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NASSAU COUNTY LEGISLATURE

RICHARD NICOLELLO

PRESIDING OFFICER

FINANCE COMMITTEE

LEGISLATOR HOWARD KOPEL

CHAIR

Theodore Roosevelt Building

1550 Franklin Avenue

Mineola, New York

January 22, 2020

3:10 P.M.

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2 A P P E A R A N C E S:

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4 LEGISLATOR HOWARD KOPEL

5 Chair

6

7 LEGISLATOR VINCENT MUSCARELLA

8 Vice Chair

9

10 LEGISLATOR TOM MCKEVITT

11

12 LEGISLATOR ROSE MARIE WALKER

13

14 LEGISLATOR ELLEN BIRNBAUM

15 Ranking member

16

17 LEGISLATOR CARRIE SOLAGES

18

19 LEGISLATOR SEILA BYNOE

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2 LEGISLATOR KOPEL: We are going
3 to start. I'm going to take the roll. Then I
4 will make a short opening statement. Then we
5 will get going here. Start with the pledge.

6 Thank you everyone. Mr. McKevitt.

7 LEGISLATOR MCKEVITT: Here.

8 LEGISLATOR KOPEL: Ms. Walker.

9 LEGISLATOR WALKER: Here.

10 LEGISLATOR KOPEL: Ms. Birnbaum.

11 LEGISLATOR BIRNBAUM: Here.

12 LEGISLATOR KOPEL: Substituting
13 for Mr. Drucker would be Ms. Bynoe.

14 LEGISLATOR BYNOE: Here.

15 LEGISLATOR KOPEL: And
16 substituting for Mr. Lafazan would be
17 Mr. Solages. I'm informed that Mr. Muscarella
18 is on his way down. We have a quorum. So we
19 can go ahead at this point.

20 Earlier this month the comptroller
21 held a press conference at which it was
22 announced that 700 some odd thousand dollars
23 in taxpayer dollars had been sent from his
24 office to a fraudulent entity. As we
25 understand it we don't have a lot of details

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2 on this. This occurred some time in late
3 October of 2018. We basically don't know
4 anything about it here. At least I don't.
5 2019, excuse me. Takes me a while to adjust
6 to the year. By October or so I should get it
7 right.

8 We basically know about it from
9 Newsday.

10 Mr. Schnirman, thank you for being
11 here today. We appreciate your coming down
12 here to enlighten us as to what happened and
13 to answer our questions. Because it's our
14 job, it's your job to ensure that the office
15 of comptroller has all the necessary
16 procedures and controls in place so that tax
17 dollars are not inadvertently sent to third
18 parties that are not entitled to this money.

19 Now, this was reported in the press
20 as a cyber attack. But we've got a lot of
21 questions understandably. So what we want to
22 do is find out what exactly went wrong over
23 here in the process which enabled this money
24 to be sent to the wrong party. What
25 procedures there were in place prior to this

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2 occurrence. What, if any, procedures have
3 been implemented since then to prevent a
4 recurrence. We look forward to hearing the
5 answers to these questions and more to protect
6 the Nassau County taxpayers' hard earned
7 money.

8 Just a word as to how we are going
9 to conduct this hearing. Mr. Schnirman, why
10 don't you come and sit in the hot seat right
11 here please. I believe Mr. Schnirman has an
12 opening statement if I'm not mistaken; is that
13 correct?

14 MR. SCHNIRMAN: We do.

15 LEGISLATOR KOPEL: Mr. Schnirman
16 and whoever is with him will present the
17 opening statement. At that point the Majority
18 and Minority members of the committee will ask
19 questions. After that we're going to allow
20 other members of the legislature who are in
21 attendance today but are not members of the
22 committee we're going to let them ask
23 questions as well if they are so inclined.
24 And finally, of course this is a hearing,
25 we're going to allow questions and comments

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2 from the public. With that, Mr. Schnirman,
3 the floor is yours.

4 MR. SCHNIRMAN: Good afternoon.

5 I want to thank the Finance Committee of the
6 legislature for holding today's public hearing
7 and for inviting us to speak on the financial
8 and payment security and controls within the
9 office of the county comptroller. I'm here
10 today because modernization of the county's
11 financial system is a concern that my office
12 has proactively looked at since day one. The
13 critical component of that issue is cyber
14 security.

15 As technology improves and advances
16 at a rapid pace, malicious actors have
17 weaponized that technology and are using it to
18 attack governments, private industry as well
19 as private citizens. Increasingly cyber
20 attacks have targeted municipalities
21 throughout the country costing taxpayers and
22 residents millions of dollars.

23 A report released last fall said
24 that in the previous ten months 140 local
25 governments, police stations and hospitals

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2 have been held hostage by ransomware attacks.

3 Just recently it was announced that a

4 ransomware attack hit Albany International

5 Airport. We've also seen this right here in

6 Nassau County with school districts targeted

7 in Rockville Centre, Lynbrook and Mineola.

8 As cyber attackers adapt the threat

9 only worsens. It's incumbent upon all of us

10 to ensure that we undertake necessary and

11 critical efforts to modernize our financial

12 system so we can remain vigilant against the

13 threat of cyber attacks and further protect

14 taxpayer dollars.

15 To be clear, the incident that was

16 reported to the police was not a cyber attack

17 on the county's overall IT infrastructure.

18 This was a focused and elaborate phishing

19 scheme that used a vendor's correct tax ID

20 number. Used a modified check to falsely

21 change a vendor's bank information to divert

22 funds. The claims for payment were normal and

23 regular. In the scam we are here to discuss

24 the destination of the payments is what was

25 fraudulently altered. In the end all the

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2 monies were recovered and the county's books
3 are even.

4 Recently I joined Police
5 Commissioner Pat Ryder to announce that there
6 was an attempted cyber attack on Nassau
7 County, as well as the full recovery of more
8 than \$700,000 in county funds that were
9 initially diverted to bank accounts due to
10 this elaborate but ultimately unsuccessful
11 scam.

12 Controls in place at the time,
13 which have since been enhanced, identified
14 this fraudulent activity and the account that
15 the money was diverted to was frozen. As a
16 result of a coordinated investigation, which
17 included the Financial Crimes Detectives Unit
18 of the county police department, the Office of
19 the County Treasurer, Nassau County District
20 Attorney's Office and the Nassau County
21 Comptroller's Office, all monies were
22 recovered. The cyber attackers were thwarted
23 in their attempt to scam the county. The
24 county lost no monies. The vendor received
25 payment and additional controls were put in

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2 place that will further deter similar future
3 scams.

4 Procedures in place and implemented
5 by our office's Claims Division ensured that
6 county funds are protected. The team in the
7 Claims Division not only audited and approved
8 over 65,000 claims to thousands of vendors in
9 2019, but increased oversight and efficiency
10 in the process saving taxpayer dollars.

11 Since we took office in 2018 our
12 claims division has identified several
13 millions dollars in erroneous or duplicative
14 claims ultimately saving the county money. An
15 example of this success is in the catching of
16 the American Water bill that had increased
17 from \$45 per month to approximately \$4,500.

18 Gabe Marques is here, our fiscal
19 office from the Claims Division and we thank
20 our division for their hard work.

21 But let's all remember, no matter
22 how vigilantly we prepare vulnerability to
23 cyber attacks is a problem. We've improved
24 our controls. We did this before this
25 incident. We have now improved our controls

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2 after this incident. But even as our defenses
3 increase, attackers will continue to attempt
4 to work around them. So we know we must
5 continue to work to improve because even we
6 are all vigilant we are all still vulnerable.

7 So let's get right into it. Deputy
8 Comptroller and chief counsel Jeff Schoen and
9 fiscal officer Gabe Marques are prepared to
10 give an account of the attempted scam as well
11 as the protocols that have since been
12 implemented to further protect county funds
13 against future attempts.

14 To give a brief overview, our team
15 implemented new controls when we first came
16 into office because there was no consist
17 method to verify vendor information. We
18 looked thoughtfully and updated the controls
19 to make the process more centralized, more
20 efficient and increase oversight.

21 A number of changes were
22 implemented from January of '18 to August of
23 '19. This is a result of identifying the
24 importance of accurate vendor information in
25 the digital age and we will look to continue

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2 to make updates as we go.

3 To update the vendor information
4 form we required enhanced verification,
5 including a cancelled check and verifying tax
6 ID numbers. Since this incident we have
7 enhanced controls further. These now include
8 an enhanced vendor information form. Enhanced
9 verification and confirmation of vendor
10 information provided. Internal comptroller's
11 office trainings are now ongoing and have been
12 ongoing. There's also been a countywide IT
13 training on how to identifying phishing
14 attempts. And in looking forward, the
15 electronic vendor portal adds additional
16 comprehensive levels of security by requiring
17 a log in and a password to submit a vendor
18 information form.

19 And today I am pleased to announce
20 that these new controls have stopped at least
21 one subsequent attempt in which a real vendor
22 was targeted in the same way using a mimicked
23 email address. In December of 2019 a claims
24 auditor received a request to change banking
25 information for a vendor. Due to the new

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2 internal controls the request was flagged.

3 The scammer was unable to provide the newly

4 required enhanced verification and vendor

5 information. In working with the vendor, the

6 scam was identified and the fraud was stopped

7 by the Vendor Claims Division of the

8 comptroller's office.

9 I'm going to turn it over for a

10 moment to deputy comptroller and chief counsel

11 Jeff Schoen to walk us through a power point

12 with the specifics.

13 MR. SCHOEN: As to the specific

14 phishing attempt, the comptroller's office

15 received an email from a scammer disguised as

16 a county vendor requesting to modify the

17 vendor's automatic bank payment information or

18 ACH payment. The scammer sent the request

19 from an email address which mimicked that of

20 an actual email address of the principal of

21 one of the county vendors. For example, the

22 actual email address being jprincipal at ABC

23 incorporated dot com but instead mimicked that

24 with a dot net. As we all know, scammers are

25 mimicking email addresses all the time. We

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2 all receive them on our phones and devices on
3 a daily basis.

4 The fiscal officer informed the
5 scammer that they must complete a new vendor
6 profile form.

7 MR. MARQUES: Good afternoon. So
8 as a process of the controls, we asked the
9 scammer to fill out a new vendor information
10 form, which was returned completed with the
11 correct tax identification number, the correct
12 vendor name, the correct vendor contact name,
13 which was an authored principal of the
14 company, the correct vendor address and a
15 correct vendor phone number. In addition, a
16 voided check was submitted, as you can see on
17 this slide, that had the accurate vendor name,
18 the accurate vendor address and an actual bank
19 account number at Chase Bank was submitted.
20 Those two documents were submitted in
21 conjunction and then forwarded on for
22 processing.

23 MR. SCHOEN: So this was a
24 mimicked real check.

25 Subsequently, the comptroller's

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2 office was informed that a bank account
3 receiving county payments had been frozen.
4 This indicated possible fraudulent activity.
5 The comptroller's office identified 710,000
6 plus in payments to this account. The
7 comptroller's office initiated a joint
8 investigation with the Nassau County Police
9 Department, the county treasurer and the
10 district attorney's office and all payments
11 were recovered.

12 So how did we get here? Before a
13 vendor can be paid a vendor must submit a
14 payment information form to the county.
15 Typically done on an IRS form W-9. What's
16 called a request for taxpayer identification
17 and certification. The county's W-9 form is
18 known as a 700 form.

19 Prior to January 1, 2018 there was
20 no centralization of the process of collecting
21 this form. There was no consistent method to
22 collect or verify the vendor information. And
23 most importantly, the comptroller's office was
24 not verifying that the tax identification
25 numbers, the TIN numbers, businesses social

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2 security number essentially, was not verifying
3 that those were in fact actually TIN numbers.

4 Between January 2018 and August
5 2019 our office centralized the collection of
6 vendor information in the comptroller's
7 office. We centralized and uniformed the
8 method of verification of vendor information
9 in the comptroller's office to the Vendor
10 Claims Division. This included the
11 verification of the banking account
12 information requiring the void check or
13 requiring a letter from the bank saying that
14 this is in fact the vendor's bank account.
15 And utilizing a free service that the IRS
16 provided of verifying that the TIN numbers,
17 the social security numbers of the vendor,
18 were in fact actually numbers. And if that
19 failed, we would essentially deactivate the
20 vendor and not allow the financial systems to
21 make any payments to the vendor until those
22 problems were resolved.

23 After the event, the phishing
24 event, we enhanced the vendor information
25 form. We required that the vendor tell us if

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2 they were submitting a new form or they were
3 making changes to the form. And specifically
4 to check what changes they were making to that
5 form. More importantly, we asked them to
6 provide their old banking information, both
7 the bank, the routing number and the account
8 number and the new one. Because if you were
9 attempting to mimic as if you were an old
10 vendor and you were in fact someone phishing
11 and trying to defraud us, most likely you
12 wouldn't know the old information. You would
13 only know the new information.

14 We also put in enhanced
15 verification and confirmation of the vendor
16 information. Are you actually making this
17 change? Asking multiple checks with more than
18 one person with the vendor. Contacting more
19 than one person. One person asked to make the
20 change and another person verifying the
21 change. We also did a training at the
22 comptroller's office as well as the countywide
23 training that IT implemented.

24 On top of that, all that, very
25 soon, we will be requiring the vendor

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2 information form to be submitted through the
3 vendor portal. The vendor portal, as we all
4 know, requires log in and password access from
5 the vendor in order to access it. So if you
6 were a vendor who wants to submit a form
7 you're going to have to be an authorized user
8 of the vendor's profile in order to get in
9 another. On top of all these extra controls
10 we put in place, there will now be a log in
11 and access controls in order to submit the
12 vendor information form through the vendor
13 portal.

14 As the comptroller pointed out,
15 these internal additional controls have
16 already thwarted a similar attempt.

17 MR. SCHNIRMAN: So simply put,
18 this scam was about using a mimicked email
19 address on the vendor information form.
20 Currently our antiquated financial system,
21 which was developed prior to the regular use
22 of corporate or personal email addresses,
23 cannot accept email address information in the
24 vendor profile screens. New financial system
25 will be able to electronically verify email

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2 addresses and therefore will be able to
3 identify a situation with a mimicked email
4 address and this underscores the need for
5 modernizing the county's finances that we've
6 talked about before. And for that reason I
7 again thank the legislature for supporting the
8 financial modernizations that are now moving
9 forward.

10 The announcement of the phishing
11 attempt was held with law enforcement
12 following the full recovery of the diverted
13 funds so as not to interfere with an active
14 investigation and in the interest of providing
15 full transparency and accountability to the
16 public. As Commissioner Ryder said, money
17 moves quickly and this scheme was not
18 exclusive to Nassau County. In fact, three to
19 four other municipalities were also targeted
20 we were told. We needed to recover the money
21 before the scammers could be alerted and move
22 the money. But the key thing is that working
23 with investigators we recovered the county's
24 money and zero dollars were lost. All efforts
25 to be transparent have served as a positive.

