

Village of Mayville

Online Banking

MARCH 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Village of Mayville

Audit Objective

Determine whether the Village of Mayville (Village) Board of Trustees (Board) ensured online banking transactions were appropriate and secure.

Key Findings

Online banking transactions we reviewed were appropriate, properly supported and authorized, however the Board needs to ensure transactions are secure.

- The Board did not adopt a written online banking policy or implement adequate procedures to monitor and control online banking transactions.
- A dedicated computer was used for online banking but authorized users were not provided with security awareness training.

Key Recommendations

- Adopt a written online banking policy and develop employee specific procedures.
- Ensure employees and officials receive adequate security awareness training.

Village officials generally agreed with our recommendations and indicated they planned to initiate correction action.

Background

The Village is located in the Town of Chautauqua in Chautauqua County. The Village is governed by an elected Board composed of four Trustees and a Mayor. The Board is responsible for the general management and oversight of Village operations.

The Board appoints a Treasurer who acts as the chief fiscal officer and is responsible for the day-to-day financial operations. This includes the initiation of, and accounting for, all online banking activity such as wire transfers and Automated Clearing House (ACH) payments. Beginning in September 2019, Village residents have the option of paying for various services through electronic means. The appointed Clerk is responsible for preparing bank reconciliations.

Quick Facts

Total Online Transactions from
June 1, 2018 - January 31, 2020

Number	1,106
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Amount	\$21.4 million
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Audit Period

June 1, 2018 – October 7, 2020

Online Banking

Online banking provides a way to directly access funds in Village bank accounts. The Village uses online banking services to transfer funds between various Village accounts, to make payments to third party vendors via Automated Clearing House (ACH) and wire transfers for remitting employee payroll tax withholding to government entities, debt payments and credit card payments. Additionally, the Village contracts with a third party vendor to process electronic transactions for various residential payments (e.g., utility bills) and receives electronic deposits for project reimbursements and payments from another municipality. Local governments can disburse or transfer funds in their custody by electronic or wire transfers. Therefore, it is essential that officials establish adequate procedures to reduce the risk of unauthorized transfers from internal and external sources.

How Can Officials Reduce Online Banking Risk?

A board should adopt written policies and procedures to monitor and control online banking transactions. A comprehensive written online banking policy should:

- Clearly describe the online activities village officials may engage in,
- Specify which employees are authorized to process transactions,
- Establish a detailed approval process to verify the accuracy and legitimacy of transfer requests, and
- Require the review and reconciliation of transfers.

Additionally, written guidelines for accepting online payments should include the processing of, and accounting for, such payments.

Village officials should segregate the duties of employees granted access to online banking to reduce the opportunity for an employee to make and conceal errors or inappropriate transactions in the normal course of their duties. Officials should also provide for a regular, independent review of bank statements and supporting documentation to detect and address any unauthorized activity.

A village should have a written agreement with its bank that prescribes the manner in which transfers will be accomplished, identifies the names and numbers of the bank accounts from which such transfers may be made, or deposited into, and identifies the individuals authorized to request transfers. The agreement should implement security procedures that include verifying that payment instructions are that of the municipality and detecting errors in the transmission or content of such payment orders.

Village officials should limit the number of users authorized to execute online banking activities and the number of computers used for such activities. Authorized users should only access bank accounts from dedicated computers which are used only for online banking. Employees and officials with online banking access should also receive Internet security awareness training to educate them on safe computing practices, such as avoiding untrusted websites.

The Village Does Not Have Adequate Written Online Banking Policies or Procedures

The Board has not adopted written online banking policies and procedures to reduce online banking risks. Although officials have implemented some control procedures, online banking activity is conducted without sufficient oversight. The Board passed a resolution authorizing certain individuals to conduct online transactions and has a banking agreement on file with its financial institution, but the Board did not know what security controls were available or being implemented. As a result, officials did not avail themselves of all the security controls offered through the financial institution.

The Mayor, Deputy Mayor, Treasurer and Deputy Treasurer (Deputy) are all authorized to conduct online transactions. However, only the Treasurer and Deputy currently have their own username, password and security token for initiating online transactions and the Deputy did not initiate any transactions during our audit period. Security tokens assign a number series for specific users that limit unauthorized access from outside sources. Although the Village has properly limited the number of users authorized to execute online banking activities, the existing process allows these individuals to do so without adequate oversight.

The Treasurer initiates and approves transfers without the involvement of any other official or employee and is also responsible for recording all bank activity in the accounting records. The Village has some procedures in place that help reduce the risk of improper transfers from occurring and being concealed. For example, the Board approves all online payment activity.¹ Also, the Clerk receives bank statements showing all online banking transactions, but the Clerk does not compare reconciled bank balances to recorded cash balances in the accounting records, a critical step in the bank reconciliation process.

The
Treasurer
initiates and
approves
transfers...
and is also
responsible
for recording
all bank
activity...

¹ All online transfers are recorded in the accounting records through the claim voucher process and presented to the Board for audit and approval.

