

Investing and Protecting Public Funds

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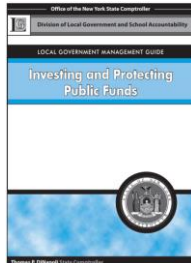
New York State Comptroller
THOMAS P. DiNAPOLI

Objectives

- Principles and Statutes
- Deposit of Public Funds
- Securing Deposits
- Investment Policies
- Cash Controls and Reporting
- Cash Flow Forecasting

Guiding Principles

- Legality
- Safety
- Liquidity
- Yield



Statutes

General Municipal Law (GML)

- GML, Section 10 – Deposit of Public Moneys; Security
- GML, Section 11 – Temporary Investments
- GML, Section 39 – Investment Policies
- GML, Section 5-a – Electronic or Wire Transfers
- GML, Section 99-b – Check Images

Statutes (cont'd)

General Municipal Law (GML)

- GML, Article 5-G – Municipal Cooperation
- GML, Article 3-A – Cooperative Investments
- Banking Law, Section 107-a – Security for Public Deposits
- Banking Law, Section 96-d – Banking Development Districts

Unauthorized Accounts

- Money Market Mutual Funds
- Unit Investment Trusts

Securing Deposits

- FDIC Coverage
- Collateral
- Written Agreements
- Bank Responsibility
- Custodian

Federal Deposit Insurance Corporation (FDIC)

- First level of defense is securing your deposits.

Demand, and Time and Savings Deposit Account Definitions for FDIC Coverage

- In order to understand how to secure and collateralize your deposit accounts, it is important to understand the definitions of these accounts according to the Federal Deposit Insurance Corporation (FDIC) Regulations.

FDIC Definitions

- Demand Deposit Accounts:
 - Include interest and noninterest-bearing deposits.
 - These deposits are payable on demand.
 - The depository institution does not reserve the right to require advance notice of an intended withdrawal.

FDIC Definitions (cont'd)

- Time and Savings Deposit Accounts:
 - Include N.O.W. (Negotiable Order of Withdrawal) Accounts
 - Savings
 - Money Market Deposit Accounts

NOW Accounts and Demand Deposit Accounts:

- NOW Accounts:
 - Insured Depository Institution (IDI) reserves the right to require at least seven days' written notice prior to withdrawal or transfer of any funds (See 12 C.F.R. § 204.2(e)(2)).
- Demand Deposit Accounts:
 - IDI does not reserve the right to require at least seven days' written notice of an intended withdrawal (See 12 C.F.R. § 204.2(b)(1)).

Securing Deposits (cont'd)

- FDIC Coverage
 - Demand Accounts
 - FDIC coverage is \$250,000 for the aggregate of all demand accounts per bank per official custodian.
 - For example, the aggregate of all (10) demand accounts per bank per custodian in Bank A = 500,000 so additional collateral is needed for the excess of \$250,000 (500,000 – 250,000).

Securing Deposits (cont'd)

- FDIC Coverage
 - Time and Savings Accounts
 - FDIC coverage is \$250,000 for the aggregate of all time and savings accounts per bank per custodian
 - For example, aggregate of all time and savings in Bank A = 1,000,000, FDIC coverage is \$250,000 so additional collateral is needed for the excess of \$750,000 (1,000,000 – 250,000).
 - Total additional collateral needed for Bank A is \$1,000,000 (\$250,000 for Demand + \$750,000 for Time and Savings).

Securing Deposits (cont'd)

- FDIC Coverage
 - Deposit Placement Program
 - Under an amendment to GML, Section 10 and 11, local governments may authorize their designated depository bank or trust company to arrange for the "redeposit" of the local government's funds, for the account of the local government, in one or more "banking institutions."
 - Under this program, an FDIC-insured bank or trust company divides a local governments deposits into multiple deposits, all under the \$250,000 FDIC limit, and then deposits in that amount are made into other FDIC-insured banking Institutions, *thereby increasing the available FDIC coverage.*
 - At the same time, each bank that received a piece of the original deposit then makes a "reciprocal deposit" into the bank or trust company holding the local governments original deposit.

