



Depew Union Free School District

Investment Program

2023M-77 | October 2023

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Report Highlights

Depew Union Free School District

Audit Objective

Determine whether Depew Union Free School District (District) officials developed and managed a comprehensive investment program.

Key Findings

District officials did not develop and manage a comprehensive investment program.

- The Business Administrator (BA) and District officials did not invest available funds in financial institutions that offered higher interest rates, prepare monthly cash flow forecasts or solicit interest rate quotes.
- Over a 16-month period, officials missed an opportunity for the District to realize approximately \$487,000 in additional interest earnings. Had the District realized such interest earnings, the Board may have been able to avoid increasing the 2023-24 tax levy.

Key Recommendations

- Comply with the District's investment policy and develop comprehensive written investment program procedures.

District officials generally agreed with our recommendations and have initiated or indicated they would initiate corrective action.

Background

The District is located in the Towns of Cheektowaga and Lancaster in Erie County. The District is governed by a seven-member Board of Education (Board) responsible for managing the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District has 20 bank accounts at two local financial institutions. The BA is responsible for monitoring bank accounts and investing District funds, and the Treasurer is responsible for transferring funds between bank accounts as needed.

The former BA retired on August 31, 2022, and continued carrying out the BA function two days each week as contracted until the current BA started on October 3, 2022.

Quick Facts

2023-24 Appropriations	\$52 million
1/1/2022 – 4/30/2023	
Interest Earnings	\$247,949
Total Average Available Funds for Investing	\$24.6 million

Audit Period

January 1, 2022 – April 30, 2023

We extended our audit scope period back to the 2019-20 fiscal year to calculate the average annual tax levy increase.

Investment Program

What is a Comprehensive Investment Program?

A school district board should develop and manage a comprehensive investment program. A sound program for protecting public funds requires prudent strategies, including procedures to ensure the safety of investments and deposits while maximizing earnings on any money that is not required for operations. Investing involves both opportunities and risks, and officials must ensure the safety of public funds while striving to maximize yield. A sound investment and cash management system should ensure that sufficient liquidity is available to support operations and that investments follow the statutory framework established for school districts.

A comprehensive investment program should serve four basic objectives – legality, safety, liquidity and yield. To keep public funds safe, officials need to understand the requirements they must comply with and the investment limitations and safeguards required of school district investments and deposits. Prudent cash management and investment practices must include, among other things, the adoption of a formal investment policy in accordance with New York State General Municipal Law (GML) Section 39,¹ detailing the school district's operative policy and instructions to officers and staff regarding the investing, monitoring and reporting of the school district's funds. The purposes of the investment policy include: establishing basic procedures to meet investment objectives; ensuring that investment assets are adequately safeguarded and collateralized, if necessary; establishing and maintaining internal controls and proper accounting records; and providing accurate reporting and evaluation of investment results.

At a minimum, an investment policy must address the following areas:

- Procedures for monitoring, controlling, depositing and retaining investments and collateral,
- Standards for security agreements and custodial agreements with banks or trust companies authorized to do business in the State,
- Permitted types of authorized investments,
- Standards for diversification of investments,
- Standards for any institution with which a school district transacts business, such as criteria covering creditworthiness, experience and other factors a board would want considered,
- Standards for written agreements in which investments are made, and

¹ OSC has a publication available on our website entitled *Local Government Management Guide Investing and Protecting Public Funds* <https://www.osc.state.ny.us/files/local-government/publications/pdf/investing-and-protecting-public-funds.pdf> to assist officials in prudent cash management and investment practices.

-
- Procedures and provisions to satisfactorily secure the school district's financial interest in investments.

In addition, procedures should include specific actions for officials to take to maximize earnings, such as preparing monthly cash flow forecasts to estimate funds available for investment, soliciting interest rate quotes from multiple financial institutions, and investing available funds in legally permissible investments in financial institutions offering the highest interest rates balanced with acceptable risk.

When implemented, these types of policies and procedures can help lower investment risk while increasing the opportunities for higher investment earnings. The board must annually review the investment policy and should regularly monitor investments.

