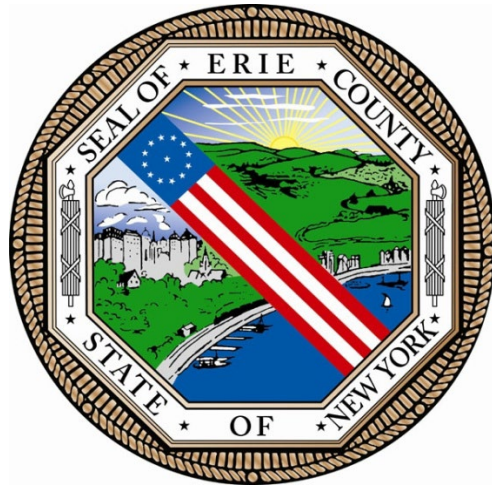


**August 2024**

**Erie County Comptroller's Office  
Audit of Electronic Payments  
January 1, 2023, through December 31, 2023**



**KEVIN R. HARDWICK  
ERIE COUNTY COMPTROLLER**

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August 28, 2024

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 electronic payment procedures of the Erie County Comptroller's Office, Accounting Division during the period spanning January 1, 2023, through December 31, 2023.

The Auditor's objectives were to determine (1) whether duplicate vendors exist, and if so, whether safeguards exist to ensure duplicate payments are not made; (2) whether electronic vendor information was complete and accurate, and if they include the proper attachments in the vendor master file; (3) whether internal controls over electronic payments are adequate, and payments are complete and accurate; and (4) whether the control total for the ACH sent by the Comptroller's Office matches the amount that was distributed from the M&T General Ledger (GL) Account.

The Auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions described herein based on audit objectives.

The Division of Audit's responsibility is to express an opinion based on the facts obtained during the audit. The Auditor conducted this audit in accordance with the Generally Accepted Government Auditing Standards (GAGAS). Those standards require the Auditor to plan and perform the audit in a manner that is designed to obtain sufficient, appropriate evidence that will provide a reasonable basis for the results of the audit and present conclusions based on stated audit objectives. The Division of Audit believes that based on those objectives, the evidence obtained provides a reasonable basis for the results, findings, comments, and recommendations contained herein.

**AUDITOR'S OPINION**

In the Auditor's opinion, the internal controls over verifying, processing and executing payments to vendors using electronic payments (ACH) within the Comptroller's Office, Accounts Payable Unit are adequately designed and operate effectively when controls are consistently enforced. While the Auditor found a small number of electronic payment errors, measures were identified that can be taken to reduce those risks.

## **BACKGROUND**

On March 18, 2024, the Erie County Comptroller's Office, Division of Audit issued an engagement letter to the Erie County Comptroller's Office, Division of Accounting regarding the Auditor's intent to audit electronic payments made to vendors by the Accounts Payable Unit. The scope of the audit involved an examination of policies and procedures in place to verify, process and execute electronic payments during the audit period, which covered the entirety of 2023.

The fundamental purpose of the Comptroller's Accounts Payable Unit is to pay the County's vendors. The two core components are processing invoices and disbursing payments for goods received and services rendered. For that reason, many of the procedures which the Accounts Payable Unit is required to adhere to necessarily involve the Erie County Division of Purchasing. On a weekly basis, the Accounts Payable Unit catalogs and pays invoices covered under contracts, purchase orders, and authorized direct payments. Once reviewed for accuracy and completeness, the Accounts Payable Unit disburses payments by electronic funds transfer using automated clearing house (ACH) process and printing physical checks. Certain County departments, including the Board of Elections, Department of Senior Services, Department of Probation, and Department of Social Services, prepare their respective payments for processing. The Accounts Payable Unit receives a payment file at regular intervals, which it processes by uploading to the County's accounting system and issues checks.

Over the last few years, ACH transfers have constituted a higher proportion of vendor disbursements. The Unit is led by a Supervising Data Processing Control Clerk, and for the time period of the audit scope included a Chief Account Clerk, a Data Processing Control Clerk, and a Senior Clerk-Typist.

A dual approver process is used by the Accounts Payable Unit to prevent a single employee from authorizing an ACH payment. Specifically, an Accounts Payable employee would initiate an ACH payment request and a second employee in the Accounting Division's Cash Management Unit would authorize the release of funds. In 2022, the Accounting Division initiated a new procedure for electronic disbursements designed to incorporate safeguards developed after an instance of fraud in 2021. The Accounts Payable Unit implemented new procedures for verifying vendor ACH request information, requiring an employee to call a vendor to verify the request is legitimate. The written policy for these procedures was not formally put in place until 2024.

