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**COUNTY RESPONSE TO COMMENTS IN THE
COUNTY OF ERIE CONTROLLER'S AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016**

2016 Current Comments and Findings

Comment #1: Office of Children and Youth State Audit

The Erie County Office of Children and Youth had a State Audit covering fiscal years 2008/2009 thru 2012/2013. The agency should ensure that In-Home service provider invoices are verified for accuracy.

Response: Beginning with fiscal year 2008/2009, In-Home services were moved from program funded to fee for service. For the years that were audited, there were not adequate or documented procedures in place to verify that the clients on the invoices actually received the services. Beginning in fiscal year 2013/2014 procedures were implemented to verify the accuracy of the invoices. There was no financial impact in regards to In-Home Services invoices. The audit did result in amounts either due to the County or due to the (State) for FY 08/09 \$271.00, FY 09/10 \$1,534.00, and FY 12/13 (\$134,703.00). The amount due to the State for FY 12/13 was due to an unallowable residential placement expense.

Comment 2: Vendor Contract Audit- Office of Drug & Alcohol

Payments and invoices for prevention and training were reviewed from July 1, 2013 through June 30, 2016. Three findings and six recommendations were made.

Response: All findings and recommendations were addressed in a formal response to the Controller's office. The Controller's office met with the department and implementation of the recommendations has occurred. There is still an outstanding issue regarding the County Purchasing code to be addressed.

Comment 3: Edmund L. Thomas Center and Shelter Meals Contract

The Controller has requested that ELT apply for the National School Lunch Program funding to help offset the expense of meals for the clients.

Response: The Edmund L. Thomas Center submitted an application for the National School Lunch Program reimbursement on January 13, 2017. We are still awaiting acceptance into the program.

Comment 4: Department of Public Safety Next Generation Radio System

The Controller noted a large pricing difference in the RFPs which were submitted to the Controller's Office.

Response: The County established an evaluation committee that spent numerous hours reviewing responses to a request for proposal for Next Generation Radio System and meeting with all vendors over a five month time period. Ultimately only one vendor, EF Johnson, met the technical bid specifications and the committee unanimously recommended this vendor to the County Executive. The selection of the vendor was fully compliant with the County Purchasing Code.

Comment 5: Judicial Sales of Real Estate for Delinquent Property Contract

There was a pricing difference in the RFPs and a possible Administrative Code provision issue.

Response: The County Executive appointed a committee of outside professionals to review the RFP for the County judicial sale. The past performance of the lowest priced vendor with potential costs that could be incurred, but not included in the bid, led the committee to unanimously recommend the current law firm to the County Executive. The County was compliant with the County Purchasing Code and other areas of the Administrative Code.

Comment 6: Centralization of Financial Records

The Human Service Finance Bureau is located outside of the Courthouse and processes all checks for the offices of Children & Youth, Drug & Alcohol Abuse, Health Choices and MHID. The Financial records are not centralized electronically with the County Finance Office in the County Courthouse and the

County Controller. Invoices and back up documentation are not available unless specifically requested by the Controller.

Response: Once the Finance Department's RFID inventory project is completed, the next large project will be scanning the invoices and back up documentation and attaching it to the invoice entered into the County's financial management system. However, one of the issues the County must address is confidentiality of documentation including client names. In the meantime, the Director of Human Services has requested that the Controller make arrangements for backup through the Manager of DHS Accounting and records will be pulled and made available, as in the past, to the Controller's office.

Comment 7: Purchasing Department – Open Purchase Orders

Open purchase orders have decreased from 721 in 2016 to 656 in 2017. Of these 61 have spending limits greater than \$25,000. Vendor services may be obtained at a lower price point if contracts are bid. The Administration upgraded the Purchasing order System to make purchasing more efficient; however, the electronic system still does not contain invoices and back up documentation. Numerous employee hours at all departments were spent learning and implementing this new system which is still lacking accountability.

Response: The Purchasing Director has met with each department and reduced the number of open purchase orders. Open purchase orders are allowable as part of the Purchasing Code and mainly for routine purchases. Most of the open purchase orders over \$25,000 are for maintenance services and maintenance supplies that comprise many purchases over all County buildings and not for a single purchase.

