

Incorporated Village of Garden City

Check Signing

JULY 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Incorporated Village of Garden City

Audit Objective

Determine if the Incorporated Village of Garden City's (Village) check signing process complies with Village policy.

Key Findings

The Village's check signing process does not comply with Village policy and the Village Treasurer (Treasurer) did not maintain control of her electronic signature.

- The Treasurer allowed her signature to be affixed to checks without her being present.
- Alternate signatories did not sign in the absence of the Treasurer and Deputy Treasurer.

Key Recommendations

The Treasurer should:

- Maintain custody of her electronic signature at all times and supervise the check-signing process when others use it.
- In her absence, have authorized alternate signatories sign checks using their own signatures.

Except for as specified in Appendix A, Village officials agreed with our recommendations. Appendix B includes our comments on an issue raised in the Village's response letter.

Background

The Village is located in the Town of Hempstead in Nassau County. The Village is managed by a seven-member elected Board of Trustees (Board) and a Mayor.

The Treasurer is the primary signatory on all checks to disburse funds. The Deputy Treasurer or the Mayor (or Deputy Mayor) and a Board member in tandem are alternate signers.

Quick Facts

General Fund 2019-20

Number of Checks Disbursed	4,649
Dollar Amount of Checks Disbursed	\$23.5 million

Audit Period

June 1, 2019 – November 30, 2020. We also observed a live check signing on December 15, 2020.

Check Signing

What Is an Effective Check Signing Process?

The treasurer is the chief fiscal officer of a village, responsible for maintaining custody of all village money, and is authorized to disburse money on the village's behalf. In the treasurer's absence, the deputy treasurer may sign checks.

When authorized by board resolution or local law, the treasurer may sign checks with a facsimile signature or check-signer (electronic signature). To help prevent unauthorized use of the electronic signature, it should only be used under the direct supervision of the treasurer (or his or her deputy). When the electronic signature is not being used, it should be in the treasurer's custody.

To further ensure there are no unauthorized checks, a village should issue pre-numbered checks in sequence and have an employee not responsible for check preparation identify gaps in the numbering sequence.

The Treasurer Did Not Control Her Electronic Signature

Board policy authorizes the Treasurer to sign checks using an electronic signature. There are two flash drives, both containing the Treasurer's signature. In addition to the Deputy Treasurer (Deputy), Board policy authorizes the Mayor (or Deputy Mayor) in conjunction with one Trustee to sign checks in the absence of the Treasurer and Deputy. There are no signature flash drives for the alternate signatories.

Prior to December 2020, one flash drive was held by the Treasurer and the other by the Deputy. When we informed Village officials about this deficiency in their procedure, the Treasurer took custody of the Deputy's flash drive. During our audit period, the accounts payable clerk (clerk) used the flash drive in the custody of the Deputy to affix the Treasurer's signature and print checks.

Although her signature was affixed to the checks, the Treasurer was not present during the check signing process, nor was the Deputy. Instead, the clerk obtained the electronic signature device from the Deputy's office and used it to sign printed checks unsupervised.

The Village's financial software prints sequential numbers onto the checks and the blank check stock also has a stock number sequence imprinted on the back. Checks are printed in batches, weekly. After obtaining the flash drive from the Deputy, the clerk checks the first number of the sequence to be printed to ensure it is one more than the last check number of the previous batch printed, adds the check printer to the financial software as a print option, and then inserts the flash drive into the printer before initiating printing. After the checks are printed, the clerk goes through the audited claims packets and the printed checks to ensure vendor names and amounts match. She hand writes the check number on the first page of the claim packets. The printed checks and claims packets then go to the

...[T]he clerk obtained the electronic signature device from the Deputy's office and used it to sign printed checks unsupervised.

Deputy, who reviews a sample to ensure the vendors and amounts are accurate and certifies there are no gaps in the check numbering sequence.

On December 15, 2020, we observed the Village's check signing and printing process for 98 checks totaling \$967,727 and noted that the clerk obtained the flash drive from the Treasurer and used it to sign the checks. The Treasurer was not present during check signing but was at the Village Hall working in her office. We observed the flash drive being returned to the Treasurer after check printing was completed. The Treasurer showed us that both flash drives containing her signature were now in her custody. We also confirmed that the Deputy initialed a check signing register certifying that no checks were missing.

