Office of the New York State Comptroller

Division of Local Government
& School Accountability

Chautauqua County

Investments and Payroll

Report of Examination

Period Covered:

January 1, 2013 – January 15, 2016

2016M-147

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

December 2016

Dear County Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and County Legislature governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of Chautauqua County, entitled Investments and Payroll. This audit was conducted 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.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government
and School Accountability

State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

Chautauqua County (County) has a population of approximately 135,000 residents and includes two cities, 27 towns and 15 villages. The County Legislature (Legislature) is composed of 19 members and is responsible for adopting policies and procedures. The County Executive serves as the chief executive officer, responsible for the administration of County affairs. The County provides various services to its residents, including public safety, public health, social services and public works. For the 2015 fiscal year, the County's adopted budget totaled $229 million.[1]

Scope and Objectives

The objectives of our audit were to review the County's investment program and salaries and fringe benefit payments for the period January 1, 2013 through January 15, 2016. We extended our scope period back to January 1, 2011 to include certain aspects of the investment program. Our audit addressed the following related questions:

- Did the Director of Finance invest funds in accordance with the adopted investment policy and statutory requirements?
- Were salary and related fringe benefit payments to elected officials and management employees accurate and permitted?

Audit Results

The Director of Finance (Director) did not always invest funds in accordance with the County's adopted investment policy or General Municipal Law (GML). The Director's investment practices did not adequately align with the four primary objectives of the investment policy (legality, safety, liquidity and yield) but instead sacrificed legality, safety and liquidity for potential higher yields. Furthermore, the Director[2] invested funds in securities that were not permitted by the investment policy or GML. The County also incurred losses on the sale of certain investments. We question whether it was prudent or consistent with GML and the County's policy, as an investment strategy, to have purchased and then sold the obligations which exposed the County to market risk, rather than holding them until maturity.

GML and the County's policy require that obligations purchased as investments be "payable or redeemable" at the County's option within the times the proceeds of the obligations purchased are

[1] This amount includes the appropriations for the general, highway and road machinery funds.
[2] Seven of these were purchased by the prior Director.

needed for the purposes for which the invested funds were raised. In the case of general fund money, the investment term should generally be less than one year. This requirement is intended to limit the municipality's exposure to market and liquidity risk and help ensure the municipality will not be forced to sell the investment in the open market when money is needed, possibly at a loss. An increase in interest rates would likely result in a decline in the market value of certain investments. In the current market environment, if not held until maturity, the County could end up selling certain securities at a loss if it needed cash to finance current expenditures. In that case, the County could have less cash available to fund current expenditures, and the Legislature could be forced to raise taxes.

Salary payments to elected officials and management employees were not accurately calculated. We found that the County overpaid 23 elected officials and 94 management employees approximately $26,400 in 2015. Absent corrective action, the County will likely overpay them an estimated $27,000 in the 2016 fiscal year. These overpayments occurred because County officials did not properly calculate biweekly gross wages and compensated these officials and employees for one day of pay in excess of their approved salary amounts. In addition, three elected officials should not have been paid for vacation leave totaling $14,875. Because elected officials are not required to adhere to fixed work hours set by formal attendance rules and are not limited to the period and amount of time spent away from work, there is no basis for elected officials to accrue and be paid for vacation leave.

Comments of County Officials

The results of our audit and recommendations have been discussed with County officials, and their comments, which appear in Appendix A, have been considered in preparing this report. County officials disagreed with certain aspects of our findings and recommendations but indicated they planned to initiate some corrective action. Appendix B includes our comments on issues raised in the County's response.

Introduction

Background

Chautauqua County (County) has a population of approximately 135,000 residents and includes two cities, 27 towns and 15 villages. The County Legislature (Legislature) is composed of 19 members and is responsible for adopting policies and procedures. The County Executive serves as the chief executive officer, responsible for the administration of County affairs. The County provides various services to its residents, including public safety, public health, social services and public works. For the 2015 fiscal year, the County's adopted budget totaled $229 million.[3]

The Legislature adopted an investment policy in accordance with General Municipal Law and the County Charter (Charter). In the policy, the Legislature delegated the responsibility for administering the County's investment program to the Director of Finance (Director). The Director is authorized to invest money not required for immediate expenditure for terms not to exceed the County's projected cash flow needs. Administration of the program includes the maintenance of records which contain the descriptions and amounts of investments, transaction dates and other relevant information, and monthly reporting to the Legislature on investment activity. The Director uses the services of two brokers who act as investment advisors and provide various information such as cash flow analysis and associated risk factors based on the makeup of the County's portfolio. However, the Director is responsible for all decisions regarding the purchasing and selling of individual investments. As of September 30, 2015, the County's investment portfolio totaled $49.5 million, and there was an additional $36 million on deposit in money market accounts.

The annual salaries of elected officials[4] and management employees[5] are approved by the Legislature. Annual salaries for 23 elected officials and 94 management employees totaled approximately $6.8 million in 2015. The Human Resources Department enters a biweekly rate of pay[6] in the payroll system for each salaried County official and employee. This calculation assumes that there will be 260 work days in the year.[7] The Payroll Department prepares the biweekly payrolls

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[3] This amount includes the appropriations for the general, highway and road machinery funds.

[4] Except for the District Attorney's salary, which is set by State statute and covers the State's fiscal year (April 1-March 31)

[5] Management includes all employees in the management salary plan as well as other management employees not covered by a collective bargaining agreement.

[6] Employee's annual salary divided by 26 pay periods

[7] 26 pay periods times 10 work days each pay period is 260 work days.

for elected and appointed officials. The Director is responsible for providing oversight of the payroll process.

The County provides paid time off, in the form of vacation, sick and personal leave, to certain employees. The benefit is usually authorized in collective bargaining agreements or policies adopted by local enactment of the Legislature. In certain instances, unused leave time can be converted into cash payments to employees annually or at separation from service.

Objectives

The objectives of our audit were to review the County's investment program and salaries and fringe benefit payments. Our audit addressed the following related questions:

- Did the Director of Finance invest funds in accordance with the adopted investment policy and statutory requirements?
- Were salary and related fringe benefit payments to elected officials and management employees accurate and permitted?

