

3.9 | Gift Card Purchases

The City and County of San Francisco (City) restricts the purchase of gift cards to purposes defined by specific departmental programs. Gift card purchases outside the scope of these authorized programs are generally prohibited.

Gift cards are considered equivalent to cash and petty cash funds. Therefore, strict protocols and controls must be developed and implemented to a) maintain accountability for all gift cards purchased and distributed, and b) avoid mishandling, misuse, abuse, and theft of gift cards. City employees may not be gift card recipients.

3.9.1 | Eligibility to Receive Gift Cards

A. Program Eligibility Requirements for Clients

1. Clients must have been found eligible for the program that distributes gift cards as incentives.
2. Clients must continue to meet program eligibility criteria for benefits (such as gross household income below income thresholds).
3. Clients who become ineligible or inactive for the program or its benefits must have their eligibility status immediately changed to *inactive* or *ineligible* in the department's participant tracking system.
4. Clients receiving gift cards cannot be City employees. If a City employee were to receive a gift card from a City-funded program, this will have tax implications for the employee/recipient and may pose serious concerns regarding possible conflicts of interest.

B. Goals Clients Must Meet to Be Eligible Must Be Set in Advance

1. Program managers and/or eligibility workers must establish in advance the goals clients must achieve for them to qualify to receive gift cards.
2. The program's pre-set goals must be established within specific areas of client achievement and within a specified timeframe.
3. Clients must present—and program managers and/or eligibility workers must verify—sufficient and appropriate proof that they met the program goals that entitle them to receive gift cards.

3.9.2 | Gift Card Purchases by City Departments

A. Authorization to Purchase

1. Each department's designated oversight body (commission or other) must approve the department's general use and purchase of gift cards as incentives to departmental program clients.
2. The department's director of programs (or designee during the director's absence) and finance director must approve each purchase of gift cards for the program.

B. Funding Source

1. Gift cards must be purchased with designated funds from the department.
2. In cases where gift cards are purchased with specified funds the use of which is restricted, the use of the gift cards must be subject to the same restrictions as the use of the specified funds.
3. Gift card purchases must be listed as an approved use of the specified funds.

C. Actual Purchase

1. Gift cards must be purchased through the department's contracts and accounting units, in coordination with the Office of Contract Administration (OCA).
2. Gift cards must be purchased from City-approved vendors.
3. The value of each gift card purchased for a program must not exceed the maximum amount per card established by the department for that program.
4. The number of gift cards purchased for a program must not exceed the maximum quantity per period established by the department for that program.
5. Gift cards may not be purchased using departmental procurement cards (P-Cards).
6. Employees may not purchase gift cards as a reimbursable expense.

D. Inventory Receipt

1. Documentation of inventory receipt and distribution must include the name and signature of the receiving staff and corresponding date.

2. Staff must verify the gift card types and quantities by type and in total from the gift card shipments against the packing slips of the shipments.
3. Staff must review, sign, and date packing slips of the gift card shipments.

Staff must promptly record the received gift card shipments and returns, if any, in the inventory records.

3.9.3 | Separation of Duties

A. Stages of Handling and Transfer of Gift Cards

1. Departments must have a different person responsible at each stage in the handling and transfer of gift cards:
 - a. Request the order of gift cards
 - b. Approve the order of gift cards
 - c. Purchase the gift cards
 - d. Receive the gift cards
 - e. Distribute the gift cards
 - f. Monitor usage of the gift cards
 - g. Periodically inventory the gift cards

B. Staff Handling Gift Cards Cannot Use Them

1. Under no circumstances may a City employee involved in any stage of handling or transferring gift cards issue or use a gift card for his or herself or family member.

3.9.4 | Gift Card Inventory

A. Inventory Records. Offices that store gift cards must use the following internal controls:

1. Maintain complete and accurate inventory records by gift card, gift card type, and in total, including the gift card vendor and serial number, the beginning balance, gift cards received and distributed and corresponding dates, and the ending balance.
2. Restrict access to gift card inventory records to authorized employees. Ensure access rights are immediately terminated once the employees no longer need access.
3. Conduct periodic (weekly, monthly, or quarterly), as determined by the department for the subject program, physical inventory counts, and match results to inventory records.
4. Report to management any discrepancies in the quantities and amounts between the physical inventory counts and inventory records.

