



AUDIT AND ADVISORY SERVICES
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May 2, 2024

To: Distribution

Re: **Gift cards**
Audit No. 08-24-0009

We have completed a review of gift card processes as part of the 2023-24 annual audit services plan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Enclosed is the report detailing the results of our work.

We sincerely appreciate the cooperation and assistance provided by personnel from Business and Financial Services and the academic and administrative departments included in the scope of the review. If you have any questions, please contact me.

Respectfully submitted,

Ashley Andersen
Director
Audit and Advisory Services

Enclosure

Distribution

Business and Financial Services

Jim Corkill, Associate Vice Chancellor/Controller
Steve Kriz, Assistant Director, Accounting Services
Jacob Godfrey, Chief Procurement Officer and Associate Director

Department of Communication

Tamara Afifi, Chair
Casey Hankey, Business Officer

cc: Chancellor Henry Yang
David Marshall, Executive Vice Chancellor
Chuck Haines, Vice Chancellor - Chief Financial Officer
UCSB Audit Committee
Alexander Bustamante, Senior Vice President and Chief Compliance and Audit Officer

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UC **SANTA BARBARA**
Audit & Advisory Services

Audit Report

Gift cards

May 2, 2024

Performed by:

Antonio Mañas Meléndez, Associate Audit Director
Anne-Sophie Gatellier, Senior Auditor

Approved by:

Ashley Andersen, Audit Director

Report No. 08-24-0009

EXECUTIVE SUMMARY

OBJECTIVE

The primary purpose of this audit was to quantify the gift card expenses on campus, assess the adequacy of guidance and internal controls over gift card processes, and the overall compliance with related University policies and procedures.

The objectives of our audit were to determine whether:

- Reporting capabilities provide the stakeholders with an overview of gift card expenses on campus.
- Gift card processes are governed by an adequate level of campus-wide guidance.
- Internal controls are implemented to ensure gift card transactions are compliant with the applicable policies and procedures, particularly in terms of:
 - Transaction approvals
 - Storage practices
 - Distribution practices
 - Tracking
 - Accounting treatment

CONCLUSION

Based on the results of the work performed within the scope of the audit, we found that:

- Current reporting features do not allow for quantification and comprehensive oversight of gift card transactions.
- Campus-wide guidance on managing gift cards at the departmental level is limited and relies on systemwide policies.
- Internal controls are insufficient to ensure compliance with the applicable policies, in terms of securing the gift cards, documentation, and tax requirements.
- Gift card processes vary across campus based on the level of activity and the purpose of the gift cards. The departments have inconsistent levels of formalization and oversight of their gift card activity.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. REPORTING AND QUANTIFICATION

OBSERVATION

Current reporting features do not allow for quantification and comprehensive oversight of the volume of gift card transactions processed on campus.

Reporting

Gift card transactions are currently not systematically identified in the financial system, and there are no specific criteria to monitor gift card transactions.

Our interviews with Business and Financial Services (BFS) show that gift card transactions are currently not systematically identified in the campus financial system. Although Procurement Services pulls data through a query on a monthly basis for audit purposes, the identification of possible gift card transactions is ad hoc and based on the description of the transaction or rounded expenditure amounts. This methodology allows for identifying a significant amount of gift card transactions but is too judgmental to obtain a comprehensive and easily retrievable overview.

One approximation to identify gift cards is selecting transactions by specific object codes¹. The University of California, Santa Barbara (UCSB) chart of accounts provides several object codes for gift-related transactions, divided by type of recipient (employee/non-employee) or gift purpose (recognition, human subject payment, etc.). However, these object codes are not specifically for gift cards and do not allow for accurate quantification of gift card transactions.

Our review of Concur² reporting capabilities shows that it is possible to create a query on gift cards. However, this query would also be based on a selection of keywords and might not give a comprehensive overview of gift card transactions. In addition, due to this system being implemented in 2022, transactions older than 2022 would not be included.

