



# State of Arizona Accounting Manual

Topic 80 Miscellaneous

Issued 05/20/19

Section 05 The Purchase and Distribution of Gift Cards

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## INTRODUCTION

The term “gift card” refers to any stored value card or certificate that can be used like cash to purchase goods or services from one or more vendors.

The “Gift Clause” contained in Article IX, Section 7 of the Arizona State Constitution makes the purchase of gift cards with public monies somewhat problematic. In simple terms, disbursing public monies without receiving recompense judged to be of equal or greater value is prohibited in absence of statutory or other legal support.

Gift cards are in many respects similar to cash. They are small, easily concealed, highly transportable, and have relatively high value for their size and weight. These factors mean that gift cards issued by or kept in an inventory at an agency require strict accounting and physical controls.

This section of SAAM deals with those circumstances under which gift cards can be legally acquired with public monies and the internal controls required to be implemented with respect to their storage and distribution.

## POLICY & PROCEDURES

### 1. General.

- 1.1. There are few circumstances under which public monies can be used to purchase gift cards. Those circumstances are set forth in this section of SAAM. The purchase or distribution of gift cards in circumstances other than those covered herein require the prior written approval of the State Comptroller.
- 1.2. When gift cards are purchased using public monies, care should be taken that, whenever practicable, the gift cards have restrictions on what they may be used to purchase.
- 1.3. The amount of a gift card should be suitable to its purpose; in no case, however, unless legally or programmatically required, should the value of an individual gift card exceed twenty-five dollars (\$25).
- 1.4. Because of gift cards’ similarity to cash, their distribution, under certain circumstances, as described below, must be reported to the taxing authorities.
- 1.5. As with most other purchases, the acquisition of gift cards can be made by any appropriate means of disbursing moneys, including warrant, ACH and P-Card.

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## 2. Awarded to State Employees.

- 2.1. Gift cards may be awarded to employees in connection with employee recognition events and other recognition of meritorious service as may be allowed by statute, rule or policy.
- 2.2. No matter their amount, gift cards awarded to employees do not fall under the de minimis guidelines and must be reported as taxable income. This is accomplished by the agency's completing a Form GAO-86, *Reportable Prizes and Awards*, (<https://gao.az.gov/publications/forms>) and delivering it the agency's appropriate payroll processing unit. The agency's payroll processing unit will add the value of the gift card to the employee's taxable wages and assess the appropriate tax to be withheld.

## 3. Provided to Participants in Certain Programs.

- 3.1. Certain programs may purchase gift cards and distribute them to program participants; gift cards may also be used in conjunction with certain training or therapeutic programs.
  - 3.1.1. Some Federal programs call for and fund the purchase and distribution of gift cards to beneficiaries of those programs for answering program related surveys. The monetary value of such cards is individually fairly insubstantial and the information garnered from the surveys is of significant value in measuring the effectiveness of the programs to which they relate.
  - 3.1.2. Certain training programs call for and fund the purchase and distribution of gift cards to program participants as part of a training, rehabilitation or other therapeutic program. Gift cards are used to help those with certain disabilities reintegrate themselves into normal societal conditions; activities related to these endeavors include buying small items (generally toiletries) at retail outlets or purchasing a meal at a restaurant.

## 4. Accounting for Gift Card Purchases and Distributions.

- 4.1. When purchased, the expenditure is to be recorded using the expenditure object, fund and other accounting identifications appropriate to the purpose for which the cards will be used.
  - 4.1.1. This accounting treatment is similar to that applied to capital assets, the cost of which is below the capitalization threshold. Though the gift cards may still be in inventory, their purchase is recognized as an expense at the time payment for them is made.
  - 4.1.2. Like stewardship assets, gift cards may be recorded in AFIS as memo assets until they are disposed of. This treatment would require adjustments to be made to the balance in AFIS as cards are added to and removed from inventory. Given

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the presumably relatively small value of individual gift cards and the aggregate value of the inventory of such cards, recordation in AFIS might not be a cost effective treatment.

- 4.1.3. The distribution of any gift card should be immediately recorded on a log, spreadsheet or equivalent record. The record should contain the amount and type of gift card, the gift card identification number (if available), the name and contact information of the individual to whom the gift card was distributed.

## 5. Internal Controls Relating to Gift Cards.

- 5.1. Given their high value-to-transportability ratio and the ease with which they can be exchanged for goods or services, gift cards once purchased should be subject to fairly strict controls, similar to those controls enforced with respect to petty cash.
  - 5.1.1. Depending upon circumstances, an agency that purchases and distributes gift cards shall designate one or more stewards to administer gift card functions.
  - 5.1.2. More stewards might be desirable and/or necessary if gift cards are maintained at more than one location or for more than one program.
- 5.2. Appropriate segregation of duties must be enforced with respect to the acquisition and distribution of gift cards and the related record keeping functions.
  - 5.2.1. Access to the log or spreadsheet or other accounting records should be limited to as few employees as operationally practicable, but to as many employees as needed to support the relevant program.
  - 5.2.2. To the extent practicable, gift cards should be pre-numbered by issuer. The card identification number, if available, and its value should be recorded on some form of log or spreadsheet.
- 5.3. Gift cards must be stored in a secure storage unit, i.e., one that can be and is locked except when adding or removing cards or conducting an inventory of the cards.
  - 5.3.1. To reduce risk and preserve financial resources, gift card inventories should be kept as small as circumstances and operational costs permit.
  - 5.3.2. Access to gift cards and secure gift card storage should be restricted to those who have the authority and/or need to access the gift cards. This implies that combinations or keys to secure storage units should be limited to essential personnel.
- 5.4. There must be periodic reconciliations of gift card activity. These reconciliations must be prepared by someone other than the person(s) responsible for acquisitions or distributions of gift cards.

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- 5.4.1. A reconciliation of gift card activity should be conducted no less frequently than monthly.
- 5.4.2. A reconciliation should also be conducted at the times of significant purchases or distributions of gift cards. Significant for this purpose means the acquisition or distribution of gift cards in connection with a single event having an aggregate value equal to or exceeding two-hundred fifty dollars (\$250).
- 5.4.3. Any overages or shortages should be fully explained in the reconciliation for the month in which the variance occurred.
- 5.4.4. Any shortage that remains for two (2) consecutive months must be resolved immediately. Resolution may include collection from the steward and/or agency head.
- 5.4.5. The agency must notify GAO Internal Audit of any shortage of cards with an aggregate value of one hundred dollars (\$100) or more or that that remains resolved for two (2) consecutive months.
- 5.4.6. If excessive and/or repetitive shortages or overages persist, the agency must take appropriate action to resolve the problem. This may include relieving those involved in the purchase, distribution, recordation or reconciliation involving cards of their respective duties.
- 5.4.7. The preparer of the reconciliation must sign and date the reconciliation.
- 5.4.8. Reconciliations must be reviewed, signed and dated by an individual other than the preparer of the reconciliations.
- 5.4.9. Reconciliations must be retained in accordance with the retention schedule for accounting records promulgated by LAPR.