Although officials have implemented some oversight procedures, these procedures do not sufficiently reduce the risk. Additional security features such as callback verification, dual authorizations, transfer limits or email alerts could provide greater oversight if implemented correctly. Although all of these features were available to officials through the financial institution, they did not take advantage or implement any of these oversight features. Consequently there is an increased risk of unauthorized or improper transactions.

Online Banking Transactions Were Appropriate, Supported and Properly Authorized

We reviewed three months² of online banking activity and viewed supporting documentation for both incoming (63 transfers totaling approximately \$1.2 million) and external transfers (45 transfers totaling approximately \$1.5 million). We found that all transfers were for appropriate purposes, properly supported and recorded in the accounting records.

...[A]ll
transfers
were for
appropriate
purposes...

A Dedicated Computer Was Used for Online Banking but Security Awareness Training Was Not Required for Employees

The Village has one computer that is used exclusively to access the Village's online accounts. This computer has wired access to the Internet and is not connected to a network, which are added security protections that can safeguard financial transactions. While the two employees who currently have access capability to make electronic payments or wire transfers said they have completed some Internet security awareness training, they are not required to do so. The lack of periodic training increases the risk that users could unintentionally expose online bank accounts to threats from malicious software, which could endanger cash assets.

We reviewed the website browsing history on the dedicated computer to determine if the Treasurer had visited websites other than those necessary to conduct online banking. We did not identify any non-banking websites that were visited.

While we found no discrepancies in the transactions reviewed, without a sufficient written policy that explicitly conveys practices to safeguard Village assets during online banking transactions and requiring training on the appropriate use of information technology (IT) equipment, Village officials cannot ensure that employees are aware of their responsibilities. Additionally, without proper oversight, errors and irregularities could occur and not be detected and corrected in a timely manner.

² See Appendix B for sampling methodology.

What Do We Recommend?

The Board should:

1. Adopt a written online banking policy and develop procedures that adequately segregates, and details, the responsibilities for individuals involved in the authorization, processing and monitoring of electronic transactions.
2. Ensure that additional security options are enabled and that those individuals responsible for safeguarding online banking activities are familiar with banking agreements.
3. Ensure that pertinent employees and officials receive adequate cybersecurity training.
4. Ensure an official not responsible for initiating online transactions reviews bank statements and supporting documentation to detect and address any unauthorized activity.

The Clerk should:

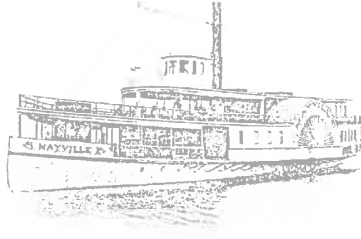
5. Compare reconciled bank balances to recorded cash balances in the accounting records.

Appendix A: Response From Village Officials

Village of Mayville

"The Gateway to Chautauqua Lake"

P.O. Box 188
Mayville, New York 14757



VILLAGE OFFICE PUBLIC WORKS
P: 716.753.2125 P: 716.753.2013
F: 716.753.3125 F: 716.753.3013
www.villageofmayville.com

February 4, 2021

Office of the New York State Comptroller

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, Chief Examiner

295 Main Street, Suite 1032

Buffalo, New York 14203-2510

This letter is being sent to your Buffalo office to acknowledge that The Village of Mayville is in receipt of your preliminary draft findings.

The Village of Mayville is in receipt of your audit findings dated January 12, 2021 and we did our exit interview with [REDACTED] on January 20, 2021 via telephone. We are already addressing the concerns that were brought to our attention and will send you a copy of the changes that we make once we finish them if you so desire.

Thank you.

Sincerely,

Kenneth V. Shearer Jr.

Village of Mayville Mayor

County Seat - Chautauqua County, New York

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials to obtain an understanding of online banking practices, any related policies and procedures and to determine whether online banking users received any security awareness training.
- We observed the Treasurer while she accessed online banking to determine her online banking capabilities.
- We examined the dedicated computer used to access online banking and reviewed its website browsing history back to November 27, 2019.
- We inquired about written bank agreements and reviewed the documentation regarding capabilities and security measures for online transfers.
- We inquired about agreements in place with three different parties regarding online deposits into Village accounts and one bank regarding an auto withdrawal.
- We discussed the bank reconciliation process with the Clerk and reviewed various related reports. We verified the accuracy of the November 2019 bank reconciliation and compared reconciled amounts to the November 30, 2019 general ledger cash balances.
- We obtained bank statements for the period June 1, 2018 through January 31, 2020 and identified and categorized 1,106 transactions totaling approximately \$21.4 million. We identified 173 incoming electronic transactions totaling \$5.6 million and 269 outgoing transactions totaling \$4.3 million. For intra-bank transfers, we verified that total debits equaled total credits and removed those transactions from any further testing. We used a risk based approach to select our sample three months and selected the two months with the highest amount of credit card expenditures (July and November 2019). We then identified all of the months that had at least one transaction from each identified type and selected the month with the highest total of online customer payments (January 2020). For external transfers we reviewed supporting documentation to confirm the transfers were appropriate.
- For incoming transfers we verified that deposit amounts agreed with supporting documentation and verified, in total, that all online utility payments were posted to customer accounts. We confirmed certain deposits were recorded in the accounting records.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

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