Securing Deposits (cont'd)

- FDIC Coverage
 - Conditions of the Deposit Placement Program
 - The local government's depository bank or trust company must serve as custodian for the local government for the redeposited funds.
 - The local government funds held in the depository bank or trust company in excess of FDIC coverage, pending redeposit, must be properly secured in accordance with the GML.
 - The full amount of the redeposited funds, plus any accrued interest, must be covered by the FDIC.
 - At the same time of the redeposit, the local government's depository bank or trust company must receive an amount at least equal to the amount of the local government's funds redeposited.

Securing Deposits (cont'd)

- FDIC Coverage
 - Similar changes were made to GML, section 11 for investments by local governments in special time deposits and certificates of deposit.

Securing Deposits (cont'd)

- Additional collateral is required when you are in excess of the FDIC coverage. Eligible collateral consists of any one or combination of:
 - Surety Bonds
 - Letters of Credit
 - Pledge of Eligible Securities – You also have the option to accept as security a pledge of pro rata portion of a “pool” of eligible securities.

Securing Deposits (cont'd)

- Bank Responsibility – Banks must comply with the requirements to provide a pledge of collateral or other security as long as the local government has entered into a written agreement with the bank and notified the bank in the manner required by the agreement (Banking Law, Section 107-a).

Investment Program

- Strategy/Philosophy/Objectives
- Policies
- Investment Services
- Types of Investments

Strategy/Philosophy/Objectives

- Legality
- Safety
- Liquidity
- Yield

Investment Policies

General Municipal Law , Section 39

- Must adopt a written Investment Policy
- Adopt and review annually.
- Model Investment Policy available.
 - <https://www.osc.state.ny.us/files/local-government/publications/pdf/investingpublicfunds.pdf>
 - Appendix B

Model Investment Policy

1. Scope – Applicability
2. Objectives – Legality, Safety, Liquidity, Yield
3. Delegation of Authority – from Board to CFO
4. Prudence
5. Diversification – Spreading of Risk
6. Internal Controls – Adequate Operating Procedures
7. Designation of Depositories - GML §10

Investment Services

- Governing Board or designated officer is legally responsible for making investment decisions.
- Local government can contract for services of investment experts as long as investment officer retains control over investment decisions.

Types of Investments

General Municipal Law, Section 11

- Deposits – Certificates of Deposit (CDs)
- Direct Purchase of Securities
- Repurchase Agreements
- Cooperative Investment Agreements

Types of Investments

County Investment Options Expanded

- GML was amended for County investments to include:
 - General obligation bonds and notes of any state other than New York, provided that such bonds receive the highest rating of at least one independent rating agency;
 - Obligations of any corporation organized under the laws of any state, provided that such obligations received the highest rating of two independent rating services and that no more than \$250 million is invested in any one corporation;
 - Bankers' acceptances maturing within 270 days which are eligible for purchase in the open market by federal reserve banks;
 - Obligations of, or instruments issued by, any agency or instrument of the USA, including federal home loans banks, the Tennessee Valley Authority, the Federal National Mortgage Association, Federal Home Loan Mortgage Association, and the United States Postal Service, provided that no more than \$250 million is invested in any one agency; and
 - No load money market mutual funds, provided that such funds are limited to investments in obligations of agencies or instrumentalities of the USA, where payment is guaranteed by the USA.
- Note this amendment carries a sunset clause.

Cash Controls and Reporting Systems

- Objectives:
 - Cash receipts and cash disbursements are recorded timely.
 - Sufficient funds to meet operating and capital needs.
 - Facilitate prudent investment of idle funds.

Cash Controls and Reporting Systems

- Internal Controls
- Accounting and Reporting

Internal Controls

- Include methods and procedures used to safeguard assets and assure that assets are used effectively.

Accounting and Reporting Systems

- Help with managing cash flow.
- Help with investing idle funds.
- Include an accounting system for cash receipts and cash disbursements, investments and interest apportioning.
- Include a reconciliation reporting system for cash and investments.