Scope and Methodology

We examined investment records and reports as well as salary and fringe benefit payments for the period January 1, 2013 through January 15, 2016.[8] We extended our scope period back to January 1, 2011 to include certain aspects of the investment program.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

Comments of County Officials and Corrective Action

The results of our audit and recommendations have been discussed with County officials, and their comments, which appear in Appendix A, have been considered in preparing this report. County officials disagreed with certain aspects of our findings and recommendations but indicated they planned to initiate some corrective action. Appendix B includes our comments on issues raised in the County's response.

The Legislature has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded 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 County Executive and the Clerk of the Legislature to make this plan available for public review in the Clerk's office.

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8 We did not include within the scope of our audit a review of the sufficiency of the collateralization of County deposits in excess of the Federal Deposit Insurance Corporation coverage.

Investments

The primary objectives of the County's adopted investment policy are, in priority order, to (1) conform to all federal, State and other legal requirements (legality), (2) adequately safeguard the principal of each investment (safety), (3) provide sufficient liquidity to finance current expenditures (liquidity) and (4) obtain a reasonable rate of return (yield). County officials should be familiar with the nature of their investments and ensure that they comply with the primary objectives of the investment policy.

The Director did not always invest funds in accordance with the adopted investment policy or General Municipal Law (GML). The Director's investment practices did not adequately align with the four primary objectives of the investment policy (legality, safety, liquidity and yield) but instead sacrificed legality, safety and liquidity for attempts to obtain higher yields. The Director invested funds in certain securities that were not permitted by the investment policy or GML. Furthermore, the County incurred losses on the sale of certain investments.

GML and the policy require that obligations purchased as investments be "payable or redeemable" at the County's option within the times the proceeds of the obligations purchased are needed for the purposes for which the invested funds were raised. In the case of general fund money, that term should generally be less than one year. This requirement is intended to limit the municipality's exposure to market and liquidity risk and help ensure the municipality will not be forced to sell the investment in the open market when money is needed, possibly at a loss.

In addition, an increase in interest rates or decrease in credit worthiness of the issuer would likely result in a decline in the market value of certain securities. Because of this market risk, if not held until maturity, the County could end up selling these securities at a loss if it needed cash to finance current expenditures. In that case, the County could have less cash available to fund current expenditures.

Investment Portfolio

As of September 30, 2015, the County had $36 million in money market accounts and an investment portfolio consisting of 73 securities costing $49.5 million (Figure 1). The portfolio had a market value of $49.1 million, which was approximately $407,000 less than cost.

Figure 1: County Investment Portfolio as of September 30, 2015					
Security Type	Cost	Market Value	Estimated Yield at Cost[a]	Estimated Average Life[b]	Percentage of Portfolio
GNMA Bonds[c]	$34,484,929	$34,224,100	1.65%	5.43 years	70%
SBA Bonds[d]	$8,091,429	$7,958,520	1.90%	5.40 years	16%
State Authority and Agency Bonds	$6,448,634	$6,432,928	2.45%	5.74 years	13%
Brokered Certificates of Deposit[e]	$500,000	$502,158	1.62%	3.97 years	100%
Total	**$49,524,992**	**$49,117,706**			

[a] For perspective, the average interest rate as of November 2, 2016 was .5 percent, for a one-year certificate of deposit (CD).
[b] The estimated length of time the security will be outstanding at current interest rates, as shown in a report from one of the County's brokers
[c] Mortgage-backed securities are sponsored by the Government National Mortgage Association (GNMA, also known as "Ginnie Mae"), an agency of the United States government. The principal and interest on these bonds are backed by the full faith and credit of the United States government.
[d] Asset-backed securities are sponsored by the Small Business Administration (SBA), a United States government agency. The principal and interest on these bonds are backed by the full faith and credit of the United States government.
[e] These types of CDs are issued by banks and are purchased by brokers in the secondary market, possibly at a negotiated higher rate of interest than a CD purchased directly from a bank.

Between January 1, 2013 and September 30, 2015, the Director purchased 81 securities costing $67.2 million (Figure 2). Only 18 of the securities in the portfolio as of September 30, 2015 were owned by the County prior to January 1, 2013.

Figure 2: Investments Purchased – January 1, 2013 through September 30, 2015			
Security Type	Number	Cost	Percentage of Total
GNMA Bonds	47	$43,456,458	65%
SBA Bonds	13	$9,749,808	14%
Treasury Securities	4	$3,990,349	6%
State Authority and Agency Bonds	9	$6,777,701	10%
Local Government Bonds	6	$2,770,698	4%
Brokered Certificates of Deposit	2	$500,000	1%
Total	**81**	**$67,245,014**	**100%**

Furthermore, from January 1, 2013 through September 30, 2015, the Director sold 43 securities (Figure 3). The net proceeds from the sales, including monthly repayments of principal, totaled $51.4 million. The County realized gains totaling $697,499 on 17 sales and losses totaling $788,770 on 25 sales, for a net loss of $91,271.[9] In addition, one bond was sold at cost and four bonds were held by the County until they matured.

[9] This includes six bonds and two treasury notes that were purchased and sold within the same calendar year.

Figure 3: Sales of Investments – January 1, 2013 through September 30, 2015			
Security Type	Number of Investments Sold	Average Number of Days Held	Net Gain or (Loss) on Sale[a]
GNMA Bonds	10	762	($168,023)
SBA Bonds	1	124	($4,784)
State Authority and Agency Bonds	13	671	$69,502
Local Government Bonds	15	723	$32,853
Treasury Securities	4	294	($20,819)
Total	**43**		**($91,271)**

[a] This amount does not include interest income earned on the investment.

For the fiscal year ending December 31, 2014, interest earnings on investments totaled approximately $1.4 million. For the period January 1, 2015 through September 30, 2015, interest earnings totaled approximately $843,000.

Legality

The investment policy authorizes the Director to invest money not required for immediate expenditure for terms not to exceed its projected cash flow needs, in special time deposit accounts and/or certificates of deposit (CDs),[10] obligations of the United States, obligations guaranteed by agencies of the United States where the principal and interest are guaranteed by the United States, obligations of the State of New York and, with the approval of the Office of the State Comptroller, revenue anticipation notes and tax anticipation notes issued by other New York State local governments.

The County purchased 14 bonds issued by other New York State local governments and one bond issued by a local development corporation. These bonds were owned by the County for an average of two years and none were held to maturity. As of September 30, 2015, the County had sold all 15 bonds. Investments in these bonds are not authorized by the GML. The County realized gains totaling $258,309 on the sale of seven bonds and losses totaling $225,456 on the sale of eight bonds. Despite the net gain of $32,853 realized on the sales, these bonds were not permissible investments and should not have been purchased.