Gift Cards Quantification – Data Analysis

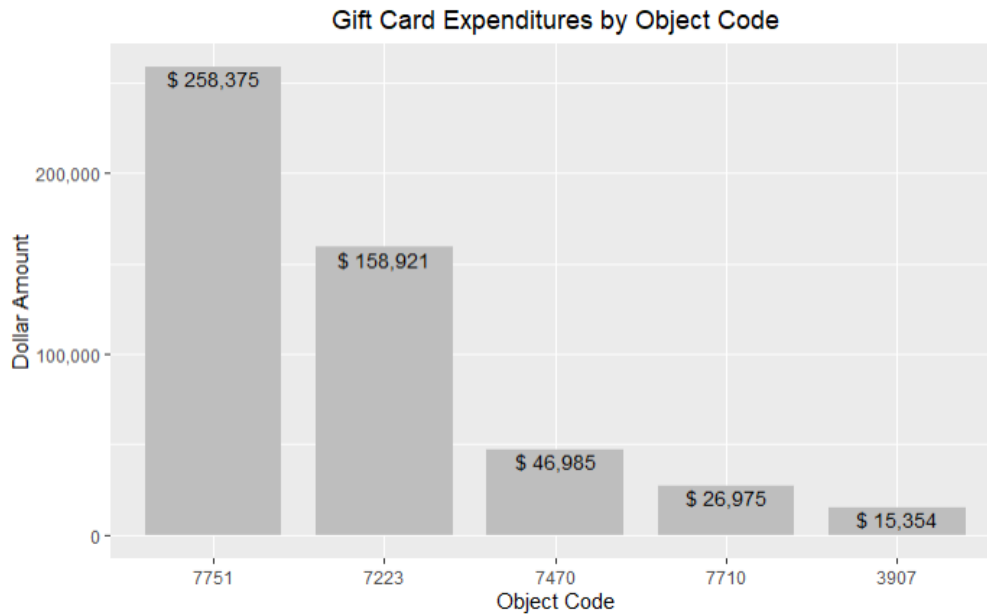
Our analysis³ shows that between January 2021 and June 2023, at least \$506,333 were spent on gift cards across campus.

¹ See background section for a list of the object codes identified.

² Concur is the system used for reimbursement.

³ To identify potential gift cards, we pulled all the transactions that had an object code susceptible to be used for gift cards, and filtered on key words such as "Amazon", "Starbucks", "Target", or "Gift card". We verified the reliability of the dataset with a selection of 100 random transactions used for our documentation review. The review confirmed that only three transactions were not for gift cards. This approximation might be underestimated if additional unidentified object codes are used by the departments.

Plot 1 shows the expenditures identified as gift card transactions by object code between January 2021 and June 2023⁴.



A more precise analysis shows that:

- 77% of these gift card transactions were FlexCard⁵ purchases.
- The majority of gift card transactions were Amazon gift cards (54%). Guidance might be necessary for this practice as two departments out of 12 interviewed used personal Amazon accounts and campus FlexCard to purchase Amazon gift cards, which creates an unclear delimitation between personal and professional expenses. In addition, documentation such as the order confirmation or the receipt will remain on a personal account only accessible to the individual.
- The main purpose of the gift card transactions was for the distribution of non-cash awards to employees (object code 7751⁶), followed by payments related to human subject research (object code 7223). We noted that a relevant number of gift cards classified as non-cash awards to employees (7751) were distributed to students⁷.

RECOMMENDATION

We recommend Business and Financial Services assess alternatives to allow departments to properly identify gift card transactions to enforce monitoring of purchases of cash equivalents.

⁴ For a description of the object code, see the Background section. Object code 8000 is not represented in the plot because it was observed to be used by one department only.

⁵ UCSB's FlexCard is a Visa procurement card issued by U.S. Bank to UCSB employees who have authority to buy goods and services on behalf of their departments.

⁶ Object code 7751 is for Employee Non-Cash Awards & Other Gifts (UC Policy G-41)-Unallowable charges to Federal awards.

⁷ See section 3 for more information.

MANAGEMENT RESPONSE

Business and Financial Services will assess alternatives to allow departments to properly identify gift card transactions to enforce monitoring of purchases of cash equivalents.