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2 Since the announcement,
3 representatives from other municipalities,
4 even from other parts of the country, have
5 reached out in the interest of preventing
6 similar schemes from occurring in the areas
7 that they represent. And this healthy
8 dialogue must continue. Just this morning I
9 joined Suffolk County Executive Steve Bellone
10 to discuss partnering on cyber security on a
11 regional basis. But this is not a Nassau
12 problem or even a regional problem. This is a
13 challenge that all governments,
14 municipalities, businesses and private
15 citizens face as we are more dependent on
16 technology to manage our day-to-day life. So
17 we look forward to working together.

18 I want to thank again the
19 legislature again for supporting the financial
20 modernizations that are moving forward.
21 Nassau County must take the lead in
22 modernizing our government and ensuring that
23 we are fully prepared to protect tax dollars
24 now and into the future no matter the threat.

25 We are looking to partner with

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2 other municipalities on cyber initiatives as
3 we go forward. In fact, months before this
4 incident, the comptroller proactively took up
5 the issue of cyber security with its
6 revitalized independent audit advisory
7 committee. The issue was discussed actually
8 in April of '19 and June of '19 a specialist
9 from the county's external auditor gave a
10 detailed presentation on cyber security. And
11 in September of '19 the committee once again
12 received an update on the issue.

13 In fact, this year technology was
14 built into our recent procurement of external
15 auditors. As a sign of our concern for cyber
16 security, our new external auditors have
17 dedicated personnel for the integration of
18 technology assessment services which includes
19 cyber security. These auditors have already
20 met with the county's IT department to discuss
21 this critical issue.

22 So before we take any questions
23 that you have, I want to again thank the
24 committee for taking a thoughtful approach to
25 this issue and sincerely hope that we can

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2 partner on initiatives to promote good
3 government to protect taxpayers, the county
4 and critical modernizations as we go forward.

5 I will caution that while we have
6 gotten into quite a bit of information about
7 the incident here, as our counsel will remind
8 me I'm sure, we are reticent to get into a
9 certain level of granular detail as that would
10 be unsafe I would say to our public safety
11 going forward. With that, we are happy to
12 take any questions the committee may have.

13 LEGISLATOR KOPEL: Thank you for
14 your presentation. I just want to note for
15 the record that Legislator Muscarella joined
16 us at the outset of this presentation and he
17 is now with us and in full attendance.

18 Let me ask you a few questions.
19 I'm not quite clear on several details on the
20 actual attack here. We will call it an attack
21 for convenience. First of all, how many
22 payments were made comprising this entire
23 710,000?

24 MR. SCHNIRMAN: I want to give
25 you a general answer and then I'll let Deputy

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2 Comptroller Schoen give you -- as I said
3 earlier, and I can see how this can be a point
4 of confusion, this was not an attack on the
5 county's overall IT infrastructure.

6 LEGISLATOR KOPEL: We understand
7 that. I'm not really -- don't want to get
8 hung up on terminology at this point. I
9 called it an attack. We will call it whatever
10 you would like. What would you like?

11 MR. SCHNIRMAN: Absolutely an
12 attack. It's just that there's a different
13 piece, right, whether it's the overall IT
14 infrastructure or this was --

15 LEGISLATOR KOPEL: I said during
16 this attack. I did not refer to the IT
17 infrastructure at all. I merely referred to
18 this incident as an attack and I will continue
19 to if that works for you.

20 MR. SCHNIRMAN: Sure.

21 LEGISLATOR KOPEL: How many
22 payments?

23 MR. SCHOEN: The information that
24 I provided in the presentation is what we are
25 comfortable to say publicly. In interest of

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2 public safety we would have to give you
3 anymore details in executive session.

4 LEGISLATOR KOPEL: Was there more
5 than one?

6 MR. SCHOEN: After being notified
7 that the payments were going into a fraudulent
8 account we identified other payments going to
9 that account. That's the 710,000 is a
10 composite of multiple payments.

11 LEGISLATOR KOPEL: Understood.
12 That does answer the question. How did this
13 come to light? We did not really get into a
14 good level of detail. How did you find out
15 that this is a problem?

16 MR. SCHOEN: We were notified by
17 our banking institution that the payments were
18 attempting to go into a fraudulent account.

19 LEGISLATOR KOPEL: When did this
20 happen?

21 MR. SCHOEN: The notification was
22 in late October.

23 LEGISLATOR KOPEL: When were the
24 payments being made more or less?

25 MR. SCHOEN: That's not a level

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2 of detail we're not prepared to give outside
3 of executive session.

4 LEGISLATOR KOPEL: Is it safe to
5 say that it was some months prior to that?

6 MR. SCHOEN: It was a less than
7 30 day period of time.

8 LEGISLATOR KOPEL: Now, I'd like
9 to go into some of the -- let me ask you
10 this. Did you notify the administration?

11 MR. SCHOEN: We immediately
12 notified and put together the investigative
13 team of the county treasurer's office and the
14 police department which are under the
15 administration's purview.

16 LEGISLATOR KOPEL: Did you notify
17 the county executive's office back in October
18 or thereabouts?

19 MR. SCHOEN: As I said, we worked
20 with the police department and the treasurer's
21 office which are under the county executive.

22 LEGISLATOR KOPEL: So no, you
23 didn't notify the county executive? That's a
24 no?

25 MR. SCHOEN: Yes. Yes, we did.

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2 MR. SCHNIRMAN: Yes, we were in
3 contact with the county executive's office at
4 that time.

5 LEGISLATOR KOPEL: That's what I
6 asked you. Would have been simple to just say
7 yes or no.

8 Getting into the procedures.
9 You've gone through a lot of these procedures
10 as to how information is provided to the
11 county and you've got it all in writing and
12 you've got all kinds of information there.
13 Are you aware that there are certain best
14 practices common to the industry? When I say
15 industry I should say industry in general not
16 the industry. I don't mean only the
17 county's. But pertaining to anyone that gets
18 involved in making large wire or electronic
19 transactions and it's out there on the
20 Internet. You can find dozens of instances of
21 it very simply. You're aware of that, are you
22 not?

23 MR. SCHOEN: Yes. We've tried to
24 implement a lot of practices that weren't in
25 place including the requirement of the

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2 cancelled check, the requirements of the bank
3 letter and now the additional verifications,
4 the dual verification of an individual
5 requesting a change and verifying with the
6 company that the change is in fact being made.

7 LEGISLATOR KOPEL: Are you aware
8 that a change in payment instructions is a
9 classic red flag, are you not?

10 MR. SCHOEN: We receive hundreds
11 of requests to change payment instructions.
12 We receive both new vendors and vendors that
13 already exist with us to make changes. We get
14 about 30 or so requests per week. Over 1500
15 requests per year.

16 LEGISLATOR KOPEL: Your procedure
17 in dealing with that is to change the
18 paperwork essentially? In other words, you've
19 gone through these --

20 MR. SCHOEN: Currently the
21 financial system requires us to do it on
22 paper. We are going to be shortly going to
23 the vendor portal where it will be submitted
24 electronically with the enhanced control of
25 the log in and password in order to do that.

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2 LEGISLATOR KOPEL: It seems to me
3 that using not only the prior controls but
4 even the current controls, a disgruntled
5 insider is still in a perfect position to game
6 the system. A disgruntled insider, he or she
7 would have access to all the information you
8 need.

9 MR. SCHOEN: I think that would
10 be the case in any institution. But I
11 believe --

12 LEGISLATOR KOPEL: So that's
13 correct?

14 MR. SCHOEN: If we went into
15 executive session we would be able to give you
16 the additional controls we put in place.

17 LEGISLATOR KOPEL: I'm speaking
18 quite generally speaking. It seems to me that
19 these particular controls could easily be
20 gained by any, as I say, disgruntled insider.

21 Let me ask you, are you not aware
22 that the best practice for change of any kind
23 of wire instructions from those given at the
24 very outset of a transaction generally
25 requires verification by a phone call

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2 emanating from the payor to a known person and
3 a known phone number at the payee?

4 MR. SCHOEN: Exactly what we're
5 doing now. That's one of the controls that I
6 would like to talk about in executive session
7 so as not to inform the people scamming us as
8 to what our processes are.

9 LEGISLATOR KOPEL: That's not a
10 big secret as I say. That is a universal best
11 practice. So we weren't doing that?

12 MR. SCHOEN: We were not and we
13 are now.

14 LEGISLATOR KOPEL: And are all
15 emails encrypted?

16 MR. SCHOEN: You have to ask IT.
17 It's an IT question.

18 LEGISLATOR KOPEL: It sure is an
19 IT question but it's also a question for you
20 because that's something that again it's a
21 best practice when you're dealing with any
22 kind of transaction details. I'm not an IT
23 person but I know that I'm in business and if
24 I need something I'll go to IT and say hey,
25 best practice is here's the list, have you

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2 implemented it? And if you haven't you better
3 do it for us real quick. Did you ever ask
4 them for that? I'm sorry, did you answer?

5 MR. MARQUES: Us at the claims
6 division we rely on IT to provide that level
7 of security. The truth of the matter is that
8 it's a largely manual process and any time you
9 have a manual process risk is inherent.

10 LEGISLATOR KOPEL: So you
11 haven't? The answer is no, not yet?

12 MR. SCHOEN: I'm not sure at what
13 point we decided to look into it but right now
14 the financial system does not even take an
15 email address or cannot take an email
16 address. The email addresses are used at the
17 claims division to communicate with vendors.
18 And the vendor information form will be coming
19 through the vendor portal which requires an
20 email log in and password access.

21 LEGISLATOR KOPEL: Going into
22 some other best practices. When you make
23 payments how is that handled? Explain that to
24 us.

25 MR. SCHOEN: The comptroller's

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2 office actually doesn't make payments. The
3 comptroller's office approves payments and
4 then all those approved payments are put on
5 what we call a warrant which is sent to the
6 treasurer's office. The treasurer's office
7 actually makes payments. That's the control
8 in place. The comptroller's office in fact
9 can't make payments. That's the nature of
10 control in place in the county charter.
11 Treasurer pays comptroller approves.

12 LEGISLATOR KOPEL: Good. Is
13 there just one person to doing those
14 approvals?

15 MR. SCHOEN: We have various
16 levels of approval depending on the amount of
17 the payment. But all of the individuals in
18 our claims division have approval level
19 depending on the level of the claim.

20 LEGISLATOR KOPEL: But it's a
21 single person?

22 MR. SCHOEN: There are multiple
23 claims auditors who can approve payments.
24 Depending on the amount of the payment there
25 may be additional levels of approval required.

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2 LEGISLATOR KOPEL: In a given
3 instance, if there was a significant amount of
4 money there would be more than one person
5 looking at this?

6 MR. SCHOEN: Yes. Even before it
7 comes to our office it would have been
8 reviewed by the department and then sent to us
9 for approval.

10 LEGISLATOR KOPEL: The other
11 question, I guess you probably won't know the
12 answer to that, when somebody does get into
13 the system do you require multifactor
14 authentication? It sounds to me like that's
15 something that you are starting to do.

16 MR. SCHOEN: Yes. With the
17 vendor portal. IT will be able to answer that
18 more specifically.

19 LEGISLATOR KOPEL: It sounds to
20 me like that's something you're starting to
21 implement but haven't yet. But we will save
22 that for IT I guess. Tell us about the
23 training programs that you've implemented
24 here.

25 MR. SCHOEN: Apart from the

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2 countywide IT training which all received I
3 believe due to the phishing incident. We have
4 been monitoring other incidents in other --
5 that happened and regularly advising our
6 claims auditors what to look for based upon
7 those instances.

8 LEGISLATOR KOPEL: I'm talking
9 specifically about the people in the
10 comptroller's office who are responsible for
11 authorizing payments. We've already
12 established I think that you are about or have
13 just about implemented the program where you
14 would be calling to verify transactions.

15 MR. SCHOEN: We haven't but since
16 October, since the incident, we put that in
17 place.

18 LEGISLATOR KOPEL: What happens?
19 Which kind of payments will require phone
20 calls for? All payments?

21 MR. SCHOEN: Yes. What happens
22 is the payments are separate from the payment
23 process. A vendor receives payments based
24 upon a claim that's been approved. The vendor
25 sets that profile up before they can get any

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2 payments using the vendor information form.

3 That form is where they set up their

4 payments. How they're going to get paid. If

5 they want to make any changes they use the

6 vendor information form to make changes.

7 The initial form and any changes to

8 that form we are doing that dual

9 verification. So one person from the vendor

10 will request the change and we will verify

11 with someone else at the vendor, preferably

12 the contact person on the contract, we will

13 verify by phone that they in fact are making

14 the change. And then we have an additional

15 control which we send them an email, which we

16 all get when we make changes to our accounts,

17 that says hey, you made a change to your

18 account. If this didn't happen please let us

19 know.

20 LEGISLATOR KOPEL: Please let us

21 know again it's not sufficient. You have to

22 have these phone calls.

23 MR. SCHOEN: Absolutely.

24 LEGISLATOR KOPEL: It's old tech

25 but --

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2 MR. SCHOEN: It's amazing how new
3 tech requires the old tech.

4 LEGISLATOR KOPEL: And fax
5 machines. Fax machines are back in use for
6 wire instructions. I would advise you not to
7 take wire instructions on email at all. Not
8 only not to verify it don't take them. Get it
9 by fax or get it verbally. That's again it's
10 a best practice. Unless sometimes a backup
11 would be an encrypted email. But you probably
12 don't have that.

13 What kind of information -- you
14 implemented some time ago your open checkbook
15 program?

16 MR. SCHNIRMAN: Correct.

17 LEGISLATOR KOPEL: Question that
18 I have for you is, how much information is
19 available as a result of this program that can
20 be used by some of these evildoers?

21 MR. SCHNIRMAN: We implemented a
22 transparency portal Open Nassau dot Nassau
23 County NY dot gov. On there is Open
24 Checkbook, Open Budget, Open Payroll. Our
25 score card as well. Looking at the county's

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2 finances. So simply put, the information that
3 is there is the same information that was
4 previously publicly available but it's
5 displayed in a more user-friendly fashion.
6 Previously it was put up in just Excel
7 sheets. Sort of hard for the average
8 individual to wade through.

9 LEGISLATOR KOPEL: But is any of
10 this information information that might have
11 made it easier in this particular incident and
12 possible others?

13 MR. SCHNIRMAN: The information
14 was already available.

15 LEGISLATOR KOPEL: I'm sorry. I
16 don't understand.

17 MR. SCHOEN: The platform we're
18 using is a different platform. But all the
19 information was already available. And it was
20 already made publicly available and would be
21 completely have to be made available under the
22 New York State FOIL laws.

