

All the other departments purchased gift cards for a one-time use. The Mayor's Office distributed gift cards as an incentive for homeless individuals to participate in a survey funded by the Bloomberg Foundation grant. The Atlanta Police Department purchased Apple gift cards to allow investigators to download case management apps for tablet computers. The Department of Human Resources purchased gift cards as an incentive for employees to complete an employee assistance program survey; four winners were randomly selected from the first 100 participants. Councilmember Willis distributed gift cards at the Swing into Spring Tennis Camp as prizes for the top performers. The Department of Information Technology purchased gift cards from Subway as prizes for a department trivia game. The current interim director of the public defender's office was unable to locate information about the number and amount of gift cards purchased from Office Depot in 2008, for what purpose, or how they were distributed.

Gift Cards Carry Compliance Risk As Well As Risk of Loss

Federal and state guidelines identify gift cards as cash equivalents that should be computed as part of an employee's taxable compensation when provided as employee recognition. Departments' reports show that about 90% of the gift cards distributed were for employee recognition. Further, charter provision restricts increasing employee compensation except by ordinance adopted and approved in the first half of the fiscal year.

According to the federal Internal Revenue Service, gift cards are a cash equivalent and constitute part of an employee's taxable gross income. Guidance from the federal General Services Administration and Office of Personnel Management concur that gift cards are taxable fringe benefits subject to tax reporting. Georgia tax law requires employers to withhold taxes on employees' federally adjusted gross income. As such, the city should withhold federal and state taxes on gift cards awarded to employees and report them as earnings on the employee's W2. Department of Finance staff told us they recorded the gift cards distributed to 27 department employees in 2012 as income.

In addition, the city charter prohibits increasing an employee's salary in the second half of the fiscal year except by ordinance, which must be adopted and approved within the first half

Exhibit 5: Watershed Gift Card Purchases by Fiscal Year

Merchant by Fiscal Year	Total Purchase
FY2008	\$22,936
Patriot Marketing Group	\$21,337
Target Corporation Business	\$1,058
Wachovia Bank	\$541
FY2009	\$37,946
Patriot Marketing Group	\$31,680
Target Corporation Business	\$6,266
FY2010	\$9,625
Baudville	\$45
Patriot Marketing Group	\$9,579
FY2011	\$9,900
Patriot Marketing Group	\$9,900
FY2012	\$13,242
Patriot Marketing Group	\$13,242
FY2013	\$979
Patriot Marketing Group	\$979
Total	\$94,627

Source: Oracle Financials

of the fiscal year.³ Salary is defined broadly to include "salaries or other remuneration in any form," which appears to preclude provision of fringe benefits not expressly adopted by ordinance during the first half of the fiscal year.

The Department of Watershed Management exceeded the \$20,000 annual small purchasing authority threshold from a single vendor in fiscal year 2009 (see Exhibit 5) after council reduced it from \$50,000. Watershed Management spent over \$94,600 on gift cards between fiscal years 2008 and 2013, and paid the Patriot Marketing Group more than \$20,000 for gift cards in fiscal years 2008 and 2009.

In addition to these compliance risks, gift cards are subject to the same risks as cash and are considered by auditors and other risk professionals to pose extremely high risk for

loss. Management must establish controls to safeguard cash and cash equivalents to prevent theft or use for unauthorized purposes. The city has no citywide policies authorizing use of petty cash and has no established central controls over assets such as gift cards. Typically such controls would establish a custodian, specify physical security, require records of purchase and disposition, require frequent reconciliation by someone other than the fund custodian, and would require periodic, unannounced audits. Most control experts recommend limiting the overall size of a petty cash fund to \$50 or \$100, which would limit the potential utility of a similar fund used for an employee reward program. Most control experts also recommend use of small purchasing cards, which are easier to control, rather than petty cash funds for small purchases.

While city departments mostly purchased gift cards at a discount, the city paid some shipping and activation fees. Also, some of the cards are subject to monthly maintenance fees beginning seven months after the date of purchase, which could reduce the value of cards held in inventory. We identified three Visa \$50 gift cards that started to accrue fees in December 2012.

