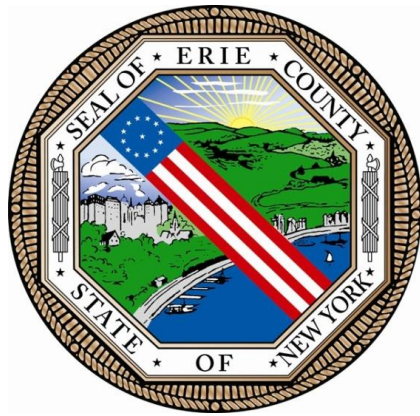


October 2026

**AUDIT OF THE ERIE COUNTY
DIVISION OF ACCOUNTING SERVICES - CASH MANAGEMENT UNIT
INVESTMENT OF COUNTY FUNDS
January 1, 2024 through December 31, 2024**



**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**

October 8, 2026

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

Dear Honorable Members:

The Erie County Comptroller's Office, Division of Audit and Control, completed a performance audit of the Erie County Division of Accounting Services, Cash Management Unit as it pertained to the investment and safeguarding of County funds for the period January 1, 2024 through December 31, 2024.

The audit evaluated selected controls over investment activity, bank and wire transfers, custody and collateralization of County funds, and related monitoring practices. The audit also reviewed investment interest transactions recorded in SAP, arbitrage rebate and yield restriction compliance documentation, and selected longer-term investment trends.

We conducted this performance 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 based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

Kevin R. Hardwick
Erie County Comptroller's Office
Division of Audit & Control

cc: Hon. Mark C. Poloncarz, Erie County Executive
Timothy Callan, Ph.D., Erie County Deputy Comptroller
Hon. Kevin R. Hardwick, Ph.D., Erie County Comptroller
Erie County Fiscal Stability Authority
Mark Cornell, Director of Budget and Management

BACKGROUND

On February 17, 2026, the Division of Audit and Control issued an engagement letter notifying the Division of the commencement of a performance audit of investment practices relating to internal controls, collateralization, transaction processing, and compliance.

The Cash Management Unit (CMU) is a component of the Division of Accounting Services and is responsible for accounting, reporting, cash flow management, investment, and related financial control functions. Its responsibilities include investing proceeds of bonds and notes, trust funds, and general revenues, as well as supporting required cash flow and depository reporting.

Investment earnings changed significantly over the longer-term analytical period reviewed. The Auditor analyzed selected General Fund and Capital Fund investment accounts for fiscal years 2018 through 2025. Because the analysis used year-end balances rather than average daily or monthly invested balances, the calculated return was used solely as an analytical trend indicator and should not be interpreted as the County's actual investment yield.

INVESTMENT TREND ANALYSIS

To provide context for the audit results, the Auditor analyzed selected General Fund and Capital Fund investment balances and related interest earnings for fiscal years 2018 through 2025. As market interest rates increased beginning in 2022, earnings on the selected investments increased from approximately \$209,000 in 2021 to \$2.1 million in 2022, \$19.5 million in 2023, and \$26.8 million in 2024. Earnings remained substantial in 2025 at \$24.7 million.

The audit identified a more active and diversified approach to managing available County funds during the higher interest-rate environment. CMU utilized multiple financial institutions and authorized investment options to manage available cash and generate investment income, rather than relying primarily on a single banking relationship. The resulting increase in earnings reflects both the more favorable interest-rate environment and CMU's intentional and active management of available County funds.

This positive result provides important context for the findings that follow. The findings primarily identify opportunities to strengthen the internal controls, documentation, and monitoring surrounding investment activities and should not be interpreted as indicating that CMU was ineffective in managing available funds or generating investment income.

Fiscal Year	Selected Investment Balance at Year-End	Interest Earned on Selected Investments	Analytical Return*
2018	\$233,861,020.38	\$723,066.69	0.31%
2019	\$274,244,286.00	\$1,072,269.39	0.39%
2020	\$359,428,259.58	\$635,098.00	0.18%
2021	\$514,377,011.63	\$208,756.46	0.04%
2022	\$529,345,064.07	\$2,108,081.73	0.40%
2023	\$570,699,751.64	\$19,479,684.78	3.41%
2024	\$511,300,784.56	\$26,784,462.12	5.24%
2025	\$612,325,783.83	\$24,659,695.13	4.03%