23 LEGISLATOR KOPEL: Not
24 information. Not bad checks and so forth.

25 MR. SCHOEN: Yes.

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2 LEGISLATOR KOPEL: Information
3 about checks?

4 MR. SCHOEN: You can check with
5 your counsel but --

6 LEGISLATOR KOPEL: I'm not
7 contradicting you.

8 Now, your office found out about
9 this because you were notified by a bank that
10 happened to notice irregular activity on this
11 particular account to which the money went. I
12 think that's what you said, right?

13 MR. SCHOEN: Correct. We always
14 rely on our financial institutions to help
15 protect fraudulent activity on our credit
16 cards and banking.

17 LEGISLATOR KOPEL: This is very
18 unusual and lucky because the great majority
19 of times I understand that this money within
20 minutes is out of the country. So I'm sorry
21 this was a crook who didn't know his or her
22 business very well I guess. So it's really
23 just pure dumb luck that we got this money
24 back.

25 MR. SCHOEN: The fact that we

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2 reacted as quickly as we did once we were
3 informed, the fact that we keep electronic
4 records so we were able to identify the
5 accounts as quickly as we did and the fact
6 that the department --

7 LEGISLATOR KOPEL: I'm saying it
8 happens within minutes. Literally minutes.
9 It usually happens money goes into an account
10 it's gone within minutes.

11 MR. SCHOEN: I think they're able
12 to move it from the initial account to
13 different accounts but it's very hard to get
14 the money out of those accounts. It takes a
15 more sophisticated process to actually get the
16 money in your hands and these investigations,
17 as was announced, was able to identify other
18 accounts that it went to.

19 LEGISLATOR KOPEL: I understand
20 but typically, as I say, money comes in, you
21 have preexisting instructions and that money
22 comes into an account and it's immediately
23 wired to Bulgaria or God knows where. Then
24 it's gone.

25 MR. SCHOEN: Then you have to get

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2 the money out of that account in some way.

3 LEGISLATOR KOPEL: It's wired to
4 Bulgaria or something as I say. I picked on
5 Bulgaria. I don't know why.

6 MR. SCHNIRMAN: The police
7 commissioner went into this at some length,
8 and I know that there are representatives from
9 the police department who can probably speak
10 to that as well.

11 LEGISLATOR KOPEL: We found out
12 only because this was caught by the bank. Now
13 there is some delay between the time that an
14 invoice is rendered and payment is made.
15 That's typical. There's a delay of I don't
16 know whether it's 30 or 60 or 90 days. I
17 don't know what that is and that's not really
18 my question. My question is, what assurances
19 do we have that there's not a couple of other
20 time bombs sitting in your file that we don't
21 know about yet?

22 MR. SCHOEN: After the incident
23 we reviewed six months worth of vendor
24 information request changes and verified all
25 the changes.

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2 LEGISLATOR KOPEL: You're
3 satisfied that there's nothing else out there
4 at the moment?

5 MR. SCHNIRMAN: To the best of
6 our knowledge yes. But as I mentioned earlier
7 and I think it's important to remember, we
8 will continue to update our controls just as
9 others are in other places. Yet we are all
10 still going to be vulnerable. So just as
11 scammers will continue to improve we have to
12 continue to improve. That's what we are
13 committed to doing.

14 LEGISLATOR KOPEL: You are hereby
15 requested to give the committee members, and
16 if it's in confidential form that's okay too,
17 but we would like a full current exposition of
18 what all your current controls are. And you
19 might as well identify those that have been
20 updated as a result of this incident and
21 perhaps as a result of this discussion.

22 With that I'm going to turn it over
23 to Legislator Muscarella and then Legislator
24 McKeivitt.

25 LEGISLATOR MUSCARELLA: Hi. I'm

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2 kind of ignorant of this stuff. I'm not a
3 computer guy. I know how to use one. So I'm
4 not into all the terminology and I'm not into
5 all of the sophistication. Let me ask you a
6 couple of just basic things. You indicated
7 the phishing attempt and that the scammer got
8 the following information. Correct tax ID
9 number, vendor name, contract name, address
10 and phone number. Any idea where they got
11 this information?

12 MR. SCHOEN: No.

13 LEGISLATOR MUSCARELLA: So there
14 was a phishing expedition by the scammer. Did
15 somebody do a forensic evaluation of your
16 computer as to where this information might
17 have come from?

18 MR. SCHOEN: I think you may be
19 getting into details of the investigation that
20 the police department could tell you about.

21 LEGISLATOR MUSCARELLA: So let me
22 ask you. Basically, the computers are being
23 looked at, correct? As part of the
24 investigation now.

25 MR. SCHOEN: The manner in which

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2 they perpetrated the phishing scheme is being
3 investigated as part of how they were able to
4 identify, from my understanding, how they
5 would be able to identify the bank account.

6 LEGISLATOR MUSCARELLA: Let me
7 give you my basic concern. That this was less
8 a phishing scheme and more a fraud perpetrated
9 on the county. And I'd like to know in
10 executive session maybe whether or not the
11 information that was acquired by the scammer
12 was general information that was gotten very
13 easily by a member of the public or was gotten
14 as part of the electronic phishing scheme.
15 Number one.

16 Because if it was general
17 information that's out there, then that
18 information should no longer be put out to the
19 general public because it's information that
20 is being used by someone against us.

21 Number two, I just find it
22 incomprehensible that when someone asks us to
23 change the direction of where money is going
24 that the comptroller's office asks for a check
25 for the new account and has never thought to

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2 ask for information verifying the old
3 account. It appears to me that the
4 comptroller's office found out about this not
5 by any inquiry by the comptroller's office,
6 not by any hit that IT might have found that
7 there was something going on with our
8 computers, but solely, fortuitously, by a bank
9 that notified us that we were being hacked or
10 phished or whatever.

11 Maybe this is unfair, but we
12 constantly get audits by the comptroller's
13 office, every department, everything, and
14 invariably just about every department that
15 the comptroller's office does an audit on
16 comes back with the common theme you have
17 inadequate safeguards. Inadequate safeguards
18 for timekeeping, for paying bills, for
19 accounts, receivables accounts payable. All
20 kinds of inadequate safeguards. Yet it
21 appears to me that we're the victim of our own
22 inadequate safeguards in the county. I
23 understand all the controls that we are having
24 from this point forward.

25 Comptroller, you indicated that

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2 there were similar inquiries made from other
3 places that are being subject to similar type
4 scams. Were any of those successful that you
5 know or were they just --

6 MR. SCHNIRMAN: To our knowledge
7 yes.

8 LEGISLATOR MUSCARELLA: Just as a
9 matter of course, I would hope that you're
10 aware of the legislation that the legislature
11 passed and went into effect that requires
12 notification of the county legislature in the
13 event you are subject of a hack or phishing
14 scheme or that kind of thing and I just note
15 that there was no such notification done here.

16 MR. SCHOEN: Just to that
17 specific piece of legislation. It requires
18 the county IT department to notify the
19 legislature and other people within 72 hours
20 of a breach or cyber attack on the Nassau
21 County's information technology
22 infrastructure. On the core of the
23 structure.

24 LEGISLATOR MUSCARELLA: So what
25 you're saying is it doesn't fall technically

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2 within the purview of that legislation and in
3 any event it's not your responsibility to do
4 it, it's IT's responsibility.

5 MR. SCHOEN: According to this
6 piece of legislation.

7 LEGISLATOR MUSCARELLA: So then
8 perhaps we'll have to change the legislation.

9 MR. SCHNIRMAN: To be clear and
10 it's what we talked about at the beginning,
11 this was not an attack on the overall county
12 IT infrastructure. It was a different kind of
13 situation.

14 LEGISLATOR MUSCARELLA: I have no
15 other questions right now.

16 LEGISLATOR MCKEVITT: My
17 understanding is that the way that this
18 legislature found out about this incident, I
19 believe it was a press conference that was
20 held on January 11th of this year. Would be
21 would that be correct I believe?

22 MR. SCHNIRMAN: I believe so.

23 LEGISLATOR MCKEVITT: At that
24 press conference I believe you, Mr. Schnirman,
25 indicated that there were controls in place

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2 immediately identified this fraudulent
3 activity and the account that the money was
4 diverted to was frozen. I believe that would
5 be an accurate summarization of what you
6 stated at that press conference. Would that
7 be correct?

8 MR. SCHNIRMAN: Yes.

9 LEGISLATOR MCKEVITT: But the
10 controls in place were not controls of the
11 county comptroller's office. They were
12 actually the controls of the bank where the
13 money was being sent to. Isn't that the
14 case?

15 MR. SCHNIRMAN: No, actually as
16 our chief counsel had said. That is one of
17 our controls.

18 MR. SCHOEN: We rely upon the
19 banking institutions that we all have to tell
20 us when things -- there's a fraudulent
21 activity on the account that we have that we
22 are involved with them.

23 LEGISLATOR MCKEVITT: But as far
24 as controls, is that a protocol on what type
25 of suspicious activity to be looking for come

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2 from your office or is that just something
3 that the banking institution does in general
4 with all their banking customers?

5 MR. SCHOEN: I guess the answer
6 to both of those questions would be yes.

7 LEGISLATOR MCKEVITT: So this you
8 believe is actually the protocol the bank has
9 just for its institutions in general not
10 necessarily something specific to Nassau
11 County finances and accounts, would that be
12 correct?

13 MR. SCHOEN: Correct.

14 LEGISLATOR MCKEVITT: Just a
15 little bit of concern too, I know one
16 initiative which has been happening in the
17 last couple of years is the Open Checkbook
18 website in order to be able to go and give
19 more transparency to the public. My concern
20 is I'm just on Open Checkbook right now and
21 literally I can see checks for as little as
22 \$4, literally see checks in greater amounts
23 like that. And my concern is yes, we
24 definitely want to be transparent with the
25 public how the money is being spent, but in

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2 other instances can this just be a game plan
3 showing a prospective fraudster or scamster as
4 to at least identifying who the vendors are so
5 they can actually find this information and go
6 down this route.

7 MR. SCHNIRMAN: I think we spoke
8 to that earlier but I will let counsel.

9 MR. SCHOEN: I think both this
10 legislative body and other legislative bodies,
11 and the main legislative body in the state has
12 unfortunately told us given this multiple
13 instructions on how to put information out to
14 the public and how to protect public
15 information. The information that is out
16 there is all information that would be
17 required to be made public.

18 LEGISLATOR MCKEVITT: I guess
19 again that's part of the dilemma. Yes, we
20 want to be transparent as possible but just
21 again by looking on this website I can easily
22 tell you with probably within a Google search
23 within 30 seconds I can tell you the names,
24 the phone numbers, probably the CEO. Probably
25 the only thing I could not easily get is

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2 taxpayer identification number. That's the
3 one I probably could not get as easily on this
4 website.

5 MR. SCHOEN: I think you're
6 right. There are competing interests there.
7 The people of the state have required that our
8 legislature pass laws that require us to put
9 information out there in a transparent ways
10 and that's what we do. It's unfortunate that
11 it could be utilized for nefarious purposes.
12 But that's the line we are riding. We're
13 trying to abide by the law and be as
14 transparent as possible. We have competing
15 statutes.

16 LEGISLATOR MCKEVITT: Thank you.

17 LEGISLATOR WALKER: I just have a
18 very quick question. When you said the email
19 address was mimicked. So perhaps at the end
20 instead of saying dot com it says dot net. As
21 soon as anything was different about that that
22 didn't draw attention? Didn't give you some
23 thought in your mind why is this different?

24 MR. MARQUES: Without being
25 specific in public about the actual change,

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2 one step is that at the time the name of the
3 individual was listed in our book rather than
4 the actual address.

5 But second is that up until a few
6 months ago the vendor portal, which is what we
7 are using right now as the official record of
8 vendors, did not exist. So we did not know
9 what the official email address of the vendor
10 was.

11 MR. SCHOEN: In the financial
12 system currently there's no place to put an
13 email address into the vendor profile in the
14 financial system. It did not take it. It
15 doesn't understand what an email address is
16 because of the age of the financial system.

17 LEGISLATOR WALKER: For the
18 comptroller. When you started your statement
19 you said this was not a cyber attack.
20 However, throughout part of your discussion
21 you called it a cyber attack. So it was, it
22 wasn't. To me it's some type of cyber
23 attack. I'm not too good on this either. I'm
24 lucky that I can do whatever you are supposed
25 to on the computer. I have no way I can

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2 figure out how to do something that you
3 shouldn't be doing.

4 MR. SCHNIRMAN: I appreciate the
5 question and the opportunity for
6 clarification. To be clear, it absolutely it
7 was a cyber attack. What I was saying is, it
8 was not a cyber attack on the county's overall
9 infrastructure. It was a specific targeted
10 phishing scheme not meant to infiltrate the
11 overall cyber infrastructure of the county.
12 But meant to phish a particular payment to get
13 that. Hopefully that's a little clearer.

14 MR. SCHOEN: Generally cyber
15 attacks fall in these two categories. One
16 being the phishing category and the other
17 being the more attack on your infrastructure,
18 ransomware type category. This was more the
19 phishing category. But they are both
20 categorized generally as cyber attacks.

21 LEGISLATOR WALKER: So now when
22 you were notified by the banking institution
23 did you try to do any investigation yourself
24 or did you immediately reach out to the police
25 department and to the county executive and to

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2 the DA's office?

3 MR. SCHOEN: We immediately look
4 at our electronic records to see what the
5 payments that were going to the account and we
6 identified the payments and then notified the
7 police department and the treasurer and began
8 the investigation.

9 LEGISLATOR WALKER: I will pass
10 for now.

11 LEGISLATOR BIRNBAUM: Thank you
12 for clarifying a lot of what I don't think we
13 had heard about before. My question is
14 regarding the amount of funds. In this case
15 approximately 710,000. If this had been a
16 lesser amount, let's say a much smaller amount
17 in total, do you think that the banking
18 institute would have noticed? Was it because
19 of where the location of the account had been
20 changed to? The distance? Was it the amount
21 of the payments? What flagged it?

22 MR. SCHOEN: The account itself
23 had already been flagged as a fraudulent
24 account. There's probably a lot of money
25 going into that account. So it wouldn't have

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2 mattered whether we were trying to put a penny
3 in there or whether we were trying to put
4 multiple thousands of dollars.

5 LEGISLATOR BIRNBAUM: In other
6 words, the scammer was using this account for
7 other scams as well?

8 MR. SCHOEN: Yes. There were
9 other municipalities on Long Island that were
10 scammed in the same way.

11 LEGISLATOR BIRNBAUM: By the same
12 person or individual, whatever.

13 MR. SCHNIRMAN: In addition I had
14 just add, in the more recent attempt that we
15 mentioned earlier that was thwarted back in
16 December, the amount of money at stake was a
17 significantly smaller amount of money and our
18 enhanced controls now caught that.