Audit and Advisory Services will follow up on the status of these issues by September 30, 2024.

2. INTERNAL CONTROL GUIDANCE

Campus-wide guidance on how to manage gift cards at the departmental level is limited and relies on systemwide policies. In addition, reviews of FlexCard transactions related to the purchase of gift cards do not cover an adequate number of transactions to assess compliance of departmental practices with the applicable policies.

OBSERVATION

Guidance

Campus-wide guidance on gift card processes is limited and could be consolidated and enhanced to help the departments comply with applicable policies.

Several University of California (UC) Policies govern the use of gift cards:

- UC Policy BFB G-41 *Employee Non-Cash Awards and Other Gifts* (UC Policy G-41)
- UC Policy G-42 *Gifts Presented to Non-Employees on Behalf of the University* (UC Policy G-42)
- UC Policy BUS-49 *Policy for Cash and Cash Equivalents Received* (UC Policy BUS-49)

These policies provide extensive guidelines on the authorized purpose, dollar limits, accounting treatment, and physical security of gifts and cash equivalents, which include gift cards. However, they do not provide specific rules on how gift cards should be managed at the department level. For example, the payment methods authorized or recommended, internal controls required such as the total amount distributed per recipient, and the criteria to identify gift cards to use depending on the purpose.

Our review of campus-wide guidance related to gift cards reveals that requirements and best practices are across several sources and that no single source clarifies expectations and requirements to the departments. For example, BFS offers training to all FlexCard holders that includes a section on gift cards. Each cardholder, allocator, and reviewer must take and pass the exam corresponding to their role before participating in the FlexCard program. BFS also provides clarifications on the use of FlexCard to purchase gift cards and on their taxability. In addition, the annual reminder on theft-sensitive items clarifies that department heads or administrators should ensure that gift cards are secured and monitored and that cash equivalents must be stored in a secure receptacle or safe at all times except when signed out. In terms of authorized purpose, the Human Resources website mentions gift cards can be used to recognize and reward staff and student employees.

In order to identify good practices, we conducted a benchmark of the information available on

nine UC campuses' websites⁸ related to gift cards. We identified rules and practices that might help improve gift card processes at UCSB. In particular:

- For six campuses, the department is explicitly responsible for keeping track of the total amount distributed to each recipient each calendar year and reporting these amounts to central offices, either for tax purposes or for financial aid purposes.
- At least five campuses recommend specific purchasing methods to the departments.
- At least two campuses centralize their purchase of gift cards for at least one type of gift card.

As presented in more detail in the next section, our interviews of 12 departments and divisions show that gift cards are not always recognized and handled as cash equivalents and that some requirements are not systematically known and applied, such as physical security of the gift cards, or the necessity to reconcile gift card transactions to prevent fraud and accounting misrepresentation. Having guidance focused on gift cards would help departments comply with the applicable policies, regardless of their method of payment.

Finally, no control of the total amount of gifts awarded per recipient per year is performed. Our interviews with a sample of departments confirmed that this information is not tracked at the departmental level most of the time. For non-employees, UC Policy G-42 requires that gifts beyond \$600 are taxable and must be reported to the Internal Revenue Service (IRS). For employees, dollar limits are provided for each category of gift in UC Policy G-41.

Campus-wide Reviews

Procurement Services reviews gift cards purchased with FlexCard, as part of the monthly compliance audit of FlexCard transactions. However, the sample is very limited and does not allow for an extrapolation of the results. In addition, no control is in place to assess if the dollar limit per recipient per calendar year is compliant with the applicable UC Policies.

We observed that Procurement Services performs and documents monthly audits of FlexCard⁹ transactions that include gift card transactions as a criterion. A procedure adequately describes this audit, and the results are maintained in a spreadsheet. Among other things, the FlexCard Manager verifies that the FlexCard Approval Form is completed and the limit per gift is compliant with applicable policies. However, the monthly sample of approximately 30 transactions includes only five gift-card transactions and does not include verification that a letter on behalf of UCSB is distributed along with gifts to non-employees, as required by UC Policy G-42.

