

Treasure Your Treasury

Keeping up-to-date on your district's financial operations is important in preventing attacks from the outside and from within

Last June, Citibank released a statement that bank information systems had been breached. Hackers accessed about 200,000 credit card customers' names and e-mail addresses. That security breach was the latest in a series of cyberattacks on firms such as Sony, Lockheed Martin, and Google. But major corporations are not the only victims of cybercrime.

Gordon M. Snow, assistant director of the cyber division of the FBI, testified in September before the House Financial Services Committee that his agency was investigating more than 400 account takeovers by cybercriminals. He noted that a Pennsylvania school district lost \$450,000 when its financial computer system was hacked by thieves. He also cited a New York school district that had \$3 million drawn out of its account. Fortunately, that district spotted the transfers early in the process and recovered all but \$500,000.

Cyberattacks on financial and treasury functions are a growing threat. Because many entities do not have the resources to combat these attacks, they become ready targets.

Even when safeguards are in place, hackers are clever. They react to counter defensive strategies swiftly, modifying their software to find another avenue of attack. Some organizations actually market computer malware pro-

grams, along with periodic upgrades, to other cyberthieves.

With school systems increasingly becoming the target of hackers, what can you do to protect district resources?

Get informed

School districts would not exist without effective treasury operations. A district's treasury is where funds are collected, protected, invested, and disbursed.

Because many board members are not trained in financial issues beyond what they know at a personal level, school district treasury operations sometimes are viewed as confusing or complicated. Board members unfamiliar with the treasury's important role often leave oversight responsibilities to others they view as more financially knowledgeable.

However, to fulfill their oversight responsibilities, board members should invest time and energy to learn about treasury matters. Most newcomers to the subject are astonished by the wide range of activities performed by treasury staff. Treasury functions have a significant impact on both long- and short-term district goals.

Where to start

Board members may request that the treasury manager explain both func-

tions and risks. Ask for clear, concise explanations regarding the various reports generated in that department. Information sharing is perhaps best done at a quiet time in the district office. If desired, ask for individual appointments for board members. During these sessions, treasury functions can be explained and reviewed without interruption. Board members may be more willing to ask for clarification in a private meeting rather than in a public session, where time pressure or embarrassment may inhibit questions.

Prepared with a comprehensive understanding of treasury operations and reports, board members can ask questions about internal controls, a critical component of the oversight process. In addition, the board will be able to focus on areas prone to risk, including computer security.

Computer safety

School districts are prime targets for cyberthieves. The consequences for neglecting cybersecurity are costly and embarrassing. However, there are several strategies to safeguard treasury functions.

For example, your district can have one or two computers dedicated solely to conducting bank transactions. These computers must not be used for other Internet activities such as e-mail or conducting searches. Single-function computers prevent the possibility of criminal malware being downloaded into your financial systems.

In addition, be sure your bank has the Internet Protocol (IP) addresses of the dedicated computers. Tell the bank to accept instructions only from them. If possible, these computers should be

located in a secure area. Changing passwords regularly adds one more layer of protection. However, modern security software can elevate protection far beyond these simple, cost-effective measures.

Many security programs can identify attempts to breach a system as well as detect successful breaches. Inquire about whether your district's systems can generate breach reports. Ask to see the reports on a regular basis. If your software is not capable of recognizing attempts to hack your system, ask administrators to determine what steps can be taken to be sure district information is protected. This is especially important regarding banking transactions.

Personnel may wish to access district information from home or while traveling. The rationale for the proposal is usually to provide increased flexibility and efficiency for administrators. However, carefully consider the risks involved when allowing access to district systems to persons not physically in district offices.

Lost or stolen laptops with district-access capability are a significant threat to security. If offsite access is allowed, consider adopting a policy requiring a strictly enforced approval process. In addition, ensure that administration has developed internal controls robust enough to protect district information and financial systems.

Emergency response

Computer safety is not the only treasury concern. Is your district prepared to manage treasury functions seamlessly in the aftermath of a fire, tornado, flood, or earthquake? Ask administrators whether payrolls, as well as vendor and bond payments, can be made on time if disaster strikes. A well-prepared district has a disaster recovery procedure in place for treasury functions.

Many districts create a "hot site," located in another geographic location, where district personnel can conduct

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vital transactions following a disaster. Disaster recovery procedures typically address how district checks, banking data, and important contact numbers are stored for an emergency. In addition, plans are made to access ordinary supplies such as pens and note pads. (For more on this topic, read "The Backup Plan" by Naomi Dillon in February 2012 *ASBJ*.)

School districts sometimes locate their backup sites at a regional education center or other municipal entity that will be easily accessible in an emergency. However, be cautious about backup providers. Investigate how your backup site backs up and protects your information. Also find out if the procedure has been tested.

Policy

A *laissez-faire* approach to treasury oversight increases the risk that district funds will be lost or squandered. Existing guidelines may be overly general, outdated, or not reviewed on a regular basis. But when the board is well informed, there will be no hesitation regarding oversight. Because treasury operations are vital to that process, it deserves your attention on a regular basis.

The responsibility for developing treasury procedures and establishing internal controls is the responsibility of school district administrators. However, because the board is the district's governing body, you are ultimately responsible to ensure that the procedures and controls in place are effective. An

informed board will develop treasury policies to guide administrators in their duties. There are several areas to consider.

Because banks can fail, you may establish treasury policies that guide an annual review process for banking and brokerage institutions used by your district. This process can include a review of short- and long-term credit ratings as well as policies concerning the types of investments made with surplus funds.

Similarly, board members may develop policy regarding procedures established for the protection of signature plates or access to check signature processing computer programs. Policies can require dollar limits and an approval process for large dollar amounts on district checks. Consider developing a policy that guides the approval of budget transfers over a certain limit. Such basic controls are found in the treasury policies and operational procedures of all government agencies and private businesses.

Naturally, it is critically important that the board collaborate with administration in developing treasury policy. In the absence of collaboration, policies actually may be counterproductive. Policy development in a vacuum may add to processing time or make operations more expensive without accomplishing the objective of reducing risk.

Take time to learn about your district's treasury operations. As a board member and lifelong learner, you will become well versed in financial matters. As a bonus, the knowledge you gain from learning about treasury functions may prove helpful in managing your own financial affairs. You even may come to treasure the moments you spend on treasury oversight. ■

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