



Greenville Fire District

Investment Program

2023M-106 | December 2023

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Report Highlights

Greenville Fire District

Audit Objective

To determine whether Greenville Fire District (District) officials managed a comprehensive investment program.

Key Findings

District officials developed a comprehensive investment program but did not effectively manage the program. During the 17-month audit period, the District earned \$539 from money on deposit in the District's checking and money market accounts, which had average available funds for investing of \$845,365. Had officials considered other legally permissible investment options, the District may have earned an additional \$38,700 more than earned. Officials did not:

- Develop investment procedures to convey management's expectations for managing the District's investment program,
- Solicit interest rate quotes, or
- Consider other legally permissible investment options.

Key Recommendations

- Develop written procedures for the investment program's operation consistent with the District's investment policy guidelines.
- Consider all four objectives of a comprehensive investment program - legality, safety, liquidity and yield - when investing available funds.

District officials generally agreed with our recommendations and indicated they plan to initiate corrective action.

Background

The District provides fire protection services for the Town of Greenville in Orange County.

An elected five-member Board of Commissioners (Board) governs the District and is responsible for the overall financial management.

The Board-appointed Treasurer is the chief fiscal officer and is responsible for the administration of the investment program.

Quick Facts

2023 Budgeted Appropriations	\$459,950
January 1, 2022 – May 31, 2023	
Investment Earnings	\$539
Total Average Available Funds for Investing	\$845,365

Audit Period

January 1, 2022 – May 31, 2023

Investment Program

What Is a Comprehensive Investment Program?

Fire district boards 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 achieving high 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 earn a high yield. A sound investment program should ensure that sufficient liquidity is available to support operations and that investments follow the statutory framework established for fire 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 fire district investments and deposits. Prudent 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 fire district’s operative policy and instructions to officers and staff regarding the investing, monitoring and reporting of the fire 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 should 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 fire 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
- Procedures and provisions to satisfactorily secure the fire district’s financial interest in investments.

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.

When implemented, this policy and associated 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 Could Improve Management of Their Investment Program

The Board-adopted Investment Policy (Policy) states one of the primary objectives of the investment program is to obtain a reasonable rate of return and authorizes the Treasurer to invest in permitted investments. The Policy further delegates responsibility for administration of the investment program to the Treasurer, including establishing written procedures for the operation of the investment program consistent with the Policy's guidelines.

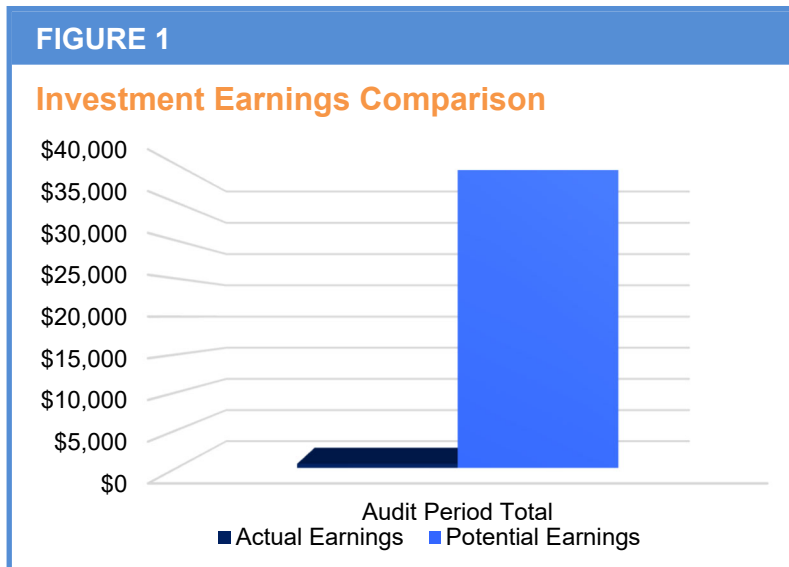
We did not identify any concerns over the legality, safety and liquidity of the District's investments. However, the Treasurer did not develop written procedures to convey management's expectations for managing the investment program, solicit interest rate quotes, or invest District funds to realize higher investment earnings. Had officials considered other legally permissible investment options, officials may have earned \$38,700 more than the \$539 the District earned from January 2022 through May 2023.