Officials Did Not Develop and Manage a Comprehensive Investment Program

Officials did not develop and manage a comprehensive investment program or ensure steps were taken to realize higher interest earnings in light of the rising interest rate environment in 2022. Our analysis determined that officials missed the opportunity to earn approximately \$487,000 more in interest than the \$247,949 the District actually earned from January 1, 2022 through April 30, 2023.

The Board-adopted investment policy delegates the authority to deposit and invest funds to the BA, and the Board designated the BA and Superintendent as officials authorized to invest District funds during its annual re-organization meeting. Although the policy states that officials should develop investment procedures, officials did not. Rather, the business office had general department procedures which state "Investments are made whenever the BA sees that CD rates are exceeding bank interest rates. The Business Administrator will ask the District Treasurer to obtain CD rates from the local banks." However, the procedures did not address specific actions for officials to take to earn higher interest earnings, including preparing monthly cash flow forecasts to estimate funds available for investment or assign the responsibility to perform cash flow forecasts. As a result, officials did not prepare cash flow forecasts. Rather, the Treasurer prepared monthly cash flow statements that only included the general fund and summarized the monthly change in cash; it did not predict cash flow. In addition, neither the BA nor the Treasurer actively solicited interest rate quotes to help ensure the District is receiving the highest possible interest earnings.

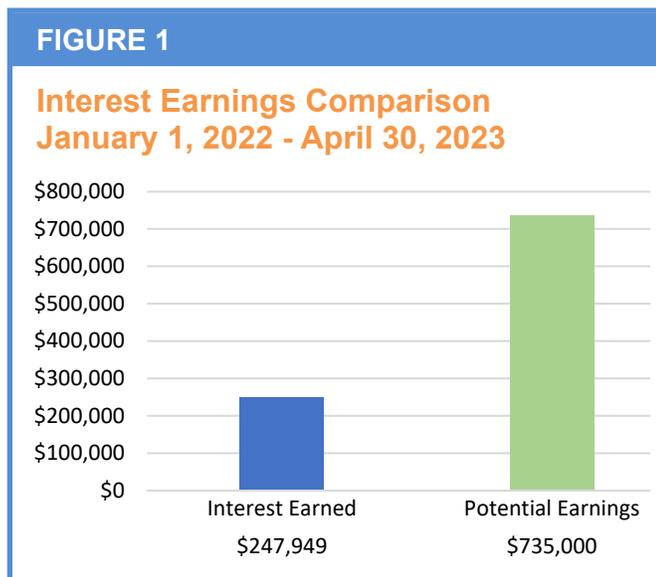
The District maintained 20 bank accounts² at two financial institutions for all operating funds and reserves; it maintained all but one in interest-bearing

[O]fficials missed the opportunity to earn approximately \$487,000 more in interest than... the District actually earned. ...

2 Excluding student activity and student scholarship accounts.

checking accounts. During the 16 months of our audit period, the District had significant cash available to invest, in amounts ranging from \$15.9 million to \$29.6 million monthly, or a monthly average of approximately \$24.6 million. District officials could have invested this money in financial institutions that offered higher interest rates than the financial institutions the District maintained its accounts in.

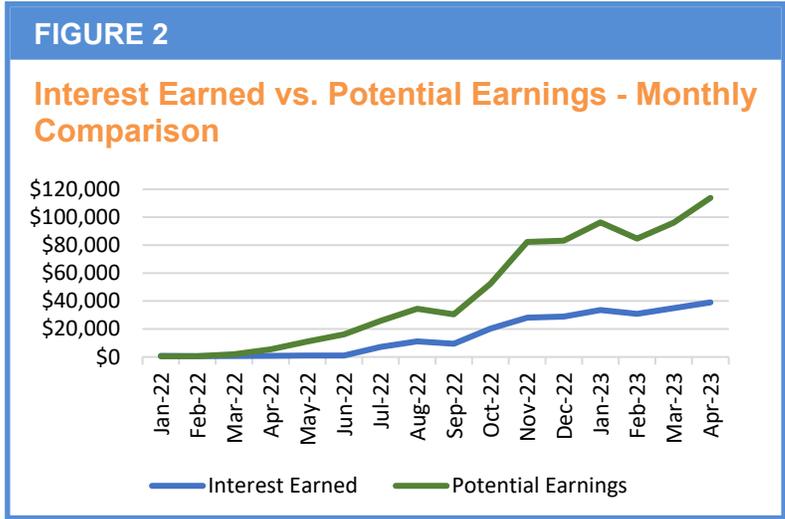
We averaged two different investment options that were available to the District and determined the District could have earned approximately \$735,000 versus \$247,949 in interest that it earned during the same time period (Figure 1).