**Analytical return equals annual interest earned on the selected investment accounts divided by the fiscal year-end balance. Because the calculation uses year-end rather than average invested balances, it is presented solely as a trend indicator and should not be interpreted as the County's actual investment yield.*

EXECUTIVE SUMMARY

The Cash Management Unit (CMU), within the Division of Accounting Services, is responsible for significant cash management, investment, and financial-control activities involving County funds. The audit identified five areas in which controls, monitoring, or documentation should be strengthened:

- **Segregation of duties over electronic transfers should be strengthened.** Testing identified instances in which the same individual performed multiple transaction-processing functions. Although wire transfers used authorized templates and internal transfers were restricted to County accounts at M&T Bank, additional separation between initiation and final approval or release would strengthen preventive controls.
- **Written procedures governing electronic banking activities should be established.** CMU lacked comprehensive procedures defining responsibilities for electronic transactions, user access and administration, administrative privileges, periodic access reviews, and segregation of incompatible duties across banking platforms.
- **Investment concentration exceptions were not consistently documented.** M&T and NYCLASS balances exceeded the County's \$200 million concentration guideline during periods tested. Although the Investment Guidelines permit management discretion to exceed the guidelines, documentation supporting the rationale and approval for these exceptions was not consistently retained.
- **Weekly collateral monitoring was not performed or documented as required.** CMU did not maintain documentation demonstrating that collateral was reviewed at the weekly frequency established by the Erie County Investment Guidelines.
- **The Investment Guidelines and M&T Tri-Party Agreement use different methods for determining required collateral.** M&T's pledged collateral met the requirements of the executed agreement for the periods tested. However, when the Auditor applied the collateralization ratios established in the County's Investment Guidelines, the calculated collateral requirement was higher than the market value of the collateral pledged. As a result, the Guidelines and executed agreement do not establish a consistent standard for determining the amount of collateral that should be maintained.

Other audit testing supported the investment and collateral activities reviewed. Testing of all 94 investment-interest transactions identified one \$398.57 timing variance that was corrected through the normal reconciliation process. For the collateral reports tested, reported collateral met the applicable requirements evaluated, subject to the M&T methodology issue described above. The audit also identified no reportable finding from its review of arbitrage compliance.

AUDIT RESULTS

Based on the procedures performed and evidence obtained, the audit identified five areas in which internal controls, monitoring, or documentation should be strengthened. The findings primarily relate to the control framework supporting the County's investment and cash management activities.

Finding 1 – Segregation of Duties Over Electronic Transfers Should Be Strengthened

The M&T Treasury Center processes both wire transfers and internal bank transfers; however, the controls and risks associated with these transactions differ.

Wire Transfers

Wire transfers are processed using pre-established authorized templates. Controls exist over the establishment and modification of these templates, including recipient and account information. Authorized users cannot independently create or modify this information.

Testing of 36 wire transfers identified 29 transactions in which the same individual was listed as both the requester and approver within the banking platform. Of these 29 transactions, 11 also involved the same individual performing the related SAP processing, resulting in the same individual performing multiple functions associated with processing and recording the transaction.

Although authorized templates restrict a user from modifying established beneficiary and account information, they do not prevent the user from selecting an incorrect template or entering an incorrect wire amount. Once a template is selected, an authorized user can enter the wire amount and submit the transaction without additional independent transaction-level approval. As a result, an incorrect beneficiary could be selected through use of the wrong approved template, or an incorrect amount could be entered and released without independent review. Additional separation between transaction processing and final approval or release would provide a preventative control to verify the selected template and wire amount before funds are released.

Internal Transfers

Internal transfers are not processed using pre-established templates and like wire transfers, do not require secondary approval within the banking platform. However, these transactions can only transfer funds between Erie County accounts maintained at M&T Bank. Accordingly, the risk associated with an incorrect account selection differs from that of a wire transfer because funds cannot be directed through this process to an account outside the County's M&T banking relationship.

Testing of 36 internal transfers identified that all 36 transactions had the same individual listed as both the requester and approver within the banking platform. Accordingly, no independent transaction-level approval was evidenced within the banking platform for the internal transfers tested. For 31 of the 36 transactions, the same individual also performed the related SAP processing, resulting in the same individual performing multiple functions associated with processing and recording the transaction. For the remaining five transactions, the related SAP processing was performed by an individual other than the banking-platform requester/approver.

