

March 15, 2007

**Internal Audit Report 2007-4
Employee Incentive Program
Employee Relations**

Introduction. To enhance employee morale and productivity, the Municipality established an Employee Incentive Program (EIP) to recognize outstanding performance and significant contributions. According to Municipal Policy and Procedure (P&P) 40-8, Employee Incentive Program, “An Employee Incentive Committee has been established to administer the Special Merit Award, Municipal Employee of the Year, Suggestion Award, Safety and Accident Prevention Award, Humanitarian and Community Service Award Programs.” A Supervisor’s Guide has also been developed to help supervisors administer the Merit Award and Suggestion Award Programs. In 2006, \$29,670 was budgeted to fund the EIP and approximately \$8,600 was spent on gift cards. Most gift cards were for either \$25, \$50, or \$100 and were primarily for restaurants.

Objective and Scope. The objective of this audit was to determine if appropriate controls were in place to appropriately account for gift cards and logo clothing purchased by the Employee Incentive Committee (Committee). This audit did not include a review of cash awards given to Municipal employees. Our audit included a review of the Committee budget and related expenditures. In addition, we conducted a surprise inventory of gift cards and reconciled gift cards purchased since 2003 to gift cards awarded to employees.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of December 2006 through January 2007. The audit was requested by the Employee Relations Department.

Overall Evaluation. The Committee had not established appropriate controls to properly account for gift cards and logo clothing. Specifically, the responsibilities for purchasing, awarding, and tracking of gift cards were not segregated, and gift cards awarded to employees were not always supported by the “Nomination for Award” form. Also, gift card purchases could not be fully reconciled to gift cards that were awarded to Municipal employees, and the Committee did not maintain records for shirts purchased and who had received them as part of the award program. Additionally, gift card purchases were not properly accounted for in the correct Municipal account, and some purchases were not related to the EIP. Moreover, although P&P 40-8 clearly specifies the duties of the Committee executive secretary, these duties were haphazardly performed. Finally, contrary to P&P 40-8, various departments throughout the Municipality have established their own employee incentive programs.

FINDINGS AND RECOMMENDATIONS

1. Awarding Duties Not Segregated.

- a. Finding.** The responsibilities for purchasing, awarding, and tracking of gift cards were essentially handled by one Committee member. For example, a Committee member was awarded two gift cards totaling \$400. These gift cards were purchased and tracked by the same Committee member with no documentation indicating Committee approval of the awarded gift cards. In another case, an employee was awarded \$830 in gift cards. However, it appeared that some of the gift cards were given in lieu of payment for services rendered to the Employee Relations Department. Once again, there was no documentation authorizing these awards. If policies and procedures had been followed as outlined in the Supervisor’s Guide, then awarding duties would have been adequately segregated. However, policies and procedures were not followed and documentation was not provided to substantiate the gift card awards.

- b. Recommendation.** The Director of Employee Relations should ensure that responsibilities for purchasing, awarding, and tracking of gift cards are segregated. In addition, proper documentation should be maintained evidencing the recommendation, review, and approval of the award as required by the Supervisor’s Guide.
- c. Management Comments.** Management stated, “Management concurs with the finding. As of 1/1/07 duties have been segregated so as to assure checks and balances with purchasing and tracking of gift cards, and proper documentation has been maintained evidencing the recommendation, review and approval of awards as required by the Supervisor’s Guide.”
- d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. Awards Not Always Supported by Backup Documentation.

- a. Finding.** Gift cards awarded to employees to recognize outstanding performance and significant contributions were not always supported by the “Nomination for Award” form. Instead, much of the approval process was done informally through emails. When we asked for supporting documentation, we were told that good records did not exist and that record keeping had not been accomplished. According to the Supervisor’s Guide, a “Nomination for Award” form should be completed and submitted to the Committee. The Committee should review the nomination, provide its recommendation on the form for approval or disapproval, and the Committee Chair should sign and date the form.

- b. **Recommendation.** The Director of Employee Relations should ensure that all awards are supported by a Nomination for Award form that has been reviewed and approved by the Committee.

- c. **Management Comments.** Management stated, “Management concurs with the finding. As of 1/1/07, merit, suggestion and employee of the year awards are supported by a Nomination for Award form that has been reviewed and approved by the Committee.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Purchased Gift Cards Could Not Be Fully Reconciled.**

- a. **Finding.** Gift cards purchased by the Committee could not be fully reconciled to gift cards that were awarded to Municipal employees. Since 2003, the Committee spent about \$15,907 on gift cards. However, we were unable to completely account for the awarding of these gift cards. For example, in March 2005, ten gift cards for \$50 each were purchased from South Side Bistro. Records show that eight gift cards were awarded to Municipal employees and two gift cards remained unused. However, when we inventoried the gift cards, we did not find two unused gift cards for South Side Bistro.

- b. **Recommendation.** The Director of Employee Relations should ensure that all gift cards are properly accounted for, safeguarded, and periodically reconciled.