Safety and Liquidity

County officials should ensure the safety of the principal balance of any public funds invested. The investment policy states that "investments shall be made with judgment and care…not for speculation, but for investment, considering the safety of the principal as well as the probable income to be derived."

In addition, the County's investment policy states that, "all investment obligations shall be payable or redeemable at the option of the County

[10] Issued by a bank or trust company located and authorized to do business in New York State

within such time as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided…" and that the County should "diversify its …investments…by investment instrument, and by maturity scheduling."[11]

Between January 1, 2013 and September 30, 2015, the County sold 28 investments.[12] The County realized gains aggregating $439,190 on the sale of 10 bonds, losses aggregating $563,314 on the sale of 17 bonds and one bond was sold at cost. The losses resulted in a permanent impairment of each investment's principal balance. The following discussion provides detail on 13 of the bonds that were sold at a loss:

- The County sold nine GNMA bonds at losses totaling $246,410. Among various reasons given for selling these bonds, the Director indicated that two bonds were sold to shorten the average life of the bonds in the portfolio and another bond was sold because the value was decreasing.

- In October 2013, the County sold two bonds issued by New York State public authorities, which it had owned for approximately 1.5 years, for a loss of $221,544. The Director indicated that these investments were sold to raise year-end cash as well as take advantage of a decrease in interest rates and shorten the duration of the portfolio.

- In May 2013, the County purchased two United States Treasury securities. Both of these investments were sold in late 2014 at losses aggregating $27,727. The Director indicated that these investments were initially purchased to take advantage of a temporary increase in interest rates with the intention of selling them when interest rates dropped.

Market interest rates and bond prices generally move in opposite directions. If interest rates rise, then the market value of the fixed-rate bond declines. On the other hand, if interest rates decline, the market value of the fixed-rate bond increases. If the County holds the federally guaranteed bonds to maturity, it will recover the principal in full. We question whether it was prudent or consistent with GML and the County's policy, as an investment strategy, to have purchased and then sold the obligations, which exposed the County to market risk, rather than holding them until maturity.

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[11] See also GML Sections 11(3)(b)(1), 39(3)(f). In addition, under GML Section 11(3)(b)(1), any obligation that provides for the adjustment of its interest rate on set dates is deemed to be payable or redeemable on the date on which the principal amount can be recovered through demand by the holder.

[12] Excludes the bond sales discussed under the heading "Legality"

Under most circumstances, it should not be necessary to sell an obligation in the open market. A sound investment strategy should match the expected need for cash with the remaining term of the investments to prevent them from being sold at a loss except in rare circumstances. Furthermore, purchasing securities to take advantage of a temporary interest rate increase with the intent of selling when rates decline seems speculative in nature, in conflict with the County's policy, and can put funds at unnecessary risk of loss.

The County also incurred a loss on one of four investments which were redeemed prior to maturity because the underlying mortgages were paid off. The County purchased a $1 million GNMA bond, at a premium of $116,250. Investors typically purchase bonds at a premium when the higher initial cost can be offset by the higher periodic interest revenue received over the life of the bond. The County held the bond until it was redeemed before the stated maturity date (March 2014), because market interest rates were trending lower and the underlying mortgages were paid off earlier than expected. At this time the County was paid the $1 million par value of the bond. However, at redemption, the County had only earned $91,056 in interest. As a result, the County incurred an aggregate loss of $25,194 on this investment. We question why the County would have made this investment, when given the risk that the expected interest earnings could not exceed the premium paid if interest rates decreased and the bond was redeemed early.[13]

As of September 2015, 86 percent of the County's portfolio was invested (Figure 1) in mortgage-backed or asset-backed federal government agency bonds with an estimated average life of approximately five years. We question the prudence of having such a large percentage of funds invested in similar securities with similar maturities where cash flow and income could be negatively impacted by a change in interest rates if the bonds are sold prior to maturity. Given the current low interest rates, the County's exposure to a loss in the market value of the portfolio in the event that interest rates increase is significant, should the County need to sell prior to maturity. This risk would have been mitigated if the County followed the "payable or redeemable" requirement and held the obligations until maturity or redemption at the County's option.

A September 30, 2015 report prepared by one of the County's brokers illustrates the impact that an increase in interest rates would have on the market value of the County's portfolio. The broker estimates that the market value of the County's portfolio would decrease by $6 million (12.5 percent) to $43 million, if interest rates increased

[13] This bond was purchased by the previous Director of Finance.

3 percent. In that market environment, if not held until maturity, the County could end up selling certain securities at a loss if it needed cash to finance current expenditures. In that case, the County could have less cash available to fund current expenditures, and the Legislature could be forced to raise taxes. Even if the County did not have to sell prior to maturity, by having so much of its investments committed for long periods of time, it would be unable to take advantage of any increase in interest rates.

A sound investment strategy should ensure that investments are diversified by type of investment security and maturity dates. In addition, obligations purchased as investments must meet the "payable or redeemable" requirement. Based on cash flow projections, and to alleviate some of the risk associated with having to sell investments prior to maturity for cash flow purposes, the Director stated she has reduced the overall amount of money invested in bonds and now retains a sufficient amount of funds in the money market accounts to cover current cash flow needs.[14]

The Legislature does not require the Director to provide sufficient information regarding investments, which diminishes its ability to provide proper oversight of the investment program. The Director provides a monthly report to the Legislature showing the portfolio balance, withdrawals, deposits and investment earnings and losses. A list of individual investments with the current market value is included in the report. However, the monthly report does not provide sufficient detail on individual investments. For example, the report does not provide information on which investments were purchased or sold during the month. If a bond was sold at a loss it would be removed from the report (the County no longer holds this investment) and someone reading the report would not know the detail of the sale (gain or loss). Absent this information, the Legislature cannot adequately assess whether or not the Director is making prudent decisions regarding the purchase or sale of investments.

The Director developed an investment strategy, but it appears to have been unchanged since 2013. Moreover, we found no indication that the Legislature has provided oversight to ensure that specific investment goals have been met. For example, the investment strategy specifically states that, to minimize the impact of rising interest rates, the Director would reduce the average life of the portfolio. Subsequently, the Director reduced the average life to five years as of September 30, 2015. However, the County's exposure to an increase in interest rates has not been minimized. The majority of the County's

[14] The percentage of cash invested in the portfolio versus the money market account has been reduced from approximately 84 percent as of December 2012 to 72 percent as of September 2015.

investments are in mortgage- and asset-backed securities, which can be impacted by fluctuating interest rates if not held until maturity or redeemed at the option of the County. Therefore, not enough has been done to limit the County's exposure to market and liquidity risks if interest rates fluctuate.