During the 16 months of our audit period, the District had significant cash available to invest, in amounts ranging from \$15.9 million to \$29.6 million monthly, or a monthly average of approximately \$24.6 million.

For perspective, the District's annual real property tax levy has increased on average about \$393,000 each year for the past five fiscal years. For the 2023-24 fiscal year, the Board increased the tax levy by approximately \$402,000, while potential additional interest earnings totaled about \$487,000. Had the District realized such interest earnings, the Board may have been able to avoid increasing the tax levy by instead using interest earnings to help offset the cost of District operations.

The current BA told us that she began communicating with one investment fund in November 2022, which was a month after she started with the District. However, the Board did not take investment actions until more than five months later at the April 18th Board meeting, when it decided to invest in one of these two investments. For perspective, while interest rates for the investment funds began to increase earlier in the year, a majority (80 percent) of the extra potential investment earnings may have been earned had the current BA taken investment action in a more timely manner (Figure 2).



Had officials established a comprehensive investment program, including adequate procedures to provide specific actions to take to earn higher interest earnings, they may not have missed out on the opportunity to realize additional revenue to help fund District operations.

What Do We Recommend?

The Board should:

1. Monitor compliance with the Board-adopted investment policy and ensure comprehensive written procedures for the investment program’s operations are developed.
2. Require the Superintendent and BA to review cash flow forecasts and obtain interest rate quotes periodically.

The Superintendent should:

3. Ensure the BA develops comprehensive written procedures for the investment program’s operations.

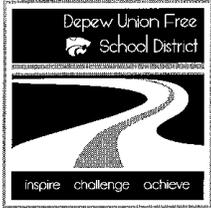
The Superintendent and BA should:

4. Review cash flow forecasts monthly.
5. Ensure staff periodically solicit interest rates and obtain investment information to ensure available funds are invested in legally permissible investments to maximize interest earnings.

The BA should:

6. Develop comprehensive written procedures, including preparing cash flow forecasts, for the investment program's operations.
7. Prepare, or direct the Treasurer to prepare, cash flow forecasts to determine funds available to invest.

Appendix A: Response From District Officials



DEPEW UNION FREE SCHOOL DISTRICT

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Hank Stopinski, Ed.D.
Superintendent of Schools
(716) 686-5105
Fax (716) 686-5101

October 4, 2023

[REDACTED]
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

RE: Depew Union Free School District response and corrective action plan to the “Investigation Program Report of Examination 2023M-77” for the period January 1, 2022 - April 30, 2023

Dear [REDACTED]

The Depew Union Free School District is in receipt of the Investigation Program Report of Examination 2023M-77 for the period January 1, 2022 - April 30, 2023. On behalf of the District, we would like to thank the staff of the Comptroller’s Office, who we found to be courteous and professional throughout the audit process.

The District’s Board of Education and Administration are committed to ensuring that the District’s financial operations are conducted with the highest level of integrity and that the interests of the District’s taxpayers are properly protected. The District is pleased that, following your staff’s review of aspects of the District’s fiscal operations, there was not a single identified instance of financial irregularity. The District also appreciates your input and recommendations regarding investment of District funds. The District will continue its consistent practice of utilizing legally-authorized investments to safeguard taxpayer monies, and will undertake the actions set forth in its corrective action plan to further strengthen the District’s fiscal operations.

