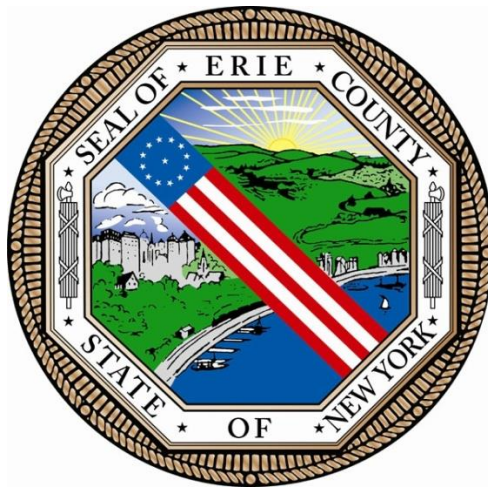


**NOVEMBER 2017**

**THE ERIE COUNTY COMPTROLLER'S OFFICE  
PERFORMANCE AUDIT OF  
ELECTRONIC PAYMENT PROCESSING  
FOR THE PERIOD APRIL 1, 2015 THROUGH MARCH 31, 2016**



**STEFAN I. MYCHAJLIW  
ERIE COUNTY COMPTROLLER**

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**HON. STEFAN I. MYCHAJLIW  
ERIE COUNTY COMPTROLLER'S OFFICE  
DIVISION OF AUDIT & CONTROL  
95 FRANKLIN STREET  
BUFFALO, NEW YORK 14202**



August 1, 2017

Erie County Legislature  
92 Franklin Street 4<sup>th</sup> Floor  
Buffalo, New York 14202

Dear Honorable Members:

The Erie County Division of Audit and Control has completed an audit of the Electronic Payment Processing (E-Payables) within the Comptroller's Office for the period April 1, 2015 through March 31, 2016.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained during the audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our objectives were to assess the adequacy of the operational and system controls in place to ensure that: payments are appropriately and timely prepared; transactions are properly recorded; accounts are properly reconciled; and these payments are made in accordance with Erie County Policies and Procedures.

The scope of our audit included tests of supporting records and staff interviews. This audit also included an evaluation of internal controls over the processing and disbursement of electronic vendor payments.

Management of the Comptroller's Office is responsible for establishing and maintaining a system of internal control. The objective of such a system is to provide reasonable, but not absolute, assurance that transactions are executed in accordance with management's authorization and are properly recorded. Because of inherent limitations in the system of internal control, errors or irregularities may nevertheless occur and not be detected.

During the course of our audit, we noted no significant concerns regarding internal controls based both on our walkthrough of transactions and evaluation of documentation. Thus, in our opinion, controls over the processing of electronic payments are adequate.

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## BACKGROUND

The Accounts Payable Division (A/P) of the Erie County Comptroller’s Office is responsible for invoice processing and the disbursement of payments for goods and/or services received. Generally, invoices for payments covered under contracts, blanket purchase orders, payments for purchase orders, and authorized direct payments are processed on a weekly basis. Disbursement of payments is made by wire transfers, manual online payments, vendor electronic payments (Supplier Pay), and physical checks.

Additionally, the Board of Elections, the Department of Senior Services (RSVP Program), the Department of Social Services (Adult Protection Program), and the Probation Department send electronic invoice batches which are processed using Erie County software (SAP). Printed checks for payment of these invoices are returned to the Comptroller's Office for processing.

## AUDIT FINDINGS AND RECOMMENDATIONS

### 1. LACK OF PROGRAM RECONCILIATIONS

For the period February 2015 through January 2016, E-Payables received an M&T Bank rebate check in the amount of \$220,632, based on total authorized purchases of \$17,512,290. This authorized purchases balance used in M&T Bank's calculation was \$16,598 less than the total balance of e-payments recorded in the check register of \$17,528,888. There was no verification or reconciliation performed to assure the amount was computed properly and included all vendors. The possibility exists for the County to be either overpaid or underpaid and not be detected.

**WE RECOMMEND** that the Comptroller's Office implement a procedure to reconcile total e-payable balances per the check register to authorized balances used to calculate rebate checks received. This would provide assurance that all future funds received from this program are correct.

### 2. LACK OF WRITTEN PROCEDURES RELATED TO THE SUPPLIER PAY PROCESS

Written policies and procedures are in place to provide operational guidelines for employees. Such formalized guidelines help to provide reasonable assurance that management's directives are followed and that processes are completed in a consistent manner.

The Comptroller's Office does not have current policies and procedures in place detailing how to complete the weekly Supplier Pay process. This process requires stringent step by step procedures in order to complete this function properly and consistently. Included in the operation are subjective decision-making work processes, such as a search for liens and levies

and a possible cap on the amount of the disbursement based upon the dollar value of the invoice(s). We were provided with a brief overview of this E-Payables process and noted that separate employees were handling the Supplier Pay process. It is imperative to have detailed procedures in place to clearly establish segregation of duties and to provide needed guidelines in the event of employee turnover and attrition.

