



# **Hamilton Fulton Montgomery Board of Cooperative Educational Services**

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Investment Program

**2023M-116 | December 2023**

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# Report Highlights

## Hamilton Fulton Montgomery Board of Cooperative Educational Services

### Audit Objective

Determine whether Hamilton Fulton Montgomery Board of Cooperative Educational Services (BOCES) officials developed and managed a comprehensive investment program.

### Key Findings

BOCES officials did not develop and manage a comprehensive investment program. During the 12-month audit period, BOCES held \$7.4 million in money market accounts and earned interest totaling \$105,000, and held \$4.6 million in non-interest bearing accounts. Had officials considered other available investment options, BOCES may have earned \$448,000 in investment income, or \$343,000 more than the \$105,000 earned during our audit period. Officials did not:

- Adopt a comprehensive investment policy as required by General Municipal Law (GML) Section 39.
- Solicit interest rate quotes or invest available funds in financial institutions that offered a competitive yield.
- Prepare monthly cash flow forecasts to monitor and estimate funds available for investment.

### Key Recommendations

- Adopt a comprehensive investment policy.
- Solicit interest rate quotes and ensure available funds are invested to benefit BOCES operations.
- Consider all four objectives of a comprehensive investment program – legality, safety, liquidity and yield – when investing available funds.

BOCES officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

### Background

BOCES is composed of 15 school districts and is governed by a seven-member Board elected by the boards of those school districts.

The Board is responsible for the general management and control of financial and educational affairs. The District Superintendent is the chief executive officer, responsible, along with other administrative staff, for the day-to-day management and regional planning and coordination.

BOCES has 16 operating bank accounts at one financial institution. The Chief Fiscal Officer (CFO) is responsible for overseeing the business office functions, as well as monitoring all BOCES funds including investments. The Treasurer is responsible for monitoring BOCES' bank account balances, preparing bank reconciliations and transferring funds between BOCES' bank accounts.

#### Quick Facts

2022-23 Appropriations	\$62.5 million
July 1, 2022 – June 30, 2023	
Interest Earnings	\$105,000
Total Average Available Funds for Investing	\$12 million

### Audit Period

July 1, 2022 – June 30, 2023

# Investment Program

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## What Is a Comprehensive Investment Program?

A BOCES 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 achieving 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 and cash management system should ensure that sufficient liquidity is available to support operations and that investments follow the statutory framework established for BOCES.

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 BOCES' investments and deposits. Prudent cash management and investment practices must include, among other things, the adoption of a formal investment policy in accordance with GML Section 39,<sup>1</sup> detailing the BOCES' operative policy and instructions to officers and staff regarding the investing, monitoring and reporting of the BOCES' 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 BOCES 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 BOCES' financial interest in investments.

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<sup>1</sup> 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.

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In addition, procedures should include specific actions for officials to take to achieve high 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 a competitive yield 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**

While we did not identify any concerns over the legality, safety and liquidity of BOCES' investments, officials did not develop and manage a comprehensive investment program or take steps to realize higher investment earnings in light of the rising interest rates during our audit period. Our analysis determined that had officials considered other legally authorized investment options, they may have earned over \$343,000 more in investment earnings than the \$105,000 BOCES actually earned from July 1, 2022 through June 30, 2023.

The Board did not adopt a comprehensive investment policy, as required. Furthermore, the CFO did not develop and manage a comprehensive investment program. In addition, officials did not solicit interest rate quotes to ensure BOCES earned a competitive yield. The Treasurer prepared cash flow forecasts only for the general fund checking bank account to ensure BOCES had enough cash on hand to meet its monthly expected expenditures. However, the Treasurer did not prepare these forecasts to determine the available funds for investment. Furthermore, each month, the Treasurer updated the prior month's forecast to the actual results of operations and did not retain the cash flow forecasts necessary to support the investment decisions made.

The Treasurer maintained all operating funds in one financial institution. There were 10 non-interest-bearing checking accounts and six interest-bearing money market accounts with monthly interest rates ranging from .05 percent to 3 percent. BOCES realized investment earnings totaling \$105,000 by maintaining a monthly average of 62 percent, or \$7.4 million of its available funds for investment, in these six accounts. In addition, BOCES maintained a monthly average of \$4.6 million available for investment in four of the 10 non-interest-bearing checking accounts.