19 MR. SCHOEN: That's just based
20 upon the amount of business we do with that
21 vendor.

22 LEGISLATOR BIRNBAUM: So then
23 leading up to what Legislator Kopel said, if
24 it had been a more sophisticated scammer that
25 wasn't doing an account across the country and

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2 was trying to transfer it to say another
3 country, do you think that it might not have
4 been flagged as easily?

5 MR. SCHOEN: You can probably
6 talk to law enforcement more about this. The
7 Financial Crimes Division may know more about
8 this. Essentially the scammers like this they
9 attempt to get money into accounts they have
10 control over and then move the money into
11 other accounts they have control over. But
12 getting the money out of the account is really
13 the sophisticated part. It's somewhat easier
14 to get it there but you have to somehow get it
15 out. You need multiple resources to take that
16 money out. If you take money out in big
17 amounts it's going to be flagged.

18 Not to get into what the criminals
19 do, I don't know myself, but you need multiple
20 resources and a real system in place in order
21 to actually get control of the money. You
22 have to get it out and utilize the money.
23 That never happened. In this case that never
24 happened.

25 LEGISLATOR BIRNBAUM: The account

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2 that was it going into was that person even
3 aware that was happening?

4 MR. SCHOEN: To our knowledge
5 no. As Commissioner Ryder stated, it was a
6 woman on the west coast who didn't even know
7 this account was being utilized.

8 LEGISLATOR BIRNBAUM: Did the
9 vendor notice that the payments were not being
10 made on a timely basis?

11 MR. SCHOEN: No because the time
12 period of the payments was less than our 30
13 day payment period. Although sometimes our
14 payments are more than 30 days. But it was
15 certainly within our normal payment period.
16 So they were not expecting those payments
17 necessarily. They would have been shortly but
18 they weren't expecting them at the time.

19 LEGISLATOR BIRNBAUM: Now you're
20 feeling fairly confident that with the portal
21 setup, with everything going through emails it
22 will be --

23 MR. SCHOEN: The portal is an
24 ultimate layer of control in effect. So you
25 can't submit it unless you're a vendor who has

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2 access. We still have all the other controls
3 behind it. The phone calls that Legislator
4 Kopel talked about. The verification by phone
5 call and the other layers of protection that
6 we have added in order to make sure that we
7 don't make any changes until everything is
8 completely verified.

9 MR. SCHNIRMAN: I would add, as
10 we said the good news here is that the
11 county's made whole. The county's not out any
12 money and controls continue to improve. And
13 as we talked about the technology that we are
14 using is improving and we have planned
15 improvements coming up as well. But I think
16 we have to just be really open about the fact
17 that this was yesterday's scam. Right? And
18 as we talk about moving forward I think we
19 have to anticipate that the sophistication
20 will continue to improve and so must our
21 efforts continue to improve and on and on we
22 go.

23 LEGISLATOR BIRNBAUM: In a way
24 this was like a wake up call. It really got
25 the county to start implementing procedures

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2 that should may have been in place but I'm
3 really glad we are moving forward and it will
4 be --

5 MR. SCHOEN: Since this
6 administration got here we were looking at the
7 importance of these payments and how they were
8 made and looking at those enhanced controls
9 that we started to put in place in January of
10 '18 and progressed to where we are now.
11 Starting with verifying the TIN numbers, which
12 was never done. Asking for the cancelled
13 check or the bank note. As Legislator Kopel
14 pointed out is a common thing to do. We were
15 even doing that. We centralized in our
16 office. So the departments aren't verifying
17 vendor information in different ways. We're
18 verifying it all in our office. We are
19 allowing the vendors to submit the information
20 directly to our office and doing the review in
21 our office. We've taken ownership of it and
22 we continue to enhance the controls as
23 electronic information gets more susceptible.

24 LEGISLATOR BIRNBAUM: Just to go
25 over one more time about Open Checkbook. This

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2 site is simply organizing information that had
3 already been available to the public on our
4 website but in a different format?

5 MR. SCHOEN: Yes. I would argue
6 that the public requires us to put out to them
7 in a transparent way.

8 LEGISLATOR BIRNBAUM: Is Open
9 Checkbook actually what other municipalities
10 use?

11 MR. SCHNIRMAN: Yes. There's a
12 variety of them. Also the Town of North
13 Hempstead has one. New York State. Around
14 the region and the country this is the
15 direction that governments are going in terms
16 of transparency.

17 LEGISLATOR BIRNBAUM: Thank you
18 very much.

19 LEGISLATOR BYNOE: Good
20 afternoon. So, are you seeing any correlation
21 between municipalities having these breaches
22 and the efforts to make information more
23 transparent?

24 MR. SCHNIRMAN: No.

25 LEGISLATOR BYNOE: You're not

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2 seeing any correlation between the two?

3 MR. SCHNIRMAN: I don't think
4 that we have seen.

5 LEGISLATOR BYNOE: I'm hearing a
6 lot more often than I'd like that a school
7 district has been in some way targeted and
8 then we're hearing that not only did we have
9 one vendor but you said later on there was a
10 second vendor, there was an attempt. I was
11 just wondering, maybe this is a question for
12 law enforcement and not your office.

13 MR. SCHNIRMAN: I think perhaps.

14 LEGISLATOR BYNOE: I'll leave
15 that question alone then.

16 MR. SCHNIRMAN: But I would just
17 mention just locally we have seen attacks in
18 Rockville Centre, in terms of school
19 districts, Rockville Centre, Lynbrook, Mineola
20 on the school district side.

21 LEGISLATOR BYNOE: Yes, I'm
22 aware. That's what led me to ask the
23 question.

24 So, you mentioned that you would
25 manually now send an email to each entity

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2 which you have said is somewhere around 30
3 entities per week, which is about 1500
4 entities, vendors per year that are making
5 changes to their account. So you're going to
6 make the change using your newly established
7 verification procedures. Then you're going to
8 do what? Manually send them an email to say
9 we've made this change to your account. If
10 you have not requested this change please
11 notify us?

12 MR. SCHOEN: Right. That's the
13 only way to do it now. The financial system
14 cannot handle the email. There may be ways to
15 automate it but right now we are doing it
16 manually. The individual who makes the change
17 who is already verified by phone or email by
18 somebody else at the vendor that they are in
19 fact making the change will then send an email
20 as sort of a final precaution to say hey, we
21 made this change. If you didn't authorize it
22 let us know.

23 LEGISLATOR BYNOE: Because a
24 member of senior staff suggested then it made
25 me think about how I'm communicated with by my

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2 bank and by others that I receive a wire. US
3 Department of Housing when they send the wire
4 they just don't rely on me waiting to get
5 notification from my bank. They also send me
6 a separate email that says we wired you XYZ
7 dollar amounts for this purpose, for this
8 program area and it's broken down. Then
9 there's a grand total as to what should have
10 been wired into my account.

11 MR. SCHOEN: That would be very
12 easy to do if we had a modern financial
13 system. We can certainly look into a process
14 to do something like that with our current
15 limitations.

16 LEGISLATOR BYNOE: To notify a
17 vendor that a payment had been made.

18 MR. SCHOEN: Right.

19 LEGISLATOR BYNOE: So you're
20 saying right now there's no way to do that?

21 MR. SCHOEN: We could look into
22 the possibility of doing it. But I could tell
23 you for sure that it could be done when we
24 modernize our financial system.

25 LEGISLATOR BYNOE: Where are we

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2 in modernizing our system?

3 MR. SCHNIRMAN: So, first of all,
4 thank you to the legislature on a bipartisan
5 basis of appropriating funds to move that
6 process forward. The HR system is looking
7 forward to come online in the near future and
8 we are in the preimplementation phase with the
9 overall ERP system.

10 LEGISLATOR BYNOE: Can you be
11 more specific?

12 MR. SCHOEN: We are currently in
13 the process of reviewing proposals from a
14 vendor who will provide preimplementation
15 services helping us to determine what the
16 exact services need to be provided for a new
17 system. What the system should look like and
18 what the RFP for the new system should look
19 like. We are looking for a vendor to assist
20 us in the preimplementation phase.

21 LEGISLATOR BYNOE: We will
22 partner with law enforcement as well to make
23 sure that the system is going to have all of
24 the different capabilities to reduce our
25 risk?

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2 MR. SCHOEN: As part of why we
3 are looking for a preimplementation vendor is
4 to help us develop the controls against cyber
5 attacks for whatever new system.

6 LEGISLATOR BYNOE: So we don't
7 think law enforcement is a natural partner in
8 helping us look at that process either?

9 MR. SCHOEN: They could be.

10 LEGISLATOR BYNOE: I think they
11 should be. They're the ones facing this on a
12 daily basis and they're communicating with
13 their colleagues across the country.

14 MR. SCHNIRMAN: As we said
15 earlier, when it comes to cyber security we're
16 looking to broaden the partnerships and have
17 that kind of dialogue.

18 LEGISLATOR BYNOE: So, there are
19 a lot of payments to go out. I was also on
20 Open Checkbook at the same time my colleague
21 Legislator McKevitt was on. When I look at
22 the volume that goes out there's a lot.
23 There's a lot of payments. So, I didn't have
24 enough time to peruse it but I would say any
25 vendor that's get getting multiple payments at

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2 a sum of \$710,000 in a one-month period we
3 should be hypervigilant in making sure that we
4 are looking at any changes to those types of
5 accounts. I'm not saying that -- any tax
6 dollar that is not appropriately protected
7 would be a shame on us. But I would think
8 those that are going out at higher volumes and
9 with higher risk we should be definitely
10 looking at those a lot closer.

11 MR. SCHOEN: Absolutely. That's
12 one of the additional levels of control that
13 the vendors with higher payments if they're
14 making any changes to their accounts need to
15 be reviewed at a higher level within the
16 Claims Division.

17 LEGISLATOR BYNOE: Very good
18 thank you for sharing that. Thank you.
19 .

20 LEGISLATOR SOLAGES: Comptroller,
21 again, thank you very much for your
22 presentation and thank you to your team. Just
23 also if we can send out an email or any
24 notification to our vendors where there's a
25 lot of transactions and asking them also to be

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2 part of the process. Asking them that if
3 taxpayer ID on their part was somehow leaked
4 to please notify us of that as well. Because
5 that's something that was not under your
6 control. How this perpetrator was able to
7 secure and get that taxpayer ID information.
8 That's my only suggestion here and I thank you
9 for your presentation.

10 LEGISLATOR KOPEL: Before I turn
11 it over to the noncommittee members just
12 before that I have to say I'm sorry, I
13 apologize in advance but I'm disappointed that
14 you chose to put this into a press conference
15 and the comptroller's office took credit for
16 stopping a fraud when the information that
17 we've heard here today was nothing but pure
18 dumb luck that we got this done. If the money
19 would have gone into the hands of a more
20 competent fraudster this money would have been
21 gone and indeed it might be still continuing
22 today if not for that.

23 We are going to really want to very
24 closely see the new procedures and make a
25 determination in this committee as to whether

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2 those are sufficient and as to whether we
3 ought to recommend some further action.

4 With that, I'm going to turn it
5 over to Legislator Ford.

6 LEGISLATOR FORD: Good afternoon
7 and thank you very much Chairman Kopel for
8 giving me this opportunity to also ask
9 questions. And I just want to start out by
10 saying Legislator Muscarella did bring up a
11 good point. As we have seen with your office
12 that you have audited many departments and
13 bringing out their inadequacies in regards to
14 their safeguarding and, you know, possible
15 leaks or any faults that may lie with them
16 especially dealing with any of the money that
17 we have. Any money that is within Nassau
18 County.

19 It seems that according to your
20 testimony here that you brought up the fact
21 that these phishing attempts and these cyber
22 attack attempts, and I guess I'm like
23 Legislator Muscarella and everyone else, I'm
24 not really very proficient with software and
25 IT and everything. But it seems that these

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2 attacks can happen and they have been
3 happening. So much so -- and correct me if
4 I'm wrong on this -- that you had indicated in
5 April of '19, June '19 you brought I guess the
6 people in your department in for training in
7 regard to these type of IT safeguards or
8 whatever else can be done because of the
9 possibility of any type of attacks or any type
10 of fraudulent activity that can occur, am I
11 correct?

12 MR. SCHNIRMAN: What we had said
13 is in April and June of '19 cyber security was
14 something that we brought up with our
15 independent audit advisory committee and it's
16 something that we are working on in our
17 office. Incidentally, both the Majority and the
18 Minority in the legislature are represented on
19 the committee. We had discussion with our
20 independent auditors at that time about best
21 practices and ways to protect the county going
22 forward.

23 LEGISLATOR FORD: These
24 independent auditors did the discuss then at
25 that point that we can all of a sudden you

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2 could have somebody who may try to scam money
3 out of the county? Did they talk about that
4 then? Because it seems, according to you,
5 that we're all aware. I think everybody we're
6 all aware. Even on our personal accounts we
7 all know that anybody can access -- I have to
8 be very careful with my passwords. I have to
9 be concerned about whether or not somebody's
10 going to steal a check or whatever. To take
11 all these safeguards. People can sign up with
12 Lifelock or anything to protect their identity
13 and also to protect any type of money that has
14 been fraudulently taken from them. But that's
15 my own thing.

16 You as a comptroller, you're
17 responsible for the safety of the county's
18 money. I just want to know when you had this
19 in April and June when you had these
20 discussions knowing full well that is
21 something that can happen. And as we know now
22 it did happen. And thankfully the bank caught
23 it. What did you indicate to the people that
24 worked for you to be aware of the fact that
25 something like this can happen?

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2 MR. SCHNIRMAN: As we said
3 earlier, we increase the controls immediately
4 in 2018. We continue to increase them in
5 2019. It's something that we've been working
6 on throughout 2019. And now we have increased
7 them going forward as well and we have plans
8 to continue to do so going forward.

9 LEGISLATOR FORD: When we look at
10 this, when we look at this type of fraud that
11 happened, how many people basically in your
12 department were involved in this that were
13 able to allow this account to get paid without
14 anybody really checking? And did you ask --,
15 you know, when I know that sometimes with
16 contracts and any other type of submissions by
17 anybody for payment for vouchers it goes
18 through ten points of like checks. Did you
19 ask to see whether or not those changes should
20 have gone through other departments as well to
21 see whether or not this was indeed a valid
22 change?

23 MR. MARQUES: Let me start by
24 just explaining how the changes operate as a
25 function of administration. The comptroller's

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2 claims decision we have two separate
3 sections. One that handles the auditing of
4 invoices. And one that handles the vendor
5 information. So I think that clears up a lot
6 of misconception about how payments and the
7 vendor information are intermingled. There is
8 a wall between the two.

