

the bank or trust company must provide the officer requesting the transfer with written confirmation of the transaction no later than the business day after the day on which the funds were transmitted.

Electronic Payments

Local governments are authorized to accept a variety of payments through their municipal website as well as by credit card. Another toolbox in this series, entitled *Reviewing Your Revenue Collection Process*, covers this topic in detail, including use of the State's Electronic Value Transfer Program.

Electronic Check Images

Most banks no longer provide cancelled paper checks to their customers, but instead offer electronic check images online or on CD. You can accept these electronic images in lieu of cancelled checks required by statute, upon authorization by your governing board.

State Law Relating to Electronic Banking

General Municipal Law Section 5-a authorizes the use of electronic or wire transfers, and indicates what items are required to be addressed in the local government's or school district's written agreement with the bank or trust company, including a security procedure. Section 5 authorizes accepting payments by credit card, and 5-b authorizes accepting payments via the Internet.

Uniform Commercial Code Section 4-A-201 defines "security procedure" as a procedure established by agreement between the customer (local government) and the receiving bank for the purpose of verifying that a payment order is that of the local government, and for detecting errors in the transmission or the content of the payment order.

General Municipal Law Section 99-b(2) authorizes local governments to accept electronic check images.

Resources

For more information on issues related to electronic banking, refer to the following publications of the Office of the State Comptroller, which may be found on the web at www.osc.state.ny.us/localgov/pubs/publisting.htm:

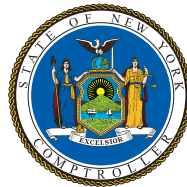
- *Cash Management Technology*
- *Reviewing Your Revenue Collection Process*

We encourage local officials to consider the electronic banking technologies discussed in this brochure when they are appropriate for the size and complexity of their operations. Before implementing any of these technologies, the governing board should fully understand the risks, costs and benefits of these services. Legal counsel should review all agreements with service providers to ensure that your rights and assets are adequately protected, and that all procedures are in compliance with law.

OFFICE OF THE STATE COMPTROLLER



DIVISION OF
LOCAL GOVERNMENT AND
SCHOOL ACCOUNTABILITY



Thomas P. DiNapoli
State Comptroller
110 State Street
Albany, New York 12236

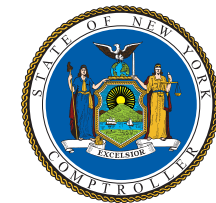
localgov@osc.state.ny.us



LOCAL GOVERNMENT
FINANCIAL TOOLBOX

Electronic Banking

Electronic banking provides a faster, easier, and more efficient substitute for paper processing and recording of receipts and disbursements, while reducing the cost of processing these transactions.



Thomas P. DiNapoli
State Comptroller

Local governments and school districts increasingly are turning to electronic banking as a faster, easier, and more efficient substitute for paper transactions. Electronic banking uses computer and electronic technology to streamline the processing and recording of receipts and disbursements, while reducing the cost of processing these transactions. Banking can be done without leaving the office, generally at any time of the day, and often you can see up-to-the-minute balances and recorded transactions. Receipts, disbursements and transfers in proper circumstances can be processed via electronic funds transfer (EFT) services, whether transferring funds from a savings to a checking account at the same bank, or making a payment to a vendor's bank across the country. Traditional internal controls, such as written policies and procedures, authorizations, segregation of duties and monitoring, however, are still important in the new technological world.

Policy and Procedures

Before you begin processing transactions electronically, you should have detailed policy and procedures in place that specify online banking activities and electronic funds transactions in which your organization is authorized to engage. The policy should include the following:

- What online banking and EFT activities will be used
- Who is authorized to initiate electronic transactions
- Who will approve electronic transactions
- Who will transmit electronic transactions
- Who will record electronic transactions
- Who will review and reconcile electronic transactions.

This policy must be consistent with the statutory and other legal responsibilities of the officers and employees involved.

Segregation of Duties

Classic internal controls, if well designed, all work well with EFT technologies. Proper segregation of duties is important in almost any business function, but is critical for electronic transactions. Without proper segregation of duties, the risk increases that one person could be in a position both to commit a wrongdoing and to conceal it. At least two individuals should be involved in each electronic transaction. The authorization and transmitting functions should be segregated and, if possible, the recording function should also be delegated to someone who does not have either approval or transmitting duties. Generally, the same controls should be used for electronic disbursements through online banking as apply to the manual preparation of checks. Payments made using electronic funds transfer services cannot circumvent laws, regulations, and/or your internal control policies.

Electronic or Wire Transfers

Electronic or wire transfers are transfers of local government or school district funds, which are usually effective within minutes of being executed. Wire transfers are usually more costly than other electronic methods of making disbursements, and are therefore most commonly used for bond payments, investments, or other large-dollar settlements. Other types of electronic transfers are used for small-dollar or repetitive transactions, such as federal, State, or local aid, or grant payments, because they are less costly but still efficient.

Safeguards

Some banks offer electronic or wire transfer capability in their online banking programs, allowing you to input the required information and initiate, authorize and transmit wire transfers in-house without outside assistance from your depository. Access to in-house electronic or wire transfer software should be controlled and its use should be authorized and monitored frequently due to the ease with which transfers can be made. Safeguards for initiating an electronic or wire transfer include phoning the bank and using a password to authorize the transfer verbally, hand delivering a letter of authorization to the bank with the transfer instructions, or sending a fax with the authorized signature and password.

Before your organization opts to disburse funds by electronic or wire transfer, the governing board is required to enter into a written agreement with the bank or trust company in which your funds have been deposited, including implementation of a security procedure. You should have a callback provision in your electronic or wire instructions that requires the bank to call someone other than the person initiating the transaction to confirm the appropriateness of the transfer. You can also establish additional controls, such as a policy that does not allow the bank to initiate wire transfers out of the country or to banks other than the Depository Trust Company for bond payments.

Monitoring

Your internal control system must include procedures or safeguards for the documentation and reporting of all transfers and disbursements of funds by electronic or wire transfer. In addition,