

Tioga Central School District

Cash Management

NOVEMBER 2020



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Tioga Central School District

Audit Objective

Determine whether Tioga Central School District (District) officials maximized interest earnings.

Key Findings

Interest earnings were not maximized.

- District officials did not develop and manage a comprehensive investment program or comply with the District's investment policy.
- Had officials invested available funds in a financial institution with higher interest rates, the District's interest earnings could have increased by \$215,120.

Key Recommendations

- Prepare monthly cash flow forecasts that estimate available funds for investment.
- Ensure excess funds are invested in a manner, within legal limits, to maximize interest earnings.

District officials disagreed with certain aspects of our findings and recommendations, but indicated they have initiated corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Background

The District serves the Towns of Tioga, Nichols, Barton and Candor in Tioga County. The seven-member elected Board of Education (Board) is responsible for the general management and control of financial and educational affairs. The Superintendent of Schools is the chief executive officer and, along with other administrative staff, is responsible for the District's day-to-day management under the Board's direction.

The District has funds on deposit at one local financial institution. The District Treasurer is responsible for depositing and investing District funds. Bank accounts are maintained for all operating funds and reserves.

Quick Facts

2018-19 Interest Earnings	\$20,222
2018-19 Enrollment	892
2019-20 Appropriations	\$20.3 million

Audit Period

July 1, 2018 – December 31, 2019

Cash Management

How Should Officials Ensure Interest Earnings Are Maximized?

District officials should develop and manage a comprehensive investment program. A comprehensive program should include the board adopting and annually reviewing an investment policy in accordance with New York State General Municipal Law.¹

The policy should include actions for officials to take to maximize interest earnings such as soliciting interest rate quotes from multiple financial institutions, preparing monthly cash flow forecasts to estimate funds available for investment and investing available funds (within legal limits) in financial institutions offering the highest interest rates balanced with acceptable risk. Once established, officials should monitor investments to ensure interest earnings are maximized.

Officials Did Not Ensure Interest Earnings Were Maximized

District officials did not develop and manage a comprehensive investment program to ensure interest earnings were maximized. The Board most recently revised its investment policy in December 2019 and annually reviewed and readopted the policy as legally required.

Although the Treasurer reviewed cash flow needs monthly and maintained a significant amount of available funds in the District's highest interest-earning account, District officials did not solicit interest rate quotes to maximize interest earnings during the audit period.

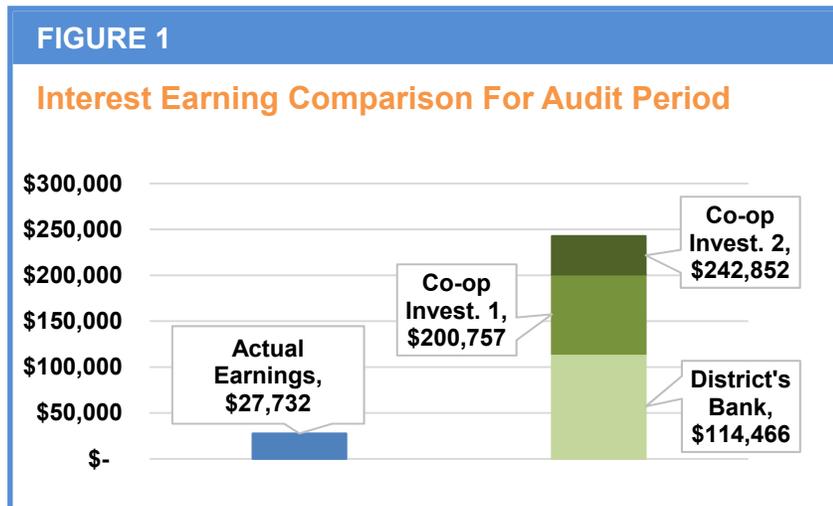
The Treasurer maintained bank accounts for the general, reserve, debt service and capital funds at one financial institution. The interest rate earned on these accounts ranged from .01 to .5 percent, depending on the monthly average bank balance in each account.