The Administration did add a purchasing module which encumbers funds and ties into the accounts payable system. Invoices will never be part of the purchasing module since they are part of the accounts payable module; all invoices do not have purchase orders. As stated above, after the RFID inventory project is completed, the Finance Department will begin a project that will scan invoices and any additional backup, and attach them to invoice documents in the financial management system. The training given was for employees who have purchasing duties as part of their job. We believe that proper training is essential for employees to properly perform their duties.

Comment 8: Bids and RFPs

The contracts at the Department of Human Services that are over \$25,000 are currently not compliant with the County Purchasing Code.

Response: Various contracts at the Department of Human Services are not able to comply with the County Purchasing Code to bid all services over \$25,000. Services are contracted out at times based on a client's right to choose a provider or a client being court ordered to a provider. The Director of Human Services, County

Administration, and County Council are working together to resolve this issue and amend the Purchasing Code.

Comment 9: Inventory Control Accountability

The Administration revised the Fixed Asset Policy to increase the dollar limit to \$1,000. This will reduce the County's tagged inventory from nearly 30,000 assets to about 8,000 assets. A radio frequency identification system for County inventory was researched by the Administration with the cost based upon the number of assets tagged and bid request is going out in 2017. The Controller recognizes there existed a need to streamline the annual inventory process to, per the Administration, "ease the burden and enhance the accuracy of taking annual physical inventories" but hopes that the result is not reduced accountability and loss of County assets.

Response: The Finance Department met with the Controller prior to changing the Fixed Asset Policy and appreciates the Controller's support of the new policy. Finance is not concerned about reduced accountability and loss of County assets since some assets, especially those that are mobile, are inventoried even if they are under \$1,000. Examples include cameras, laptops, iPad, mobile printers, and recorders. Maintenance equipment over \$300 are also inventoried. The majority of the assets removed from the inventory are desks, chairs, tables and filing cabinets, which are easily noticed if no longer present. During 2016, the Finance Department worked with the vendor to get the system ready for implementation. In April of 2017, the inventory teams started the process of re-tagging all County assets.

Comment 10: Erie County Employees' Retirement Fund

Per the County Employees' Retirement Board Resolution dated September 18, 2013 and the Third Class Pension Code, the annual employee Vacation Buy Back pay is no longer treated as compensation for the purpose of pension payment calculation. The Controller had brought this violation of Act 96 of the PA County Pension Law to the attention of the Pension Board and its Solicitor at the August 2013 Board meeting. As a result, the Finance Department changed its procedure to be compliant with Act 96. 2016 was the final year of the phase-out.

Response: As stated by the Controller, as soon as the Solicitor of the Pension Board ruled vacation buy back compensation ineligible for the purpose of pension payment calculation, the Finance Department changed its procedure.

Comment 11: Tax Collectors

At the May 2016 meeting with the tax collectors, the Controller and the Manager of Internal Audits stressed compliance with the State requirement that the EIN number of the taxing district be used on the bank account, not the social security

number of the tax collector. The tax collectors have been most cooperative in making this change on their bank statements.

Response: We are pleased the tax collectors have complied with the law.

Comment 12: Software Changes

During 2015, the County put out a bid for prison commissary services. A new vendor won the bid and new recordkeeping software was installed. No one from the Finance Office previewed the system nor was present for the conversion. During our review of prison records, we had concerns about the conversion process and the new monthly reports. The prison staff was able to provide additional monthly reports. Although we have not completed our report, we do not believe there are any deficiencies with the system reports or any significant discrepancies with the conversion. We recommend that the Director of Finance create a policy requiring any department utilizing third party software for financial reporting to notify the Director of Finance of any new software or upgrades prior to any conversion. This policy should include having the Director of Finance or his designee sign off on the old system final balance and the upload on the new system. It should include having the vendor provide a list and samples of available reports.

Response: We agree that this recommendation would result in a better transition between old and new software used for financial reporting. During 2017, the Finance Director will write a policy and distribute it to all County departments.