Using gift cards can be an acceptable mechanism for employee recognition, provided the program is designed to adequately safeguard cards, meet IRS tax withholding and reporting

³ Section 6-310, Atlanta City Charter.

requirements, and comply with city charter and code requirements. We recommend the chief operating officer work with the commissioner of human resources to develop a centrally administered gift card program processed through payroll. The commissioner of human resources should budget for the program through the city's annual budget process. At a minimum, the program should establish policies and procedures to describe:

- custodian of cards
- criteria for receiving awards
- limits on award amounts
- responsible party for approving awards other than custodian
- documentation to be submitted for distributing awards
- records to be maintained
- physical security measures for safe guarding cards
- processes for reporting and withholding federal and state taxes
- mechanism for informing employees of tax liability
- reconciliation of gift cards purchased, distributed and remaining at least monthly performed by personnel other than the custodian

We also recommend the chief operating officer work with the chief procurement officer to assess whether to establish purchasing card authority for departments. Purchasing cards, often referred to as P-cards, allow departments flexibility in purchasing low-value goods and services and reduce transaction costs for such small purchases. Both the departments of Aviation and Watershed Management purchased some gift cards to use in lieu of small purchase cards or petty cash. Purchasing cards are easier to control than gift cards or employee reimbursements and provide an electronic record of transactions. We discussed with officials the possibility of developing a citywide P-card program in 2006 and 2009, but never formally recommended the city adopt a program.

We conducted this audit in accordance with generally accepted government auditing standards. We identified gift cards purchased between January 2008 and September 2012 from Oracle Financials. Our audit methods also included:

- Reviewing invoices to identify the number and denomination of gift cards purchased by department, fund, and merchant
- Requesting and reviewing information from departments on how the cards were distributed to employees or used for purchases
- Interviewing city staff about procedures for purchasing, distributing and tracking gift cards
- Confirming receipt of gift cards for a sample of 50 employees
- Reviewing federal and state guidance on taxability of gift cards
- Reviewing city code provisions on employee compensation
- Inventorying gift cards turned in to the Department of Human Resources
- Identifying expiration dates and maintenance fees associated with 73 undistributed prepaid VISA cards
- Reviewing information from vendors about gift cards that were replaced because they were reported missing or defective

- Brainstorming risks associated with purchase and distribution of gift cards

Generally accepted government auditing 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

If you have questions, please call Damien Berahzer at 404/330-6806 or Amanda Noble at 404/330-6750, or you may reach me at 404/330-6804. We appreciate staff's courtesy and cooperation throughout the audit.

Attachment A: Audit Recommendations

Report # 12.06	Department Gift Card Purchases	01/16/2013
<p>Recommendation # 1:</p> <p>We recommend the chief operating officer work with the commissioner of human resources to develop a centrally administered gift card program processed through payroll. The commissioner of human resources should budget for the program through the city's annual budget process. At a minimum, the program should establish policies and procedures to describe:</p> <ul style="list-style-type: none"> • custodian of cards • criteria for receiving awards • limits on award amounts • responsible party for approving awards other than custodian • documentation to be submitted for distributing awards • records to be maintained • physical security measures for safe guarding cards • processes for reporting and withholding federal and state taxes • mechanism for informing employees of tax liability • reconciliation of gift cards purchased, distributed and remaining at least monthly performed by personnel other than the custodian 		
Proposed Action:	<p>Prior to the completion of the gift card audit the COO had requested the Commissioner of HR develop a centrally administered gift card program to address the control issues identified upon the initial discovery of the various departmental gift card initiatives. The framework of this program will employ best practices used in the public/private sector as it relates to employee recognition programs and will incorporate the recommendations identified by the gift card audit. It is important to note as this program is being developed the current gift card inventory has been catalogued and is physically stored in a locked safe within DHR. The updated gift card program is expected to launch in the third quarter of FY13.</p>	
Implementation Timeframe:	Responsible Person:	Degree of Agreement:
<i>March 31, 2013 or earlier</i>	<i>Chief Operating Officer and Commissioner of Human Resources</i>	<i>Agree</i>
<p>Recommendation # 2:</p> <p>We recommend the chief operating officer reconsider whether to establish purchasing card authority for departments</p>		
Proposed Action:	<p>The COO's office and Chief Procurement Officer will conduct an assessment of the need to establish a purchase card program for City departments to use on a limited basis. The findings of this assessment will determine next steps concerning future implementation of a purchase card program. We anticipate completing this needs assessment and determining next steps by the end of the third quarter of FY13.</p>	
Implementation Timeframe:	Responsible Person:	Degree of Agreement:
<i>March 31, 2013</i>	<i>Chief Operating Officer and Chief Procurement Officer</i>	<i>Agree</i>