During the audit period, more than 40 percent of the average bank balances were maintained in one checking account, which earned the highest interest rate of all the District's bank accounts. The Treasurer transferred funds from this account to other accounts each month to cover upcoming expenditures. The District realized interest earnings totaling \$27,732 during the audit period.

We found that officials had available funds averaging approximately \$7.8 million per month during the audit period to invest in financial institutions that offered higher average monthly interest rates ranging between 1.68 percent and 2.05 percent. We compared three different investment options (two cooperative

¹ New York State General Municipal Law, Section 39

municipal investment funds and an investment option available at the District's current bank with the highest interest rate based on minimum balances available) (Figure 1).²



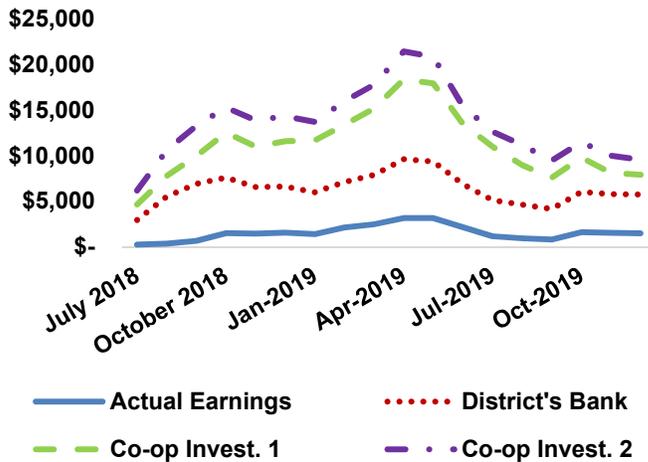
Based on our comparison, had officials complied with their investment policy, the District could have earned \$215,120 more than the \$27,732 interest the District actually earned during the audit period. In fact, investing funds in any of the three investment options would have resulted in increased interest earnings during our audit period (Figure 2).

...[H]ad officials complied with their investment policy, the District could have earned \$215,120 more than the \$27,732 interest the District actually earned...

² These options included two separate cooperative investment municipal funds that did not require minimum investment amounts to receive the stated interest rates and allowed for funds to be withdrawn at any time without penalties or fees.

FIGURE 2

Actual Interest Earned vs Potential Interest for the Audit Period



According to the Treasurer, in the past, officials periodically requested interest rate quotes from various financial institutions; however, due to low market rates, officials discontinued this process.

Because officials did not develop and manage a comprehensive investment program, the District did not realize significant potential revenues.

What Do We Recommend?

District officials should:

1. Develop and manage a comprehensive investment plan which includes preparing monthly cash flow forecasts that estimate available funds for investment.
2. Periodically solicit interest rates and obtain investment information to ensure available funds are invested, within legal limits, to maximize interest earnings.

Appendix A: Response From District Officials

AUDIT RESPONSE & CORRECTIVE ACTION PLAN FOR CASH MANAGEMENT

Audit Response and Corrective Action Plan

Unit Name: Tioga Central School District
Audit Report Title: Cash Management
Audit Report Number: 2020M-83

This document serves as both the Tioga Central School District's (the District's) audit response and Corrective Action Plan.

The District agrees in general with the findings of Audit Report Number 2020M-83 to the extent that it may have been possible to increase our investment and interest earnings. Further, the District agrees that it has not yet developed Administrative Regulations and Procedures to implement Board Policy #5220 nor has it determined how to manage investments given the current Business Office staffing and configuration.

The District disagrees with the statement that "had officials complied with their investment policy, the District could have earned \$215,120" because a) maximizing investments is not the sole objective of the policy, b) calculations of potential earnings were not clearly in compliance on allowable investments, and c) the investment review period included data prior to the policy adoption date. The District also believe the effects of COVID-19 on district operations and finances should be taken into consideration.