Prior Year Unresolved Comments

Comment 1: Remittance of License Fees

During the 2015 review of the State Account, funds collected for the sale of dog licenses were not being remitted to the State on a timely basis. During our 2016 review of the State Revenue Account, we noted that funds collected for the sale of dog licenses in June were not disbursed to the State until September. Although the State had not assessed any penalties to the County, we continue to recommend the Director of Finance ensure all funds due to the State are paid by the end of the following month to avoid the possibility of penalties being assessed in the future.

Response: Staff turnover and training had major impact on timely data entry of summer dog license sales, leading to delays in payments to all stakeholders. Processes and procedures will be better communicated with new and existing staff by Supervisor. Newly implemented Sub-Agent Dog Licensing System enhancements will eliminate majority of manual data entry allowing for a timely close. Summer dog license sales and related payments shall not be an issue moving forward.

Comment 2: State Account Outstanding Reconciling Items

In 2015, we noted that there were numerous unresolved reconciling items on the December 2015 bank reconciliation totaling \$2,617.83. We recommended that the Revenue Accountant research the old reconciling items and recover all funds that could be collected. Any amounts that could not be collected should be written off and the Director of Revenue should request reimbursement for any shortages from the County's General Fund. We also recommended adding procedures to prevent, detect, and resolve discrepancies in the future. During 2016, many of the old reconciling items were researched and resolved. However, the December bank reconciliation still lists sixty-three individual reconciling items with a net total of \$1,262.25. In addition to the prior recommendations, action should be taken to resolve discrepancies in the month they occur. Also, the action being taken should be documented on the monthly bank reconciliation.

Response: December 2015 unresolved bank reconciling items totaling \$2,617.83 were thoroughly investigated in house and with the assistance of their current financial institution, which resulted in the recoup of \$1,388.48, leaving a total unresolved of \$1,229.35, which is to be written off. Process was enhanced to insure timely confirmation of all deposits, including scanned check batches. Staff educated on bank's daily check scanning process and procedures for open, unprocessed batches. Reconciling of daily deposits will now include view only capabilities to monitor bank records and confirm all deposits.

The Revenue Supervisor will now review all underpayments of nominal amount, along with record of attempts to collect, after a period of 60 days has passed. Any nominal balances then deemed to be uncollectable, will be written off. Efforts to collect will continue and will be documented on the bank reconciliation as recommended. Nominal shortages will then be cleared by issuing a General Fund check to the State Revenue bank account.

Comment 3: County Leases

Pursuant to the County's Administrative Code, the Controller reviewed the terms of the one year lease agreement for the Erie County Department of Drug and Alcohol and the Child Care Information Services at the RWCE building. The Controller refused to approve the leases for 2014, 2015 and 2016 due to the abundance of quality less expensive office space available within the community.

Response: The Administration carefully reviewed the leases for both Drug & Alcohol and CCIS in the RCWE building. The Administration believes that the terms of the lease are fair and reasonable.

Comment 4: County Financial Management System

The Controller believes that the current financial management system is cumbersome and not user friendly. Attempts to upgrade the original system have resulted in additional cost for each upgrade as well as extensive training time for all departments during regular work hours. The most recent example is the new Purchasing system. Financial transparency and accountability for the County requires more than a band aid and the Controller continues to recommend implementation of a new, user friendly comprehensive and technologically advanced financial system.

Response: Many upgrades to the County's financial management system have been made. Upgrades are included in the cost of the annual maintenance contract. Additional costs have been incurred when the County adds new functionality to the system, such as adding a Purchasing ledger or contracting with the vendor for custom work. The Administration is committed to training employees who use the system when upgrades occur or new applications are installed, such as the purchasing module. Purchasing users can scan quotes received and attach them to requisitions. Scanning invoices and attaching them to documents is a future enhancement to the accounts payable module. This will occur after the County completes the RFID inventory project. Converting to new financial management software is very costly, and would take a long period of time to do. While the current vendor is moving to a more user web based system, the current financial system meets the needs of the County and is used successfully to process accounts payable, issue cash receipts, produce monthly financial statements and required reporting, process purchase requisitions and purchase orders, and account for County fixed assets.