



Piseco Common School District

Authorized Investments

2023M-172 | March 2024

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Report Highlights

Piseco Common School District

Audit Objective

Determine whether Piseco Common School District (District) officials invested in accordance with statutory requirements.

Key Findings

District officials did not invest in accordance with statutory requirements. As a result, District investments were at an increased risk of loss.

- District officials did not adhere to the District's investment policy and invested \$35,000 in an investment account that is not statutorily authorized.
- The Board of Education (Board) readopted its investment policy annually, but did not ensure the District's investments were in compliance with the policy's list of eligible investments.
- The Board did not develop procedures to address investment requirements.

Key Recommendations

- Consult with the District's attorney and consider market conditions to place unauthorized investments in authorized accounts. Consider all four objectives of a comprehensive investment program - legality, safety, liquidity and yield - when investing available funds.
- Review the investment policy annually and amend the policy as needed.
- Ensure future investments are made in accordance with statutory requirements and the District's investment policy.

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

Audit Period

June 1, 2013 – August 31, 2023

Background

The District serves the Towns of Arietta and Morehouse in Hamilton County. The elected three-member Board is responsible for the general management and control of financial affairs.

The Superintendent is the chief executive officer and is responsible for managing the District's day-to-day operations. In addition, the District employs a secretary/treasurer to assist in managing the financial operations.

The District has funds on deposit at three financial institutions. The District maintains checking accounts for operating expenses, payroll, reserves, donations and scholarships. The District maintains investment accounts for capital reserves and community programming.

The District's investment policy authorizes the Superintendent to invest funds in accordance with all applicable laws and regulations and other provisions of the District's investment policy.

Quick Facts

2023-24 Appropriations	\$785,569
Average Fiscal Year-End Investment Balance	\$41,891
Number of Accounts	
Checking	6
Investment	2

Authorized Investments

What Are Authorized Investments?

Investing involves both opportunities and risks, and officials must ensure the safety of public funds while striving to achieve investment earnings. 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.

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 earnings on any money that is not required for operations. A school district (district) can invest money not required for immediate expenditure temporarily in time deposit accounts in, or certificates of deposits (CDs) issued by, a bank or trust company located and authorized to do business in New York State and other certain types of obligations.¹ There is no statutory authority for school districts to invest in money market mutual funds (or any other mutual fund) or in unit investment trusts. School districts are also prohibited from investing in stocks, bonds or private corporations.

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, 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,

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>) discussing authorized investments to assist officials in prudent cash management investment practices.

- Permitted types of authorized investments,
- Standards for diversification of investments,
- Standards for any institution with which a 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 district’s interest in investments.

In addition, procedures should include specific actions for officials to take to invest available funds in legally permissible investments in financial institutions offering competitive interest rates balanced with acceptable risk. When implemented, these types of policies and procedures can help lower investment risk while increasing opportunities for higher investment earnings. The board must annually review the investment policy and should regularly monitor investments.

District Officials Invested in Unauthorized Investments

While the District’s investment funds were safeguarded, liquid and offered a competitive yield, one of the District’s investment accounts was not statutorily authorized. Although not listed as an eligible investment in the District’s investment policy, the Board authorized the Superintendent to invest in a mutual fund managed by an asset management company on February 13, 2014. The mutual fund is a dividend-focused fund, which invests in the stock of various companies. However, there is no statutory authority for a district to hold stock.

The Superintendent opened the investment account on April 14, 2014 and deposited \$35,000 into the account, using money from the District’s educational enhancement fund bank account. Historically, these funds have been used to enhance community programming for District residents, which included paying for students’ extracurricular events and field trips.

We reviewed account activity from April 2014 through August 31, 2023. The Treasurer made eight disbursements totaling \$25,664. All disbursements were approved by the Board in advance and were appropriately made for educational enhancement. During the audit period, the fiscal year-end account values ranged from \$37,827 to \$50,436 (Figure 1) and the highest balance was \$52,514 as of December 31, 2021. As of August 31, 2023, the funds in this account totaled \$51,086.

Figure 1: Investment Account Values

Fiscal Year Ending	Account Value
June 30, 2015	\$37,827
June 30, 2016	\$39,623
June 30, 2017	\$42,340
June 30, 2018	\$39,989
June 30, 2019	\$42,171
June 30, 2020	\$35,463
June 30, 2021	\$47,450
June 30, 2022	\$41,717
June 30, 2023	\$50,436

While the Board re-adopted the investment policy annually, it did not ensure the District's investments were in compliance with the policy's list of eligible investments. In addition, the policy stated that procedures should be developed to address other requirements. However, there were no such procedures in place.

The Superintendent told us that officials were not aware that these investments were not statutorily authorized and that the District contracts with Erie 1 Board of Cooperative Educational Services to develop and update its policies. However, the Board is responsible for ensuring District policies are relevant and appropriate for the District's needs. Unauthorized investments could lead to ineffective investment results, and noncompliance with statutory regulations could put District money at an increased risk of loss.

What Do We Recommend?

The Board and District officials should:

1. Consult with the District's attorney and consider market conditions to place unauthorized investments in authorized accounts. Consider all four objectives of a comprehensive investment program - legality, safety, liquidity and yield - when investing available funds.
2. Review the investment policy annually, as required, and amend as needed.
3. Ensure investments are made in accordance with statutory requirements and the District's investment policy.

Appendix A: Response From District Officials



PISECO COMMON SCHOOL DISTRICT

1722 Route 8, PO Box 7 Piseco NY 12139
518-548-7555 pisecocseoutlook.com

March 5, 2024

██████████ Principal Examiner
NYS Office of the Comptroller
Division of Local Government and Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear ██████████

Please consider this letter as both the initial response and Corrective Action Plan to the recent audit of the Piseco Common School District, located at 1722 State Route 8, Piseco, NY.

We agree with the findings of the audit as outlined in the draft report. Below are listed those findings and the district's plan to address each.

1. *District officials did not adhere to the District's investment policy and invested \$35,000 in an investment account that is not statutorily authorized.*
 - a. Resolution – The District will move the monies in this account to NYLAF when market conditions are optimal.
2. *Review the investment policy annually, as required, and amend as needed.*
 - a. Resolution – The Board of Education will review the investment policy before June 1, 2024, and every year thereafter at the reorganizational meeting in July.
3. *Ensure investments are made in accordance with statutory requirements and the District's investment policy.*
 - a. Resolution – The Board of Education will review the status of its investments every month.

I sincerely appreciate the efforts of ██████████ the auditor assigned to this audit. He was professional, courteous, and helpful.

If you need to discuss this with me, I can be best reached by cell phone, ██████████

Sincerely,

Richard G. Rose
Superintendent of Schools

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 employees and reviewed the District's investment policy, bank accounts and investment accounts to gain an understanding of the District's investments and determine whether they were authorized in accordance with laws and regulations.
- We reviewed all eight disbursements made from the mutual fund account during our audit period and reviewed the Board minutes, vouchers and supporting documentation to determine whether the disbursements were approved and appropriate.
- We reviewed bank statements to determine which accounts the funds were deposited into, and whether the total amount disbursed from the mutual fund was deposited into a District account.
- We obtained the outside interests of the Board members, Board Clerk, Superintendent and their spouses to determine whether they had any interests in the mutual fund, or any companies invested into by the mutual fund.

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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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

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

Contact

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<https://www.osc.ny.gov/local-government>

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

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