From a logistical standpoint, the policy required the Accounts Payable Unit to send ACH registration forms (ACH Form) to vendors and to facilitate any information changes with the vendor's authorized representative. A multi-step verification and documentation process was established to ensure that change requests are valid and authorized. Once established, the Accounts Payable Unit is to facilitate a weekly "ACH payment run against all invoices to vendors designated as ACH vendors".

### **Objective**

The primary audit objective involved an evaluation of internal controls within the Accounts Payable Unit regarding all varieties of electronic payments and evaluating the effectiveness, efficiency, and compliance of the unit with established policies, procedures, and guidelines. Other objectives included the testing and evaluation of documentation, recordkeeping practices, timeliness, completeness, and system controls relating to the maintenance and access of vendor files.

## Methodology

To satisfy the objectives within the audit scope, the Auditor obtained the Internal and System Control Questionnaire (ISCQ) from the Accounts Payable Unit to establish a baseline for testing. To determine the sample for each test performed concerning the procedures for establishing ACH vendor files, verifying vendor information, processing vendor payments, and executing electronic file transfers:

1. The Auditor determined that the entire population of electronic vendors would need to be tested to establish whether any vendors were duplicated on the vendor master file.
2. The Auditor determined that the entire population of electronic vendors for the purposes of testing compliance with the Accounting Division Policy regarding ACH Forms and vendor information was 685. Of the 685 vendors constituting the population, the Auditor selected a random sample size of 66 entries necessary to reach a 95% confidence level with a 5% rate of error.
3. The Auditor determined that it was necessary to test electronic vendor payments for accuracy, completeness and timeliness. The entire population for the purposes of evaluating the processing and execution of electronic vendor payments was 5,865. From the total population, the Auditor selected a random sample size of 73 payments necessary to reach a 95% confidence level with a 5% rate of error. The Auditor selected an additional 34 payments consisting of a different transaction code to get a better understanding of the character of the transaction types.
4. The Auditor determined that it was necessary to test the controls in place for the electronic file transfers associated with payment runs. The entire population for the purposes of evaluating compliance with policies and accuracy of reports was 52. From the total population, the Auditor selected a random sample of 31 weekly payment runs necessary to reach a 95% confidence level with a 5% rate of error. The Auditor included 5 additional runs, which were made on top of the regularly scheduled transfer.

To complete this testing, the following specific actions were taken:

- The Auditor examined the vendor master file located in the County's accounting system and noted any duplicate entries found on that list;
- The Auditor verified the vendor information in the vendor master file is complete and accurate, and that the proper documentation was attached to the vendor;
- The Auditor verified attachments to electronic payment records to determine whether the amount on the invoice matched the payment amount, the number on the purchase order matched the number on the payment record where applicable, the signatures and initials of the appropriate department approvers were present, and the routing and bank account numbers matched those associated with the vendor;
- The Auditor verified whether the totals recorded in the M&T Bank GL account that were returned to the Accounts Payable Unit matched the totals recorded on the saved file that was sent to the bank.

## **AUDIT FINDINGS:**

### **Finding #1: A List of Vendors on Temporary Hold is Inefficiently Maintained and Increases Risk of Errors.**

The Accounts Payable Unit maintains a list titled "Liens, Levies and EPAY Vendor \$ Limits", which is meant to serve as a reference for employees to verify vendors that should not receive payments for various reasons. Currently, that list is maintained on an Excel spreadsheet. When running the weekly electronic file transfer, the Auditor was informed that the Accounts Payable Unit will verify that no vendors on the list are receiving a payment. However, a previous audit published in 2017 noted that the information included on this list can easily become outdated. The list does not include relevant dates, such as when the list was last updated, making it difficult for employees to confirm that the list was recently checked and that the information was current. Additionally, if there is turnover in the Accounts Payable Unit, the list can easily go unchecked. This creates opportunities for a vendor to receive payments when it should not, or for payment to an eligible vendor to be withheld.

#### **Recommendation:**

The Auditor recommends that the Accounts Payable Unit explore a more efficient and reliable way to deal with liens, levies, and other holds that are placed on vendors. Developments of this nature can be more easily tracked in the County's accounting system. Per discussion with the Auditee, there is a code in the County's Accounting System for liens and levies that will automatically block payment to a specific vendor. We recommend utilizing this function for vendors that are on the list.

Additionally, the Trust Unit receives the information for liens and levies. Therefore, it would be our recommendation for the Trust Unit to enter the information into the County's accounting system and notify the Accounts Payable Unit of the temporary hold for the particular vendor. The Trust Unit can attach the appropriate backup to the vendor file, so it is available for review, as needed.