The County has taken an aggressive investment approach. While this type of approach could result in higher interest earnings, to the extent the County has purchased securities which have long-term maturities and are not payable or redeemable within the time the proceeds are needed to meet expenditures, the County, in our view, is exposed to risk beyond what is intended by GML. Considering there are opportunities to purchase other investments authorized by GML (e.g., CDs, listed federal securities that meet the "payable and redeemable" requirement), it may not be worth the added risk to continue its current strategy of investing large amounts of its portfolio in long-term securities and selling them prior to maturity. This highlights the importance for County officials to comply with the investment policy and GML and to ensure the legality, safety and liquidity of investments prudently balanced against yield.

Recommendations

The Legislature should:

1. Provide adequate oversight of the investment program to ensure that all investments are made in the County's best interests and are in compliance with adopted policies and GML.

2. Amend the investment policy to require prior approval of the County Attorney regarding the legality of all future investments.

3. Seek legal and financial guidance to develop a plan to rebalance current investments with more appropriate investments consistent with GML and the County's policy.

The Director should:

4. Comply with the primary objectives of the County's investment policy and:

    - Ensure that investment practices provide for the legality, safety and liquidity of investments, prudently balanced against yield;

    - Ensure that obligations purchased for investment purposes meet the requirement that they shall be payable or redeemable at the County's option within such time as the proceeds will be needed to meet expenditures for the purposes for which the money was provided;

- Not purchase investments for speculative purposes; and

- Obtain prior approval from the County Attorney on the legality of all future investments.

5. Prepare reports for the Legislature that contain sufficient detail regarding the purchase and sale of individual investments, including the gain or loss on the sale of investments.

Salaries and Fringe Benefit Payments

County officials should ensure that compensation and benefits provided to elected officials and management employees are accurately calculated. The County should have written policies and procedures in place to ensure that the salaries and fringe benefits paid to elected officials and management employees are appropriate.

Salary payments to elected officials and management employees were not accurately calculated. Twenty-three elected officials and 94 management employees were overpaid approximately $26,400 in 2015 because they received one day of pay in excess of their approved salary amount. Without corrective action, the County will likely overpay them an estimated $27,000 in the 2016 fiscal year. In addition, three elected officials should not have been paid for vacation leave pay totaling $14,875. Elected officials may take as much or as little time off as they please and still be entitled to receive the full compensation set for their office. They do not earn vacation. Therefore, there is no basis for elected officials to accrue and be paid for unused vacation leave.

Annual Salary

County officials should properly calculate the compensation of salaried employees. The frequency and rate of pay for salaried elected officials and management employees should ensure that they are compensated at the approved annual salary levels.

We found that the County overpaid 23 elected officials and 94 management employees approximately $26,400 in 2015. These overpayments occurred because County officials did not properly calculate biweekly gross wages and compensated these officials and employees for one day of pay in excess of their approved annual salary amounts. Absent any corrective action taken by County officials, the County will likely overpay them an estimated $27,000 in the 2016 fiscal year.

The actual number of working days in a given fiscal year can range from 260 to 262. There are 261 work days in both 2015 and 2016. Rather than calculating the biweekly gross pay for salaried officials and management employees based on the number of work days in the fiscal year, County officials calculated biweekly gross pay by dividing approved gross salary amounts by 26 pay periods. By using this method, officials and employees will receive their gross salary over 260 days.

However, County officials calculated biweekly salaries for the final payroll of the fiscal year by using a daily rate of pay because this pay period normally spanned two fiscal years. As a result, the County compensated salaried employees for 261 days of work in 2015, or one extra day over their approved salary amount. It appears that, absent corrective action, the County will likely repeat this mistake and overpay officials and employees in 2016 as well.

Other than the accepted practice of converting the annual salary into a biweekly rate, we found no written policies that discuss how the rate of pay should be calculated on an annual basis. The lack of written policies coupled with the lack of adequate monitoring of the payroll process has resulted in officials and employees receiving pay in excess of their authorized amounts.

Fringe Benefit Payments

An elected official is entitled to his or her salary as an incident of the office, regardless of the hours worked. His or her right to a salary is not necessarily dependent on the service performed or hours worked. The elected official may take as much or as little time off as he or she pleases, at his or her discretion under a schedule he or she controls, and still be entitled to receive the full compensation set for his or her office. Therefore, an elected official does not accrue either vacation or sick leave credit for which he or she can claim payment either annually or at separation from service.[15]

The County, by local law, has extended certain "management fringe benefits," including "vacation buy-back" to certain elected and appointed officials.

Three elected officials were compensated a total of $14,875 for unused vacation leave during 2013 and 2014. Specifically, in 2013, the County paid a previous County Executive ($4,904), a previous County Clerk ($2,038) and the Sheriff ($4,760) for the monetary value of unused leave at separation from service. The Sheriff was also compensated an additional $3,173 for unused vacation leave in 2014.[16]

However, as noted, it is basic legal principle that elected officials are not required to adhere to fixed work schedules. In light of the lack of an enforceable mandatory fixed work schedule, with prescribed limited vacations, these elected officials have no basis upon which to accrue vacation or sick leave credit. Therefore, the County should not have made these payments.[17] The fact that elected officials chose to voluntarily keep track of their hours and limit themselves in the

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15 Bookhout v Levitt, 43 NY2d 612; see also e.g. OSC Opinion No. 2006-6

16 Elected officials are also entitled to receive payments related to health-related benefits such as opt-outs (payment in lieu of receiving health insurance benefits) and wellness programs which are not included in this total. The propriety of providing these benefits to elected officials is not within the scope of this audit.

17 We found no evidence of any purported enforceable schedule imposed by the County. Moreover, it is unclear whether the County could impose such an enforceable requirement, at least absent a local law subject to referendum requirements (see Municipal Home Rule Law, Section 34[4]), or whether the presence of such an enforceable requirement would overcome the principles stated in the Bookhout case (see OSC Opinion No. 80-736).

amount of time off taken to that allowed for managerial employees does not undermine this basic principle.[18]

Recommendations

The Legislature should:

6. Consult with the County Attorney and, to the extent possible, recover salary and benefit overpayments made to elected officials and management employees.

