



Naples Central School District Online Banking

Report of Examination

Period Covered:

July 1, 2013 — June 16, 2015

2015M-143



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2015

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Naples Central School District, entitled Online Banking. This audit was conducted 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.

This audit's results and recommendation are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Naples Central School District (District) is located in the Towns of Bristol, Canadice, Canandaigua, Naples, Richmond and South Bristol in Ontario County; the Towns of Cohocton and Prattsburgh in Steuben County; the Towns of Italy and Middlesex in Yates County; and the Town of Springwater in Livingston County. The District is governed by the Board of Education (Board), which is composed of nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction. The District's Treasurer (Treasurer)¹ is responsible for completing the banking transactions and the School Business Manager (Business Manager) is responsible for overseeing these transactions.

The District operates two schools, with approximately 750 students and 180 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$19.6 million, which are funded primarily with State aid and real property taxes.

The District uses network resources for performing online banking transactions. The District's Wide Area Network Manager is responsible for managing the security of this network and the data it contains. The Board is responsible for establishing policies to help ensure that security over the network and data is maintained.

Objective

The objective of our audit was to evaluate internal controls related to online banking. Our audit addressed the following related question:

- Did the Board and District officials establish effective online banking internal controls to ensure adequate protection of the District's assets?

Scope and Methodology

We examined the District's online banking practices for the period July 1, 2013 to June 16, 2015. We also examined information technology (IT) controls over certain District functions. Because of the sensitivity of some of this information, we did not discuss the results in this report, but instead communicated them confidentially to District officials.

¹ Or the Deputy Treasurer (Deputy) in the Treasurer's absence

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. 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.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendation have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendation and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendation in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. 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. The Board should make the CAP available for public review in the District Clerk's office.

Online Banking

Online banking provides a means of direct access to moneys held in the District's accounts. It is an immediate way to review current account balances and account information, review recent transactions, transfer moneys between bank accounts and transfer moneys to external accounts. Local governments are allowed to disburse or transfer funds in their custody by means of electronic or wire transfer. Wire transfers of funds typically involve significant amounts of money. For that reason, to help prevent unauthorized transfers from occurring, it is important to control the processing of wire transfers. Establishing appropriate procedures to securely access banking websites helps to reduce the risk of unauthorized transfers.

Appropriate controls over electronic or wire transfers include secured bank account access and management authorization of transfers before the transactions are initiated. Bank account access should be limited to necessary employees and authorization for each transfer should be supported by documentation itemizing the purpose, source, destination and amount of the transfer. In addition, the Board may establish policies that do not allow the bank to initiate wire transfers outside of the District's approved bank accounts. A good detective control would be to require banks to provide emails or texts to District officials alerting them every time an online transaction occurs. District officials could also provide for an independent review of bank reconciliations and purchase computer fraud and funds transfer coverage.

We found that the Board and District officials have established adequate online banking internal controls to ensure sufficient protection of the District's assets. The Board adopted an online banking policy that authorizes the Treasurer and Deputy to perform online banking transactions with the oversight of the Business Manager. The Treasurer and Deputy have secure online banking usernames, passwords and individual, secured fobs² that are necessary to log in to the District's accounts. The District restricts online banking to one specific computer that is secured when not in use. Additionally, computer browser history is automatically deleted.

The District's banks only allow transfers to be made between accounts at the same bank. If the Treasurer initiates a wire transfer to an external bank account, the bank calls the Business Manager for approval before processing the transaction. The District's internal

² A fob also known as a key fob, is a small security hardware device with built-in authentication used to control and secure access to network services and data.

procedures also require the Business Manager or Superintendent³ to sign-off on a transfer of moneys form, indicating approval prior to the transfers being initiated. We reviewed online banking transfers and wire transfers for two months and found that all 35 transactions were approved by the Business Manager or Superintendent prior to transmission. Furthermore, both of the District's banks send the Treasurer an email confirmation when a wire transfer is completed. This is a good practice. The best practice would be to ensure that alerts and other security measures available from both District banks advise the Treasurer and Business Manager by email or text every time an online transaction occurs. Although the Business Manager doesn't directly receive the transfer notifications, he receives the bank statements directly from the bank. He also reviews the monthly bank reconciliations and related support provided by the Treasurer.

The District has taken an additional and proactive step to prevent loss. The District purchased computer fraud and funds transfer coverage to prevent the District from absorbing losses due to inappropriate computer banking activities.

Except for the deficiencies noted previously and minor issues discussed with District officials, internal controls over online banking were determined to be adequate. We commend District officials for establishing and implementing a good system of controls and anticipate that addressing these findings will further improve oversight.

Recommendation

The District officials should:

1. Ensure that alerts and other security measures available from both District banks are enabled, including an alert system that advises the Treasurer and Business Manager by email or text every time an online transaction occurs.

³ In the absence of the Business Manager

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following page.

Naples Central School District

Mitchell J. Ball, School Business Administrator

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September 03, 2015

To Whom It May Concern:

Please consider this the formal District response for "Appendix A, Response from District Officials":

District Response

This is to confirm that the District has had the opportunity to review the draft of the New York State Comptroller's Report.

The District has been proactive in responding to the Office of the State Comptroller's recommendation. The District has already addressed the recommendation through increased internal controls beginning July 1, 2015.

Bank alerts are now enabled on all district accounts. Both the Treasurer and the Business Manager now receive bank alerts through e-mail whenever a banking transaction occurs.

At this time, the District does not have any formal follow-up corrective action plans. The recommendations in both reports have already been addressed through changes in practice. The Board of Education approved these changes at their September 2, 2015 meeting through the following resolution:

The Draft Audit Report of the 2015 audit of the Naples Central School District, entitled Online Banking, prepared by the State of New York, Office of the State Comptroller, Division of Local Government and School Accountability, is hereby accepted as presented and authorization given to file the report and the Corrective Action Plan for the 2015 Audit with the State of New York Office of the State Comptroller, as presented.

The Board of Education, members of the Administration and the Business Office personnel have benefited from the NYS Comptroller's review of the Online Banking procedures of the Naples Central School District. Thank you for the opportunity to work with your representatives and for the opportunity to respond to this report.

Sincerely,

Mitchell J. Ball
School Business Administrator
District Clerk

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our objective was to evaluate internal controls related to online banking. To accomplish our objective, we performed the following procedures:

- We interviewed District officials to obtain an understanding of the District's online banking practices.
- We observed online banking user access from log in to log off.
- We inquired about written agreements with banks and online banking and wire transfer procedures.
- We examined the District's computer used to access online banking.
- We reviewed all online banking and wire transfers for two months to determine if they were properly approved.

We conducted this performance audit in accordance with 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.

APPENDIX C

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