

Date: December 28, 2023

To: Mayor and Members of the City Council

From: Thomas B. Modica, City Manager 

Subject: **New Financial Policy and Procedure 4-7: Issuance of Gift Cards**

The purpose of Financial Policy and Procedure (FPP) 4-7 (attached) is to provide clarity and establish a uniform procedure for the purchase and distribution of gift cards utilizing City funds to maintain compliance with tax and reporting requirements imposed by the Internal Revenue Service (IRS) and ensure adequate internal controls. The FPP applies to all City departments and offices reporting directly to the City Manager while requesting elected offices and non-City Manager departments to comply in the interest of administrative uniformity. Per Administrative Regulation 1-1: Issuance and Revision Instruction for Administrative Regulations, the City Attorney and City Auditor reviewed the FPP.

Policy Details

The regulation clearly defines the scenarios under which gift cards may or may not be purchased.

Taxability

Given IRS implications, the policy outlines the tax considerations for employees and non-employees when receiving gift cards.

Procedural Guidelines

A comprehensive procedure is provided to establish clear roles, responsibilities, and processes, from purchasing to distributing gift cards.

Exceptions

The policy clarifies scenarios where it does not apply, providing clarity on exclusions.

Next Steps

Electronic notice of the new AR will be sent to all City departments, and the AR will be posted on the Citywide intranet and the City's website.

If you have any questions, please contact me or Kevin Riper, Finance Director, at (562) 570-6427 or kevin.riper@longbeach.gov.

CC: DAWN MCINTOSH, CITY ATTORNEY
DOUGLAS P. HAUBERT, CITY PROSECUTOR
LAURA L. DOUD, CITY AUDITOR
APRIL WALKER, ASSISTANT CITY MANAGER
TERESA CHANDLER, DEPUTY CITY MANAGER

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TYLER CURLEY, DEPUTY CITY MANAGER
APRIL WALKER, ADMINISTRATIVE DEPUTY CITY MANAGER
KEVIN LEE, CHIEF PUBLIC AFFAIRS OFFICER
MONIQUE DE LA GARZA, CITY CLERK
DEPARTMENT HEADS

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SUBJECT: ISSUANCE OF GIFT CARDS

I. Purpose

The purpose of this regulation is to provide guidelines and procedures for the purchase and distribution of gift cards purchased with City of Long Beach (City) funds (public funds), to maintain compliance with tax and reporting requirements imposed upon the City by the Internal Revenue Service (IRS), and to ensure adequate internal controls. The policy does not apply to gift cards purchased with employee personal funds or through fundraising efforts, or to gift cards donated by other agencies, whether public or private.

II. Scope

This regulation is applicable to all City departments and offices responsible directly to the City Manager. The Financial Management Department recommends that elected and other independent offices and departments of the City comply with these procedures in the interest of administrative uniformity and best practices for handling public funds.

III. Policy

a. When Gift Cards May be Purchased

Gift cards may be purchased under the following circumstances:

- Gift cards may be purchased in connection with social service programs such as for people experiencing homelessness and where there is a public good associated with making sure that someone participates in a program. It is recommended that programs clearly outline eligibility requirements for recipients of gift cards.
- Gift cards may be purchased as a thank-you for volunteers, focus groups, committee members, and other unpaid program participants.
- Gift cards may be purchased if it is not for a specific person, but an event. For example, a department may purchase a gift card as a door prize.
- Gift cards may be purchased for prizes and awards as tokens of appreciation for City employees to recognize and reward their extraordinary efforts and contributions to the workplace beyond expectations for their position. For example, an employee may be granted a Team Player award to recognize their eagerness to help others, collaborate with employees throughout the organization, positively impacts morale in the workplace, and work toward the “good of the group.”

b. When Gift Cards May Not be Purchased

Gift cards may not be purchased under the following circumstances:

- Gift cards may not be purchased for City of Long Beach specifically identified employees. For example, a department may not give a gift card to an employee for meeting expectations for their position. Instead, the employee should be compensated in a manner outlined in negotiated labor agreements.

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- Gift Cards should not be used as a way to avoid following transparent procurement policies. For example, gift cards may not be given in lieu of payment to suppliers, consultants or other vendors for goods and/or services provided. An appropriate method of payment should be used to pay vendors such as a P-Card, Check, EFT or Wire payment.
- c. Gift Cards Acceptable for Purchase:
 - Anywhere/anytime cash including Visa and American Express
 - Store gift cards that are redeemable for a large variety of goods, such as Walmart or grocery store gift cards
 - Gift cards to restaurants
 - Virtual gift cards such as Amazon
- d. Taxability of Gift Cards

According to IRS rules, cash and cash equivalents, such as gift cards provided by the City, are considered taxable income to the recipient. For City employees receiving gift cards as prizes or awards, the value of gift cards is considered compensation regardless of the face amount of the gift card, and is subject to federal, state and employment tax withholding, and reported on the employee's Form W-2.

For non-employees, the IRS requires the City to report the value of all City payments – including, but not limited to gift cards – to any individual in an aggregate amount of \$600 or more per calendar year. Therefore, departments must track all City compensation, including gift cards, to individuals they reasonably expect to receive more than \$600 from all City sources during a calendar year. For such individuals, the department will be responsible for obtaining a completed Form W-9 signed by the recipient and informing them of the City's tax obligation in reporting these amounts on a Form 1099-MISC.

Conversely, if the department distributing gift cards reasonably expects that the individual getting the gift card will not receive more than \$600 from all City sources during that calendar year, then the department does not need to obtain a Form W-9 from the recipient.

