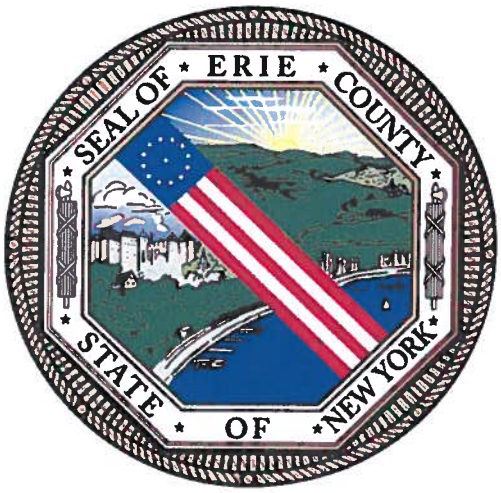
December 2014

PERFORMANCE AUDIT OF THE ERIE COUNTY COMPTROLLER'S OFFICE ACCOUNTS PAYABLE SECTION JANUARY 1, 2014 – SEPTEMBER 30, 2014



STEFAN I. MYCHAJLIW
ERIE COUNTY COMPTROLLER

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ERIE COUNTY COMPTROLLER'S OFFICE
DIVISION OF AUDIT & CONTROL
95 FRANKLIN STREET
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December 31, 2014

Erie County Legislature
92 Franklin Street 4th Floor
Buffalo, New York 14202

Dear Honorable Members:

The Erie County Comptroller's Office has completed a performance audit of the Accounts Payable section of the Comptroller's Office for the period January 1, 2014 to September 30, 2014.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. Our objectives were to (1) ensure that internal controls are in place to prevent or detect unauthorized, unwarranted or fraudulent payments; (2) ensure that invoices are properly recorded to the extent that Accounts Payable is responsible for review of invoices; (3) ensure that the review and payment of invoices are in compliance with established policies and procedures; and (4) ensure that payments are appropriately and timely processed. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In our opinion internal controls within the Erie County Comptroller's Accounts Payable section over the processing and payment of invoices are adequate.

Table of Contents

BACKGROUND 4
FINDINGS 5
I. Current Practices Do Not Agree With Published Online Policies 5
II. Standard Practice is Not a Written Policy 6
AUDITOR'S COMMENTS 7
I. Payment Backup is Not Always Available 7
II. Recurring Batches are Processed with a Negative Confirmation 7
III. Vendor Statements are Not Reconciled 7
RESULTS OF EXIT CONFERENCE 8

BACKGROUND

Accounts Payable (A/P) is a section of the Erie County Comptroller's Office. This section processes accounts payable invoices and payments. The types of invoices processed fall into four categories: payments covered under contracts, blanket purchase orders, payments for purchase orders, and direct payments requiring an authorized signature. Invoices are paid on a weekly basis via printed check or electronic payment. In addition, 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 and imported into SAP. Printed checks for payment of these invoices are returned to the department for processing.

A/P consists of four full time employees who perform the majority of accounts payable processing. An employee outside of A/P handles recurring rental invoices and Board of Elections batches. A/P processes accounts payable transactions through payment. General ledger and reporting functions are handled outside of the department by other Erie County Comptroller's office personnel. A/P is an internal division of the Comptroller's Office; as such other Comptroller's Office personnel are familiar with the processes and may occasionally assist A/P if necessary.

FINDINGS

I. Current Practices Do Not Agree With Published Online Policies

Online Accounting Policies (Policies) are posted on the County of Erie SharePoint website to "provide definitive and authoritative accounting and financial reporting guidance for the County of Erie". The Accounts Payable section of the Policies states that it "provides the guidelines to be followed when processing payments through the Comptroller's Office".

The Accounts Payable Overview section of the Policies states that "either the vendor's original invoice or a copy of an original invoice (must be certified by an individual with payment authority accompanied by the endorsement "USE IN LIEU OF ORIGINAL") is submitted to the Comptroller's Office for payment." Current standard practice in A/P does not require receipt of the original or a copy stamped "USE IN LIEU OF ORIGINAL". Industry-wide accounting procedures generally require the use of original invoices or stamped copies to help avoid duplicate charges. Other standard procedures in use by A/P to accomplish this objective include a standard practice of entering all leading zeros in an invoice number, active approvals of direct pay invoices, or matching with purchase orders, goods receipts, or contracts and budgetary restraints.