The District maintained six bank accounts in one financial institution. The District's average available funds for investing were \$845,365 per month. The operating funds were held in a non-interest-bearing checking account. The four reserve funds were maintained in money market accounts with interest rates as of May 31, 2023 that ranged from 0.05 percent to 0.1 percent, and one savings account with an interest rate of 0.05 percent. Overall, the District realized \$539 of interest income from all its bank accounts from January 1, 2022 through May 31, 2023.

We compared available interest rates to the rates received on the District's accounts² and determined that had officials considered other available investment options, the District may have earned \$38,700 more than the \$539 of investment earnings earned during the audit period (Figure 1).

Had officials considered other legally permissible investment options, officials may have earned \$38,700 more than the \$539 the District earned. ...

² See Appendix B for testing methodology.



The Board President and one Commissioner told us they believed their investment options were limited to bank-related accounts. However, according to the District’s reorganization meeting minutes dated January 2, 2023, the Board accepted the policy manual, including the Policy, which contained a list of permitted investments the Treasurer was authorized to invest in. The Treasurer told us she was unaware the District had a Policy or that it delegated the responsibility to the Treasurer to seek a reasonable rate of return. As a result, the District missed the opportunity to realize additional investment earnings to benefit District operations.

What Do We Recommend?

The Board should:

1. Review the District’s Policy to ensure understanding of permissible investment options.

The Treasurer should:

2. Develop written procedures for the investment program’s operations consistent with the District’s Policy guidelines.
3. Consider all four objectives of a comprehensive investment program - legality, safety, liquidity and yield - when investing available funds. This includes monitoring investments and periodically soliciting interest rate quotes and obtaining investment information from multiple financial institutions to ensure funds are invested to benefit District operations.

Appendix A: Response From District Officials

Town of Greenville Fire District
1495 Greenville Tpke
Port Jervis, NY 12771

November 22, 2023

Hon. Thomas DiNapoli, Comptroller
Division of Local Government and School Accountability
Office of the New York State Comptroller
110 State Street
Albany, NY 12236

ATTN: [REDACTED]

Dear [REDACTED]

Thank you for providing the draft Report of Examination 2023M-106 (the “Report”) of your most recent audit of the Greenville Fire District (“Fire District”). The Report has been reviewed and discussed by the Board of Fire Commissioners.

We appreciate the professionalism shown by the Comptroller’s Office staff during the time your office performed the audit of Fire District operations and records. The thoroughness of your office’s review of the Fire District’s records will no doubt provide added assurance to Greenville Fire District taxpayers that their hard-earned dollars that are being used for fire protection services are not being misspent. In particular, we are once again very proud of the confirmation that this latest audit of the Fire District by your office found no suggestion of any impropriety or misconduct by fire district officials in handling public funds.

We note the sole critical focus of the Report is the Fire District’s Investment Policy. Your Report acknowledges that the Fire District established a policy that is on a sound legal foundation. In addition, and consistent with your stated objectives for a comprehensive investment policy, the Fire District’s management of its funds assured the safekeeping of the corpus of the funds while providing for sufficient liquidity to allow access to the funds for Fire District purposes. The funds were maintained in a local, community-based commercial bank in complete compliance with federal and State law. By utilizing the services of a local commercial bank, the Fire District was assured that the tax revenues it collected were both secure and remained invested in the community that the Fire District serves.

The Report’s lone criticism of the Fire District is for not reaping a greater yield from its bank accounts for the period of January 2022 to May 2023. While the Report claims the Fire District could have done better in obtaining a higher rate of return of interest on the accounts, the Report is completely devoid of any historical context or references for the 17-month audit period. Simply stated, the Report gives no consideration to the tumultuous economic environment that existed during the 2022-2023 time period and the Fire District’s interest in preserving capital.