The CFO and the Treasurer did not consider investing all available funds (monthly average of \$12 million) in other legally permissible investment options.

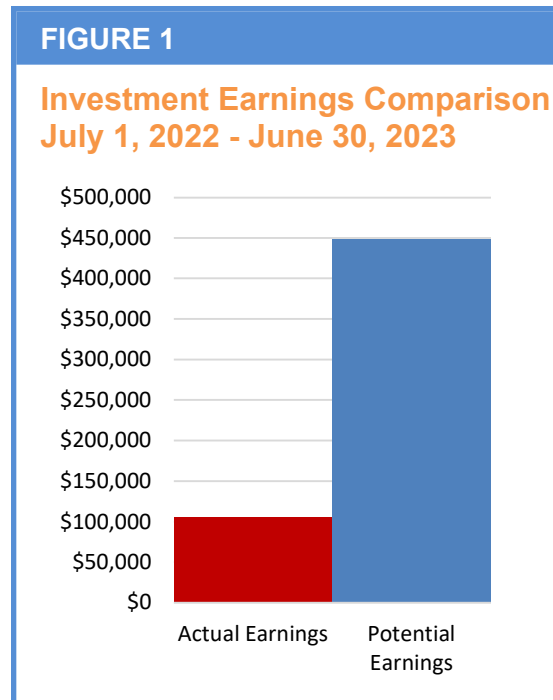
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[H]ad officials considered other legally authorized investment options, they may have earned over \$343,000 more in investment earnings than the \$105,000 BOCES actually earned. ...

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Had officials established a comprehensive investment program including adequate procedures to assist the CFO and the Treasurer in monitoring available funds for investment and actively soliciting interest rate quotes from multiple financial institutions, they may have realized additional revenue to help fund BOCES operations.

We compared available interest rates from other financial institutions to the rates received on BOCES' money market bank accounts<sup>2</sup> and determined that, had officials considered other available investment options and invested all available funds, BOCES may have earned over \$343,000 more than the \$105,000 of investment income earned during our audit period, for a total of about \$448,000 in investment income (Figure 1).



## What Do We Recommend?

The Board should:

1. Adopt a comprehensive investment policy in accordance with GML Section 39, monitor compliance with the policy and ensure the CFO develops comprehensive written procedures for the investment program's operations.
2. Require the CFO to use cash flow forecasts to estimate funds available for investment and obtain interest rate quotes periodically.

The Superintendent and the CFO should:

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 BOCES operations.
4. Review cash flow forecasts monthly to estimate funds available for investment.

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<sup>2</sup> See Appendix B for detailed methodology.

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The CFO should:

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

# Appendix A: Response From BOCES Officials



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www.hfmboces.org

December 15, 2023

Office of the New York State Comptroller  
Division of Local Government and School Accountability  
Glens Falls Regional Office  
Gary G. Gifford, Chief of Municipal Audits  
One Broad Street Plaza  
Glens Falls, NY 12801-4396

Dear Mr. Gifford:

This letter acknowledges that the Hamilton-Fulton-Montgomery (HFM) BOCES has received the Office of the State Comptroller's Report of Examination 2023M-116, Investment Program.

HFM BOCES accepts the recommendations and has updated our policy, process and procedures to ensure that the recommendations continue to be implemented to the fullest of our ability.

We appreciate the efforts of our auditors and their recommendations throughout this audit process.

Sincerely,

David Ziskin, Ed.D.  
District Superintendent

**The Hamilton-Fulton-Montgomery Board of Cooperative Educational Services  
leads and collaborates to provide efficient, innovative programs and services  
responding to the needs of our component school communities.**



## Appendix B: Audit Methodology and Standards

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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 BOCES officials and reviewed BOCES' policies and financial records to gain an understanding of BOCES' cash management procedures. This included inquiries regarding BOCES' investment procedures, the preparation of cash flow forecasts and soliciting interest rate quotes from financial institutions.
- We reviewed bank statements for all bank accounts from July 1, 2022 through June 30, 2023 and analyzed the corresponding cash balances to determine the funds that were available to be invested each month during our audit period.
- We calculated the amount of investment earnings that BOCES may have realized if officials considered other available investment options and invested all available funds. We compared our calculated monthly investment earnings that may have been realized to the investment earnings BOCES actually 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. 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 on BOCES' website for public review.

## Appendix C: Resources and Services

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