See
Note 1
Page 8

First, Board Policy #5220 clearly indicates that maximizing interest is subordinate to the objectives of safeguarding district funds and maintaining sufficient liquidity. The complete Board Policy #5220 has four stated objectives listed in order of importance:

See
Note 1
Page 8

1. Investments will be made in a manner so as to safeguard the funds of the District.
2. Bank deposits will be made in a manner so as to safeguard the funds of the District.
3. Investments will be sufficiently liquid so as to allow funds to be available as needed to meet the obligations of the District.
4. Funds will be invested in such a way as to earn the maximum yield possible given the first three investment objectives.

Second, the Audit Report does not provide sufficient evidence that the proposed investment instruments used to calculate potential earnings were consistent with Board Policy #5220 guidelines on acceptable investments. The District is not free to choose any bank or investment instrument based on potential returns. The District Policy includes very specific guidelines on acceptable investment instruments.

See
Note 1
Page 8

Third, the earnings on these un-named investment instruments were calculated for a period from July 2018 through October 2019. A significant portion of this period pre-dates the policy mentioned. The prior #5220 Policy called for "a reasonable rate of return" rather than the objective to "maximize yield". What's more, the Policy requires a specific procedure and regulation be developed for investment that was not yet in place during the review period. Changes in investment strategy after the adoption of this policy but prior to development of the

See
Note 1
Page 8

AUDIT RESPONSE & CORRECTIVE ACTION PLAN FOR CASH MANAGEMENT

administrative regulation and process would have been a violation of the Policy. It is also worth noting that while the interest rates were high for part of the audit period, they have declined significantly since that period and earnings at the level described should not be expected since the COVID -related economic downturn.

Fourth, unmentioned in the audit is the fact that, prior to the start of the audit, the District had already met with banking representatives from our primary financial institution to review interest rates and start making changes as per our revised Board Policy.

See Note 2 Page 9

Lastly, The COVID-19 pandemic has caused extreme volatility in the District's finances since passage of this revised Board Policy in December of 2019. This volatility has led the District to make decisions that maximize safeguarding district funds over considerations of potential investment yield. The District faces reductions in overall state aid including a potential 20% cut during the school year. State funding accounts for 80% of the District's budget making these actual and potential cuts potentially devastating. Further, the district faces increased expenses due to unemployment insurance, health insurance costs, and operational costs caused by the need to respond to pandemic related State and Federal mandates.

See Note 3 Page 9

For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed.

Audit Recommendation #1:

Prepare monthly cash flow forecasts that estimate available funds for investment.

Implementation Plan of Action(s):

The District will develop the capacity to Prepare monthly cash flow forecasts that estimate available funds for investment:

- a. Determine the additional capacity required in the Business Office to provide monthly cash flow reports.
- b. Assign duties among Tioga staff and BOCES Cooperative Business Office (CBO) staff as needed to provide the District Treasurer with capacity to prepare monthly cash flow forecasts.
- c. Monitor the monthly cash flow forecasts to estimate available funds for investment.

Implementation Date:

The District has budgeted to add limited BOCES CBO staff supports in the 2020-21 school year. The District is scheduled to begin transitioning some functions to the CBO in January, 2021.

Persons Responsible for Implementation:

The Superintendent of Schools, David Hamilton, is responsible for budgeting for CBO services in the annual school budget and for ensuring adherence to Board Policy #5220. The District Treasurer, Kendra Seaver, is responsible for creating and/or overseeing the development of a monthly cash flow forecast.

**AUDIT RESPONSE & CORRECTIVE ACTION PLAN
FOR CASH MANAGEMENT**

Audit Recommendation #2:

Ensure excess funds are invested in a manner, within legal limits, to maximize interest earnings.

Implementation Plan of Action(s):

The District will develop an Administrative Regulation and Procedure to implement Board Policy #5220 which safeguard district funds, maintain necessary liquidity, and maximize interest earnings.

- a. Assemble a team including the District Treasurer, Superintendent, and account representatives from financial institutions used by the District.
- b. Calculate an annual implementation and administrative cost to determine minimum net benefit for any investment decision.
- c. Develop an Administrative Regulation and Procedure as required by Board Policy #5220.
- d. Approve and begin implementation of Administrative Regulation and Procedure R5220.
- e. Established a process to inform the Board of Education of quarterly investment changes and anticipated earnings.