We also reviewed 89 checks totaling \$867,582 for two dates the Treasurer was not at Village Hall: 47 checks totaling \$38,849 printed on November 29, 2019 and 42 checks totaling \$828,733 printed on June 29, 2020. The Treasurer's signature was affixed to the checks printed on both dates. Alternate signatories did not sign in her absence. However, except for minor discrepancies discussed with officials, the vendors and amounts from the checks reviewed matched vendor invoices and amounts, and all checks appeared to be for legitimate Village business.

The Treasurer was unaware that all copies of her electronic signature should be under her control at all times, and only used under her direct supervision, or given to the Deputy in her absence. She told us that she believes the Village's current review process was sufficient to protect against unauthorized disbursements because each claim packet is audited by the Village auditor and an external claims auditor. Additionally, a Trustee reviews all direct payments to employees and checks for more than \$5,000. While we agree that this is a sufficient review process, control of the electronic signature would prevent writing checks that circumvent this process.

Although we found no material discrepancies in our review and all expenditures appeared legitimate, when check signatories do not maintain control over their own signature, and do not directly supervise its use by others, the chances of signature misuse, such as for unauthorized checks, increases.

What Do We Recommend?

The Treasurer should:

1. Maintain custody of her electronic signature at all times and supervise the check-signing process when others use it.
2. In her absence, have authorized alternate signatories sign checks using their own signatures.

...[A]ll checks appeared to be for legitimate Village business.

Appendix A: Response From Village Officials

**MAYOR
COSMO VENEZIALE**

**TRUSTEES
BRUCE J. CHESTER
JOHN M. DELANY
TERENCE P. DIGAN
MARY CARTER FLANAGAN
COLLEEN E. FOLEY
LOUIS M. MINUTO
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**VILLAGE ADMINISTRATOR
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June 14, 2021

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Re: DRAFT Incorporated Village of Garden City Check Signing Report of Examination 2021M-39

Dear Mr. McCracken:

We are in receipt of the above referenced draft report. This letter will serve as both the Village's official response to the two findings and recommendations, and Corrective Action Plan (CAP). The audit objective was to determine if the Incorporated Village of Garden City's check signing process complies with Village policy.

Finding 1:

- The Treasurer allowed her signature to be affixed to checks without her being present.

Recommendation:

- The Treasurer should maintain custody of her electronic signature at all times, and supervise the check signing process when others use it.

The Village disagrees with this recommendation. First, this is not a Village policy, this is a recommendation stated in the OSC Internal Control guide. Secondly, the Village has established numerous mitigating controls that prevent unauthorized checks to be issued. The Treasurer maintains control of her key fob, it is locked in her office until checks are ready to be printed by the Accounts Payable (AP) Clerk. The Finance Department has implemented many controls over the years and continues to assess the cash disbursement process and implement additional controls as needed to safeguard Village assets.

See Note 1 Page 7

The following is a list of a few of those controls:

- The AP Clerk does not have access to create vendors in the General Ledger system.
- All invoices entered by the AP Clerk require an approval from the Department being charged.
- All claims are audited and approved by an Independent Audit Firm.
- All claims greater than \$5,000 and all employee reimbursements are approved by the Trustee who serves as the Finance and Audit Committee Chairperson.
- Prior to the printing of checks, a Payment Review report is generated from the General Ledger system and is reviewed by the Deputy Treasurer to ensure that all checks to be printed are properly authorized. The report is signed by the Deputy Treasurer.
- Key fobs are controlled by the Treasurer and Deputy Treasurer. They each keep their key fobs in locked drawers in their respective offices until it is needed. No one else has access to the key to their drawers. When she is ready to print checks, the AP Clerk obtains the key fob from the Treasurer, or in her absence, the Deputy Treasurer.
- The electronic key fob is inserted into the specialized check printer. The AP Clerk logs into a separate computer that contains the check printing software. Access to this software is limited to the AP Clerk and her backup.
- The check sequence, as well as the control number listed on the back of each check is reviewed and approved by the Deputy Treasurer. The Deputy Treasurer ensures that the number of checks and the total amount of checks printed corresponds with the Payment Review report and the system generated Check Register Summary.
- The Independent Claims Audit firm reviews the authorized claims against Check Register Summary.
- The checks are given to the Typist Clerk to place in envelopes, along with supporting documentation, stamped and mailed.
- A positive pay file is system generated and verified by the Deputy Treasurer that it contains only the authorized checks. The total number of checks and dollar amount must agree to the Check Register Summary.
- The positive pay file is uploaded into the Village's bank, which allows only those authorized checks to be deposited against the Village's operating account.