The Accounts Payable Overview section further states that "the County's policy is to not utilize recurring payment transactions (i.e., transactions of fixed amounts occurring at regular intervals over a specific period of time)". Current practice in A/P includes the use of a recurring batch for rental payments based on a spreadsheet created at the beginning of the year and adjusted as rental agreements are updated.

The Comptroller's County Travel Policy and Prescription (CAP 210-1) states that the use of personal vehicles for County travel is restricted to such cases where it is to the advantage of the County. In such cases mileage will be reimbursed at the Internal Revenue Service established allowance rate. The current practice in A/P allows for reimbursement of mileage or gas receipts. Additionally the current reimbursement form does not denote whether a county or personal vehicle was used, which would allow for gas reimbursement but not mileage.

WE RECOMMEND that either A/P require originals or properly stamped copies or that the online policy be revised to reflect standard practice.

WE FURTHER RECOMMEND that either A/P requires individual invoices for each rental payment or that the online policy be amended for this exception.

WE FURTHER RECOMMEND that the online policy be amended to reflect the acceptance of gas receipts for use of a personal vehicle and that the travel reimbursement form be redesigned to include determination of personal vehicle or county vehicle.

II. Standard Practice is Not a Written Policy

A/P has a standard practice of entering all leading zeros as part of the invoice number. The consistent application of this policy helps to prevent duplicate invoice numbers being entered for the same vendor. This standard practice has not been formally written and included in the official "invoice processing instructions".

WE RECOMMEND that the "invoice processing instructions" be updated to reflect the standard practice of entering all leading zeros.

AUDITOR'S COMMENTS

I. Payment Backup is Not Always Available

Of the 120 checks statistically selected for testing, we could not locate 2 of the items for verification. Paper copies of check remittances and backup are stored in unlocked file cabinets in the accounting office and pulled from the files whenever necessary. It is possible for these items to be lost or misfiled, making the paper backup unavailable. In both instances there is a record of the invoices and payment in the computer system.

WE RECOMMEND that A/P research the possibility of scanning all backup into a computer document. This would prevent loss or misfiling of documentation. Research should include consideration of the cost involved to purchase or adapt adequate software and computer storage as well as the time required of personnel vs. the availability of the paper backup in addition to SAP stored invoice and payment information.

II. Recurring Batches are Processed with a Negative Confirmation

Rent payments are processed on a monthly basis from a spreadsheet generated at the beginning of the year and updated when leases or rental agreements are expired or renewed, or when new leases are signed. A negative confirmation is sent out each month and if no response is received the monthly payments are made.

WE RECOMMEND that a positive confirmation be sent out each month requiring a response from the person authorized to sign for the rental. This would help to prevent automatic payments that have not been reviewed on a monthly basis.

III. Vendor Statements are Not Reconciled

Due to the limited availability of personnel hours, the current A/P practice regarding vendor statements is to perform a quick review for any noticeably past due invoices. This practice does not work adequately for vendors who only carry forward prior balances without listing the outstanding invoices.

WE RECOMMEND that all vendor statements be reconciled when received to the extent possible with available personnel hours. Priority should be given to statements showing noticeably past due items and statements with unidentified carry forward balances.

RESULTS OF EXIT CONFERENCE

An exit conference was held on December 30, 2014 with the Deputy Comptroller and Supervising Data Processing Control Clerk. The contents of the report were discussed and A/P was in general agreement with our findings, auditor's comments and recommendations.

A/P noted at the exit conference that the usage of recurring batches was initially started in response to non-receipt of invoices from vendors for lease and rental payments. We were informed that positive confirmations are now being sent for these recurring batches.

We were further informed that outdated policies on the Sharepoint website will be updated.

In accordance with the County's Audit Response System and Procedures, we request that A/P prepare a written response to the Director of Budget and Management and the County Executive concerning the findings and recommendations by January 29, 2015. We further request that the County Executive forward copies of the written response to the Comptroller's Office, the Erie County Legislature and the Erie County Fiscal Stability Authority by February 13, 2015.

ERIE COUNTY COMPTROLLER'S OFFICE

cc: Hon. Mark C. Poloncarz, County Executive
Robert W. Keating, Director of Budget and Management
Erie County Fiscal Stability Authority