According to UC Policy G-41 and G-42, departments are primarily responsible for ensuring their own compliance with the policies.

⁸ UC Berkeley, UC Davis, UC Irvine, UC Los Angeles, UC Merced, UC Riverside, UC San Diego, UC San Francisco, UC Santa Cruz.

⁹ FlexCard is a Visa procurement card issued by U.S. Bank to UCSB employees who have authority to buy goods and services on behalf of their departments.

RECOMMENDATION

We recommend Business and Financial Services communicate a reminder to the divisions and/or departments of specific internal controls required on gift card transactions, including verification of the purpose, the dollar limits, and the support documentation. The reminder will include the list of policies governing gift cards.

MANAGEMENT RESPONSE

Business and Financial Services will communicate a reminder to the divisions and/or departments of specific internal controls required on gift card transactions, including verification of the purpose, the dollar limits, and the support documentation. The reminder will include the list of policies governing gift cards.

Audit and Advisory Services will follow up on the status of these issues by July 31, 2024.

3. DEPARTMENTAL PRACTICES AND INTERNAL CONTROLS

OBSERVATION

Process Review

Our review shows that gift card processes were very diverse across campus with inconsistent levels of formalization and oversight. In addition, internal controls at the department level were not adequate to assess compliance with the applicable policies in terms of documentation and tax requirements.

We interviewed and collected support documentation for 12 departments and divisions (hereinafter "samples") to assess their gift card process. We determined that:

- Only two had a documented procedure describing roles and responsibilities, as well as a description of the steps to purchase gift cards.
- Out of nine samples that used physical gift cards, three declared they did not have specific measures to ensure the security of the gift cards and none maintained an inventory.
- Nine samples tracked confirmation of the distribution, either in a log or in Gateway. However, only one sample maintained a tracking sheet of all the recipients per year distributed by the department or division in a consolidated document. This list did not intend to track if the recipients had received gifts from other departments or divisions.
- One sample explicitly documented the rules to abide by tax requirements when distributing gift cards, although our interviews showed that they all considered the maximum amount for individual gift cards. Two samples distributed grocery gift cards for basic needs and were not required to report the amounts for tax purposes.

Since 2021, one department has been posting gift card transactions for Supplies &

Materials (object code 8000) to allow students to purchase their supplies for a hybrid¹⁰ cooking class. The department informed us that BFS accepted the use of gift cards to purchase supplies for this class¹¹. The cook in charge of the class was responsible for the purchase and distribution of the gift cards. Although distribution is tracked, the department does not maintain an inventory of the gift cards purchased to allow a reconciliation.

The department should consult BFS to confirm that this practice is acceptable, especially after the campus has fully returned to on-site operations. Additional controls on such transactions would also be recommended to ensure the appropriate amount is distributed to the students and to allow reconciliation.

Documentation Review

Our review of a sample of 100 transactions posted on the General Ledger between January 2021 and June 2023 showed that the six departments and divisions included in the sample need to improve their internal controls. The criteria to select the sample was based on selected object codes previously identified, and we confirmed that 97 of the transactions were related to the purchase of gift cards¹². In terms of direct compliance with University policies and procedures, we identified the following:

- Gift card purchases related to non-cash awards to employees (object code 7751) were regularly distributed to students, without evidence that the gift card was awarded to student workers for a job they were hired to perform, as is required by policy. In fact, out of 36 transactions with the object code 7751, 28 were for students participating in surveys, projects, or emergency food. UC Policy G-42 states that *“If a gift recipient is both a student and an employee, a determination must be made as to whether the receipt of the gift is dependent on the individual’s employment relationship with the University.”*
- Although approvals were documented for 91 transactions, 38 FlexCard Approval Forms¹³ were missing out of 88 transactions paid with a FlexCard, showing that this document required for the FlexCard program for all non-cash awards purchased with a FlexCard is not widely known or enforced.
- The distribution and reception of gift cards were not always tracked at the department level. Indeed, the distribution was documented for 66 transactions, and the reception was documented with a signature or a confirmation email for 27 transactions. When distributed to human subjects, we were informed that the program coordinator or the Principal Investigator (PI) usually keeps track of the identity of the recipient and the distribution of the gift card, but not the department. Without tracking the distribution of cash equivalents like gift cards, as is required by policy, a reconciliation is not possible to limit the risk of theft or fraud.
- One department had three transactions for "consultation work", which is not an

¹⁰ The class was offered both in-person and online.