7. Establish adequate written policies and procedures to ensure that elected officials and management employees are annually compensated at their approved salary amounts.

8. Cease allowing elected officials to accrue and be paid for vacation leave.

9. Notify the New York State and Local Retirement System of the overpayments of salary reported to the system.

[18] We acknowledge that, for the sole purpose of reporting the number of days worked to the New York State and Local Retirement System, elected officials are generally required to record work activities over a three-month period (2 NYCRR Section 315.4). This step is necessary because retirement benefits are based on statutory formulas that include salary and credited service. For this limited purpose only, persons working a minimum of six hours per day, based upon a 260 day work year, are generally considered "full-time." Those working less than that amount receive part-time/prorated service credit. In order to determine whether a member of the Retirement System is entitled to one full year of credit or something less, an employer is required to establish a standard work day for each position. When reporting days worked by an employee in a pay period, the employer normally would compare the time actually worked to the standard work day and report accordingly. Because elected officials do not have prescribed work schedules, they are required to maintain a record of activities over an average three-month period in order to compare it to the standard work day and determine the number of days to be reported to the Retirement System. This process of self-reporting time worked for the purpose of determining retirement service credit, however, is not tantamount to the County establishing fixed, enforceable work schedules for elected officers.

APPENDIX A

RESPONSE FROM COUNTY OFFICIALS

The County officials’ response to this audit can be found on the following pages.

CHAUTAUQUA COUNTY
OFFICE OF THE COUNTY EXECUTIVE

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VINCENT W. HORRIGAN
County Executive

November 16, 2016

Jeffrey D. Mazula
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Office of the State Comptroller
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Re: Office of the State Comptroller ("OSC") Draft Report of Examination: County of Chautauqua – Investments and Payroll

Dear Mr. Mazula:

Set forth below is the County of Chautauqua's written response to the above-referenced OSC draft Report of Examination ("Draft Report"). The response is broken down into the three topics that are the subject of the report:

I. Investments

The investment portfolio of Chautauqua County has averaged a 4.37% per annum return from 2011 through 2015. This has resulted in approximately $12.3 million in investment returns to Chautauqua County during this time period. The Draft Report has questioned the investment strategy utilized to manage the County's investment portfolio, suggesting that the strategy was noncompliant with the General Municipality Law (GML), the County's adopted Investment Policy, and/or was overly aggressive.

As an alternative, the Draft Report suggests that the County should "purchase low risk investments (e.g., CDs)." As indicated in note (a) of Figure 1 of the Draft Report, the current rate of return for a one year CD is only .5%, or 50 basis points (BPS). Furthermore, all governmental bank deposits such as the County's must be fully secured either by FDIC insurance or backed by securities. For clarity, a financial institution by law can only insure a deposit up to $250,000. Chautauqua County is investing in excess of $49 million. Thus to be fully FDIC insured, the County would have to invest with over 200 financial institutions, which even if possible would be administratively cumbersome.

See Note 1 Page 26

As stated above, deposits in excess of the FDIC limits would not be eligible for the indicated CD rate of return and would have to be backed by securities. Because of this collateralization requirement, the best rate currently available to the County is only 10 basis points (BPS), or .1%. The Draft Report therefore inaccurately suggests that 50 BPS, or .5%, would be available to the County. The investment strategy used by the County has generated approximately $5.5 million in additional revenue over what could have been earned had the funds only been invested in interest bearing accounts for 2011-2015.

See Note 1 Page 26

In May of 2013 there was a downturn in the bond markets and the value of the bond portfolio was adversely affected. The bonds have since recovered but as a result of this event, the County felt it was prudent to shorten the duration of the portfolio. The portfolio was reviewed and potential securities were identified for sale. As market conditions warranted during 2013 and 2014, the County sold the identified securities, which reduced our exposure to premiums paid and meeting our goal of shortening the portfolio duration. Of the 46 positions sold, forty-two (42) were sold in 2013 and 2014 to achieve the repositioning of the portfolio. Although our goal is to hold to maturity, as part of managing the portfolio there are times when it is prudent to sell a position prior to maturity.

See Note 2 Page 26

As mentioned in the Draft Report the County maintains two large money market accounts. The money market accounts are funded in the spring with property tax revenue. This allows us to meet our cash flow needs for the year without having to sell securities to meet those needs. The report is inaccurate in stating that the main purpose of the two securities sold in October 2013 was to meet cash flow. At the time of the sales there was over $31 million in the two money market accounts. Those two securities had been identified for sale when market conditions were conducive, as stated in the above paragraph. Market conditions improved and the sale was consummated in October 2013 as part of the portfolio repositioning. No securities were sold that year for the main purpose of raising cash flow.

See Note 3 Page 26

The Draft Report refers to the four objectives of the County's Investment Policy:

Legality – Every effort is taken to make sure the portfolio follows the County Investment Policy and GML. Unfortunately a section of the County Investment Policy was misinterpreted – although New York local government obligations are permitted investments under the GML in certain circumstances, from 2008 to 2014 a total of eighteen (18) New York local government bonds were purchased that did not fall in the permitted categories. Three were Chautauqua County bonds that the Draft Report has not included. The investment error was discovered in December 2014, prior to this audit. Immediate corrective action was taken and at the same time procedures were implemented so this error would not reoccur.

See Note 4 Page 26

Safety – The County Investment Policy and the GML limit the types of investments that are permissible. All current investment types utilized by the County, as evidenced in Figure 1 of the Draft Report, are considered safe and approved investment options for local government units. To limit the County to one or two options and preclude consideration of all options which might increase return on investment is neither prudent nor justified.

Liquidity – We are cognizant of what our cash flow needs are and have positioned the portfolio to meet them. We accomplish this through our two liquid money market accounts, and by utilizing amortizing products, like GNMAs and SBAs in the portfolio.

Yield – We have positioned the portfolio to provide a reasonable rate of return within the guidelines of the GML and the County Investment Policy. The diversified portfolio is positioned to provide a return that will meet the needs of the County while maintaining its purchasing power. Given the long duration before the funds will be utilized, maintaining a portfolio that does not retain its purchasing power would not be prudent.