9 The vendor information, the way it
10 operates is a purely manual system. Someone
11 is entering this information into a computer.
12 That one individual, now we have two
13 individuals processing this information. Also
14 share other duties. And like the comptroller
15 said, we process about 1500 changes. Some
16 vendors have more than 30 different payment
17 accounts. They're rather large. I would say
18 the controls have changed. The last two years
19 the controls have gotten much better than they
20 were before.

21 I will say that more vendors
22 contact our office about legitimate payments
23 that they don't know what they're for than
24 asking if a payment went to a wrong account.
25 So, with that, I'm pretty confident that the

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2 controls we did have in place were good and
3 now they're better given the limited system
4 that we have to work with. Basically fighting
5 a war with sticks and rocks.

6 LEGISLATOR FORD: So then when
7 you talk about -- you're saying that there's
8 actually two separate departments. So in
9 order for this vendor to have submitted this
10 check -- so the person who accepts the invoice
11 and clears the invoice or claims voucher,
12 there's a wall between that person and the
13 person actually making the payment?

14 MR. SCHOEN: For each claim
15 there's not a new claim -- payment
16 information. A vendor is set up with a
17 profile so that they can get paid. That
18 profile includes their various payment
19 information. Their bank account information
20 for ACH. If they want to get a check where
21 that check was to go to. The payments are
22 made based upon the vendor profile. The
23 payments get approved by the comptroller, go
24 to the treasurer to pay. The treasurer pays
25 based upon that vendor profile in the vendor

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2 system. The vendor profile is entered in this
3 manual process that the fiscal officer
4 explained. Is entered by the hard workers of
5 the claim division into the financial system.

6 LEGISLATOR FORD: So with the
7 vendor profile -- then I'm a vendor. I say I
8 want -- this is my account. This is who I am
9 and whatever claims I have you're going to
10 send to my account at TD Bank. Here I am.
11 That's what you do.

12 Then all of a sudden I decide or
13 somebody decides that it's going to be Denise
14 Ford. But I said, you know, not so much TD
15 Bank anymore. I want it to go to Chase. So
16 nobody checks to make sure that, like, why all
17 of a sudden she's changing her bank? And
18 knowing full well that we can be subjected to
19 fraudulent activity on the part of anybody
20 just to get some money out of us.

21 MR. SCHOEN: The vendor is
22 required to submit the updated form. That
23 form, with all of the controls that we put in
24 place since January '18 and the additional
25 controls subsequent to this incident,

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2 including the phone calls, the dual
3 verifications and now or in the near future
4 with the form being submitted to the vendor
5 portal.

6 LEGISLATOR FORD: So then who did
7 you call in regard to this bank? If you're
8 saying that you had all these controls in
9 place, that ever since 2018 you had these
10 controls in place -- no, I'm listening. I
11 hear what you're saying. You said that you
12 have all this because if somebody is going to
13 change a bank you're going to do your due
14 diligence because you're handling everything
15 manually. Then all of a sudden now somebody
16 decides to change their bank. Who did you
17 call to verify that that information was
18 correct?

19 MR. SCHOEN: The control in place
20 at the time, the major control in place at the
21 time was the submittal of the void check. The
22 phisher mimicked that check. That's why we
23 put the additional controls on where one
24 person from the vendor is asking for the
25 change and then we're going to be contacting

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2 another person at the vendor, preferably the
3 contact on the contract, to verify that they
4 are in fact making the change and verifying
5 all the banking information with that
6 individual.

7 LEGISLATOR FORD: So who did you
8 call?

9 MR. SCHOEN: The control at the
10 time was the void check. We have now the
11 additional control of a phone call.

12 LEGISLATOR FORD: You said before
13 that since 2018 you had these checks and
14 balances in place.

15 MR. SCHOEN: No. I said we've
16 been developing them since 2018. We had
17 initial ones we put in place, the void check,
18 checking the TIN and we've layered on the
19 additional controls and, post the incident, we
20 layered on the additional controls of the
21 phone calls and the additional verifications.

22 LEGISLATOR FORD: So what you're
23 testifying today about is everything that
24 you've changed since this scam happened but we
25 want to know what did you do beforehand? I do

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2 have a problem with this.

3 MR. SCHOEN: Before we went from
4 not verifying TIN numbers. Not asking for a
5 cancelled check to verify the bank account
6 number. We weren't doing any of that. We had
7 decentralization where each department was
8 verifying the information independently. So
9 we centralized all that in our department.
10 That was the developing of additional controls
11 since January 2018.

12 LEGISLATOR FORD: You didn't go
13 far enough. That's really what I'm looking
14 at. If this could happen and if you're
15 talking about trying to get an updated new
16 security system. We're talking about hundreds
17 of thousands, millions of dollars, millions of
18 dollars of taxpayer money.

19 Now you reference that prior to
20 2018 it really was whatever. So do we know
21 offhand, or maybe when we can go into
22 executive session we can ask the police, how
23 many scams occurred against the comptroller's
24 office prior to January 2018 and how many
25 fraudulent payments? When you talked about

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2 like when the vendors call up and they say
3 that now they can question whether or not it's
4 a legitimate payment, what did you mean by
5 that?

6 MR. MARQUES: We do get a number
7 of inquiries into our office by vendors who
8 have submitted claims for work performance or
9 goods provided that do get paid on a timely
10 basis.

11 MR. SCHOEN: It's a restriction
12 of the financial system. So if you get paid
13 by a check, depending on your banking
14 institution, there may be a note on that check
15 that tells you exactly what invoice is being
16 paid or what isn't being paid. But there's a
17 restriction -- our current financials, our
18 antiquated financials system cannot in the ACH
19 payments, electronic payments, sort of tell
20 the vendor exactly why they're getting that
21 payment. The vendor needs to work with their
22 own banking institution or inquire directly to
23 us as to what that payment was for. That's
24 what Gabe was referring to was they often call
25 up and say I got this check from you guys, I

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2 got this payment from you guys, what was that
3 for? Could you correlate that back to the
4 invoices that were in fact approved on the
5 claim?

6 LEGISLATOR FORD: Is that still
7 happening today?

8 MR. SCHOEN: It's a limitation in
9 our financial system, yes.

10 LEGISLATOR FORD: So you're
11 making no effort at this point so that like --
12 because then you can make a payment to
13 somebody's account and if the person isn't
14 going to go honest enough to say, you know --
15 if I got money in my account, like there are
16 people that they get money in their account
17 and they say wow, look at this look. It's
18 like Christmas in July and I can spend this
19 money. How do you know that some of the
20 payments you made were not made incorrectly?

21 MR. SCHOEN: The claims
22 themselves -- there are no fraudulent claims
23 here. All the claims themselves are vetted
24 and approved.

25 LEGISLATOR FORD: There was a

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2 fraudulent claim. A couple of them.

3 MR. SCHOEN: No, there was not a
4 fraudulent claim. The claims that were
5 approved were all valid claims. The payments
6 that went out the door were all valid claims.
7 It was the banking information that was
8 payments went to that was fraudulent. There
9 was no fraudulent claims.

10 LEGISLATOR FORD: So you sent
11 \$710,000 to an incorrect bank account, okay,
12 fraud, correct? So, how do you know right now
13 when you make these payments to these bank
14 accounts, okay, that it is an actual payment
15 that this vendor was supposed to be paid?

16 MR. SCHOEN: We have the new
17 controls in place and we reviewed all --

18 LEGISLATOR FORD: But you said
19 there's limitations. You have no way of
20 telling them what invoice it's for, right?
21 You just deposit into their accounts. So
22 people call up and they say hey, I got this
23 \$600,000 payment from you. Can you tell me
24 what it's for?

25 MR. SCHOEN: Before the payment

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2 goes out the door we know exactly what the
3 payment is for. We looked at all the backups
4 in every invoice, all the backups before we
5 make that payment and approve that payment.
6 We know what the payment was for.

7 LEGISLATOR FORD: Like you did
8 the \$710,000?

9 MR. SCHOEN: Correct.

10 LEGISLATOR FORD: So you made a
11 mistake there and you could make another
12 mistake. I'm just saying now as you're moving
13 forward.

14 MR. SCHOEN: That's why we have
15 the additional controls in place.

16 LEGISLATOR FORD: What I'm saying
17 though is, that I think that you really should
18 firm that up so when you make these payments
19 into people's accounts that there is a reason
20 and that you know clearly and they know
21 exactly what invoice to attribute that payment
22 to. So they don't call you up and say hey,
23 you sent me some money. What are you paying
24 me for? Because you can then very well send
25 it to some account and the people may say --

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2 it might be a small mom and pop. Maybe the
3 person is ready to leave Nassau County and now
4 they're going to move to somewhere else, and
5 all of a sudden they got a windfall of like
6 \$100,000 and you don't know that you paid them
7 incorrectly and they're all of a sudden out
8 the door. They got their plane tickets and
9 they're gone. And you won't have the luck
10 that you had with this bank, where ever it
11 was, that told you that this account was an
12 invalid account. And that thankfully we were
13 able to recoup the money and I thank the
14 Nassau County Police Department for their due
15 diligence.

16 I see Comptroller that there are
17 people who took credit for saving us from this
18 debacle in regard to the \$710,000. My
19 ultimate question then would be in something
20 like this, because it was a big breach and
21 it's very unsettling for all of us, who's
22 taking the blame?

23 MR. SCHNIRMAN: I would say very
24 simply I don't think there's any credit to go
25 around here. This was an attack, right? A

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2 phishing attack on the county. This is
3 something that we were targeted as a county.
4 Others are being targeted the same.

5 From my perspective it's not a
6 question of credit or blame. It's a question
7 of continually improving our controls with the
8 humility, as I mentioned earlier, of
9 understanding that as we continue to improve
10 them the scammers will continue to be more
11 sophisticated. So this is an ongoing
12 challenge for not just Nassau County but for
13 municipalities all over the country.

14 LEGISLATOR FORD: You said though
15 that you're also doing -- you had recent
16 instructions or training for -- was this once
17 again just with your cyber committee or was
18 this actually with the employees to go over
19 safeguards and what they can do? Because
20 obviously we don't have this new system in
21 place so that everybody has to be on their due
22 diligence. Have you gone through with all of
23 your employers training to let them understand
24 what they need to do know to make sure that
25 this does not happen again?

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2 MR. SCHNIRMAN: As we said
3 earlier, we have training within the
4 comptroller's office and then there's been a
5 broader training through the entire county by
6 IT.

7 LEGISLATOR FORD: What has your
8 office done to train your people?

9 MR. SCHNIRMAN: As we said, we
10 did a training within the comptroller's
11 office.

12 You can speak to the details there.

13 MR. MARQUES: Yes, me, as fiscal
14 officer, it is my responsibility over the
15 Claims Division. We do on a periodic basis,
16 I'd say every few weeks, discuss items like
17 this in the news. For example, back in March
18 where Google and Facebook were victims of this
19 similar scam and lost about \$125 million.
20 Also Diesel Jeans another example case study.
21 Mattel. All these companies have also been
22 victims and we talk about that as a group.

23 We also look at opportunities to
24 improve the system. We talk to each
25 individual involved in the process and see

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2 what they need, what tools they need, what
3 training they need to be better at what they
4 do. As the comptroller said, it's always
5 evolving and we always have to continue
6 training. It doesn't matter how much training
7 we need in the past we're going to continue to
8 do as much training as we need in the future.

9 LEGISLATOR FORD: I think it
10 better be done today because I think that this
11 is -- it was good news to recover this money.
12 I think it's bad news all around that even
13 happened. Thank you.

14 LEGISLATOR RHOADS: We will try
15 to make it quick for your benefit,
16 Legislator Ferretti.

17 Comptroller Schnirman, I have a
18 couple of concerns about the lack of
19 notification, particularly to the legislature,
20 that this incident even occurred. I happened
21 to find out through your press conference
22 almost three months after this incident
23 apparently took place in October and your
24 press conference I believe was on January
25 10th. Obviously, as the institution that

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2 actually funds these accounts and as an
3 institution that's charged with the oversight
4 of county government, including the
5 comptroller's office, I must admit I'm
6 concerned.

7 You indicated that at some point in
8 time you notified the county executive or at
9 least the county executive's office. At some
10 point in time you notified someone within the
11 treasurer's office. At no point in time did
12 you notify anyone at the legislature.

13 So can you please just walk me
14 through the time frame, the time line of who
15 knew what, when with regard to this incident
16 and why it was that you chose to keep the
17 information quiet for whatever time you did.

18 MR. SCHNIRMAN: So, as I
19 mentioned earlier, we held a press conference
20 with Commissioner Ryder. We were asked to not
21 disclose information until that time as it has
22 and still is an active investigation. As I
23 had mentioned earlier, there were three to
24 four other municipalities that were also
25 targeted. We needed to recover the money

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2 before the scammers could be alerted to that
3 and move the money themselves. So, from that
4 perspective, we had to wait to disclose to the
5 public until that time. I will mention --

6 LEGISLATOR RHOADS: I apologize
7 for interrupting. I'm not suggesting that you
8 needed to notify the public. What I'm
9 suggesting is that you need to notify your
10 other partners in government that there's a
11 situation.

12 MR. SCHNIRMAN: We were
13 immediately in touch with the police
14 department.

15 LEGISLATOR RHOADS: Did the
16 police department tell you not to notify the
17 legislature?

18 MR. SCHNIRMAN: The police
19 department asked us to not do notification and
20 I will just leave it there.

21 LEGISLATOR RHOADS: To whom? To
22 anyone?

23 MR. SCHNIRMAN: We were asked not
24 to speak about the incident.

25 LEGISLATOR RHOADS: If I were to

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2 ask the police department, a representative
3 from the police department, whether the
4 instructions to the comptroller's office
5 included not notifying the county
6 legislature?

7 MR. SCHNIRMAN: I will leave it
8 there for now.

9 LEGISLATOR RHOADS: Who within
10 the police department gave you the
11 notification?

12 MR. SCHNIRMAN: Excuse me. Can
13 you repeat the question.

14 LEGISLATOR RHOADS: You indicated
15 that someone within the Nassau County Police
16 Department gave you the instruction not to
17 notify the county legislature. Who was it?

18 MR. SCHNIRMAN: Our conversations
19 with the police department were obviously
20 between myself and the commissioner and deputy
21 comptroller spoke to the team as well.

22 LEGISLATOR RHOADS: So it's
23 your --

24 MR. SCHOEN: There were concerns
25 to protect the integrity and the investigation

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2 as to not disclose the information to as
3 little amount of individuals as possible
4 because the money moves fast and because there
5 was a need to recover the money before it went
6 anywhere else. That's what was conveyed to
7 us.

8 LEGISLATOR RHOADS: Was a
9 specific instruction given to you by the
10 Nassau County Police Department not to notify
11 the county legislature of this incident?

12 MR. SCHNIRMAN: I don't know that
13 the legislature was discussed as part of that
14 operational -- in terms of operations.