¹¹ Documentation of this approval could not be retrieved.

¹² See section Reporting and quantification and Background for the list of object codes reviewed.

¹³ Procurement Services requires the department complete a FlexCard Approval Form when the FlexCard is used to purchase non-cash awards.

authorized purpose for gift cards based on UC Policy G-42. The policy explicitly forbids "*A gift to any person with whom a presenter has an outside business relationship*". This usage of gift cards might be interpreted as a workaround for services paid, with tax and labor law implications. These transactions amounted to \$700 in total.

- One department distributed gift cards to students so that they could purchase supplies for a hybrid cooking class. The gift cards were worth \$100 each for a total in our sample of \$3,247. This usage is not covered by policy.
- Although all the transactions were under the limit authorized by policy based on their purpose, one transaction was for \$5 gift cards to employees. According to UC Policy G-41 "*Gift certificates under \$10.00 should not be purchased because under California law, gift cards or certificates with a face value of less than \$10.00 must be redeemable in cash (Section 1749.5 of the Civil Code)*." It should be noted that the \$10 restriction is not repeated in UC Policy G-42, related to non-employees. As a consequence, we did not count the transactions for \$5 gift cards as anomalies, although we identified some for human subjects. Additional guidance to clarify this low limit would be recommended, especially for human subjects who are regularly compensated with a \$5 gift card.
- 17 transactions related to non-employees were posted on the State fund 19900, although UC Policy G-42 states that "*Expenditures for gifts may not be charged to State Funds except for a gift awarded to a student for an academic achievement*." 10 were related to human subjects. It should be clarified whether a State Fund can be used for gift cards in this case.
- At least one division and one department distribute gift cards to employees at the end of the calendar year (at least \$19,820 for fiscal years 2021-22 and 2022-23¹⁴), and in particular close to the winter holidays. Policy G-41 prohibits "*Gifts provided to employees in connection with birthdays, weddings, anniversaries, holidays, farewells, graduations and other occasions of a personal nature*."
- A letter on behalf of the University was never documented. This letter is required by UC Policy G-42.

It should be noted that one department did not provide any documentation, covering 15 transactions in total.

RECOMMENDATION

We recommend Business and Financial Services consolidate and communicate guidance on the use of gift cards. In particular, this will include guidance on:

- Authorized purposes and dollar limits, in particular relating to consultation work and holidays
- Purchasing and payment methods, including the use of Amazon private accounts
- Security measures to protect physical gift cards
- Expected internal controls within the divisions and/or departments

¹⁴ This amount was identified in our sample for one division, and was posted to the General Ledger between January 2022 and January 2023.

- Support documentation
- Accounting practices (account-sub-fund and object codes to be used)

MANAGEMENT RESPONSE

Business and Financial Services will consolidate and communicate guidance on the use of gift cards. In particular, this will include guidance on:

- Authorized purposes and dollar limits, in particular relating to consultation work and holidays
- Purchasing and payment methods, including the use of Amazon private accounts
- Security measures to protect physical gift cards
- Expected internal controls within the divisions and/or departments
- Support documentation
- Accounting practices (account-sub-fund and object codes to be used)

Audit and Advisory Services will follow up on the status of these issues by July 31, 2024.

RECOMMENDATION

We recommend the Department of Communication, in collaboration with Business and Financial Services, and the College of Letters and Science, determine the best approach to compensate research consultation work. This will be documented in a procedure.

MANAGEMENT RESPONSE

The Department of Communication, in collaboration with Business and Financial Services, and the College of Letters and Science, will determine the best approach to compensate research consultation work. This will be documented in a procedure.