We believe there are several discrepancies in the Draft Report:

The accuracy of Figure 3 is disputed. Based on a review of the number of different CUSIPs sold during the time period in question, there were actually 46 securities sold (including the three Chautauqua County bonds), broken down as follows:

See Note 4 Page 26

- 10 GNMA Securities
- 1 SBA Security
- 13 State Authority and Agency Bonds
- 18 Local Government Bonds
- 4 Treasury Securities

Also in Figure 3, the cost basis used for GNMAs sold is incorrect. The GNMAs sold were originally purchased from $1.00 (par) to $1.16 (premium). Those purchased at a premium had a higher coupon which offset the cost of purchase. Since GNMAs are amortizing products there is a risk that the investment could pay down quicker than analysis projected at time of purchase. Therefore, those purchased for a premium were scrutinized for possible sale prior to maturity. When a GNMA pays down they pay down at par. The Comptroller's office has included the premium associated with the pay downs to the portion sold, distorting the actual gain or loss on the sale. When the correct basis is used the County actually had a gain on the GNMA's sold during 2013-2015 of $35,553 and not a loss as appears in the Draft Report. What is also not mentioned in the Draft Report is that these investments resulted in a total return of over $970,000 when the interest received while held in the portfolio is included, resulting in an average per annum rate of return of 2.68%.

Also incorrect in Figure 3 are the number of securities and gain on local government bonds sold during 2013-2015. The actual gain on the eighteen (18) positions was $68,892. As mentioned above, due to the unintentional error in misinterpreting the investment policy that NYS local government bonds fell under the category of obligations of the State of New York, NYS local government bonds were purchased. Although this practice did not start with this County administration, the error was discovered by this administration and corrected immediately. Any positions remaining when discovered were sold and procedures were instituted to prevent this from happening again.

See Note 5 Page 26

As for the four (4) treasury notes, the County received interest during the period while the treasury notes were held of $60,297 for a return on investment of $39,478. The treasury notes were held for an average of 294 days and generated an average per annum rate of return of 9.58%.

Set forth below is a corrected Figure 3, which shows a clearer picture of the investment returns and performance:

See Note 6 Page 27

Revised Figure 3: Sales of Investments - January 1, 2013 through September 30, 2015

Security Type	Number of Investments Sold	Average Number of Days Held	Net Gain or (loss) on Sale	Total Return on Investment	Average Rate of Return
GNMA Securities	10	857	$ 35,553	$ 973,760	2.68%
SBA Securities	1	124	$ (4,784)	$ 8,570	2.45%
State Authority and Agency Bonds	13	684	$ 69,502	$ 1,422,410	4.22%
Local Government Bonds	18	857	$ 68,892	$ 2,167,844	3.07%
Treasury Securities	4	294	$ (20,819)	$ 39,474	9.58%
Total	46		$ 148,344	$ 4,612,058	

Between January 1, 2013 and September 30, 2015 the County sold 28 investments of GNMAs, SBAs, state authority and agency bonds and treasury securities resulting in a net realized gain of $79,452 before interest income. Total return on these investments netted over $2.4 million.

Total return on the portfolio in 2014 was $2.8 million, and for the first nine months of 2015 was $1.08 million.

The report suggests that the portfolio should be rebalanced with more appropriate investments. As previously mentioned, the .5% CD rate quoted in the Draft Report is not only unattainable, but undesirable. Therefore to meet the needs of the County, the portfolio needs to utilize legal investment options other than money market accounts and CDs. The reason a good majority of the portfolio is invested in GNMAs and SBAs is that they pay interest and principal regularly. This provides not only cash flow for operating needs but also the ability to reinvest excess cash flow back into the market at potentially higher rates.

Not all of the investment account is dedicated to the general fund. Approximately 40% of the funds belong to the enterprise funds – primarily the Landfill which is required to reserve for post-closure expenses, cap expenses, and gas well maintenance, which will not be needed in the foreseeable future. Approximately 12% of the funds belong to the insurance funds as reserves for unexpected/ future claims not anticipated to be needed in the next five years. The remaining balance is primarily for the general fund which represents the fund balance as required by our fund balance policy. Our fund balance policy requires a fund balance of no less than 5% but no more than 15% of the general fund gross revenues which at the end of 2016 is projected to be at 10.6%. Through 2020 we are projecting to be in compliance with our policy.

See Note 1 Page 26

It is the County's position that the portfolio is invested in appropriate investments that meet its needs. The County has a five year projection which is updated each year at budget time.

This projection shows what, if any, reserves and fund balances will be needed during the current budget year, the following budget year and three years of projections based on passed historic data, budgets and assumptions. Based on this five year plan and the projected cash flow from investments, we are currently positioned to meet our cash flow needs without needing to liquidate a position.

	Projected Cash flow needs 2016	2017	2018	2019	2020
Projected Cash flow needs from 5 year projection	6,562,365	6,209,982	4,224,849	4,019,642	4,777,632
Expected cash flow from current investments (First Empire report 9/15/15)	8,071,000	7,922,000	5,807,000	4,956,000	4,791,000
Surplus of cash flow from current investment portfolio	**1,508,635**	**1,712,018**	**1,582,151**	**936,358**	**13,368**

See Note 7 Page 27

That does not mean that a position will never be sold on the open market. In managing the portfolio, positions are reviewed on a regular basis and if prudent may be sold and another position purchased. In the context of the County maintaining over $30 million dollars in liquid money market accounts in addition to the investment portfolio, it would not be prudent for the County's investment portfolio to be limited to obligations with a term of less than one year as suggested in the Draft Report.

See Note 1 Page 26

With regard to the recommendations in the Draft Report, the County will review the recommendations in the Final Report and submit a corrective action plan as may be appropriate. However, the investment practices currently implemented by the Director of Finance in consultation with the County Executive and the County Legislature's Audit & Control Committee already provide for legality, safety, and necessary liquidity, and are payable or redeemable within such time as the proceeds will be reasonably needed to meet expenditures. Investments are not purchased for speculative purposes. In addition to the written monthly reports supplied to the County Legislature, the Audit & Control Committee of the County Legislature periodically engages in a verbal discussion at committee meetings with the Director of Finance regarding the goals and parameters of the investment program and all questions and inquiries are answered.

II. Annual Salary

The County's consistent historical practice dating at least back to the 1970s has been to take the annual salary designations for managers and elected officials and convert them to a bi-weekly pay rate by dividing the annual salary figure by 26. The County's Department of Human Resources utilizes a Request for Personnel Change (RPC) form to document changes in the salary designations of managers and elected officials. Prior to 2004 or thereabouts, the RPC form specifically required a bi-weekly pay rate to be inserted. Since 2004, the RPC form does not specify what type of pay rate to be inserted on the form, but annual salary amounts have continued to be converted to bi-weekly pay rates consistent with the County's historical practice described above.