5. Investigate significant discrepancies between the physical inventory counts and inventory records and document the reasons for discrepancy.
6. Review and approve any adjustments to inventory records. This must be done by management.

B. Inventory Storage and Security

1. Store all gift card inventories in a locked cabinet or safe and restrict access to its key or combination.
2. Keep the locked cabinet or safe in a room with restricted lock access. The room should, if possible, have cameras to monitor the handling of gift card inventories.
3. Maintain a log or install electronic keys documenting who has had access to the room and when (each entry and exit).
4. Exercise dual custody controls at all times during each stage of handling and transferring gift cards.
5. Using performance measurement systems, hold appropriate personnel accountable for accomplishing consistent, accurate physical inventory counts.
6. Hold no more gift cards than will be needed for the program during a reasonable timeframe, which the department must establish in writing.

Transfer to the department's fiscal office any gift card inventory in excess of the number needed during the established timeframe.

3.9.5 | Gift Card Distribution

1. Review and approve all eligibility documentation for each client upon each round of gift card distribution. This should be done by the program manager and/or eligibility worker.
2. Maintain complete and accurate distribution records by gift card, gift card type, and in total, including the gift card vendor and serial number, client name(s), and date on which the gift card was distributed. The program manager and/or eligibility worker and fiscal office must review and approve such records before each round of gift card distribution.
3. Maintain a log for eligible clients to sign upon receiving their gift cards in person.
4. Return to the fiscal office any gift card not distributed to a client and properly record the card in the inventory records

3.9.6 | Gift Cards for Non-Profit Organizations

Any partner agencies that handle gift cards purchased with City funding are subject to the same guidelines and restrictions in [Section 3.9.1 | Eligibility to Receive Gift Cards](#) through [Section 3.9.9 | Gift Card Record Retention](#) (as applicable).

Departments are responsible for ensuring the agency’s compliance and should consider the following measures:

- Assessment of potential risk factors (e.g. conflicts of interest, adequate resources for monitoring, etc.)
- Monitoring procedures, including periodic inventory counts and balance reports

All organizations that handle gift cards purchased with City funding are also subject to an external audit. Many departmental MOUs with non-profits require an annual external audit when certain thresholds are met, commonly set at \$500,000 in City funding. If an audit is already required, the audit should also include gift card transactions and purchases.

If an external audit requirement is not already specified in the MOU, gift card purchases will necessitate a revised MOU with an external audit requirement, regardless of threshold. If an external audit is not feasible, the audit will be performed by the City Services Auditor Division of the Controller’s Office.

3.9.7 | Gift Cards and 1099 Reporting Requirements

Gift cards to clients are considered cash-equivalents and may be 1099 reportable as a gift, prize, and/or award. In some cases, gift cards to clients may be classified as a welfare or public assistance benefit. Departments should refer to [Publication 525 \(2021\), Taxable and Nontaxable Income](#) for additional guidance on whether their specific program would necessitate a 1099 filing.

Departmental gift card policies must explicitly state that it is the department’s responsibility to track all gift card transactions and inform the Controller’s Office should the aggregate disbursed amount necessitate a 1099 filing. For more information, please refer to the [IRS Form 1099 website](#).

3.9.8 | Gift Card Usage by Recipients

1. Gift cards must be provided only to clients and only as incentives for participating in the program.
2. Gift cards must be used only for the purposes stated and determined by the department for the program.

3. The value of gift cards distributed to each client must not exceed the per-person limit determined by the department for the program.
4. Gift cards cannot be used to purchase prohibited items, including program materials, as specified by the program.
5. Any instance of loss, theft, fraudulent use, or abuse of gift cards must be immediately reported to the department's fiscal office. The fiscal office should investigate instances of reported loss, theft, fraudulent use, or abuse of gift cards, as it deems necessary.
6. The fiscal office must monitor and audit the usage of distributed gift cards no less frequently than annually. The department must determine and state in writing the required frequency of the audit, and the frequency may vary by program.

3.9.9 | Gift Card Record Retention

- For audit purposes, retain all documentation for no less than two years.
- Records and physical cards are subject to audit by CON.