



Pembroke Central School District

Investment Program

2023M-130 | April 2024

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Report Highlights

Pembroke Central School District

Audit Objective

Determine whether Pembroke 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. From January 1, 2022 through April 30, 2023, the District earned investment earnings totaling over \$153,000 from money on deposit in its 15 bank accounts at two financial institutions, which had an average of \$13.4 million available for investing. Had officials considered other legally permissible investment options, the District may have earned approximately \$390,000, or \$237,000 more than earned. District officials did not:

- Create, and the Board did not adopt, a comprehensive investment program with written procedures for the investment of District funds.
- Prepare monthly cash flow forecasts to estimate funds available for investment.
- Monitor investments.
- Formally solicit interest rate quotes.
- Consider other legally permissible investment options prior to our audit commencing.
- Annually review and re-adopt the investment policy as required by New York State General Municipal Law (GML) Section 39.

Key Recommendations

- Develop and manage a comprehensive investment program with written investment program procedures.
- Consider all four objectives of a comprehensive investment program - legality, safety, liquidity and yield - when investing available funds.

District officials agreed with our recommendations and indicated that they have initiated or plan to initiate corrective action.

Audit Period

January 1, 2022 – June 13, 2023

Background

The District serves the Towns of Alexander, Batavia, Darien and Pembroke in Genesee County. The District is governed by a five-member Board that is responsible for the general management and control of financial and educational affairs.

The Superintendent of Schools (Superintendent) is the chief executive officer responsible for the District's day-to-day management.

The School Accountant (Accountant) is the investment officer responsible for the administration of the investment program, which includes depositing and investing funds.

Quick Facts

2022-23 Appropriations	\$25.7 million
Investment Earnings from January 1, 2022 through April 30, 2023	\$153,680
Total Average Available Funds for Investing	\$13.4 million

Investment Program

What is a Comprehensive Investment Program?

A school district board (board) should develop and manage a comprehensive investment program.¹ 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 GML Section 39, which details 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.

In addition, if a board delegates the administration of the investment program to school district management, the board should create and approve comprehensive written procedures for the investment program’s operation that are consistent with policy guidelines.

At a minimum, an investment policy and supplemental procedures 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,

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.

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- 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
 - 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 estimate funds available for investment, such as preparing monthly cash flow forecasts, 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

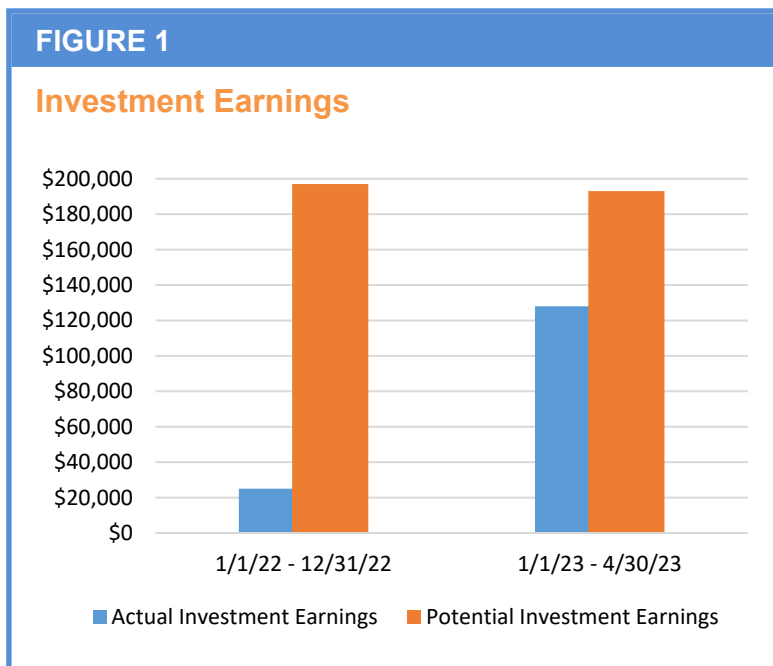
While we discussed minor concerns with District officials, we generally determined the District's investments were legal, safe and liquid. However, the Board did not develop and manage a comprehensive investment program or adopt written investment procedures to provide the Accountant with more direct instructions. The Board and District officials also did not annually review the adopted investment policy or monitor investments.

During 2022, the District maintained 15 bank accounts at two financial institutions for its operating and reserve funds. The Accountant maintained 87 percent of the average available bank balance from these funds in six interest-bearing time deposit accounts. The monthly interest rates earned on the accounts ranged from .02 percent to .75 percent, depending on the balance in each account. In calendar year 2022, the District realized investment earnings totaling approximately \$25,000 on these accounts.

In March 2022, interest rates generally began to rise, but the interest rate the District was earning did not. In December 2022, we met with officials to discuss the District's lack of an investment program and the preliminary audit results. Officials took immediate steps to review the District's investment options and, in January 2023, District officials began to invest in higher yielding options. From January 1, 2023 through April 30, 2023, the Accountant invested, on average, about \$5 million a month in higher yielding options. As a result, the District earned over \$62,000 in investment earnings in just four months from these two

investments, or nearly 250 percent more than what was earned for the entire year of 2022.

Had District officials taken this action sooner, using the same investment options they began to use in January 2023, and invested the over \$13.4 million average funds available each month, they may have increased the District's 2022 investment earnings by approximately \$172,000, or more than six times the amount the District earned, and the January through April 2023 investment earnings by approximately \$65,000 (Figure 1).



In addition, the Board and District officials did not create and adopt specific investment procedures, such as preparing monthly cash flow forecasts to estimate funds available for investment. As a result, the Accountant did not prepare or use an investment cash flow forecast to guide investments. The Accountant told us that she did not prepare cash flow forecasts to determine how much could potentially be invested because she thought she only needed to do so when the District was fiscally stressed. However, she acknowledged that this would be beneficial when determining how much to invest.