### **Finding #2: Unrestricted Access to Vendor Master Data.**

The Auditor was informed that it is the Division of Purchasing's responsibility to establish new vendor files or amend vendor information aside from banking information and email addresses. When the Accounts Payable Unit receives an "Erie County, New York Vendor ACH Form" (ACH Form), the Accounts Payable Unit Supervisor enters the verified banking information and email address that will receive the remittance advice in the Vendor Master File and attaches the ACH Form to the Vendor File. However, the Auditor noted that Accounts Payable employees can edit all vendor file information and the Auditor received no written procedures specifying whose responsibility it is to ensure that information is updated. Per discussion with Auditee, the number of employees that have the ability to edit vendor data is limited; however, currently the system does not allow access to be restricted to certain fields. The system is set up so that all employees with access can change any portion of vendor file information.

The Auditor was also informed that there is no supervisory review process concerning changes to vendor file information, which can lead to unwarranted changes going unnoticed. The Auditor found no evidence that any vendor accounts were improperly established or that funds were fraudulently redirected in 2023.

#### **Recommendation:**

The Auditor recommends that the Accounting Division implement written policies and procedures specifically describing the responsibilities for updating vendor file information. The Auditor further recommends that the

Division of Purchasing implement a written policy or procedures describing the process for making changes to vendor files upon receipt of ACH Forms if non-banking information needs to be updated. An open line of communication should be maintained between the Accounts Payable Unit and the Division of Purchasing to ensure that information is updated accurately and promptly.

Additionally, the Auditor recommends that management implement an oversight protocol to include periodic supervisory review of any changes made to the Vendor Master file.

#### **AUDITOR'S COMMENTS:**

##### **Comment #1: Vendor File Information in the County's Accounting System is Incomplete or Inaccurate.**

According to the applicable Accounting Division Policy, a vendor requesting to be paid via ACH or requesting a change to their ACH information is required to complete an ACH Form. According to the Auditee, employees use the phone number in the County's accounting system to contact the vendor to verify that the information on the ACH Form is accurate.

Eighteen vendors were missing a phone number in the County's accounting system even though the vendor's representative had included one on the ACH Form. Without a phone number in the County's accounting system to confirm the information, the policy in effect requires the Accounts Payable Unit to look up the company phone number. In that situation, the process and phone number called should be documented.

Additionally, two vendors listed an address on the ACH Form that did not match the address in the County's accounting system. Another vendor did not list its address on the ACH Form and did not have a phone number in the County's Accounting System, preventing verification.

##### **Recommendation:**

The Auditor recommends that the Auditee follow the procedures described in the appropriate Accounting Division policy and document the process if the phone number does not match in the County's accounting system. The Auditor was informed that the Accounts Payable Unit implemented a control wherein the vendor's authorized representative would be called to verify a request to change information on their vendor record. If the vendor's phone number is missing or inaccurate, an individual impersonating the vendor would be able to change account information and fraudulently redirect payments to a different account. This control was put into place due to a change in vendor information that led to a fraudulent payment being issued.

Per discussion with Auditee, the phone number that is in the County's accounting system is the number used by Purchasing when doing business with the vendor. The phone number on the ACH Form is for verifying changes to banking information. Since this may involve two different vendor departments, the numbers for this information may not match. Per the Auditee, the ACH Form is attached to the vendor file, so if they need the phone number, they can look at the form. Auditee also stated that the Master Vendor File is created and maintained by Division of Purchasing, however, the procedure for the Accounts Payable Unit is to use the phone number in the County's Accounting System to call and verify that the information is legitimate, therefore if no phone number is in the system, verification can be delayed. Once a phone number is looked up on the internet per their procedure and verified, the Accounts Payable Unit should notify the Department of Purchasing to add the phone number to the vendor file.

If any other information from the ACH Form needs to be updated, the Accounts Payable Unit should contact the Division of Purchasing to have the changes made. Once verified, all information contained on the ACH Form should be entered into the correct vendor file.

**Comment #2: Nine Duplicate Vendor Entries were Included in the Vendor Master File.**

The Auditor noted that of the 685 vendors in the Vendor Master File used by the Accounts Payable Unit, nine entries were duplicative, including the vendor's banking information. The Auditor did not find that any duplicate payments were made during the audit period. However, since the vendors in question are active, it creates an opportunity for the Accounts Payable Unit to pay the same invoice to two different vendor numbers, thereby resulting in the vendor being paid twice.

In one instance, it appears that the comment section was used to help identify duplicate vendors and indicated which vendor number should be use. However, the Auditor noted that non-duplicative payments were made to both vendor numbers during the audit period.