15 LEGISLATOR RHOADS: Who did the
16 police department tell you was important
17 enough for you to be able to inform?

18 MR. SCHOEN: I think you can talk
19 to them about their investigative techniques
20 but I believe it's --

21 LEGISLATOR RHOADS: I'm not
22 asking about techniques. You're telling me
23 that you received specific instructions from
24 the Nassau County Police Department not to
25 disclose information. I understand not to

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2 disclose information publicly. I'm asking you
3 what specific instructions did you receive not
4 to disclose information to your other partners
5 in government? Not publicly. If you want to
6 talk to us now in executive session. Same
7 conversation could have been had in executive
8 session. Same conversation could have been
9 had in private.

10 I want to know did you receive a
11 specific instruction whether and when you were
12 permitted to notify the county executive,
13 whether and when you were permitted to notify
14 the county treasurer and whether and when you
15 were permitted to notify the county
16 legislature and who gave you that
17 instruction?

18 MR. SCHOEN: There were no
19 specific instructions. There was a general
20 instruction to limit the amount of individuals
21 who are aware of the information so that we
22 can catch the perpetrator.

23 LEGISLATOR RHOADS: So it was not
24 the Nassau County Police Department that gave
25 you that instruction, it was the comptroller's

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2 office that made the decision that you
3 couldn't notified the county legislature?

4 MR. SCHOEN: As the comptroller
5 said, the county legislature did not
6 specifically enter into that conversation.

7 LEGISLATOR RHOADS: When was the
8 county executive's office notified?

9 MR. SCHOEN: As soon as we were
10 informed of the fraudulent account and
11 identified the additional payments.

12 LEGISLATOR RHOADS: That would
13 have been once you got a telephone call from
14 the bank?

15 MR. SCHOEN: Once we were
16 notified from the bank.

17 LEGISLATOR RHOADS: That
18 notification came through a telephone call,
19 didn't it?

20 MR. SCHOEN: It came from an
21 electronic communication.

22 LEGISLATOR RHOADS: Email?

23 MR. SCHOEN: Yes.

24 LEGISLATOR RHOADS: You received
25 the email. County executive's office got

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2 notified right away. Who within the county
3 executive's office did you notify?

4 MR. SCHNIRMAN: I think we are
5 not going to speak to the details of who talk
6 to who when and how and what.

7 LEGISLATOR RHOADS: Why?

8 MR. SCHNIRMAN: Outside of
9 executive session we're not going to get into
10 the details of how the incident was handled in
11 that sense.

12 LEGISLATOR RHOADS: How can
13 disclosure of that information jeopardize any
14 investigation?

15 LEGISLATOR SOLAGES: At this
16 moment I would like to make a motion for this
17 to be in executive session. Clearly a skilled
18 defense attorney for these perpetrators can
19 use this information and that would affect an
20 investigation. At this moment I would like to
21 make a motion to go into executive session.

22 LEGISLATOR KOPEL: I don't think
23 we're worried about protecting the defendant
24 or the perpetrator over here. I don't think
25 that's what the questions were directed to.

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2 Mr. Rhoads.

3 LEGISLATOR SOLAGES: Clearly this
4 relates to senior staff performance and it
5 also relates to attorney consultation. For
6 those reasons, I'm making a request for
7 executive session.

8 LEGISLATOR KOPEL: Okay. We have
9 a motion. We have a second?

10 LEGISLATOR RHOADS: I can move on
11 with other questions.

12 LEGISLATOR KOPEL: Why don't we
13 do that and you'll make your motion again. Or
14 somebody will make a motion again and then we
15 will do it.

16 LEGISLATOR RHOADS: Who was
17 notified and when is in executive session.

18 I just want to clarify what, and a
19 couple of my colleagues here have gone into
20 it, the Newsday article from your press
21 conference indicates, quote, Nassau County
22 Comptroller Jack Schnirman said controls in
23 place at the comptroller's office immediately
24 identified the fraudulent activity leading the
25 funds to be frozen. He said the additional

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2 security controls had been added -- that
3 additional security controls had been added
4 since the attack.

5 That isn't accurate as we now know,
6 correct?

7 MR. SCHOEN: Once we were
8 notified by the bank that there were monies
9 going into the fraudulent account we were able
10 to immediately identify the \$710,000 and we
11 immediately took action and started the
12 investigation.

13 LEGISLATOR RHOADS: But the
14 suggestion that there was some sort of
15 internal control in place at the comptroller's
16 office that actually discovered this would be
17 inaccurate.

18 MR. SCHOEN: We were able to
19 identify the \$710,000 as effectively and as
20 fast as we were based on the records we
21 maintained in our office. Part of our
22 controls are to have those records so we can
23 get the money back as quickly as possible.

24 LEGISLATOR RHOADS: Were it not
25 for the fact that somebody at the bank, not an

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2 employee of Nassau County, not an employee of
3 the comptroller's office, were it not for
4 somebody on the ball at the bank who picked up
5 on this you would have had absolutely no idea
6 that this even happened perhaps until the
7 vendor called up and said where's my check.
8 Is that accurate?

9 MR. SCHOEN: It's perspective,
10 yes.

11 MR. SCHNIRMAN: I will just
12 answer. As the deputy comptroller had said
13 earlier, that is part of our controls.

14 LEGISLATOR RHOADS: Part of your
15 controls is relying on some third party happen
16 to catch it? That's what your control is?

17 MR. SCHNIRMAN: That's your
18 characterization of it. However --

19 LEGISLATOR RHOADS: But that's
20 what happened, right?

21 MR. SCHNIRMAN: A major piece
22 obviously of anyone's controls is working with
23 the financial institutions.

24 LEGISLATOR RHOADS: Just out of
25 curiosity, since that's apparently one of our

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2 controls, according to Open Checkbook -- and
3 this is by the way isn't something that
4 happened just once, right? I think we've
5 established in the testimony today that there
6 were multiple submissions adding up to the
7 \$710,000; is that correct?

8 MR. SCHOEN: No. Again, it's one
9 vendor's profile that got phished and
10 modified.

11 LEGISLATOR RHOADS: But there
12 were multiple --

13 MR. SCHOEN: -- payments that
14 went to that vendor profile, yes.

15 LEGISLATOR RHOADS: Multiple
16 payments that --

17 MR. SCHOEN: All legitimate
18 claims. No fraudulent claims. All the claims
19 were legitimate claims reviewed and approved
20 by the comptroller's office.

21 LEGISLATOR RHOADS: How many
22 payments went to the wrong destination?

23 MR. SCHOEN: There were multiple
24 payments comprising the \$710,000.

25 LEGISLATOR RHOADS: How many

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2 payments went through before the bank caught
3 this?

4 MR. SCHOEN: That's the level of
5 detail we would like to give you in executive
6 session.

7 LEGISLATOR RHOADS: I'm just
8 curious at how many things got past us before
9 somebody outside the county picked this up?

10 MR. SCHOEN: There were multiple
11 payments. Not many but multiple. All within
12 a less than 30 day period.

13 LEGISLATOR RHOADS: Was it more
14 or less than five?

15 MR. SCHOEN: Less than ten.

16 LEGISLATOR RHOADS: The updated
17 controls that you put in place, you're telling
18 us you can't discuss those updated controls
19 unless we're in executive session?

20 MR. SCHOEN: We discussed a
21 number of them.

22 MR. SCHNIRMAN: We went into
23 quite a bit of detail on them already.

24 LEGISLATOR RHOADS: On certain of
25 them. Is that an exhaustive list of the

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2 updated controls that you put in place?

3 MR. SCHOEN: I don't recall all
4 of them that were mentioned during the
5 proceeding today but it's pretty exhaustive I
6 would say or nearly there.

7 LEGISLATOR RHOADS: We've
8 discussed Open Checkbook and the information
9 that is part of some of these controls you're
10 now requiring. In this particular instance
11 you indicated that the scammer completed the
12 form with the correct tax identification
13 number, the correct vendor name, the correct
14 vendor contact name, the correct vendor
15 address and the correct vendor phone number,
16 right?

17 MR. SCHOEN: And submitted the
18 modified fraudulent check.

19 LEGISLATOR RHOADS: And a copy of
20 the check. The information that's contained
21 here as you're check against that is
22 information that can be publicly obtained
23 probably within about 20 minutes. What other
24 controls are you putting in place or checks
25 are you putting in place to safeguard against

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2 this?

3 MR. SCHOEN: As discussed, we do
4 the dual check. With this one individual or
5 an individual at the vendor who will request
6 the change. And then our department will
7 reach out to a separate individual within the
8 vendor, at the vendor, preferably the contact
9 person on the contract, to verify those
10 changes are being made and verify all of the
11 information on the form.

12 LEGISLATOR RHOADS: If it was
13 simple enough for this particular fraudster, I
14 guess we're calling him, to be able to game
15 the system, how do you have any confidence
16 that the 120,738 checks that were issued to
17 vendors that the same thing didn't happen
18 multiple times that the bank didn't happen to
19 tell us about?

20 MR. SCHOEN: Or the vendor not
21 telling us they didn't receive payment,
22 right?

23 LEGISLATOR RHOADS: What
24 safeguards do we have that that hasn't
25 occurred?

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2 MR. SCHNIRMAN: I think we have
3 been over this.

4 MR. SCHOEN: We have the
5 additional controls we put in place. We
6 reviewed all of the forms that were submitted
7 for a six month period prior to the incident
8 and verified all that information was accurate
9 for all the active vendors.

10 LEGISLATOR RHOADS: I guess we'll
11 get the rest of the answers in executive
12 session.

13 LEGISLATOR KOPEL: Mr. Ferretti.

14 LEGISLATOR FERRETTI: Thank you
15 Chairman. Good afternoon gentlemen. I want
16 to get some dates down. Number one, what date
17 were you first notified of this incident?

18 MR. SCHOEN: As indicated, we
19 will give specifics like that in executive
20 session.

21 LEGISLATOR FERRETTI: I was just
22 asking what date they were notified of the
23 incident.

24 LEGISLATOR KOPEL: Why don't you
25 do this? Have you been making notes of these

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2 questions, of these important questions that
3 you didn't want to answer? Yes?

4 MR. SCHOEN: Not didn't want to
5 answer but thought it was necessary to answer
6 in executive session, yes.

7 LEGISLATOR KOPEL: Understood.
8 I'm sorry. Forgive me. Correct. You are
9 absolutely correct. You're making notes. Do
10 we have your undertaking to supply those
11 answers in a confidential note to the
12 committee?

13 MR. SCHNIRMAN: Sure.

14 LEGISLATOR KOPEL: When?

15 MR. SCHNIRMAN: As soon as we can
16 put them together.

17 LEGISLATOR KOPEL: A day, a week,
18 a year?

19 MR. SCHNIRMAN: Within a week.

20 LEGISLATOR KOPEL: Fair enough.

21 LEGISLATOR FERRETTI: Can you
22 tell us if you first discovered this before or
23 after the budget was passed by this body? The
24 county budget.

25 MR. SCHOEN: A particular year?

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2 LEGISLATOR FERRETTI: The 2020
3 budget that we passed in October 2019.

4 MR. SCHOEN: I don't recall the
5 date that the budget was passed.

6 LEGISLATOR FERRETTI: October 28,
7 2019.

8 MR. SCHOEN: The answer will be
9 in the memo that we provide to you.

10 LEGISLATOR FERRETTI: Do you
11 recall informing Newsday, anyone from your
12 office, that you called the police about this
13 issue on October 25, 2019? In a press
14 release?

15 MR. SCHNIRMAN: I believe the
16 police commissioner may have informed them of
17 that but that date sounds right.

18 LEGISLATOR FERRETTI: Right in
19 terms of what? When you called the police?
20 When somebody from your office called the
21 police?

22 MR. SCHNIRMAN: Correct.

23 LEGISLATOR FERRETTI: We know you
24 contacted the county executive at some point
25 after discovering this, correct? County

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2 executive's office?

3 MR. SCHNIRMAN: Correct.

4 LEGISLATOR FERRETTI: Was that

5 before or after you contacted the police?

6 MR. SCHNIRMAN: I think basically
7 simultaneously but.

8 LEGISLATOR FERRETTI: What does
9 that mean "simultaneously"? You had two
10 phones going?

11 MR. SCHNIRMAN: No. That's the
12 level of detail we're going to speak to you
13 today.

14 LEGISLATOR FERRETTI: Will you
15 include that information in your memo to us?

16 MR. SCHNIRMAN: Sure.

17 LEGISLATOR FERRETTI: Can you
18 explain what a cyber attack is?

19 MR. SCHNIRMAN: I think we spoke
20 to it earlier as we began. That there are
21 multiple kinds of cyber attacks and we were
22 clear about in this instance that this was a
23 phishing attack rather than an overall attack
24 on the county's IT infrastructure.

25 LEGISLATOR FERRETTI: So then you

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2 would say a phishing attack is a type of cyber
3 attack, would that be fair?

4 MR. SCHNIRMAN: We've mentioned
5 that several times, yes.

6 LEGISLATOR FERRETTI: I
7 understand. I might ask some questions that
8 you've already answered. I apologize for
9 that. It's been a couple of hours.

10 My understanding of what a phishing
11 expedition is is a fraudulent email or
12 communication that draws information from the
13 municipality in this case. Would you agree
14 with that?

15 MR. SCHOEN: That's fundamentally
16 what happened here. There was a fraudulent
17 email, the mimicked email that drew the
18 information from the municipality.

19 LEGISLATOR FERRETTI: What
20 information did it draw? You didn't give them
21 a credit card number. You didn't give a
22 social security number. What information did
23 it draw?

24 MR. MARQUES: Essentially they
25 requested and received a vendor information

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2 form which is publicly available on our
3 website.

4 LEGISLATOR FERRETTI: Okay. So
5 then in what way is this a phishing
6 expedition?

7 MR. SCHOEN: The form was
8 completed and submitted using the phisher's
9 mimicked email account.

10 LEGISLATOR FERRETTI: Right. But
11 they got information from you that's public
12 information, correct?

13 MR. SCHOEN: Somewhat semantics.

14 LEGISLATOR FERRETTI: I don't
15 think it is. You had a press conference on
16 January 11th indicating that somehow you
17 uncovered a phishing expedition and cyber
18 attack. And I'm trying to determine if there
19 really was even a phishing expedition at all
20 or whether you just sent money to the wrong
21 bank account.

22 MR. SCHOEN: The information was
23 submitted using the mimicked email account.
24 The initial information from that mimicked
25 email account was sufficient. They asked the

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2 fiscal officer to send the information, the
3 form, which was then completed and sent back
4 to us using that mimicked email account.

5 LEGISLATOR FERRETTI: What's
6 asked? You indicated they asked the fiscal
7 officer. Was the initial email to the fiscal
8 officer?