- c. **Management Comments.** Management stated, “Management concurs with the finding. As of 1/1/07, gift cards are accounted for on a master log, safeguarded behind a locked file and periodically reconciled.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Tracking of Gift Cards Needs Improvement.**

- a. **Finding.** Although the Committee did track gift cards, improvements are needed to adequately track all gift cards given by the Committee to Municipal employees. Until April 2006, the Committee maintained a master log showing the date a gift card was awarded, who received the gift card, and where the gift card could be used. This data was then transferred to individual logs for each type of gift card that the Committee had purchased. For example, if an employee was awarded a \$50 gift certificate to Las Margaritas, the name was placed on the master log. An entry was then made on the individual gift card log for Las Margaritas.

When we compared that master gift card log to the individual logs, we noted several problems. For example, the master log sometimes listed only the employee's name, but did not show what was awarded. In addition, some employees listed on the master log were not transferred to the individual gift card logs. Finally, after April 2006, these logs were transferred to another Committee member. Although the master log was maintained, the individual gift card logs were not updated when gift cards were awarded. As a result, we were unable to fully reconcile the master log to the individual gift card logs.

- b. **Recommendation.** The Director of Employee Relations should ensure that gift cards are properly tracked.
- c. **Management Comments.** Management stated, "Management concurs with finding. As of 1/1/07, gift cards are properly tracked on a master log."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Logo Clothing Not Tracked.**

- a. **Finding.** The Committee did not maintain records for logo shirts and who had received them as part of the award program. As a result, we were unable to adequately account for the shirts that had been purchased. From 2003 thru 2006, the Committee purchased logo shirts costing about \$5,300 to give away to Municipal employees as awards. These shirts were kept in a large cabinet. When we inventoried the shirts, we found 33 various types of shirts strewn throughout the cabinet. However, due to the lack of records, we could not determine if any shirts were missing.

- b. **Recommendation.** The Director of Employee Relations should ensure that shirts and other awards are properly tracked.

- c. **Management Comments.** Management stated, "Management concurs with finding. As of 1/1/07, shirts and other awards are tracked on a master log."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **EIP Expenses Incorrectly Recorded.**

- a. **Finding.** Gift card purchases were not properly accounted for in the correct Municipal account. In 2006, \$29,670 was budgeted in Department Number 1871, Account 1505, to cover EIP costs. This \$29,670 was taken out of every Municipal Department's budget and transferred to the Employee Relations Department.

However, in 2006, gift card purchases and other EIP costs were incorrectly posted to Department Number 1871, Account 2201 and Department Number 1841, Account 2201. As a result, it was difficult to track EIP expenses to determine how funds were spent to reward employees.

- b. **Recommendation.** The Director of Employee Relations should ensure that expenses are recorded to Department Number 1871, Account 1505.
- c. **Management Comments.** Management stated, “Management concurs with the finding. As of 1/1/07 expenses relating to the EIP are coded according to the appropriate accounting string. (Current string is Organization # 1871, Fund 101, Accounting Code 1505, Project Grant EICCOM.)”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. **Inappropriate Purchases.**

- a. **Finding.** Some purchases charged to the EIP project were not related to the program. For example, \$523.95 was charged to the EIP project for a desk and phone. The desk and phone were purchased for an employee in the Employee Relations Department that did not have any duties associated with the EIP.
- b. **Recommendation.** The Director of Employee Relations should ensure that all expenses charged to the EIP budget relate to the EIP.
- c. **Management Comments.** Management stated, “Management concurs with the finding. As of 1/1/07 the EIC will ensure that all expenses charged to the EIP are EIP related expenses.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

8. **Committee Executive Secretary Position Unclear.**

- a. **Finding.** Although P&P 40-8 clearly specifies the duties of the Committee executive secretary, these duties were haphazardly performed. In fact, we were unable to determine exactly who was the executive secretary. When we asked about the position, we were told that everyone on the Committee acts like the executive secretary. Some of the executive secretary's primary duties are to provide for and maintain adequate records, prepare management and committee reports, and assist in the orderly processing of nominations and suggestions, including the payment of awards. Since executive duties have not been adequately assigned and performed, adequate records to document gift card awards did not exist.
- b. **Recommendation.** The Director of Employee Relations should ensure that an executive secretary is appointed to provide proper support for the Committee.
- c. **Management Comments.** Management stated, "Management concurs with finding. As a means to assure checks and balances (see #1), the Committee duties have been segregated and the Supervisor's Guide (P&P 40-8) will be changed to broadly reflect such with an estimated completion date of 6/1/07."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

9. Employee Incentive Program Decentralized.

- a. Finding.** Contrary to P&P 40-8, various departments throughout the Municipality have established their own employee incentive programs. For example, as part of their safety programs, several departments regularly reward employees with gift cards. According to P&P 40-8, “An Employee Incentive Committee has been established to administer the Special Merit Award, Municipal Employee of the Year, Suggestion Award, Safety and Accident Prevention Award, Humanitarian and Community Service Award Programs.”
- b. Recommendation.** The Director of Employee Relations should coordinate with Municipal Departments to ensure adherence to P&P 40-8.
- c. Management Comments.** Management stated, “Management concurs with finding. The EIC has not decentralized the EIP and the Code (3.30.182) states that other programs may be established and shall not be limited to career development and training, management by objectives, productivity incentive bonuses, lost time accident improvement and others. The EIC will broaden the P&P language to reflect such.”
- d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials.

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