New York State Comptroller
THOMAS P. DiNAPOLI

William Floyd Union Free School District

Check Signing and Online Banking Transactions

2022M-192 | February 2023

Division of Local Government and School Accountability

Contents

Report Highlights

William Floyd Union Free School District

Audit Objective

Determine whether the William Floyd Union Free School District's (District) Board of Education (Board) and District officials ensured check signings and online banking transactions were appropriate and secure.

Key Findings

While the bank transactions we reviewed were appropriate, the Board and District officials did not ensure check signings and banking transactions were secure.

- The District Treasurer (Treasurer) allowed employees to affix her signature to checks without overseeing the check signing process; of the 364 checks reviewed, 353 checks totaling $6.7 million were printed and signed when the Treasurer was not physically present at the District.
- The Board did not designate an alternate signatory in the Treasurer's absence.
- The Board did not enter into a banking agreement with a bank that maintains six District accounts.
- District officials did not conduct online banking transactions in the most secure manner through a wired connection.

Key Recommendations

- Ensure the Treasurer maintains control of her electronic check signature at all times.
- Designate a Deputy Treasurer to sign checks and authorize electronic/wire transfers in the Treasurer's absence.
- Conduct online banking using a wired connection.

District officials agreed with our findings and indicated they plan to initiate corrective action.

Background

The William Floyd Union Free School District is located in the Town of Brookhaven in Suffolk County. It is governed by the Board, which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs.

The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The Treasurer is the signatory on all checks to disburse funds. In addition, the Treasurer is authorized to perform online banking transactions.

Quick Facts	
2021-22 Appropriations	$251 million
Vendor Checks Issued During Audit Period	
Number	6,123
Total Dollar Amount	$137 Million
Checks Reviewed	
Number	364
Total Dollar Amount	$6.8 million

Audit Period

July 1, 2020 – April 30, 2022

Banking Transactions

How Should a School District Board and Officials Safeguard Check Signing and Banking Transactions?

A school district treasurer is the custodian of district funds and is generally responsible for the disbursement of all money, including check signing and electronic payments. The school board should appoint a deputy treasurer to perform these duties when the treasurer is absent. A board should authorize the use of any electronic check signing device, and the device should always be under the direct control and supervision of the signatory. The device should be password-protected, and the password should only be known by the signatory.

To help ensure online banking transactions are appropriate and secure, a school board should adopt comprehensive written banking policies and periodically review and update them. Policies should at a minimum:

- Specify which employees are authorized to process transactions and in what manner,
- Require individual and unique passwords for all electronic banking processes,
- Clearly describe the online activities school district officials may perform,
- Establish an approval process to verify the accuracy and legitimacy of electronic transfer requests, and
- Require the review and reconciliation of electronic transfers.

To help ensure online banking transactions are appropriate and secure, a school board should adopt comprehensive written banking policies and periodically review and update them.

A board should ensure a district complies with General Municipal Law (GML) Section 5-a that allows school districts to disburse or transfer funds by electronic funds transfers (EFTs), provided that the school board enters into a written agreement with the bank. A board should ensure a school district's banking agreements prescribe the manner in which transfers can be made and identify the individuals authorized and the bank accounts that can be used for online transfers. The agreement must also include security procedures designed to ensure payment orders are legitimate and that can detect transmission or content errors. The bank should be required to provide written confirmation when funds are transmitted.

Officials also should limit the number of computers authorized to conduct online banking. To minimize exposure to malicious software, if possible, authorized users should access bank accounts only from a dedicated computer connected through a wired network.

Controls Over Check Signing Should Be Improved

The Board authorized the Treasurer to sign checks using an electronic signature. The Board did not appoint an alternate signatory in the Treasurer's absence.

However, the bank signatory agreements show the Assistant Superintendent for Business is authorized to sign checks without the Board's approval. The lack of consistency between the Board policy and bank signatories could lead to confusion and inconsistencies with who has check signing responsibilities.

The District maintained two flash drives that contained the Treasurer's signature; however, the Treasurer did not maintain custody of both drives. The Treasurer held one flash drive and a clerk in the Superintendent's office held the second flash drive. The password to these devices was improperly shared with other District employees. During our audit period, 10 District employees, including the Treasurer, had access to sign and print checks in the financial software. Eight of these employees used the flash drives and the shared password to affix the Treasurer's signature and print checks. As the custodian of District funds, the Treasurer has a responsibility to guard her electronic signature and not share her password.

Although her signature was affixed to the checks, the Treasurer did not oversee the check signing process as required. Instead, the eight employees obtained the flash drive from either the Treasurer or the clerk to sign and print checks. The Treasurer stated that she and the clerk maintain a log of when the flash drive is used. The log includes who obtained the flash drive and when, and who returned it. Further, it includes a column to state whether the checks printed with her signature and check register report have been verified. Although the Treasurer checked this box indicating this documentation was verified, she stated this column indicates the documentation is reviewed by the District's claims auditor. Keeping this log and relying on the claims auditor is not an effective substitute for maintaining control of her password and signature.