9 MR. SCHOEN: The initial email
10 was to a general email account at the
11 comptroller's office which was forwarded to
12 the fiscal officer.

13 LEGISLATOR FERRETTI: Was that
14 email addressed to the fiscal officer?

15 MR. SCHOEN: It was to a general
16 email account.

17 LEGISLATOR FERRETTI: I know
18 you're saying it was sent to a general email
19 but did it indicate --

20 MR. SCHOEN: That's a level of
21 detail that we will provide in our report.

22 LEGISLATOR FERRETTI: I can tell
23 you I have copy of it. So, what I can tell is
24 if my seven year old son got an email like
25 this he wouldn't have responded to it. It's

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2 very hard to believe that your office did.

3 But can you tell me again -- I'm sorry. When

4 you received the email are there any dual

5 controls in place?

6 MR. SCHNIRMAN: I'm sorry.

7 Excuse me Legislator. You just said you had a

8 copy of which now?

9 LEGISLATOR KOPEL: Mr. Ferretti,
10 you have a copy of that email?

11 LEGISLATOR FERRETTI: Yes.

12 LEGISLATOR KOPEL: Can you
13 circulate it?

14 LEGISLATOR FERRETTI: Sure.

15 MR. SCHNIRMAN: Can I ask how and
16 why you have a copy of that email?

17 LEGISLATOR FERRETTI: It was
18 given to me a few minutes ago.

19 MR. SCHNIRMAN: By whom?

20 LEGISLATOR FERRETTI: I get to
21 ask the questions Comptroller respectfully. I
22 will send you a memo when I get the
23 information.

24 MR. SCHNIRMAN: I get to be
25 concerned about the security here and that's a

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2 concern.

3 LEGISLATOR FERRETTI: Security of
4 an email that was sent to your general email
5 address?

6 MR. SCHNIRMAN: We're talking
7 about internal emails that are the subject of
8 an investigation. So that is a concern if
9 they're being forwarded around, yes.

10 LEGISLATOR FERRETTI: I think
11 that we should be concerned about what
12 happened a little bit more than how I'm trying
13 to get to the bottom of why it happened.

14 MR. SCHNIRMAN: Well, I think we
15 can agree that we should be concerned about
16 what happened and I think we are concerned
17 about what happened and there's a point where
18 the concern about what happened --

19 LEGISLATOR KOPEL: I think we're
20 running in circles here and this is another
21 illustration of the fact that if you think
22 this shouldn't be out there well, then the
23 fact that it is out there is not a great
24 thing.

25 LEGISLATOR FERRETTI: I think we

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2 should move.

3 LEGISLATOR KOPEL: And maybe not
4 a great thing from your office. I don't know.

5 LEGISLATOR FERRETTI: Were there
6 dual controls in place when emails such as
7 these came in?

8 MR. SCHOEN: I'm not sure we
9 understand the question.

10 LEGISLATOR FERRETTI: When this,
11 as you described it, phishing email came in,
12 prior to the change being made to the bank
13 account information were there more than one
14 set of eyes that reviewed this request?

15 MR. SCHOEN: Yes.

16 LEGISLATOR FERRETTI: Who from
17 your office, what title if you're not going to
18 give me a name, reviewed the request?

19 MR. MARQUES: The initial email
20 was sent to that general mail box. It was
21 then forwarded to me by the director of
22 accounting. I then had possession of it. And
23 once the information was provided, submitted
24 that to a supervisor over that unit who then
25 forwarded it on to a person to process it.

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2 LEGISLATOR FERRETTI: I apologize
3 if this was already asked. It may have been.
4 But was there any kind of contact, whether by
5 telephone or any other means, with the vendor
6 prior to making the change to confirm that
7 they were requesting this change?

8 MR. SCHOEN: At the time the
9 major control in place was the submittal of a
10 void check which was fraudulently submitted.
11 The additional controls were put in place to
12 make that contact.

13 LEGISLATOR FERRETTI: Is that a
14 no? There was no communication with the
15 vendor to confirm that they were requesting
16 this change?

17 MR. SCHOEN: Correct.

18 LEGISLATOR FERRETTI: When you
19 say there was a void check that was sent to
20 the comptroller's office, was that void check
21 from the old account or the account that they
22 were looking to change to?

23 MR. SCHOEN: Change to.

24 LEGISLATOR FERRETTI: So how does
25 that safeguard anything?

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2 MR. SCHOEN: We put in additional
3 controls in place that we discussed.

4 LEGISLATOR FERRETTI: So it
5 doesn't? Getting a check from the new account
6 does nothing, correct?

7 MR. SCHOEN: It enabled us to
8 verify that it is in fact a true bank account.

9 LEGISLATOR FERRETTI: That's
10 great. But how does that in any way -- you
11 included it on your packet, on your slide
12 show. How does that in any way safeguard this
13 from happening, getting a copy of the check?
14 You didn't contact the vendor to confirm they
15 wanted this change. You got a check that we
16 now know was for the new account which is
17 useless. In what way did this check -- I
18 guess I just said it was useless. Would you
19 agree? Did this check act as a safeguard in
20 any way whatsoever?

21 MR. MARQUES: It didn't. I will
22 explain that. When that control was
23 initiated, the comptroller's office was made
24 aware in three separate instances, three
25 separate vendors. What it does is it ensures

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2 that the vendor doesn't make any mistakes in
3 providing their own bank account information
4 and verifies that the numbers provided to us
5 are correct and accurate.

6 LEGISLATOR FERRETTI: You lost
7 me. Are you saying you verified the new
8 account number that they wanted with the check
9 to confirm that there was no error like typo
10 in the numbers, is that what you're saying?

11 MR. SCHOEN: Correct.

12 LEGISLATOR FERRETTI: To be
13 clear, you verified the new account they
14 requested with a check to make sure that they
15 didn't improperly enter the new account
16 number?

17 MR. SCHOEN: And the information
18 on check matched the vendor information.

19 LEGISLATOR FERRETTI: Okay. But
20 that doesn't stop or provide a level of
21 security to prevent what happened here,
22 correct? That just prevents an incorrect
23 account number on the new account.

24 MR. SCHOEN: Prevent a
25 sophisticated individual from mimicking a bank

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2 check with the correct address and a correct
3 account number, no.

4 LEGISLATOR FERRETTI: You
5 indicated that you've already met with the IT
6 department; is that correct?

7 MR. SCHOEN: No.

8 LEGISLATOR FERRETTI: I thought
9 you said in the beginning that you've already
10 met with them in terms of new training
11 procedures.

12 MR. SCHOEN: They've instituted
13 new training procedures as well as we have.

14 LEGISLATOR FERRETTI: Has your
15 office contacted IT since October 25, 2019
16 with regard to training comptroller's
17 employees?

18 MR. SCHOEN: We've been doing
19 internal training and on top of that the IT
20 department has been training for all county
21 employees on how to identify phishing. And we
22 are working with the IT department to have the
23 700 form or the vendor information form
24 submitted through the vendor portal.

25 LEGISLATOR FERRETTI: Just to be

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2 clear, the new procedures and policies that
3 you put in place after this attack you're not
4 willing to share them right now to the public;
5 is that correct?

6 MR. SCHOEN: No. I think we
7 have.

8 LEGISLATOR FERRETTI: All of
9 them?

10 MR. SCHOEN: I believe so.

11 MR. SCHNIRMAN: I think we shared
12 the general thrust of them in some significant
13 level of detail to the extent that we could
14 and we also detailed additional levels of
15 control that are forthcoming.

16 LEGISLATOR FERRETTI: How can you
17 ensure that this hasn't happened before?
18 Strike it. Let me ask you again. Are you
19 aware of this ever happening in Nassau
20 County? Has the Nassau County Comptroller's
21 Office ever been the subject of a scam such as
22 this?

23 MR. SCHNIRMAN: During my time?
24 I'm not aware.

25 LEGISLATOR FERRETTI: I'm not

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2 asking during your time. Are you aware of any
3 time the Nassau County Comptroller's Office
4 ever being subject to a scam such as this?

5 MR. SCHNIRMAN: Broadly speaking
6 no.

7 LEGISLATOR FERRETTI: How about
8 any of the other 62 counties in New York
9 State?

10 MR. SCHNIRMAN: I'm not in a
11 position to answer comprehensively for New
12 York State. But as we spoke about earlier in
13 the presentation, we are seeing attacks
14 proliferate. In fact, in this particular
15 attack alone there were three to four
16 municipalities targeted. Some of which on
17 Long Island.

18 LEGISLATOR FERRETTI: Sorry. I'm
19 getting a little distracted. I'm not asking
20 you to answer for all of New York State. What
21 I'm asking you is, are you aware of any other
22 counties who have been attacked in a similar
23 way? If the answer is you're not aware of it
24 that's fine. I'm just asking if any of the
25 three of you are aware.

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2 MR. SCHOEN: We're aware that in
3 this instance there were other counties
4 attacked in a similar manner.

5 LEGISLATOR FERRETTI: What
6 counties?

7 MR. SCHOEN: That's not a level
8 of detail we will provide in public.

9 MR. SCHNIRMAN: I believe the
10 police commissioner -- hang on a moment. I
11 believe it was disclosed that there was a
12 municipality within Suffolk County that was
13 attacked.

14 LEGISLATOR FERRETTI: So it
15 wasn't the county then? It's a local
16 municipality within Suffolk County?

17 MR. SCHNIRMAN: I believe that is
18 the case. In addition, this morning I'm aware
19 that the county itself disclosed that it was
20 attacked. Not in this particular incident.
21 In a separate incident.

22 LEGISLATOR FERRETTI: Did your
23 office ever contact NIFA with regard to this
24 attack prior to the press conference that you
25 had on January 11th?

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2 MR. SCHNIRMAN: I don't believe
3 so but I will double-check.

4 LEGISLATOR FERRETTI: So there's
5 a chance you contacted NIFA with regard to
6 this attack? You can't tell me affirmatively
7 that you did not?

8 MR. SCHNIRMAN: I don't believe
9 that we did but I will double-check.

10 LEGISLATOR FERRETTI: Did your
11 office contact anyone outside of Nassau County
12 government about this attack prior to January
13 11th?

14 MR. SCHOEN: Other than the bank
15 that would have been involved there would have
16 been no one --

17 LEGISLATOR FERRETTI: They
18 contacted you, right?

19 MR. SCHOEN: -- that I can
20 recall. But when you say contact, you're
21 talking about general contacts?

22 LEGISLATOR FERRETTI: You didn't
23 tell us. Did you tell anyone else?

24 MR. SCHOEN: Contacts regarding
25 the incident. So we would have had to talk to

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2 the bank about the incident. That's a
3 contact.

4 LEGISLATOR FERRETTI: Other than
5 the bank. Anyone outside of Nassau County
6 government did you contact them about this
7 incident prior to January 11th?

8 MR. SCHNIRMAN: I don't believe
9 so.

10 LEGISLATOR FERRETTI: Again, you
11 can't say affirmatively you did not?

12 MR. SCHOEN: We may have asked
13 some information from the vendor but I don't
14 recall.

15 LEGISLATOR FERRETTI: I just want
16 to be clear here because I think this is
17 important. You cannot say whether or not on
18 100 percent certainty, I'm asking you
19 Comptroller, whether somebody from your office
20 or you personally contacted NIFA and informed
21 them of this? The fiscal control board of
22 this county, you being the fiscal watchdog,
23 you can't tell me if you contacted NIFA and
24 informed them prior to them approving our
25 budget that this incident occurred?

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2 MR. SCHNIRMAN: No, I cannot say
3 that definitively we contacted NIFA. And if
4 you would like to delineate what you see as a
5 tie-in between this and the budget I'd be
6 interested in where you're coming from.

7 LEGISLATOR FERRETTI: Sure. When
8 we past the budget and possibly when NIFA
9 approved budget, we don't know because you
10 don't know if you told them, we were not aware
11 of this possible deficiency shortfall in our
12 budget. You don't see that as a problem?

13 MR. SCHNIRMAN: I think you're
14 making a link between payments and budget that
15 is incorrect.

16 LEGISLATOR FERRETTI: So if this
17 money was not recovered does the vendor get
18 paid?

19 MR. SCHOEN: Fortunately that's
20 not a road we had to go down.

21 LEGISLATOR FERRETTI: We can
22 thank the bank for that. But the question is,
23 if the money wasn't recovered would the vendor
24 have gotten paid?

25 MR. SCHOEN: The vendor would

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2 have had a valid claim against the county and
3 money would have been due and owing.

4 LEGISLATOR FERRETTI: Right. And
5 who pays that? It's taxpayer money, correct?

6 MR. SCHNIRMAN: Correct.

7 LEGISLATOR FERRETTI: So, we
8 voted on a budget where there was this money
9 in limbo where you did not know if we were
10 going to recover it and we were not informed
11 of that prior to voting. We also didn't know
12 the amount at that time if I'm following this
13 correctly. We didn't know it was limited to
14 \$710,000.

15 MR. SCHNIRMAN: I'm sorry. I'm
16 not following that this is relevant to the
17 budget of 2020. First of all, this was a 2019
18 financial issue. I think you're conflating
19 the two things and I don't think they actually
20 go together.

21 LEGISLATOR FERRETTI: Then maybe
22 I'm mistaken. But if there's a shortfall in
23 the 2019 budget wouldn't it come out of the
24 2020 budget?

25 MR. SCHNIRMAN: If there was a

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2 shortfall in the 2019 budget it would be dealt
3 with from a fund balance perspective which is
4 an entirely different discussion altogether.
5 But it would not necessarily impact the 2020
6 budget.

7 LEGISLATOR FERRETTI: Doesn't the
8 fund balance go into the budget?

9 MR. SCHNIRMAN: The overall fund
10 balance of the county -- I don't believe that
11 it would impact the budget. Bottom line I
12 don't see that these two issues --

13 LEGISLATOR FERRETTI: That is a
14 discussion we could have had.

15 MR. SCHNIRMAN: I don't see that
16 these two issues are related.

17 LEGISLATOR FERRETTI: When the
18 budget was passed do you know what the
19 exposure was? On October 28th did you know
20 what the exposure was to the 2019 or 2020
21 budget?

22 MR. SCHNIRMAN: I believe at that
23 point the funds were frozen.

24 MR. SCHOEN: The majority of the
25 money at that point would have been recovered.

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2 LEGISLATOR FERRETTI: But can you
3 confirm that that was -- we're talking about a
4 three-day period here, right? You notified
5 the police on October 25th. We passed the
6 budget on October 28th. Are you telling me in
7 those three days, which, by the way, I think
8 two of them were a weekend, but I'm not sure
9 about that, that you were able to confirm with
10 100 percent certainty that the exposure was
11 limited to \$710,000?