The Accountant also told us that she did not invest all available funds because the District's bank requires a minimum balance, from all District accounts combined, of \$2 million. She told us that if the balance was below this amount, the District would incur additional fees. However, neither the Accountant nor the District's bank could provide us with a fee schedule. Without this information, we could not factor potential fees into our analysis. However, even if the District maintained a

\$2 million balance on deposit with its bank and officials invested the remaining available funds we identified, the District may have still earned over \$177,000 in additional investment earnings.

The Accountant and Board President told us that there were no written procedures because they were not aware that they were required by the Board's policy. The Board President told us that other than authorizing to use an investment fund in January 2023, the Board did not discuss the District's investment program or review and re-adopt its investment policy in the last few years because of the disruption to their routines as a result of the COVID-19 pandemic and lower interest rates. Similarly, the Accountant told us that even though they were required by the Board's policy, she did not prepare investment schedules or solicit quotes because interest rates were very low over the last few years. She did acknowledge that interest rates had increased during 2022, and that she should have been reviewing them more meticulously.

Because officials did not develop and manage a comprehensive investment program or written procedures to provide specific actions to take – including how much of the available funds the Accountant should invest, officials missed an opportunity for the District to realize additional revenues which would benefit District operations and potentially reduced the financial burden for District taxpayers.

What Do We Recommend?

The Board and District officials should:

1. Develop and manage a comprehensive investment program which includes written procedures for the investment program's operation in compliance with the Board's investment policy.
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 and obtaining investment information from multiple financial institutions to ensure funds are invested to benefit District operations.
3. Monitor the Accountant's activities to ensure that she is submitting investment schedules and cash flow projections, as well as soliciting interest rate quotes and investing available funds in legally permissible investments to benefit District operations.

The Accountant should:

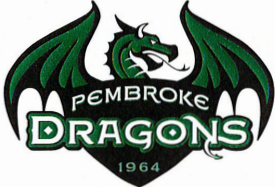
4. Prepare monthly investment schedules and cash flow projections that estimate available funds for investment.

The Board should:

5. Annually review, make any necessary changes, and re-adopt its investment policy as required.

Appendix A: Response From District Officials

Pembroke Central School District



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Corfu, New York 14036-0308
Tel (585) 599-4525 or (585) 762-9333
Fax# (585) 599-4213

Matthew E. Calderón
Superintendent of Schools

Becca A. Bliemeister, CPA
School Business Manager

James E. Green
Director of Facilities

April 9, 2024

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

To Whom It May Concern:

Pembroke Central School District is in receipt of the audit report issued by the Office of the New York State Comptroller entitled *Investment Program, Report of Examination 2023M-130*. The district agrees with all of the findings and recommendations identified. Pembroke prides itself on having strong internal controls and financial oversight. We are however, always open to finding ways to continually improve our operations, controls, and practices.

The District's Board of Education and Administration would like to thank the local audit team that worked with the District during the lengthy audit process. We appreciate all the time and hard work the team put into this audit. The Board takes seriously its role in ensuring all funds have been properly maintained. The District will use this opportunity to strengthen the existing controls and procedures surrounding our Investment Program.

The District has already taken actions to address the findings and recommendations. Pembroke has been invested in [REDACTED] since February 2023. From February 2023 through March 2024, Pembroke has made \$337,663 in interest income from expanding its investment program. The Board will annually review and update the investment policy as deemed necessary. The Board will readopt this policy annually at the reorganization meeting set in July. The District Business Office will prepare monthly investment schedules and cash flow projections, per recommendation number four. These will be provided to District Officials and the Board for monitoring and oversight, per recommendation number three. The District will periodically solicit interest rate quotes and investment information from multiple financial institutions to ensure funds are invested to benefit District operations, per recommendation number two.

Any recommended actions set forth for completion by the School Accountant will be addressed by the School Business Manager due to title change and retirement of the School Accountant.

Thank you,

Becca A. Bliemeister
School Business Manager
Pembroke Central School District

Matthew E. Calderón
Superintendent
Pembroke Central School District

John A. Cima
President
Pembroke Board of Education

"In partnership with the community, the Pembroke Central School District is committed to knowing each individual student's interests, needs, and desires in order to prepare all students for graduation, with the knowledge, skills, and attitudes necessary to lead productive lives."

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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, 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 and investment procedures. This included inquiries regarding the Board's annual review of the investment policy, the preparation of cash flow forecasts and solicitation of interest rate quotes from financial institutions.
- We reviewed all bank statements for the operating funds and reserve bank accounts from January 1, 2022 through April 30, 2023 and analyzed the corresponding cash balances to determine the funds that were available for investment each month. We generally used the lowest available balance, adjusted for specific transfers, on the bank statement as the funds that were available for investment each month.
- We calculated the potential investment earnings that the District could have realized had District officials invested available funds each month in an investment fund they chose to utilize in January 2023. We used our professional judgment to select this investment option because it did not require minimum investment amounts, allowed funds to be withdrawn at any time without penalties and fees, and made its daily interest rates publicly available.
- We compared our calculated potential monthly investment earnings that could have been realized from the investment fund with the investment earnings the District earned. Due to the missed opportunity to earn higher investment earnings, we evaluated its impact on taxpayers.
- We analyzed the extent of corrective action District officials took from January 1, 2023 through April 30, 2023.
- We reviewed bank deposits and investments to determine whether District officials safeguarded District funds by comparing April 4, 2023 bank balances against pledged collateral agreements.
- Using our professional judgment, we selected April 2023 – the most recent month in our sample period – and reviewed investments to determine whether they were legally authorized and sufficiently liquid.

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 C: 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

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Contact

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