Collection and Disbursement Procedures

- Collections
- Deposits
- Disbursements

Collections

- Develop written collection procedures and ensure compliance.
- Speed up collections through:
 - Timely invoicing
 - Enforce late payment penalties
 - Accept credit card payments

Deposits

- Develop written deposit procedures and ensure compliance.
- Ensure timely deposits
 - Reduce deposit float (mail, administrative and clearing floats)
 - Lock box processing
 - Bank collection of certain payments

Disbursements

- Develop written disbursement procedures and ensure compliance.
- Review timing of disbursements
 - Analyze disbursement patterns
 - Review types of disbursement accounts
 - (e.g., controlled disbursing account)

Banking Relations

- Banking Services
- Selecting Bank
- Demand and Time Deposit Accounts
- Certificates of Deposit
- Unauthorized Accounts
- Securing Deposits

Banking Services

- Collection services
- Disbursement services
- Investment services
- Credit services

Selecting Bank(s)

- Share business among banks
- Rotate business among local banks
- Select bank on basis of competitive bids

Cash Flow Forecasting and Performance Measurement

- Management process
 - Written plan
- Identify potential cash shortfalls
- Ensure vendors/ liabilities can be paid
- Meet future goals
- Sample cash flow statement
 - Investing and Protecting Public Funds Publication (Appendix A)

Sample Cash Flow Statement

ESTIMATED RECEIPTS	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	TOTAL
Real Property Taxes	\$430,000	\$300,000	\$45,000										\$775,000
Non-Property Taxes			\$28,750			\$27,000			\$ 29,000	\$10,250			\$215,000
Departmental Income	\$4,000	\$4,000	\$4,100	\$4,200	\$4,200	\$4,300	\$4,100	\$4,000	\$4,200	\$4,400	\$4,500		\$50,000
State Aid			\$60,000		\$6,000	\$68,000		\$59,000		\$8,000	\$39,000		\$260,000
Federal Aid				\$2,000					\$1,200		\$44,300		\$50,000
Short-Term Borrowings								\$100,000					\$100,000
All Other	\$3,000	\$5,200	\$4,600	\$4,900	\$4,600	\$4,700	\$4,500	\$4,600	\$4,500	\$4,600	\$4,600	\$4,400	\$50,000
Total Estimated Receipts	\$437,000	\$309,200	\$83,600	\$91,700	\$11,200	\$14,000	\$103,800	\$8,700	\$187,500	\$41,900	\$17,000	\$42,400	\$1,686,000
ESTIMATED DISBURSEMENTS													
Payroll	\$41,800	\$41,800	\$41,800	\$41,800	\$41,700	\$41,800	\$41,800	\$41,700	\$41,800	\$41,800	\$41,500	\$41,500	\$600,000
Employee Benefits	\$14,700	\$14,600	\$14,800	\$14,800	\$14,600	\$14,700	\$14,700	\$14,700	\$14,600	\$14,400	\$14,300		\$175,000
Child Service					\$20,000				\$27,000				\$116,000
Short-Term Borrowing Repaid											\$100,000		\$100,000
All Other	\$43,000	\$42,000	\$63,000	\$40,000	\$40,000	\$48,000	\$41,000	\$43,000	\$43,000	\$43,000	\$41,000	\$41,000	\$525,000
Total Estimated Disbursements	\$99,500	\$98,200	\$119,200	\$96,200	\$209,300	\$101,000	\$97,500	\$90,900	\$99,300	\$128,100	\$96,900	\$146,800	\$1,456,000
Cash Balance Changes	\$338,200	\$210,000	\$(35,600)	\$1,000	\$(274,000)	\$(88,000)	\$6,100	\$(82,200)	\$88,200	\$(86,100)	\$(79,900)	\$45,600	\$40,000
Estimated Closing Cash Balance	\$407,380	\$618,200	\$582,700	\$584,300	\$340,300	\$253,700	\$260,000	\$169,200	\$237,400	\$152,300	\$ 72,400	\$18,000	\$118,000
Beginning Cash Balance 1/01/XX	\$50,000												
Ending Cash Balance 12/31/XX													\$118,000

Additional Resources

- OSC Training
 - <https://www.osc.state.ny.us/local-government/academy>
- Regional Offices
 - <https://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf>
- Local Government Helpline
 - 1-866-321-8503 or (518) 408-4934

Thank you

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