Errors in the account selected or amount transferred may subsequently be identified through the bank reconciliation process. No monetary variances were identified among the internal transfers tested. Nevertheless, independent review before release, where practicable, would provide a preventative control over the selected account and amount transferred rather than relying primarily on reconciliation to identify errors after the transaction has occurred.

Recommendation

CMU should consider strengthening the segregation of duties over electronic transfers by ensuring, where practicable, that the individual requesting or initiating a wire or transfer is not the same individual responsible for its final approval or release. The individual responsible for processing the transaction within the banking platform should be different from the individual responsible for the related SAP processing and recording. Transfers should also be supported by evidence that the underlying amount was appropriately authorized before being submitted for processing.

Finding 2 - Written Procedures Governing Electronic Banking Activities Were Not Established

CMU utilizes multiple banking platforms to manage County cash, investments, and electronic transactions. These platforms provide different transaction capabilities, user roles, administrative functions, and system controls. Accordingly, written procedures are important to establish responsibility and accountability for the administration and use of each banking platform. The Auditor determined that CMU had not established comprehensive written procedures governing electronic banking activities. Although the County's Investment Guidelines establish general internal control principles, including segregation of duties, clear delegation of authority, and limitations on authorized investment officials, they do not establish detailed procedures for administering the County's banking platforms.

Specifically, written procedures had not been established to define responsibilities for authorizing user access; establishing, modifying, and terminating user accounts; assigning and maintaining administrative privileges; periodically reviewing user access and permissions; or defining responsibilities for authorizing, initiating, approving or releasing, recording, and reconciling electronic transactions.

Without documented procedures, these controls may depend on institutional knowledge and existing practices rather than formally established requirements. This increases the risk that responsibilities or system access may not be consistently administered as personnel, banking relationships, or banking-platform functionality change.

Recommendation

CMU should consider developing and maintaining comprehensive written procedures governing the administration and use of each County banking platform. The procedures should define responsibilities for authorizing, initiating, approving or releasing, recording, reconciling, and reviewing electronic transactions; establish responsibility for authorizing and administering user access and administrative privileges; require periodic review of user access and assigned permissions; address the modification and termination of access; and establish appropriate segregation of incompatible duties.

The procedures should be tailored to the functionality and risks associated with each banking platform and transaction type and should be periodically reviewed and updated as banking relationships, system functionality, or personnel responsibilities change.

Finding 3 - Investment Concentration Exceptions Were Not Consistently Documented

The Erie County Investment Guidelines generally limit overnight investments with any one institution to \$200 million, while allowing the Office of the Comptroller discretion to exceed the guideline when market conditions dictate such action.

Collateral and concentration testing identified periods in which the guideline was exceeded. The testing documented that M&T balances exceeded \$200 million in all 14 weekly periods tested and NYCLASS balances exceeded the guideline in 6 of the 14 periods tested. Documentation supporting management's evaluation, rationale, and approval for those exceptions was not consistently retained.

The existence of a balance above \$200 million does not, by itself, demonstrate a prohibited investment because the Guidelines provide management discretion. However, without contemporaneous documentation, the CMU cannot readily demonstrate that the discretionary provision was evaluated and applied in accordance with the Guidelines.

Recommendation

CMU should consider establishing written procedures for documenting instances in which the established concentration guideline is exceeded. The procedures should require contemporaneous documentation identifying the amount and duration of the exception; the rationale for exceeding the guideline, including relevant market, liquidity, or operational considerations; and evidence of appropriate management review and approval under the discretionary provisions of the Erie County Investment Guidelines. Documentation supporting the exception should be retained with the applicable investment records to provide a clear record of the basis for management's decision.

Finding 4 - Weekly Collateral Review Was Not Performed or Documented as Required

New York State General Municipal Law §39(d) requires local governments to establish procedures governing the monitoring and control of investments and collateral. Erie County's Investment Guidelines require collateral to be monitored no less frequently than weekly.

The Auditor tested 56 weekly collateral reports from M&T, KeyBank, Citizens, and NYCLASS and determined that documentation evidencing CMU's review of the reports at the required weekly frequency was not maintained. JPMorgan Chase provided collateral information monthly rather than weekly, and the Auditor tested all 12 monthly reports. The Auditor did not identify documentation demonstrating how CMU satisfied the Investment Guidelines' weekly collateral monitoring requirement during the periods between JPMorgan's monthly reports.