Implementation Date:

The District will assemble the team to develop R5220 no later than January 1, 2021. The draft R5220 is due to the Superintendent of Schools no later than July 1, 2021.

Person Responsible for Implementation:

The District Treasurer, Kendra Seaver, will lead the development, review, and drafting of the Administrative Regulation and Process. The Superintendent of Schools, David Hamilton, is responsible for final review and adoption of R5220.

Signed: _____

David Hamilton
Superintendent of Schools

9/2/2020

Date

Cathi Root
Board of Education President

9/2/2020

Date

Appendix B: OSC Comments on the District's Response

Note 1

Although maximizing interest is not the sole objective of the District's policy, safeguarding investments and maximizing interest are not mutually exclusive objectives. For example, cooperative investment option 2 used in our analysis complies with each main objective listed in the policy i.e., safety, liquidity and yield. In addition, options 1 and 2 used in our analysis are rated AAAM, the highest rating assigned by Standard & Poor's Global Ratings.

We held several meetings with District officials and provided the specific name of each investment option included in our audit report. We also discussed our audit's objective, methodology and criteria with officials before the start of our audit and throughout our fieldwork.

The District's Policy authorized investments in obligations of the United States government, securities purchased pursuant to a repurchase agreement, and collateralized time deposit accounts or transaction accounts placed in a commercial bank, among other options.

Cooperative investment option 2 yielded the most revenue enhancement during our audit period. This option complied with the policy because (as stated on this financial institution's website) it invests funds only in securities that are legal for public funds investment in New York State, and the portfolio is comprised of obligations of the United States government, repurchase agreements collateralized at 102 percent by U.S. Treasury, agency securities backed by the full faith and credit of the United States government and collateralized bank deposits.

We calculated potential interest earnings for our audit period (July 1, 2018 through December 31, 2019) based on the District's investment policy and procedures (Board Policy #5220) provided to us by the Treasurer on March 4, 2020. This policy, dated 2017, covered our entire audit period.

Neither the Superintendent, Treasurer nor Board indicated any concerns when we discussed the specific methodology we would use to calculate potential earnings during our audit with them (on January 9, January 14 and January 16, 2020), or with our results and findings discussed with them (on March 11 and August 7, 2020).

During our discussions with officials, they did not mention a prior or recently adopted version of this policy. We used the policy provided to us in March 2020 to frame our audit objective and as the basis for our projections that required a "maximum yield," not a "reasonable rate of return" as mentioned in the District's response.

Note 2

On March 4, 2020, the Treasurer told us that she met with a banking representative from the District's primary financial institution to discuss better investment opportunities. However, the Treasurer indicated this meeting took place after we selected our audit objective. Regardless, District officials did not present us with any evidence that they have changed their method of investing yet.

Note 3

Our audit covered the period July 1, 2018 through December 31, 2019 – before the COVID-19 pandemic. Although COVID-19 provides many fiscal challenges, good business practices and appropriate stewardship of taxpayer money requires prudent investment practices to ensure the District increases interest earnings.

Appendix C: 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 objective³ 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, requesting proposals for banking services from financial institutions and the preparation of cash flow forecasts.
- We reviewed all bank statements for the District's general, reserve, debt service and capital funds bank accounts during the audit period. We excluded all bank accounts used for the District's operational needs based on discussions with the Treasurer.
- We calculated the amount of interest earnings that could have been realized by District officials had they invested this amount each month in two other financial institutions with higher interest rates, or maximized the value of their current bank by investing in the option with the highest interest rate based on minimum balances available. The two other financial institutions were cooperative municipal investment funds, which we used our professional judgement to select because they did not require minimum investment balances, allowed funds to be withdrawn at any time without penalties or fees and the daily interest rates were publicly available.
- We compared our calculated monthly interest earnings that could have been realized to the interest earnings actually realized by the District during our audit period for each investment option.

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.

³ We also issued a separate audit report, Tioga Central School District – Cost Savings (2020M-84).

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 D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

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?title=&body_value=&field_topics_target_id=263206&issued=All

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/sites/default/files/local-government/documents/pdf/2020-05/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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

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

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

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