While an examination of the County's local laws and resolutions regarding salaries since the 1970s shows that salaries for managers and elected officials have always been stated as annual salary figures, the local laws and resolutions are silent on the County's consistent practice of converting the annual salary to a bi-weekly pay amount by dividing the annual salary figure by 26. During the County annual budget review process, department heads are required to submit a list of all proposed manager wage increases on a form in which the current year's bi-weekly pay rate is shown along with the proposed new bi-weekly pay rate.

County government's practice of converting the annual salary designation to a bi-weekly rate as described above has been constant and unabated for decades. Salaried management employees and elected officials have been consistently paid in this manner over time and the additional 1 or 2 days of pay when it occurs have been expensed on the County books each year and appropriations adjusted when needed. The established past practice in this case cannot be characterized as an unintended payroll error.

Nonetheless, given the lack of specific written authorization by the County Legislature for the bi-weekly salary conversion previously utilized, the County in 2016 will reduce the remaining bi-weekly salary payments to management employees and elected officials by an amount sufficient to assure that the 2016 salary paid is no greater than the designated annual salary amount.

III. Fringe Benefit Payments

The Draft Report questions the basis for full-time elected officials to receive vacation buy-back benefits afforded other County managers. Payments for vacation buy-back benefits result in full-time elected officials receiving additional amounts beyond their base salaries. Section 4 of Local Law 1-83, as amended, provides that management fringe benefits, which includes the vacation buy-back provisions, will be applicable to:

> ….all employees in the management salary plan, elected officials and all other management employees not covered by a collective bargaining agreement with the County of Chautauqua, provided that such employees who work less than 50% of full-time will receive no benefits hereunder and such employees who work more than 50% but less than 90% of full-time will be eligible for health insurance and the physical examination but will receive other benefits on a pro-rata basis. Legislators, Coroners and the County Historian are excluded from coverage under this benefit plan. (emphasis supplied)

Clearly it was the intent of Local Law 1-83 that vacation buy-back provisions apply to elected County officials, other than County Legislators. Local Law 1-83 provides that managers entitled to four or five weeks of vacation may, at their option, sell back to the County the fourth and fifth weeks of such vacation. The Executive Policy Bulletin referenced in the Draft Report, which is a guidance document for department heads independently issued by the County Executive without County Legislature involvement or approval, was not intended to supersede, and could not supersede, Local Law 1-83's inclusion of elected officials within its purview.

See Note 8 Page 27

We are aware of the general rule of law that an elected official is entitled to his or her salary as an incident of office regardless of the hours worked. Accordingly, it has been held that such an individual, not restricted or regulated in the amount of vacation taken, cannot accrue vacation credit for which he or she can claim payment. *Matter of Bookhout v. Levitt,* 43 N.Y.2d 612, 403 N.Y.S.2d 200 (1978).

However, Section 4 of Local Law 1-83 distinguishes the County's elected officials from the *Bookhout* facts and holding, because the vacation buy-back benefit is contingent upon the official actually working 50% or greater full-time hours. Although the Charter does not mandate that the Sheriff, County Clerk, or District Attorney work full-time, those officials cannot claim the vacation buy-back benefit unless they in fact are working 50% or greater of full-time hours. In the case of the County Executive, the County Charter requires that the County Executive "devote full time to the duties of the office," so provision for vacation benefits is appropriate and within the discretion of the County Legislature to provide. The county charters of Erie, Monroe, and Onondaga counties also provide that certain elected officials including the County Executive devote their full time to the duties of the office. [Note - the Draft Report inaccurately states that Chautauqua County is subject to the mandatory referendum requirements of Municipal Home Rule Law (MHRL) Section 23[2][h] – as a charter county, Chautauqua County is governed by MHRL Section 34(4).]

See Note 9 Page 27

Similar to Local Law 1-83, the New York State Retirement System administered by OSC requires elected officials to document their time in order to qualify for State Retirement System benefits, which accrue in addition to the base salary. Just like the vacation buy-back benefit scenario described above (and not inconsistent with the *Bookhout* decision), elected officials are under no obligation to work particular hours, document their time, or even seek Retirement System benefits whatsoever. But if they desire to partake of Retirement System benefits or vacation buy-back benefits, they must document their time to qualify.

See Note 10 Page 27

The Draft Report bases its findings on the premise that the vacation buy-back benefit cannot be afforded elected officials unless they are under an "enforceable mandatory fixed work schedule," whether or not they wish to qualify for the benefit. But if that were the case, under the same reasoning the State Retirement System benefit would not be available to elected officials in the absence of an enforceable mandatory fixed work schedule. Both benefits operate in the same manner – the benefits are completely optional for elected officials, but if they wish to receive the benefits, they must document their time to qualify and to determine the magnitude of the benefit.

See Note 11 Page 28

The vacation buy-back provisions of Local Law 1-83 have been consistently applied to elected officials who are in fact working full-time, and in 1996 the County Law Department previously addressed the issue of vacation buy-back for full-time elected officials with the same analysis as set forth above. Unlike the facts confronting the court in the *Bookhout* decision, the County does have a consistent administrative practice of granting the benefit which gives rise to a vested or contractual right to the vacation buy-back benefit [see *Bookhout*, 43 N.Y.2d at 617]. Many elected officials and citizens in Chautauqua County have expressed concern over the years as to whether the salary and benefit package afforded the County's elected officials is sufficient to attract quality candidates. The County Legislature has attempted to address this concern by giving certain elected officials the same benefits package afforded all other County managers.

See Note 12 Page 28

County officials look forward to working further with OSC regarding the matters of concern raised in the Draft Report. We appreciate the time and dedication OSC staff have exhibited in the preparation of the Draft Report. Please do not hesitate to contact me to discuss the County's responses further.

Very truly yours,

Vincent W. Horrigan
County Executive

APPENDIX B

OSC COMMENTS ON THE COUNTY'S RESPONSE

Note 1

The average interest rate on a one-year CD was included in the report to provide perspective. We do not suggest that the County should invest all idle funds in CDs. We revised our report to further clarify this issue. However, if County officials believe that collateralization requirements currently limit interest rates on CDs to 0.1 percent, they should consider issuing a request for proposal (RFP) for banking services. An RFP can encourage competition, help County officials identify the most cost-effective banking services and ensure a competitive rate of return on CDs.