Management indicated that the Division relies primarily on monthly bank reconciliations and balances and does not perform or document an independent evaluation of collateral reports provided by depository institutions or custodians. Accordingly, CMU cannot readily demonstrate that collateral was routinely monitored at the frequency established by the Investment Guidelines.

Recommendation

The Division of Accounting Services and Cash Management should consider implementing formal procedures requiring the review and documentation of collateral reports at the frequency established by the Erie County Investment Guidelines. At a minimum, the review should identify the reviewer and date, verify that reported collateral meets applicable requirements, identify significant changes or exceptions, and document any follow-up action. Management should also periodically evaluate whether the stated monitoring frequency remains appropriate and formally revise the Guidelines if changes are warranted while continuing to satisfy applicable legal requirements.

Finding 5 – Investment Guidelines and the M&T Tri-Party Agreement Use Different Collateral Methodologies

The Erie County Investment Guidelines and the executed M&T Tri-Party Security and Custodial Agreement establish different methodologies for determining required collateral. The Investment Guidelines establish collateralization ratios to be applied as part of the County's weekly mark-to-market program, while the Tri-Party Agreement applies different requirements for determining the amount of collateral to be maintained.

For each of the M&T reporting periods tested, the reported market value of pledged collateral met or exceeded the collateral requirement calculated under the executed Tri-Party Agreement. However, when the Auditor recalculated the required collateral using the ratios established in the Erie County Investment Guidelines, compliance with the executed agreement did not result in compliance with the collateralization methodology established by the County's Investment Guidelines.

Accordingly, the audit did not identify a failure by M&T to satisfy the collateral requirements of the executed Tri-Party Agreement. Rather, the results demonstrate that compliance with the executed agreement did not result in compliance with the collateralization methodology established by the County's Investment Guidelines. Maintaining different collateral requirements creates uncertainty regarding the standard CMU should use to monitor collateral adequacy and increases the risk that the County's established collateral requirements may not be consistently applied.

Recommendation

The Division of Accounting Services and Cash Management should review the collateralization requirements established in the Erie County Investment Guidelines and the executed M&T Tri-Party Security and Custodial Agreement and determine the appropriate methodology to govern the County's collateral requirements. CMU should revise the applicable Investment Guidelines or agreement, as appropriate, so that collateralization ratios, valuation requirements, mark-to-market methodology, and monitoring responsibilities are clearly defined and consistent.

OTHER AUDIT RESULTS

Investment Interest Transactions and Reconciliation

The Auditor tested the complete population of 94 investment-interest transactions recorded during 2024 across Citizens, JPMorgan Chase, KeyBank, M&T Money Market, M&T Investments, and NYCLASS. Investment activity and related interest revenue were supported by underlying records and external statements tested. One variance totaling \$398.57 was identified between supporting financial institution records and SAP; the amount was corrected in SAP in the following month through the normal reconciliation process. No additional exceptions were identified, and the workpaper did not identify a reportable finding.

Arbitrage Rebate and Yield Restriction Compliance

The Auditor reviewed the full population of three arbitrage compliance reports prepared by Hawkins Delafield & Wood LLP covering six bond issues. The reports identified no arbitrage rebate liability under IRC §148(f). For yield restriction under IRC §148(a), Series 2019A/2019B reflected a liability of \$392,836.75. The Auditor traced the liability to SAP and verified that the amount was posted and cleared on January 2, 2025. No reportable finding was identified.

Investment Guidelines - Other Policy Matters

The Auditor's policy review concluded that the Erie County Investment Guidelines generally address the requirements evaluated under New York State General Municipal Law §§ 10, 11, and 39. The review identified one policy-update opportunity that was not elevated to a reportable finding: the Guidelines continue to reference the historical \$100,000 FDIC insurance limit rather than the current \$250,000 limit. The Auditor also verified that the Comptroller's Office reviewed and adopted its Investment Guidelines for the audit period, consistent with the annual review requirement of General Municipal Law § 39.