As a result of all the compensating controls within the system, and the management oversight that is performed, the Village believes that it is not necessary for the Treasurer to observe the AP Clerk performing her function of printing checks.

See Note 2 Page 7

The Village understands that this is listed as a recommended control in the OSC Internal Controls Guide. The Village does comply with all the other controls listed in the guide within the Check Signing Procedures and is satisfied that all the controls in place are sufficient. In addition, the Village's Independent Auditors agree with this statement.

Finding 2:

- Alternate signatories did not sign in the absence of the Treasurer and Deputy Treasurer.

Recommendation:

- The Treasurer should, in her absence, have authorized alternate signatories sign checks using their own signatures.

Although the Village's process has always been to have one signatory, the Village agrees that in the Treasurer's absence, the Deputy Treasurer should have her own signature key fob.

Corrective Action Plan:

As of April 5, 2021, the Deputy Treasurer has been issued her own electronic key fob with her signature and utilizes it in the Treasurer's absence.

The Village thanks the Office of the New York State Comptroller, Division of Local Government and School Accountability for the feedback provided and for the assurance that all claims audited during the time period were legitimate.

Sincerely,

Cosmo Veneziaie
Mayor

Appendix B: OSC Comments on Village's Response

Note 1

We agree that the Village has established numerous controls over the cash disbursement process and commend officials for that. However, implementing our recommendation would add additional controls to improve the system.

A September 17, 2020 Board resolution required the Deputy Treasurer or one Trustee and either the Mayor or Deputy Mayor to sign checks when the Treasurer was unable to do so. Village officials did not comply with the Board directive.

Prior to December 2020, there were two flash drives, both containing the Treasurer's signature. One was maintained in the custody of the Treasurer, the second one was not in her possession.

Note 2

The official responsible for signing checks should always ensure that any facsimile of his or her signature is protected from unauthorized use. To prevent unauthorized use of facsimile signatures, the official with signatory authority (or his or her deputy) should be present whenever his or her signature is applied to prepared checks.

Appendix C: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- Interviewed the Treasurer, Deputy Treasurer, and accounts payable clerk, and reviewed Board minutes and documented procedures, to understand the check signing process.
- Observed the check signing process for 98 checks onsite at the Village and documented the process to confirm accuracy of stated procedures.
- Reviewed 89 general fund checks for two dates (47 checks printed on November 29, 2019 and 42 checks printed on June 29, 2020) to confirm the check signatory. These sample dates were chosen because, per her attendance records, the Treasurer was not physically present at Village Hall, to determine if the Treasurer's signature was being used in her absence. One date was chosen from 2019 and one from 2020.
- Reviewed 108 of 233 claim packets associated with the sampled checks to determine if the vendors and amounts printed on the checks matched invoiced amounts and if the funds were disbursed for legitimate Village purposes. When checks included amounts from other funds, we confirmed that the amounts allocated to the general fund matched invoices and ensured that the remaining balance of these checks was accounted for in other funds.
- Determined if the check sequence integrity for checks printed on the day we observed (December 15, 2020), and the two dates reviewed (November 29, 2019 and June 29, 2020), had sequence gaps due to missing checks.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your

CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the Village Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

<https://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf>

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

<https://www.osc.state.ny.us/local-government/publications>

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

<https://www.osc.state.ny.us/local-government/publications>

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

<https://www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf>

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

<https://www.osc.state.ny.us/local-government/publications>

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

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