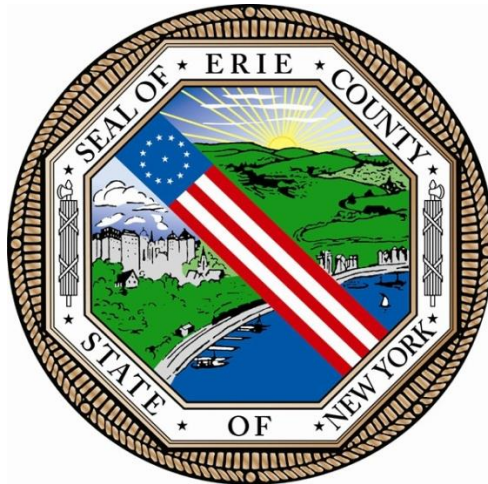


February 2023

**Analysis of Inventory Controls for Medical and
Health Supply Expenditures Using CARES Act and
American Rescue Plan Funding**



**KEVIN R. HARDWICK
ERIE COUNTY COMPTROLLER**

**HON. KEVIN R. HARDWICK
ERIE COUNTY COMPTROLLER'S OFFICE
DIVISION OF AUDIT & CONTROL
95 FRANKLIN STREET
BUFFALO, NEW YORK 14202**



February 3, 2023

Dr. Gale Burstein, MD, MPH, FAAP
Commissioner
Erie County Department of Health
110 Franklin Street, 3rd Floor
Buffalo, New York 14202

Dear Dr. Burstein:

The Erie County Comptroller's Office has completed an analysis of inventory controls for medical and health supply expenditures using CARES Act and American Rescue Plan funding. This analysis was prepared in response to INTRO. 17-1 2022, requesting an audit of medical and health supplies.

The objectives of this analysis were to:

- Identify the medical and health supplies purchased with CARES Act and American Rescue Plan ("ARP") funding, for the period March 1, 2020 through September 30, 2022.
- Determine whether appropriate internal controls were applied during the purchasing, payment, receipt, storage and distribution phases.
- Identify instances of non-compliance with applicable accounting policies.
- Provide possible corrective actions and recommendations for improvement.

The methodology employed to achieve these objectives included inquiries of Health Department personnel, inspection of purchasing, receiving, and payment documentation. In addition, expenditure data recorded in SAP was extracted for business area 127 (Health), funds 252 and 253, in general ledger account 505800 (Medical and Health Supplies). Related accounting policies were reviewed and documented.

An audit of medical and health supply expenditures was not performed at this time.

REPORTING REQUIREMENTS

A draft copy of this report was provided to the Department of Health and the Division of Budget and Management for their review. Their comments were considered in the preparation of this report. A copy of their response to this report is included in Appendix A.

SUMMARY

We noted two (2) instances of non-compliance with standard operating procedures:

1. Management override of internal controls.
2. Segregation of duties inadequate.

Details of the preceding findings are presented in the section entitled “RESULTS AND RECOMMENDATIONS”.

RESULTS AND RECOMMENDATIONS

1. Management Override of Internal Controls

Management override refers to management not following control procedures expected to be followed by all employees in the organization.

Management-level employees worked together to override internal controls intended to prevent payments to vendors for goods or services that have not been received. This resulted in vendors being paid prior to the receipt of goods, and expenditures being recorded in the incorrect accounting period.

We recommend that all applicable accounting policies be adhered to and that a policy be created to define how prepayments should be made when an emergency is declared. In addition, a fiscal group should be created during emergency declarations to monitor all transactions independently. The group should include employees from multiple departments including the Division of Budget and Management and the Comptroller’s Office, with a minimum of two (2) employees from each department.

2. Segregation of Duties Inadequate

Management-level employees recorded goods-receipt and invoice receipt transactions in SAP. These individuals have authorization responsibilities and therefore should not be recording these entries in SAP.

We recommend that the goods receipt and invoice receipt functions be performed by staff who normally perform those functions and do not have authorization responsibilities.