CONCLUSION

The audit found that the Division maintains important controls over the investment and safeguarding of County funds, including established investment policies, authorized banking relationships, custodial arrangements, transaction processes, and reconciliation procedures. Testing generally supported the accuracy of investment interest activity and the sufficiency of collateral for the institutions and periods tested.

The principal opportunities for improvement relate to segregation of duties over electronic transfers, establishment of written procedures governing electronic banking activities, documentation of discretionary investment concentration decisions,

evidence of weekly collateral monitoring, and alignment of collateral requirements across governing documents. Addressing these matters would strengthen the County's control environment and improve its ability to demonstrate that investment and cash management activities are administered consistently with established requirements.

APPENDIX A - OBJECTIVES, SCOPE, AND METHODOLOGY

Audit Objectives

The primary objective of this performance audit was to evaluate the adequacy and effectiveness of policies, procedures, and internal controls related to the Division's investment and cash-management practices. Specific objectives were to determine whether:

- Investment policies and procedures were adequately designed and implemented to guide the management and investment of County funds;
- Investments were limited to authorized instruments and complied with established limits and risk parameters;
- Internal controls over investment activities were appropriately designed and implemented to safeguard County assets and reduce the risk of loss, misuse, error, or unauthorized activity;
- Investment transactions were properly authorized, recorded, reconciled, and monitored;
- Controls over bank and wire transfers, user access, authorization, and payment templates were appropriately designed and implemented; and
- Custody, collateralization, and other safeguarding practices, including third-party custodial arrangements, complied with applicable County requirements and adequately protected County investment assets.

Scope

The primary audit period was January 1, 2024 through December 31, 2024. Certain analytical procedures reviewed selected investment balances and interest earnings for fiscal years 2018 through 2025 to evaluate longer-term trends. The audit was not designed to provide an opinion on the County's financial statements or investment performance.

Methodology

The Auditor reviewed Internal and System Control Questionnaires, applicable policies and procedures, SAP records, bank and investment statements, custodial and collateral documentation, arbitrage compliance reports, and related supporting records. Internal-control conditions identified during testing were evaluated in relation to the audit objectives.

Investment Interest Transactions

The Auditor identified 94 investment-interest transactions recorded during 2024 across six investment partners: Citizens, JPMorgan Chase, KeyBank, M&T Money Market, M&T Investments, and NYCLASS. Because the population was complete and of manageable size, all 94 transactions were tested.

Arbitrage Compliance

The Auditor reviewed all three applicable arbitrage compliance reports prepared by Hawkins Delafield & Wood LLP, covering six bond issues. Because the population was small, full-population testing was performed.

Bank and Wire Transfer Controls

The audit population consisted of 1,777 transactions during 2024: 1,308 internal bank transfers and 469 wire transfers. The Auditor selected a judgmental sample of 72 transactions - three internal transfers and three wire transfers from each month - resulting in 36 transactions of each type. Testing considered authorization, user access, template controls, account selection, and payment-processing controls. Because the sample was judgmentally selected to provide coverage throughout the audit period, the results were not statistically projected to the entire population of bank and wire transfers.

Collateralization

For M&T, KeyBank, Citizens, and NYCLASS, the audit population consisted of 208 weekly collateralization reports, representing 52 reports for each institution. Using a 95 percent confidence level and 5 percent tolerable error rate, a minimum sample of 55 reports was calculated. The Auditor increased the sample to 56 reports to provide equal coverage among the four institutions and selected 14 reports from each institution using randomized selection within each institution. The sample was designed to evaluate compliance and control conditions across the four weekly-reporting relationships; the report does not project a quantified exception rate or dollar amount to the untested reports. JPMorgan Chase collateralization was reported monthly; therefore, all 12 monthly periods were tested.

Trend Analysis

The Auditor performed an analytical review of selected investment balances and interest earnings for fiscal years 2018 through 2025. The analysis used year-end balances rather than average daily or monthly balances; therefore, the calculated percentage was used only as an analytical trend measure.