In addition, because the Board has not appointed a Deputy Treasurer, when the Treasurer is not physically present at the District, employees obtain the flash drive from the clerk. They are required to complete an authorization form that includes the name of the person requesting the check, the reason the check/checks are needed, dollar amount, and an option for it to be approved or denied. The form requires three signatures: the Assistant Superintendent for Business, purchasing agent and Treasurer. While the Assistant Superintendent for Business and the purchasing agent sign the forms when the checks are requested, the Treasurer signs the form the next time she is present at the District. Therefore, this process is not effective because the Treasurer is not present to oversee the process, and checks are signed prior to the Treasurer's authorization.

We observed the District's check signing and printing process on three separate occasions. Three different individuals affixed the Treasurer's signature and printed 805[1] checks totaling $5,480,224. After obtaining the flash drive from the

1 155 accounts payable checks totaling $4,150,587 and 650 payroll checks totaling $1,329,637

Treasurer, the business office staff checked the first number of the sequence to be printed to ensure it was one more than the last check number of the previous batch printed, added the check stock to the printer, and inserted the flash drive into the computer and entered a password. All business office staff using the flash drive used the same password to print the checks. When passwords are shared, accountability is lost and there is an increased risk of unauthorized use.

The District's financial software printed sequential numbers onto checks. After the checks were printed, the office staff printed the warrant of claims and compared the printed checks with the warrant to ensure they were printed with the correct vendor names and dollar amounts. The Treasurer was present in the business office; however, she did not oversee the actual signing and printing of the checks and did not review them when staff returned the flash drive.

We also reviewed the log, authorization forms and other documentation maintained for the signature flash drive in the clerk's possession. We determined 364 checks totaling about $6.8 million were printed using the signature flash drive maintained by the clerk; 353 of these checks totaling nearly $6.7 million were printed when the Treasurer was not physically present at the District to oversee the process. In addition, 217 of these checks totaling $6.1 million were printed without an authorization form; therefore, there was no indication that District officials or the Treasurer approved these checks to be printed.

Further, when authorization forms were completed, the Treasurer did not sign and approve them in a timely manner. On average, the Treasurer signed authorization forms over four days after checks were issued. For example, on October 8, 2021, the payroll manager printed 88 checks totaling $123,292. The Treasurer signed the authorization form on November 5, 2021, 28 days after the checks were signed and printed. The payroll manager told us that she received approval to generate these checks by completing the authorization form with signatures from the Assistant Superintendent for Business and the Business Manager.

Due to these weaknesses, we reviewed the warrants and payrolls certified by the District's claims auditor to determine whether all 364 checks printed with the electronic signature maintained by the clerk were authorized and directed for payment by the District's claims auditor. We also determined whether the check sequence was intact. Except for minor discrepancies discussed with officials, we determined the check sequence was intact and all payments were certified by the claims auditor and appeared to be for legitimate District purposes.

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. She told us that she believes the District's current review process is sufficient to protect against unauthorized disbursements because the external claims auditor audits

each claim packet. While we agree that this is a review process, control of the electronic signature would prevent writing checks that circumvent this process.

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

Officials Could Improve Safeguards Over Online Banking Transactions

District officials maintained 15 bank accounts at four banks with online banking transactions, which included electronic deposits, transfers and disbursements.

The Board adopted a comprehensive online banking policy that requires District officials to enter into written agreements with banking institutions as required by GML Section 5-a. In addition, the policy requires authorized individuals to have unique usernames and passwords to access online banking. Further, it authorizes the Treasurer to conduct online banking transactions through a dual authorization process, so that at least two individuals are involved in each transaction, segregating the authorization and transmitting functions. The dual authorization process helps to ensure transfers are legitimate and accurate. Once the transfer is complete, the bank must provide written confirmation of the details of the transaction including who initiated it and who approved it. Lastly, the policy requires monthly reconciliations of banking transactions.

While District officials generally complied with the Board policy, the District did not have an online banking agreement with one of the four banking institutions in which it had six bank accounts. The Assistant Superintendent for Business told us they have been conducting business with the banking institution since before this requirement. The Assistant Superintendent for Business stated that they are currently working with the banking institution to establish an agreement. However, without an adequate online banking agreement that includes established security controls, officials are exposing these accounts to unnecessary risk.

We reviewed 168 online banking transactions totaling $24.4 million that were processed during the audit period. We found they were all properly authorized, verified and for appropriate purposes in accordance with Board policy.

Further, while District officials limited online banking to one dedicated computer in the business office, online banking was accessed through a wireless network. By conducting online banking through a wireless network, the District increases the risk of becoming victim to cybersecurity fraud and experiencing financial losses that may be unrecoverable.

What Do We Recommend?

The Board should:

1. Consider designating a Deputy Treasurer to sign checks in the Treasurer's absence.
2. Establish a sufficient written online banking agreement, in accordance with GML, with each bank the District uses for online banking transactions.
3. Ensure authorized signatories in banking agreements are consistent with those listed in Board policy.