CONCLUSION

This analysis determined that the management override of internal controls allowed unauthorized prepayments to vendors and compromised SAP data.

The unprecedented nature of the COVID-19 pandemic required a timely response to procure medical and health supplies. We recommend that procedures be developed to address unique circumstances encountered when an emergency has been declared. At a minimum, the Comptroller’s Office should create a procedure for prepayments, including additional compensating controls to mitigate the associated risk. In addition, purchasing procedures should

identify which department should be responsible for defining products and quantities to be purchased.

The need for a higher-level engagement for the proper evaluation of inventory was determined to be necessary once the management override was identified.

The Comptroller's Office will determine whether an audit with an expanded scope is appropriate and possible given the lack of segregation of duties and the management override of controls. The audit would include the Department of Health, the Division of Budget and Management, The Division of Purchase, and the Comptroller's Office-Division of Accounting.

Cc: Hon. Mark C. Poloncarz, Erie County Executive
Robert Keating, Director, Division of Budget and Management
Jeremy Toth, Erie County Attorney
Vallie Ferraraccio, Director of Purchase
Erie County Legislature

APPENDIX A



COUNTY OF ERIE

MARK C. POLONCARZ

COUNTY EXECUTIVE

January 30, 2023

Hon. Kevin R. Hardwick, Ph.D
Erie County Comptroller
Edward A. Rath County Office Bldg.
95 Franklin Street, Rm. 1100
Buffalo, NY 14202

RE: Response to Health Supply Inventory Analysis

Dear Comptroller Hardwick:

The Division of Budget and Management writes to respond to the draft analysis of Inventory Controls for Medical and Health Supply Expenditures Using CARES Act and American Rescue Plan Funding Dated January 18, 2023. Although this analysis was initially regarding health supply inventory maintained by the Erie County Department of Health, the results and recommendations focus more specifically on the general procurement and subsequent accounting processes surrounding the initial purchasing of health supplies during the Global Pandemic related to the Coronavirus ("COVID-19"), which was managed by the Divisions of Budget & Management, and Purchasing and Comptroller's Office.

A State of Emergency was initially declared by the Erie County Executive on March 15, 2020 with a subsequent emergency response resolution (COMM. 6E-22 (2020)) approved by the Erie County Legislature on March 19, 2020, the latter of which waived all formal purchasing policies and procedures that may hinder the County's immediate response to the COVID-19 public health emergency.

This Administration believes that all instances of non-compliance with standard operating procedures identified through your analysis were not only allowable under the afore-mentioned waiving of formal purchasing policies and procedures but also absolutely necessary for the procurement of medical and health supplies during the Global Pandemic. We firmly believe that had extreme measures not been taken to secure an adequate supply of personal protective equipment on behalf of the area hospital systems, many more lives would have been lost.


Moreover, both the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and American Rescue Plan ("ARP") Act, which have provided Erie County with more than \$300 million in combined funding for a variety of activities including COVID-19 response, require significant compliance reporting and tracking of the use of funds to by the U.S. Department of the Treasury.

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While Erie County and this Administration, in particular, has presided over a number of states of emergency, the unprecedented scope and duration of the COVID-19 Global Pandemic identified many shortcomings in existing County policies and procedures and made clear that new policies and procedures need to be developed to better appreciate the unique needs of such an emergency while still maintaining an adequate level of structure and confidence in internal controls.

As such, we fully agree with the Comptroller's conclusions and look forward to working with your Office's Accounting Division to develop new official policies and procedures, especially when it comes to prepayments. Additionally, efforts are already underway to create a more robust Finance Section for emergency response that includes identifying additional employees to be assigned in an effort to increase redundancies and further segregate duties.

Sincerely,



Robert W. Keating, Director
Erie County Division of Budget & Management

RWK/mc

CC: Hon. Mark C. Poloncarz, Erie County Executive
Dr. Gale Burstein, Commissioner of Health
Vallie Ferraraccio, Director of Purchasing