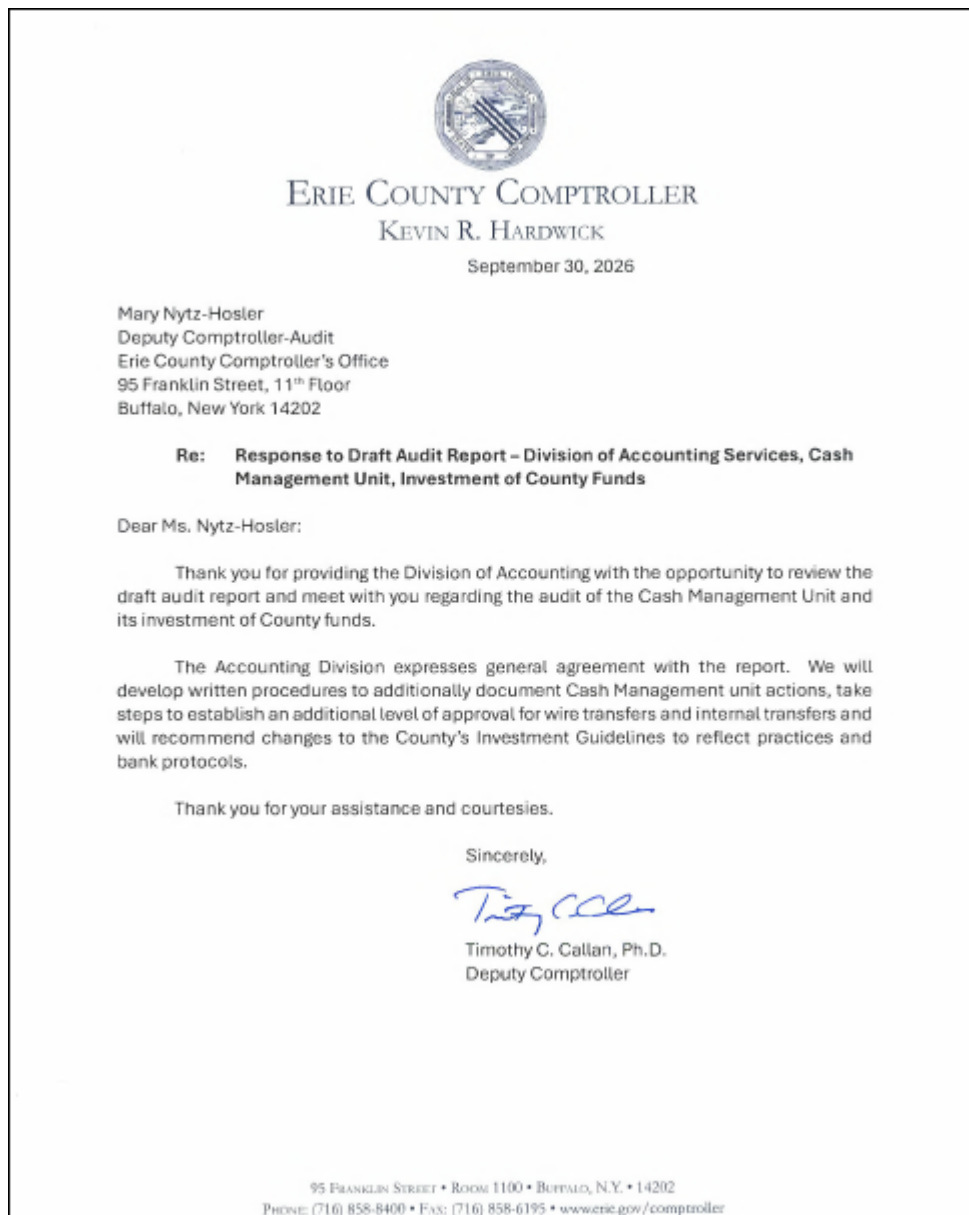
GAGAS Statement

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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 based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B - MANAGEMENT RESPONSE AND AUDITOR'S COMMENTS

A copy of the draft report will be provided to responsible officials for review and comment. The final report will include or summarize management's views concerning the findings, conclusions, and recommendations, including planned corrective actions, as applicable. If written comments are not received within the period established for management review, the final report will state that management did not provide written comments.

Management Response



Auditor's Comments

A written response dated September 30, 2026, was received from the auditee. The response indicates general agreement with the draft audit report and includes planned corrective actions to develop written procedures documenting Cash Management Unit activities, establish an additional approval level for wire and internal transfers, and recommend updates to the County's Investment Guidelines to align with current practices and bank protocols. The auditor evaluated the response and determined that it does not conflict with the audit findings, conclusions, or recommendations. No changes to the audit report or additional findings are required unless the final report language changes.