The Treasurer should:

4. Maintain custody of her electronic signature and the password for the device at all times and supervise the check signing process when others use it.

District officials should:

5. Ensure online banking is conducted through a wired connection.

Appendix A: Response From District Officials

William Floyd Union Free School District
of the MASTICS – MORICHES – SHIRLEY

Our rich history builds a promising future!

Kevin M. Coster
Superintendent of Schools

January 23, 2023

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Unit Name: William Floyd School District
Audit Report Title: Check Signing and Online Banking Transactions
Audit Report Number: 2022M – 192

Dear Mr. McCraken:

The William Floyd School District is in receipt of your report # 2022M-192, issued following the recent audit conducted by examiners from the State Comptroller's office. On behalf of the Board of Education and the district administration, we would like to thank the examiners for their time, effort, guidance and professionalism during this process. We agree with the recommendations as outlined in the draft audit report and have already implemented or are in the process of implementing each one, as outlined below. Please allow this correspondence to serve as both the district's response and corrective action plan.

We appreciate acknowledgement that all online banking transactions within the district were made appropriately and for legitimate purposes. In addition, we appreciate the guidance to enhance our internal controls, cybersecurity protocols and online banking procedures.

Audit Recommendation #1: Designate a Deputy Treasurer to sign checks in the Treasurer's absence.

Action: The William Floyd School District will appoint a Deputy Treasurer.

Implementation Date: February 7, 2023 Board of Education Meeting.

Person(s) Implementing: Assistant Superintendent for Business, Superintendent for Schools, Board of Education.

Audit Recommendation #2: Establish a sufficient written online banking agreement, in accordance with GML, with each back the district uses for online banking transactions.

Action: Enter into a formal agreement with each bank that the district maintains accounts with.

Implementation Date: February 7, 2023 Board of Education Meeting.

Person(s) Implementing: Assistant Superintendent for Business, Superintendent for Schools, Board of Education.

Audit Recommendation #3: Ensure authorized signatories in banking agreements are consistent with those listed in Board policy.

Action: All banking agreements will be reviewed and updated to adhered to Board Policy.

Implementation Date: February 7, 2023 Board of Education Meeting.

Person(s) Implementing: Assistant Superintendent for Business, Superintendent for Schools, Board of Education.

Audit Recommendation #4: Treasurer and/or Deputy Treasurer should maintain custody of their respective electronic signature and the password for the device at all times and supervise the check signing process when others use it.

Action: The current Treasurer and the Deputy Treasurer being appointed on the February 7, 2023 BOE meeting have both been trained in the proper handling of the electronic signature process.

Implementation Date: February 7, 2023 Board of Education Meeting.

Person(s) Implementing: Assistant Superintendent for Business, Superintendent for Schools, Board of Education.

Audit Recommendation #5: Ensure online banking is conducted through a wired connection.

Action: Ensure online banking is conducted through a wired connection.

Implementation Date: Complete - January 3, 2023.

Person(s) Implementing: Assistant Superintendent for Business, Superintendent for Schools, Technology Department and Board of Education.

Please do not hesitate to contact me should you have any further questions.

Sincerely,

Kevin M. Coster
Superintendent of Schools

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Appendix B: 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:

- We reviewed District policies and Board minutes to determine who was authorized to perform check signing and online banking transactions.
- We interviewed District officials to gain an understanding of the District's check signing and online banking processes.
- We observed the District's check signing and electronic transfer process for accounts payable and payroll checks.
- We obtained and reviewed the log for the Treasurer's signature flash drives. We compared the signature sign in/sign out log with the District's software user permissions report to determine whether the employees signing out the signature flash drive had access in District software to sign checks.
- We reviewed the District's software attendance report for the Treasurer to determine which dates the Treasurer had used leave time (vacation, sick, personal) and was not physically present at the District during the audit period.
- We reviewed the District flash drive sign in/sign out authorization forms that were kept by the clerk in the Superintendent's office. We compared these authorization form dates to the District software attendance report for the Treasurer to determine whether checks drawn from the flash drive maintained by the clerk were drawn when the Treasurer was not physically present in the District.
- We reviewed the certified warrants and payrolls for 364 checks totaling $6,752,306 that were drawn with the flash drive maintained by clerk to determine whether checks were authorized and directed for payment by the District's claims auditor. We also determined whether the check sequence was intact.
- We reviewed authorization forms to determine dates when the Treasurer signed these forms to authorize the check draw and determine the average number of days after the check was printed that the Treasurer authorized the check's printing.
- We reviewed 168 online banking transactions totaling $24.4 million by first reviewing District policy on online banking and wire transfers. We used our professional judgment to select the months of May, August and October 2021 because the largest dollar amounts of checks that were signed and printed while the Treasurer was not present at the District occurred in these three months.

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 must be prepared and provided to our office within 90 days, 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. 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 CAP should be posted on the District's website for public review.

Appendix C: Resources and Services

Regional Office Directory
www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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