



Saranac Central School District

Investment Program

2023M-89 | December 2023

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Report Highlights

Saranac Central School District

Audit Objective

Determine whether Saranac Central School District (District) officials developed and managed a comprehensive investment program.

Key Findings

District officials did not develop and manage a comprehensive investment program. During the 22-month audit period, the District had an average of \$12.4 million in operating and debt service funds available for investing, and earned \$154,099 in investment earnings. Had officials utilized their investment accounts more effectively, the District may have earned \$356,452, or \$202,353 more than the \$154,099 of investment earnings during our audit period. Officials did not:

- Solicit interest rate quotes, and
- Prepare monthly cash flow forecasts to estimate funds available for investment.

Key Recommendations

- Prepare monthly cash flow forecasts that estimate the amount of funds available for investment.
- Consider all four objectives of a comprehensive investment program - legality, safety, liquidity and yield - when investing available funds.

District officials were given an opportunity to respond within 30 days in writing to our findings and recommendations but chose not to respond.

Background

The District serves the Towns of Beekmantown, Black Brook, Dannemora, Plattsburgh, Saranac and Schuyler Falls in Clinton County.

The District is governed by an elected seven-member Board of Education (Board) that is responsible for managing and controlling the District's financial and educational affairs. The Superintendent of Schools is the 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 School Business Official is responsible for overseeing financial operations, and the District Treasurer is responsible for depositing and investing funds.

The District has funds on deposit at two financial institutions and in a cooperative municipal investment fund (investment fund). Accounts are maintained for operating, debt service and capital projects funds, scholarships and extra-classroom activities.

Quick Facts

Operating and Debt Service Funds During Audit Period

Investment Earnings	\$154,099
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Total Average Available Funds for Investing	\$12.4 million
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2022-23

Appropriations	\$40.3 million
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Audit Period

July 1, 2021 – April 30, 2023

Investment Program

What is a Comprehensive Investment Program?

District officials 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 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,

¹ OSC has a publication available on our website entitled *Local Government Management Guide Investing and Protecting Public Funds* <https://www.osc.ny.gov/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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- Standards for written agreements in which investments are made, and
 - 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 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 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

The Board revised its investment policy in March 2018 and annually reviewed the policy as required by GML. While we did not identify any concerns over the legality, safety and liquidity of the District's investments, officials did not develop and manage a comprehensive investment program. For example, during our audit period, officials did not solicit interest rate quotes from financial institutions or prepare any cash flow forecasts to estimate the amount of funds available for investment.

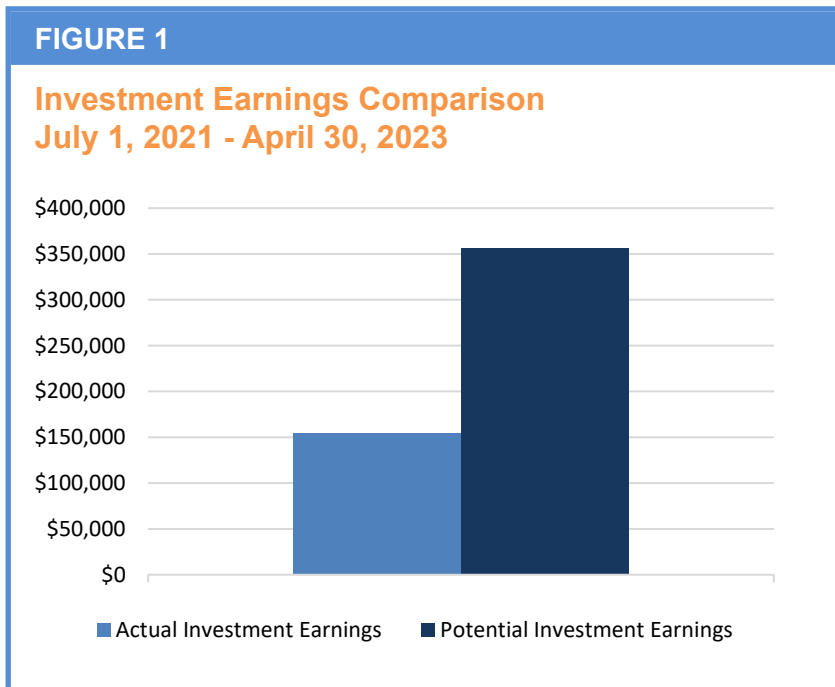
During our audit period, operating and debt service funds were deposited at one financial institution in six interest-bearing checking accounts that received monthly interest rates of either .03 percent (five accounts) or .05 percent (one account), at another financial institution in two interest-bearing checking accounts that received monthly interest rates between .01 percent and .65 percent and in an investment fund in three investment accounts that all received average monthly interest rates between .005 percent and 4.752 percent. The District realized investment earnings of \$154,099 related to its operating and debt service funds during our audit period.

For 14 of the 22 months during our audit period (March 2022 through April 2023), the average monthly interest rate received on the accounts in the investment fund exceeded the monthly interest rates received on the accounts at the two other financial institutions used by the District. However, officials made only one transfer of \$237,000 into the investment fund during our audit period.

Officials invested approximately \$5.1 million (43 percent) of the average operating and debt service funds available during the months of March 2022 through April 2023 in the investment fund. However, the District had additional available

operating and debt service funds averaging approximately \$6.9 million on deposit at the two other financial institutions used by the District during these months and did not consider transferring these funds to the investment fund which had a higher interest rate.

Based on our comparison of available interest rates, the District may have earned \$356,452, or \$202,353 more than the \$154,099 of investment earnings during our audit period (Figure 1).



...[T]he District may have earned \$356,452, or \$202,353 more than the \$154,099 of investment earnings during our audit period.

Had officials prepared monthly cash flow forecasts to estimate funds available for investment and invested with those institutions that offered a competitive yield, the District may have realized additional investment earnings to benefit District operations.

What Do We Recommend?

District officials should:

1. Prepare monthly cash flow forecasts that estimate the amount of funds available for investment.
2. 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 from multiple financial institutions to ensure funds are invested to benefit District operations.

Appendix A: 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 various 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, soliciting interest rate quotes from financial institutions and the preparation of cash flow forecasts.
- We reviewed all bank and investment statements for the operating and debt service fund accounts during our audit period and analyzed the corresponding cash balances to determine the amount of funds available to be invested each month during our audit period.
- We calculated the amount of investment earnings that could have been realized by the District had the available funds been transferred to higher interest-bearing accounts when the average monthly interest rate received exceeded the monthly interest rates received on the accounts at the other two financial institutions used by the District. We then compared our calculated amount of investment earnings that could have been realized to the investment earnings actually realized by the District during our audit period.

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 the District's website for public review.

Appendix B: Resources and Services

Regional Office Directory

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

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/fiscal-monitoring

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/resources/planning-resources

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

www.osc.ny.gov/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.ny.gov/local-government/required-reporting

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

www.osc.ny.gov/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.ny.gov/local-government/academy

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