Gift cards provided to undocumented residents are subject to even stricter IRS rules- federal income tax withholding regardless of the dollar amount provided (no \$600 floor). For purposes of general gift card giveaways to the public for reasons listed above, the City's policy is to not ask for immigration status and will assume for administrative purposes, that all recipients are documented unless specifically informed that status is other than documented. For programs where the City is purposely and deliberately designing programs to benefit non-documented individuals, the Department will assume that all individuals are undocumented and inform the Financial Management Department of the appropriate amount from all gift cards so the City can pay the income tax on behalf of the non-documented individuals. Departments must maintain a listing of the individual's name and dollar amount of the gift card to be awarded, this should be done prior to the gift card distribution to undocumented individuals. To comply with IRS guidelines, 30 percent (30 %) federal tax withholding will apply, and the department

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will be responsible for the tax and tax gross-up since tax cannot be withheld from a gift card. For example, assume a department plans to provide a gift card in the amount of \$50 to a undocumented resident. The gift card expense would be grossed up to \$71.43 ($50 / 1-.30$ tax rate); the department would be charged the additional \$21.43 of tax so that after the 30% tax remittance to the IRS, the recipient nets the \$50 gift card amount.

IV. Procedures

a. Gift Card Purchase Authorization Form

In order to purchase a gift card, departments should complete the Gift Card Purchase Authorization form and the appropriate P-Card or Requisition form as per standard procurement processes and send the completed documents to a department manager for approval. Once approved, the payment should be processed via normal procurement policy for payments using P-Cards or Munis Invoice Entry for check payments.

A separate Gift Card Purchase Authorization form must be completed for each program or activity e.g. homelessness program, volunteer recognition program, employee appreciation award, etc. and must be specified in the "Description of Event, Award, Program, etc." section of the form. The Financial Management Department recommends limiting the number of gift cards purchased at any one time so that the disbursement, inventory and reconciliation of those cards is more manageable by the department acquiring them. Additionally, the Department should assign the duties of purchasing, disbursement, and reconciliation to different employees to encourage segregation of duties. After the completion of a program, if there are remaining gift cards, the department should notify the Accounting Management Officer in the City Controller/Accounting Bureau of the Financial Management Department to record the appropriate accounting entries and re-allocate the gift cards to another departmental program.

Individual gift cards may not have a face value of more than \$50 without prior approval from the City Controller/Accounting Bureau. Purchase of gift cards for distribution to City employees should be charged to Munis general ledger object code 834800 and for non-employees to Munis general ledger object code 834801.

Gift cards should be managed following appropriate procedures. There should be one manager responsible for developing and overseeing gift card internal controls in each department.

Department responsibilities are listed below:

- Advising department staff of gift card policy and procedures.
- Ensuring gift cards are maintained in a secure area as if they were cash (e.g. in a safe, locked box, locked cabinet or locked drawer).
- Access to the gift cards and keys to the locked areas should be limited to the individual(s) responsible for safekeeping of the gift cards.
- Reviewing and reconciling the gift card policy forms.
- Responsible for ensuring the Tax ID number of gift card recipients is obtained when required and maintained confidential.

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- Providing the list of gift card recipients, including name, and tax identification number (if required) to the Accounting Management Officer in the City Controller/Accounting Bureau for Form 1099 and W-2 reporting within a) 10 business days after all gift cards have been distributed and b) 5 business days as of the end of the current calendar year.
- Ensure appropriate documentation is maintained and available for review at all times by the City Controller/Accounting Bureau.

b. Gift Card Disbursement Form

The department will be responsible for completing the Gift Card Disbursement Form. The form is required to record the disbursement of all gift cards purchased. The Gift Card Disbursement Form will require the department to collect the following information from all gift card recipients:

- Recipient Name
- Date of Gift Card Distribution
- Last 4 digits of the Social Security Number (for City Employees only)
- Tax Status: Undocumented resident (YES or NO)
- Gift Card Amount
- Recipient Signature or Initials

Finally, for any non-City employee recipients who the department believes are reasonably likely to receive more than \$600 in total compensation from the City during the calendar year (see III (d) above), the department will be responsible for collecting a signed Form W-9, including the recipient's social security number; such a recipient cannot receive the gift card if they refuse to provide the information required by the IRS on Form W-9.

V. Lost Cards

The department is responsible for any gift cards that are lost or misplaced. Any shortage must be reported to the City Controller and the Director of Financial Management. The department should also comply with the Ethics Guide for Long Beach City Officials & Employees that states "Fraud, waste, and abuse of City funds or City property and materials must be reported to either the Department Director, City Manager, the City Auditor's Office, or anonymously through the Fraud Hotline and Ethics Helpline at 1-888-372-8307 or the [online reporting form](#). Complaints shall be investigated immediately as deemed necessary by the City Auditor's Office, the Police Department, or the Human Resources Department."

VI. Exceptions

This policy does not apply to gift cards purchased with employee personal funds or through fundraising efforts, or to gift cards donated by other agencies, whether public or private.

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This policy does not apply to the Police Department Gun Buy Back program. To encourage participation in the program, gift card recipients shall remain anonymous and the documentation required per the Gift Card Policy will not apply.

For grant awards received by the City that involve providing gift cards to recipients, departments should follow grant reporting and compliance requirements. If grantor requirements are inconsistent with this policy, then grantor requirements will supersede so that the City may maximize cost reimbursements and achieve grantor program objectives.



CITY MANAGER

12-28-2023

DATE