Also, as we state in the report, GML and the County's investment policy require that obligations purchased as investments be "payable or redeemable" at the County's option within the times the proceeds of the obligations purchased are needed for the purposes for which the invested funds were raised. In the case of general fund money, that term should generally be less than one year. This requirement is intended to limit the municipality's exposure to market and liquidity risk and help ensure the municipality will not be forced to sell the investment in the open market when money is needed, possibly at a loss.

Note 2

As indicated in the report, only four investments (bonds) were held by the County until they matured. The purpose of the "payable or redeemable" requirement is so that local governments do not need to worry about market value at any given point in time, since they are matching maturities to the need for the cash. In addition, note that the "payable or redeemable" requirement applies to each security purchased as an investment, not to the average maturity of the investment portfolio as a whole.

Note 3

The Director of Finance indicated, in an email dated December 14, 2015, that these two securities were sold to raise year-end cash as well as take advantage of a decrease in interest rates and to shorten the duration of the portfolio.

Note 4

On a number of occasions, we informed County officials that the three Chautauqua County bonds were excluded from the scope of this audit.

Note 5

For clarification, we calculated the gain or loss on the disposition of securities by comparing the amount the County paid for the investment, in total, with the total of the monthly pay downs of principal and the amount the County received when it sold the security. We reported interest income separately. As we note in the report, for the fiscal year ending December 31, 2014, interest earnings on investments totaled approximately $1.4 million. For the period January 1, 2015 through September 30, 2015, interest earnings totaled approximately $843,000.

Note 6

Figure 3 in the County's response does not match Figure 3 in our report because the County included the sale of three Chautauqua County bonds in its schedule and did not properly calculate the gain or loss on the sale of GNMA securities. Furthermore, we did not include a calculation of an annual rate of return on investments sold in our report. We note that, in the County's revised Figure 3, the County indicated that the annual rate of return on the sale of four Treasury securities was 9.58 percent. This is incorrect. The County incorrectly gave equal weight to all four securities, including one that it owned for only eight days that had an unusually high rate of return (approximately 41 percent) due to selling it at a premium. Comparatively, the other three securities were held between 60 and 589 days and earned a rate of return of approximately 1 percent. Consequently, Figure 3 in the report was not revised.

Note 7

In the Projected Cash flow needs table in the County's response, the "expected cash flow from current investments" amount is taken from a September 2015 report prepared by a broker. According to the broker's report, this amount assumes that interest rates will remain stable through 2020. However, within the past month (November 2016), interest rates have increased. Therefore, expected cash flow from the County's investments has likely decreased from the amounts shown in the County's response. As we indicate in our report, the County's exposure to a loss in the market value of the portfolio in the event that interest rates increase is significant.

Note 8

We deleted commentary in our report based on the County's response

Note 9

We considered language provided by the County from the local law in connection with this finding. The fact that the benefit is contingent on the elected officials meeting a threshold of hours worked is not tantamount to the elected official having externally prescribed work hours and limited vacations. In our view, this threshold hours worked requirement does not overcome the principle in the Bookhout case that the subject of unused leave is "inimical and not relevant to elected holders of public office … who are permitted within broad limits to determine their own hours of work" (43 NY2d at 618). Although the County benefit may purport to apply to elected officials "entitled to four of five weeks' vacation," the Bookhout case makes it clear that there is no such vacation entitlement to elected officials who are permitted to determine their own hours of work.

Note 10

We revised footnote 17 based on the County's response.

Note 11

We addressed the purpose of the self-reporting requirement for determining retirement service credit in footnote 18. Moreover, the fact that the elected officials acted at their option to work particular hours, document their time and limit the amount of time taken for vacations, in our view, is not determinative. It is apparent that the elected officials at issue in Bookhout similarly had attempted to apply unused leave time, which they voluntarily tracked, to obtain additional service credit toward their retirement allowances. The Court, nonetheless, held that those leave credits “were not an attribute of or applicable to public offices held by elected officials” (34 NY2d at 619) and did not recognize those accruals.

Note 12

The Court in Bookhout merely noted that the Retirement System had no administrative practice of allowing accumulated sick leave of elected officials in the calculation of retirement benefits “which might be found” to have given rise to a vested or contractual right, for purposes of Article V, section 7 of the State Constitution. It did not indicate that, had such a practice existed, it would have held it to have created a vested right. To the contrary, the Court stated that there was no base from which unused leave credits could be measured since leave time is not an attribute of an elected officer.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

For investments:

- We obtained and reviewed the County's written investment policy and investment strategies.

- We discussed investment procedures with various officials including the Director of Finance and the Chairman of the Audit and Control Committee.

- We reviewed the list of investments as of September 30, 2015, as well as purchases and sales of securities made during our audit period.

- We obtained and reviewed the monthly bank statements of accounts detailing monthly investment activity for the period January 1, 2013 through October 31, 2015. We also reviewed the County's investment portfolio analyses (prepared by its investment advisors) for the periods ending December 31, 2013, December 31, 2014 and September 30, 2015.

- To determine the amount of gain or loss from the sale of investments, we compiled a list of all investments sold by comparing the year-end investment list against the previous year-end list and documenting any investments not listed between the two listings. In addition, we traced our compiled list to spreadsheets prepared by the County that listed investment purchases and sales to verify our list was complete. We identified additional items which were purchased and sold within one fiscal year on the spreadsheets and included them in our testing.

- We reviewed County-prepared cash flow statements for the period January 1, 2011 through November 5, 2015.

- We obtained and reviewed the monthly investments reports submitted to the Legislature for the period January 1, 2013 through September 30, 2015 to determine the percentage of money invested in various investment instruments.

For payroll:

- We interviewed various County officials and employees to learn about the policies and procedures used to calculate payroll for management and elected officials.

- We analyzed the 2015 payroll reports for management and elected officials to determine if their compensation was properly calculated.

- We reviewed payments for unused vacation made to elected officials in the 2013 and 2014 fiscal years.

- We obtained and reviewed the County's Management Benefit Brochure and the Charter for information regarding salaries and benefits related specifically to managers and elected officials.

- We reviewed various payroll-related documents, such as reports of personnel changes, earning history reports, hours analysis reports and applications submitted by managers and elected officials, for the payment of unused vacation leave and vacation buy-back rosters.

We conducted this performance audit in accordance with GAGAS. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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