See
Note 1
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As the Comptroller’s Office has recognized, the investment of municipal funds is “a complex subject” (see, *Local Government Management Guide – Investing and Protecting Public Funds*; Office of the New York State Comptroller, April 2016, p.24). When the current School Business Administrator came to the District in October 2022 (which was prior to the start of the Comptroller’s audit), she immediately began assessing the District’s cash flow and operations, which allowed the District to begin implementation of an investment strategy just a few months later in January 2023.

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In addition, during April 2023, the District Board of Education authorized the investment of funds on a cooperative basis to further enhance the District's investment program:

"WHEREAS, New York General Municipal Law, Article 5-G, Section 119-o (Section 119-o) empowers municipal corporations [defined in Article 5-G, Section 119-n to include school districts, boards of cooperative educational services, counties, cities, towns and villages, and districts] to enter into, amend, cancel, and terminate agreements for the performance among themselves (or one for the other) of their respective functions, powers, and duties on a cooperative or contract basis; WHEREAS the Depew Union Free School District wishes to invest portions of its available investment funds in cooperation with other corporations and/or districts pursuant to the NYCLASS Municipal Cooperation Agreement Amended and Restated as of March 28, 2019; WHEREAS the Depew Union Free School District wishes to satisfy the safety and liquidity needs of their funds; Now, therefore, it is hereby resolved as follows: That Donna L. Hill, School Business Administrator of Depew Union Free School District is hereby authorized to participate in the NYCLASS program under the terms of the NYCLASS Municipal Cooperation Agreement Amended and Restated as of March 28, 2019."

It is also important to note that the District has already reduced the number of bank accounts from the 20 to 12 accounts, as the District continues to improve its administrative procedures and efficiencies.

Our corrective action plan for the 2023/2024 school year and beyond includes:

1. The District will comply with the District Investment Policy 5220,
2. The School Business Administrator will complete a comprehensive review of the supporting procedures used in the implementation of Board Policy 5220 and make recommendations for improvement to those procedures, which shall include incorporation of best practices with respect to municipal investments such as periodic solicitation of available interest rates, and
3. The School Business Administrator will prepare, or direct the District Treasurer to prepare cash flow forecasts for review with the Superintendent, and will ensure available funds are invested in legally permissible investments to maximize interest earnings.

On behalf of the Depew Union Free School District Board of Education and Administration, we would once again like to thank the Comptroller's team for their efforts in helping to improve our District's financial management practices.

Sincerely,

Dr. Hank Stopinski
Superintendent of Schools

CC: Mrs. Donna L. Hill, School Business Administrator
Depew Union Free School District Board of Education.

Appendix B: OSC Comment on the District's Response

Note 1

Our audit was limited to determining whether District officials developed and managed a comprehensive investment program. Our staff did not review all District fiscal operations; therefore, the audit does not eliminate the possibility of financial irregularities occurring in other District operations.

Appendix C: 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 District officials and reviewed the District's investment policy and financial records to gain an understanding of the District's cash management procedures. This included inquiries regarding the Board's annual appointment of investment officers, the preparation of cash flow forecasts and the solicitation of interest rate quotes from financial institutions.
- We reviewed bank statements for operating fund and reserve fund bank accounts from January 1, 2022 through April 30, 2023 and analyzed corresponding cash balances to determine the funds that were available to be invested each month. We used the lowest available daily balance on the bank statement as funds that were available to be invested each month.
- We calculated the average amount of interest earnings the District could have realized had District officials invested the available funds in two other financial institutions' interest-bearing accounts. We selected the two financial institutions because they did not require minimum investment amounts, allowed for funds to be withdrawn at any time without penalties or fees, and made their daily interest rates publicly available.
- We compared our calculated average monthly interest earnings that the District could have realized to the interest earnings it actually realized. We also compared the extra interest earnings to the District's annual tax levy trend over the last five years from 2019-20 through 2023-24.

We conducted this performance audit in accordance with generally accepted government auditing standards (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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. 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. The CAP should be posted to District's website for public review.

Appendix D: Resources and Services

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