To ensure the accuracy, integrity and timeliness of the payments, **WE RECOMMEND** that management of the Comptroller's Accounting Division take the steps necessary to formally prepare policies and procedures that detail specific steps required to complete the Supplier Pay process.

### **3. VENDOR MASTER FILE ACCESS**

Access and update capability to the Vendor Master File (File) is not restricted. The employees in the A/P Division have both viewing access and the update capability required to change fields such as vendor addresses. Because there are no controls in place, unlimited access is provided to all areas of the File. Although we understand that access to the File by several employees may be required, there are no clear lines of responsibility where duties are segregated or when and where supervisory oversight takes place.

Because there are no limitations in place, such unrestricted access to the File could result in unsolicited changes that go undetected. Accordingly, **WE RECOMMEND** that access to the File be limited as much as is practical given existing staffing restrictions. In addition, **WE RECOMMEND** that management of the Comptroller's Accounting Division implements an oversight protocol to include periodic supervisory review of any changes made to the data base of the File.

## **AUDITOR'S COMMENTS**

### **1. REFERENCE DOCUMENT NOT UPDATED**

E-Payables employees utilize a document entitled "Liens, Levies and E-Pay Vendor \$ Limits." This document is utilized to perform a quick check of the vendor regarding whether or not there were any liens and/or levies. Furthermore, the document details specific stipulations that must be followed for the processing of disbursements. The document did not indicate an effective date for the information contained therein or if the information noted was current. Because the information in this document is important with respect the existence of liens and various reporting stipulations, accuracy and up-to-date data is critical.

**WE RECOMMEND** that management of the Comptroller’s Office take the steps necessary to formalize, and regularly update, the “Liens, Levies & E-Pay Vendor \$ Limits.” Additionally, **WE RECOMMEND**, the document includes a formal effective date, a revision date, and an authorized approval signature by an individual in a senior-level position.

## **2. DUPLICATE VENDOR FILES**

As part of our audit, we reviewed the process for enrolling vendors into the E-Payables program. We were concerned with the possibility of duplicate vendors so we analyzed the vendor master data in SAP. Out of 78,955 vendors on the master file we found that 223 vendors were set up for electronic payment.

During our testing of these E-Payable vendors, we found:

- 49 vendors had multiple vendor numbers.
- 81 vendors has multiple tax identification numbers.
- 54 vendors had multiple addresses.

This was due in part to lack of written procedures, vendor data entered by different personnel, and the absence of data verification. These differences in vendor information could lead to delinquent, duplicate or improper payments.

**WE RECOMMEND** that A/P review the vendor master file and eliminate the duplicate vendors. In addition, **WE RECOMMEND** that formal procedures be written and implemented to govern both the process of adding new vendors as well as maintaining the existing data base for E-Payable vendors.

## **3. VENDOR ENROLLMENT FORMS NOT USED**

At the inception of the Credit Card Program in 2014, the Comptroller’s Office waived enrollment set-up requirement for completing the Vendor Enrollment form. This was a one-time pardon of the County of Erie’s Accounting Policy. A list of the vendors that were granted this waiver was presented to Internal Audit by the Comptroller’s Office. We compared this list to the vendors that conducted business and received payment through the Credit Card Program during the period April 1, 2015 through March 31, 2016. Our review disclosed that five (5) vendors were not on the original waiver list and two (2) of the vendors conducted business in excess of \$50,000 during this period. This is important because circumvention of enrolling vendors according to policy prevents proper set-up and identification of vendors in the Credit Card Program.

**WE RECOMMEND** that Accounts Payable establish and adhere to proper policies and procedures regarding the addition and removal of approved vendors to the Vendor Electronics Payment Program.



## **RESULTS OF EXIT CONFERENCE**

An exit conference was held on November 22, 2017 with the Deputy Comptroller. We discussed the contents of this report and the auditee was in general agreement with our findings and recommendations.

We request that the Deputy Comptroller prepare a written response to the Erie County Legislature and the Erie County Fiscal Stability Authority by December 29, 2017.

We would like to thank the Deputy Comptroller, and the Accounts Payable Division for their cooperation during the course of the audit.

**ERIE COUNTY COMPTROLLER'S OFFICE**

**DIVISION OF AUDIT AND CONTROL**

Cc: Hon. Stefan I. Mychajliw, County Comptroller  
Hon. Mark C. Poloncarz, County Executive  
Robert W. Keating, Director, Budget and Management  
Erie County Fiscal Stability Authority