**Recommendation:**

The Auditor recommends that the Auditee periodically review the vendor master file for vendors with duplicate entries and have the Division of Purchasing mark current and future duplicates for deletion so payments cannot be made while preserving payment history. The Division of Purchasing is responsible for creating new vendors; however, if the Accounts Payable Unit notices that there is a duplicate vendor number being paid, they should inform the Division of Purchasing to follow up with the vendor to ensure duplicate payments cannot be made.

**Comment #3: One Electronic Payment was \$2.00 Short.**

When reviewing the sample of electronic payments for the audit period during fieldwork, the Auditor noted that one vendor payment was \$2.00 less than the stated invoice amount. This payment reflected two separate invoices payable to the same vendor. In the distribution record, no deficiency was noted. However, when the payments were broken down in the County's Accounting System, those records indicated that one invoice was paid in full while the other invoice was \$2.00 short of the amount printed on the attached invoice. The Auditee explained that the system is designed to draw from the purchase order and the invoice, paying the lesser of those two amounts. The Auditor noted that, in this instance, an issue with print clarity and text size may have led the employee to read the payment amount as \$11,366.77 when the actual total was \$11,368.77.

**Comment #4: Two Payments were Processed for the Incorrect Vendor.**

Credit memos are used by Accounts Payable for a few different reasons. When the County pays a vendor too much for something, or for something that they did not receive or was returned, they receive a credit memo for the amount. Since the money was already paid, they apply the credit memo against the next payment. This will reduce the next payment by the amount of the credit memo, without netting against any specific invoices, so the total amounts are still applied to the proper accounts. Credit memos are an efficiency mechanism which recognizes an acknowledgement of overpayment when future business with the vendor is anticipated. When reviewing credit memos during fieldwork, the Auditor noted that a particular payment associated with one credit memo was made to the incorrect vendor.

Additionally, when reviewing the totals for the electronic file transfers, the Auditor noted that a second payment processed by the Accounts Payable Unit was initiated to an incorrect vendor. When the payment directive reached the bank, it was identified as addressed to the incorrect vendor and reversed before the file transfer was released. Thus, the payment ultimately did not go to the incorrect vendor.

**Recommendation:**

The Auditor recommends that the Accounting Division document a written policy regarding the payment process and the steps taken by the Accounts Payable Unit to thoroughly review invoices prior to payment. The process should specify that the Accounts Payable Unit adequately verifies the vendor's name, address, and payment amount prior to processing payment. If an employee verifies vendor information before processing, the probability that any errors are identified prior to distribution substantially increases.

**Comment #5: Six Retention Payments were not Properly Held.**

When Erie County uses a vendor to complete work on a large project, most often involving public works improvements, applicable law and policy require a certain percentage, known as retention, to be withheld from each payment until the project is complete. This process is designed to guarantee that the work is completed to the satisfaction of the applicable County department. Once the work has been performed to the satisfaction of contractual standards, the Accounts Payable Unit releases the retention amounts to the vendor in order to finalize all agreed-upon payments. The department completes a Retention Release Request Form and sends it to Accounts Payable to release the money that was held back.

The Auditor reviewed 27 electronic retention releases for the audit period. The auditor noted 6 releases that were missing the retention release. Upon further inquiry and a later discussion with the Auditee, it was confirmed that these six release payments did not follow applicable procedure, and that the amounts should have been retained. The amounts were properly entered but were improperly released with the regular payment. Since these payments were already released, the Accounts Payable Unit did not receive the Retention Release Request form as required.

**Recommendation:**

The Auditor recommends that the Accounts Payable Unit follow and thoroughly document its process for retention release amounts. If there is a retention amount entered, the Auditee should verify that the payment date is changed to the proper date in the future so the retention payment is not disbursed before receiving the authorization form from the department. Additionally, the Accounts Payable Unit should verify and document when any retention amounts are paid, specifically that the proper release forms for retained amounts are properly filed in the saved share drive folder and attached to the payment in the County's accounting system.



## **RESULTS OF EXIT CONFERENCE**

An exit conference was held on August 8, 2024, with the Erie County Deputy Comptroller and members of the Accounts Payable, Cash Management and Trust Units. The draft audit report was reviewed and discussed, resulting in minor changes. The Erie County Comptroller would like to thank the Deputy Comptroller and the respective participating staff members for the courtesy extended to the Division of Audit during the course of the audit.

In accordance with Erie County Charter Section 305, the Accounting Division should prepare a written response to the County Executive outlining the plan to address the findings and recommendations identified in the audit report.

## **ERIE COUNTY COMPTROLLER'S OFFICE**

cc: Hon. Mark C. Poloncarz, County Executive  
Dr. Timothy Callan, Deputy Comptroller  
Erie County Fiscal Stability Authority