Audit and Advisory Services will follow up on the status of these issues by July 31, 2024.

GENERAL INFORMATION

BACKGROUND

Gift Cards¹⁵

The Internal Revenue Service (IRS) states that “cash or cash equivalent items provided by the employer are never excludable from income. An exception applies for occasional meal money or transportation fare to allow an employee to work beyond normal hours. Gift certificates that are redeemable for general merchandise or have a cash equivalent value are not de minimis benefits and are taxable.

A certificate that allows an employee to receive a specific item of personal property that is minimal in value, provided infrequently, and is administratively impractical to account for, may be excludable as a de minimis benefit, depending on facts and circumstances.”

¹⁵ Internal Revenue Services (IRS) website.

Object Codes Used for Gift Cards

We identified six object codes used for gift card transactions. Three of them are based on the purpose of the gift card regardless of the recipient’s status, and three are based on the recipient’s status as employee or non-employee.

Table 1 shows the object codes identified and whether they can be used for employees and non-employee-based transactions.

Table 1		Object Codes Identified for Gift Cards Transactions	
Object Codes	Object Code Title	Employees	Non-Employees
3907	Non-Cash Awards-Gifts Debit Recharges	Yes	Yes
7223	Payments to Human Subjects	Yes	Yes
7470	Non-Employee Gifts (Policy G-42) - Non-Cash Student Prizes & Awards	No	Yes
7710	Donations & Contributions-Non-Employee Gift (Policy G-42); Unallowable Charges to Federal Awards	No	Yes
7751	Employee Non-Cash Awards & Other Gifts (Policy G-41)- Unallowable Charges to Federal Awards	Yes	No
8000	Supplies & Materials	Yes	Yes

Source: Business and Financial Services website and auditor analysis.

SCOPE

The scope of our audit was limited to purchases of gift cards and related administrative processes performed between January 1, 2021 and June 30, 2023, for the whole campus.

To accomplish our objectives, our detailed work included interviews, direct observations, review of documentation, testing, and other steps, including:

- Researching and reviewing relevant UCSB Audit and Advisory Services reports related to the scope of the audit.
- Researching and reviewing UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. Key policies include:
 - UC Policy G-41 *Employee Non-Cash Awards and Other Gifts*.
 - UC Policy G-42 *Gifts Presented to Non-Employees on Behalf of the University*.
 - UC policy BUS-49 *Policy for Cash and Cash Equivalent Received*.
- Interviewing Procurement Services and Accounts Payable to identify and assess campus-wide guidance and internal controls related to purchasing gift cards.
- Performed a risk analysis that considered:
 - Guidance and instructions
 - Purchasing processes

- Cash management processes, including the physical security of the gift cards
- Risks of fraud
- Interviewing and collecting documentation from the following 12 departments and divisions with the highest gift card activity or unusual processes:
 - Graduate Division
 - Housing, Dining & Auxiliary Enterprises
 - Electrical & Computer Engineering
 - Summer Sessions
 - Mechanical Engineering
 - Communication
 - Institute for Social Behavioral and Economic Research
 - Office of Financial Aid and Scholarships
 - Educational Opportunity Program
 - Health & Wellness
 - Campus Sustainability Program
 - Psychological & Brain Sciences
- Quantifying the number of transactions and the amount of expenditures related to gift cards between January 1, 2021 and June 30, 2023, for the whole campus.
- Reviewing Concur reporting capabilities to assess the possibility of obtaining an overview of gift card transactions.
- Conducting a benchmark of the information and guidance available on nine UC campuses' websites in relation to gift cards.
- Collecting and reviewing support documentation for a sample of 100 gift card transactions posted between January 1, 2021 and June 30, 2023.

CRITERIA

Our audit was based upon standards as set forth in the UC and UCSB policies, best practices, and other guidance relevant to the scope of the review. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

AUDIT TEAM

Ashley Andersen, Audit Director
Antonio Mañas Meléndez, Associate Audit Director
Anne-Sophie Gatellier, Senior Auditor