In January 2022, the Federal Funds Rate (the interest rate at which banks lend reserve balances to other depository institutions overnight, on an uncollateralized basis) was 0.08%.¹ This figure was up only three basis points from May of 2020, the height of Covid-19. During January 2022, the build-up for the Russian invasion of Ukraine that (officially commenced in February 2022) was negatively impacting financial markets and limiting returns on investments. From January through June 2022, the U.S. economy had two consecutive quarters of negative

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growth, thereby meeting the traditional definition of a “recession”.² While the Federal Funds Rate rose to 4.33% by the end of December 2022, inflation was at highest levels in recent history. The financial markets remained unstable and returns on “safe” investments were at historic lows over much of the year despite inflation--apparently in the hopes of a soft landing in 2023.³ As noted by the Office of the State Comptroller (OSC) in a press release dated August 19, 2022, the estimated return from April through June of 2022 of the State’s Common Retirement Fund (Fund) managed by OSC was -8.24%.⁴ For the following three month period ending September 30, 2022, that Fund returned an estimated -3.85%.⁵ When viewed through the historical prism of the condition of financial markets at the time, the Fire District’s efforts at preserving taxpayers funds pursuant to its Investment Policy were undoubtedly conservative, but prudent.

The prudence of the Fire District maintaining its funds in a locally owned and operated bank was validated in 2023. Looking to maximize returns and upon the advice of a financial consultant, in early March of 2023, the City of Syracuse invested approximately \$56 million in Signature Bank. On March 12, 2023, federal and State regulators closed the bank creating a “scary” situation for Syracuse officials who were concerned that they might not be able to “retrieve the money (they deposited) when they needed it”.⁶ The forgoing example (and the collapse of Silicon Valley Bank on March 10, 2023) demonstrates that the pursuit of the highest return on investment, even upon the recommendation of experts, is not always the most prudent course.

Fire District’s Response to Report Recommendations

In reviewing the Report’s recommendations the Fire District will continue to review and modify its Investment Policy as needed with keeping in mind the four basic objectives of legality, safety, liquidity, and yield; while remaining cognizant of the hierarchy in which those objectives are listed. On at least an annual basis, the Board of Fire Commissioners in conjunction with the Fire District Treasurer will re-evaluate the Investment Policy and look for opportunities that meet the objectives and complement the Board’s fiduciary duty to prudently maintain the public fisc.

Thank you again for your professionalism.

Very truly yours,

Allen Bobb, Chairman

¹ www.MacroTrends.net/2015/fed-funds-rate-historical-chart, *Federal Funds Rate-62 Year Historical Chart*, November 17, 2023

² www.NPR.org, July 28, 2022, *U.S. economy just had a 2nd quarter of negative growth. Is it a recession?*

³ www.MacroTrends.net/2015/fed-funds-rate-historical-chart, *Federal Funds Rate-62 Year Historical Chart*, November 17, 2023

⁴ Office of State Comptroller, Press Release, August 19, 2022

⁵ Office of State Comptroller, Press Release, Nov 22, 2022,

⁶ www.Syracuse.com, March 18, 2023, *When Signature Bank collapsed, it held \$56 million of Syracuse taxpayers’ money.*

Appendix B: Audit Methodology and Standards

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

- We interviewed District officials and reviewed the investment policy and financial records to gain an understanding of the District's cash management procedures. This included inquiries regarding the Board's annual review of the investment policy, bank reconciliation procedures, and soliciting of interest rate quotes from financial institutions.
- We reviewed bank statements for the operating fund, savings and reserve funds from January 1, 2022 through May 31, 2023 and analyzed the corresponding cash balances to determine the funds that were available to be invested each month.
- We identified three alternative investment options with higher interest rates available during the audit period. These options were legally permissible, highly rated, allowed funds to be withdrawn at any time without penalties or fees and had minimum investment balances that the District could meet. We calculated the average monthly interest rate from these options, when available, and compared it to the interest rates earned by the District to determine the potential investment earnings the District could have realized.

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. Pursuant to Section 181-b of New York State Town Law, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. 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. We encourage the Board to make the CAP available for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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

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

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

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

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

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

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

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

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

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

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

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

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

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Contact

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Local Government and School Accountability Help Line: (866) 321-8503

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