12 MR. SCHOEN: Yes.

13 LEGISLATOR FERRETTI: From just
14 this incident or did you do an audit where you
15 went back and determined if anything else
16 happened to other vendors?

17 MR. SCHOEN: We confirmed six
18 months worth of vendor information forms to
19 make sure they were correct.

20 LEGISLATOR FERRETTI: That's all
21 I have for now. Thank you.

22 LEGISLATOR SOLAGES: To the
23 Chair, point of order. Legislator Ferretti
24 asked -- presented this email that I learned
25 off the record that it was obtained from the

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2 police department. I'd just like to know when
3 and where did you receive that documentation?

4 LEGISLATOR KOPEL: I'm sorry,
5 you're asking him?

6 LEGISLATOR SOLAGES: Legislator
7 Ferretti mentioned that he received a copy of
8 the actual email that was used in this alleged
9 scheme.

10 LEGISLATOR KOPEL: You saw it as
11 well.

12 LEGISLATOR SOLAGES: I would like
13 to know how that document --

14 LEGISLATOR KOPEL: I will answer
15 you. Counsel --

16 LEGISLATOR SOLAGES: Our counsel
17 didn't receive a copy of it.

18 LEGISLATOR KOPEL: You want to
19 let me finish my sentence or would you rather
20 just keep on making speeches?

21 LEGISLATOR SOLAGES: I'm asking
22 questions.

23 LEGISLATOR KOPEL: Now, counsel
24 requested that the police department show it
25 to him. Police department agreed to show it

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2 to him on a confidential basis.

3 LEGISLATOR SOLAGES: He put it on
4 the record.

5 LEGISLATOR KOPEL: It was not
6 provided in a confidential basis. It was
7 provided to us and we just showed it to you
8 too. There's nothing nefarious. We just saw
9 it for the first time and we showed it to you
10 for the first time. None of the members of
11 the committee saw it before now. We just saw
12 it for the first time and so did you. There
13 is nothing scary about this.

14 LEGISLATOR SOLAGES: Was it the
15 first time that Mr. Ferretti saw it?

16 LEGISLATOR KOPEL: Mr. Ferretti,
17 was it the first time you saw it?

18 LEGISLATOR FERRETTI:
19 Absolutely.

20 LEGISLATOR KOPEL: Everybody
21 sitting here saw it for the first time. I
22 just saw it for the first time.

23 LEGISLATOR SOLAGES: Can we
24 receive an official copy? Can our counsel
25 receive an official copy?

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2 LEGISLATOR KOPEL: Yeah. If the
3 PD allows it fine with us. The police will be
4 out here and we will ask them for it. Because
5 we asked for it and you didn't. It's not that
6 complicated.

7 LEGISLATOR SOLAGES: This is a
8 public hearing. Why wouldn't both sides have
9 it?

10 LEGISLATOR KOPEL: Because we
11 asked for it and we got it and you didn't.
12 And when we got it we looked at it and showed
13 it to you too. It's really not complicated
14 here. You want to make something out of
15 nothing you can keep on trying.

16 By the way, I just would make one
17 point as to what that did show. There was a
18 real red flag on that email and I'm not going
19 to go into depth on it but this is a very
20 simple thing. The signature -- the from of
21 the scammer showed that it came from X Corp.
22 dot org and right down at the bottom it showed
23 the www of that same company, that same corp.
24 dot com, which showed that they had a dot com,
25 and that conflict that's a real red flag. But

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2 it was missed. In any event, Ms. Walker.

3 LEGISLATOR WALKER: I just have
4 one quick question. Not who you told when or
5 whatever. But don't you think before you had
6 a press conference with Newsday it would have
7 been nice for the legislators, shouldn't even
8 use the word nice, should be something that
9 this body should know about before we read it
10 in Newsday? I mean, I just think that would
11 be proper protocol. You are the Nassau County
12 Comptroller and you don't feel that's
13 important to share with the legislature? We
14 see it in a newspaper.

15 MR. SCHNIRMAN: We shared it all
16 at once and I appreciate your request and
17 that's something that will certainly be taken
18 into consideration going forward.

19 LEGISLATOR WALKER: Could I ask
20 you, did you know before you saw it in
21 Newsday? Did any of you know before you saw
22 it in Newsday?

23 LEGISLATOR BIRNBAUM: I would
24 just say there are lots of things in this
25 county that we don't hear about before we see

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2 in Newsday that I've found in the past. It's
3 not just this one time. It's several items
4 that we don't get informed about.

5 LEGISLATOR WALKER: Right. I
6 agree. There are many things we see and it
7 doesn't make me happy. I just think this is
8 extremely important. And for us to find out
9 by seeing it in Newsday I have a big problem
10 with that. I've stated before I've had a
11 problem with it. So I'm stating it publicly
12 here that I have a major problem with that.

13 So you knew nothing either before
14 you saw it in Newsday.

15 LEGISLATOR KOPEL: Gentlemen,
16 thank you so much for coming. We have some
17 Advil available if you'd like on the way out.
18 But otherwise you are free. I would ask you
19 not to leave the room actually because I'm
20 told that there may be some further questions
21 that may develop. So if you would just hang
22 out that would be preferable.

23 We have one more witness I believe
24 from IT. That would be Nancy Stanton. Just
25 state your name and position for the record.

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2 MS. STANTON: Nancy Stanton.

3 LEGISLATOR KOPEL: You got that
4 already? Go ahead.

5 MR. PEREZ: Al Perez, deputy
6 commissioner.

7 MR. BARROW: Steve Barrie,
8 manager, computer operations.

9 LEGISLATOR KOPEL: Do you have a
10 statement to make?

11 MS. STANTON: I do.

12 LEGISLATOR KOPEL: Please go
13 ahead go.

14 MS. STANTON: Good evening.
15 Nancy Stanton, IT commissioner. We would like
16 to thank you for this opportunity to speak
17 here today to discuss efforts that my
18 department have put in place to harden our
19 infrastructure. I have brought with me today
20 senior staff Al Perez and Steve Barrie.

21 Let me first begin by letting you
22 know that the Department of Information
23 Technology takes cyber security very
24 seriously. The infrastructure, network
25 systems and house data we store and maintain

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2 in county are the cornerstones for the
3 operation of many departments and
4 constituents. Because of this, it is one of
5 the most if not the highest priority in my
6 department. My department is committed to
7 reduce security risks by eliminating potential
8 attacks throughout the county.

9 During 2018 and 2019, through a
10 grant, we were fortunate and pleased to work
11 with the Department of Homeland Security for a
12 cyber security evaluation. The purpose of
13 this cooperative exercise was to assess any
14 possible vulnerabilities that we have had in
15 our system. This analysis produced a report
16 of vulnerabilities and recommendations to
17 harden our environments and systems. As of
18 today, I'm pleased to say that with the
19 support of my staff all critical
20 recommendations have been remediated.

21 In addition to meeting weekly to
22 discuss security measures and weekly activity,
23 we have done many things. Some you can see.
24 Some you cannot. Here are a few examples of
25 what you can see.

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2 Actively migrating from Windows 7
3 to Windows 10. Acquired and deployed user
4 employee security training. Implemented
5 multifactor authentication across a number of
6 departments soon to be countywide.
7 Implemented a complex password policy. Lock
8 down the use of personal email access.
9 Limited web access through web filters.

10 Here are a few things you cannot
11 see. Implemented stronger application of date
12 deployments, browser Windows versions.
13 Adopted a more aggressive security update
14 practice with Windows and MS office security
15 updates. Acquired and deployed countywide AI
16 driven security suite and maintain version
17 deployments.

18 Overhauled completely the way
19 Nassau County performs backups. Full server
20 machine backups using the latest version and
21 all available backup agents automatically are
22 in place.

23 Server OS security patching is
24 currently being implemented. Our firewalls
25 now have deep SSL scanning enabled for network

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2 vulnerabilities.

3 In June of 2019 there was a local
4 law 229-19 to enacted through this legislative
5 body to provide the following which I will now
6 give an update.

7 Employee training. This is
8 underway. We expect to be complete by the end
9 of January. Going forward we will be doing
10 this training on a semiannual basis. Also to
11 note, we have conducted many cyber security
12 seminars to constituents throughout the
13 county. We will also begin a program where
14 these seminars are offered to employees.

15 Number two. Submit an annual cyber
16 security risk assessment and response
17 analysis. This is in progress. We have
18 engaged a vendor to assist with penetration
19 testing and reporting. Once a report is
20 complete it will be forwarded accordingly.

21 Three. Establish a panel of
22 security service and incident response
23 providers to assist --

24 LEGISLATOR KOPEL: Ms. Stanton.
25 Forgive me. We all appreciate all these

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2 things but do you think you might be able to
3 confine your remarks to the implementation of
4 various controls that would apply to the
5 comptroller rather than as a countywide? In
6 other words, it's very important what you're
7 doing and I don't mean to denigrate that at
8 all. But this hearing is pretty narrowly
9 focused. So, if you have any light that you
10 can shed on the recent event that we've been
11 discussing. I assume you've been here. A.

12 And B, as to what you may have
13 implemented or would like to suggest to
14 implement in order to prevent a recurrence
15 that would be great. Thank you.

16 MS. STANTON: We are working with
17 the comptroller's office as far as registering
18 vendors, providing passwords so that they can
19 only get in. We are working with them on the
20 700 form, which they mentioned, to be online
21 and in order to access that you would have to
22 have a password.

23 Employee training. We are already
24 doing. You guys mentioned encryption. We
25 would be happy to work with them on that.

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2 LEGISLATOR KOPEL: You haven't
3 had any requests for that?

4 MS. STANTON: We have several
5 departments or agencies using very minimally.
6 But we certainly should be --

7 LEGISLATOR KOPEL: But there's
8 not been any request yet from the comptroller
9 specifically for that?

10 MS. STANTON: There has not.

11 LEGISLATOR KOPEL: Is that
12 something that you consider important?

13 MS. STANTON: Yes. For them yes.

14 LEGISLATOR KOPEL: Go on please.

15 MS. STANTON: That's it. We were
16 not involved in the recent event.

17 LEGISLATOR KOPEL: You have no
18 ideas of -- okay, good. Can you give us any
19 good ideas as to what you think ought to be
20 implemented based upon what you've heard here
21 today beyond whatever we might have
22 suggested?

23 MS. STANTON: We can talk with
24 them with whatever they need and certainly
25 help implement whatever they need.

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2 LEGISLATOR KOPEL: A multifactor
3 authentication going to them regardless.

4 MS. STANTON: They have that
5 already. That's in place. It is being rolled
6 out throughout the county. The training is
7 being rolled out.

8 LEGISLATOR KOPEL: The encryption
9 obviously. Is there a VPN in place for their
10 transactions?

11 MR. BARRIE: No. There's no VPN
12 in place for their transactions.

13 LEGISLATOR KOPEL: Would you not
14 suggest that there ought to be?

15 MR. BARRIE: In what way would
16 you think that?

17 LEGISLATOR KOPEL: I guess that
18 just an additional layer of protection against
19 somebody hacking in, observing emails that are
20 going in and out.

21 MR. BARRIE: The VPN would be for
22 if there were transactions coming in and out
23 of the county, not for emails. It would be if
24 somebody was connecting --

25 LEGISLATOR KOPEL: VPN would

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2 not --

3 MR. BARRIE: Would not alleviate
4 this issue no.

5 LEGISLATOR KOPEL: Emails would
6 not travel through the VPN?

7 MR. BARRIE: No.

8 LEGISLATOR KOPEL: If you had a
9 VPN?

10 MR. BARRIE: Our email system in
11 Nassau County is in Microsoft Office 365. So
12 anything in and out of the county is coming
13 over our Internet connection.

14 LEGISLATOR KOPEL: Which is
15 adequately protected in and of itself,
16 therefore the VPN -- okay. It's protected
17 from snooping. Got it.

18 MR. BARRIE: Like Mr. Schnirman
19 said, it was a phishing attempt on the
20 comptroller's office. So last week we
21 actively blocked 1100 phishing attempts into
22 the county.

23 LEGISLATOR KOPEL: Can you set
24 things up at the comptroller's office, if
25 necessary, so that nothing is done from a

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2 remote computer?

3 MR. BARRIE: Nothing is done --

4 LEGISLATOR KOPEL: No financial
5 transactions can be implemented through a
6 remote computer.

7 MR. BARRIE: If financials
8 transactions, if they're coming from outside
9 the county they can only come through a VPN or
10 a secure connection.

11 LEGISLATOR KOPEL: I'm talking
12 about -- in other words let's say, I'm just
13 imaging this, there's no suggestion that this
14 has actually occurred just to be clear, but
15 should a county employee decide to work from
16 home let's say and process payments. By
17 coming in through the county system --

18 MR. BARRIE: They will be coming
19 in through a VPN.

20 LEGISLATOR KOPEL: They will be
21 coming in through a VPN.

22 MR. BARRIE: Correct.

23 LEGISLATOR KOPEL: Therefore that
24 would be safe?

25 MR. BARRIE: Correct.

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2 LEGISLATOR KOPEL: Anybody?

3 Thank you. Now we're done with our witnesses
4 and if there are any members of the public
5 that would like to comment you're welcome to
6 let yourselves be known now. Anybody? We
7 have a winner here. You would like to make a
8 public comment? Why don't you come right up
9 please.

10 MS. HESSION: My name is Eileen
11 Hession and I come from Long Beach. I'm
12 really up here just to say thank you very much
13 for having this hearing. I come from Long
14 Beach where we are in deep financial trouble.

15 It was stated that this was an
16 attempted scam but it was actually a
17 successful scam, and I want to thank the bank
18 who discovered it and reported it. Otherwise
19 we'd be out \$700,000.

20 In Long Beach we had few financial
21 things in place that took care of our
22 finances. We were fed much misinformation
23 regarding the city's finances. No checks, no
24 balances, inadequate safeguards and
25 incompetence. Long Beach taxes have risen

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2 substantially. No one has ever taken
3 responsibility for it and no one has ever said
4 the buck stops here.

5 I want to sincerely thank you, the
6 legislature, for holding this hearing
7 transparently and looking to strengthen all
8 controls and procedures. Thank you to the
9 bank and thank you again to the legislature.

10 LEGISLATOR KOPEL: Thank you.
11 Anyone else? I'm going to take a motion to
12 adjourn by Ms. Birnbaum. Seconded by
13 Ms. Walker. All those in favor of
14 adjourning? Any opposed? We are adjourned.
15 Thank you everyone.

16 (Meeting was adjourned at 5:25
17 p.m.)

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CERTIFICATION

I, FRANK GRAY, a Notary
Public in and for the State of New
York, do hereby certify:

THAT the foregoing is a true and
accurate transcript of my stenographic
notes.

IN WITNESS WHEREOF, I have
hereunto set my hand this 25th day of
January 2020.

FRANK GRAY