

Groton Central School District

Cash Management

JANUARY 2021



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

Contents

- Report Highlights 1**

- Cash Management 2**
 - How Should Officials Ensure Interest Earnings Are Maximized? . . . 2
 - Officials Did Not Ensure Interest Earnings Were Maximized 2
 - What Do We Recommend? 4

- Appendix A – Response From District Officials 5**

- Appendix B – OSC Comments on the District’s Response 8**

- Appendix C – Audit Methodology and Standards 9**

- Appendix D – Resources and Services 10**

Report Highlights

Groton Central School District

Audit Objective

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

Key Findings

District officials did not maximize interest earnings. During the audit period, the District's interest earnings totaled \$72,555, but the District could have earned another \$367,963 if officials invested available funds in a financial institution that offered higher interest rates.

- The Business Official did not:
 - Develop and manage a comprehensive investment program or comply with the District's Board of Education's (Board) investment policy.
 - Solicit interest rate quotes to maximize interest earnings or prepare monthly cash flow forecasts.

Key Recommendations

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

District officials generally agreed with our findings and recommendations and indicated they plan to initiate corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Subsequent Event

Our audit period ended prior to the COVID-19 pandemic (pandemic). Due to the pandemic's effect on the economy and interest rates, the additional interest earnings available to the District are likely to be much less than noted in this report.

Background

The District serves the Towns of Dryden, Groton, Lansing, Homer, Locke and Summerhill in Tompkins, Cortland and Cayuga Counties. The seven-member elected Board is responsible for the general management and control of District's 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 Business Official is responsible for depositing and investing District funds. The District has funds on deposit at two financial institutions.

Quick Facts

Interest Earnings During Audit Period	\$72,555
2018-19 Enrollment	783
2019-20 Appropriations	\$22.3 million
2018-19 Expenditures	\$19.3 million

Audit Period

July 1, 2018 – February 29, 2020

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 preparing monthly cash flow forecasts to estimate funds available for investment, soliciting interest rate quotes from multiple financial institutions 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

The Business Official did not develop and manage a comprehensive investment program to ensure interest earnings were maximized. Although the Board annually reviewed and adopted an investment policy as legally required, officials did not prepare monthly cash flow forecasts to estimate funds available for investment or solicit interest rate quotes to maximize interest earnings during the audit period.

The Business Official maintained bank accounts for the District's funds at two financial institutions. The majority of the available bank balances in the District's operating funds were maintained in four interest-bearing checking accounts used for debt service payments, capital projects, tax collection and State aid collection. The monthly interest rates earned on these accounts ranged from 0.25 percent to 0.35 percent, depending on the balance in each account. The District realized interest earnings totaling \$72,555 on these accounts during our audit period.

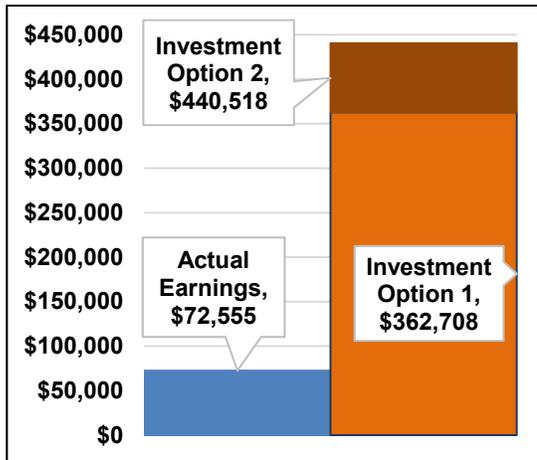
Although District officials invested available funds in the District bank account with the highest interest rates during the audit period, we found that officials had available funds averaging approximately \$13.3 million per month during the audit period to invest in financial institutions that offered higher average monthly interest rates ranging between 1.49 percent and 2.3 percent. We compared the District's rates with two different cooperative municipal investment fund options – both of which complied with the District's investment policy – based on daily average balances available (Figure 1).²

1 New York State General Municipal Law Section 39

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 1

Interest Earning Comparison for Audit Period

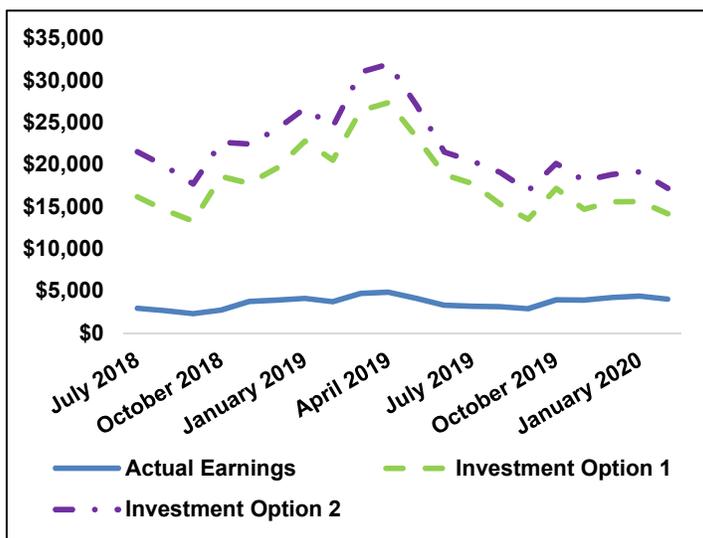


Had officials complied with their investment policy’s objective for investments to earn the maximum yield possible in a safe and liquid manner, the District could have earned as much as \$367,963 more than the \$72,555 in interest the District actually earned on these accounts. In fact, investing funds in either of the two investment options would have resulted in increased interest earnings during our audit period (Figure 2).

Had officials complied with their investment policy’s objective for investments to earn the maximum yield possible in a safe and liquid manner, the District could have earned as much as \$367,963 more than the \$72,555 in interest the District actually earned on these accounts.

FIGURE 2

Actual Interest Earned vs Potential Interest for the Audit Period



According to the Superintendent, officials relied on the District's financial advisors to recommend investment options.

Because officials did not develop and manage a comprehensive investment program, the District missed an opportunity to realize additional revenues. Because interest rates regularly change, to maximize future interest earnings officials should develop and manage a comprehensive investment program.

What Do We Recommend?

District officials should:

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

Appendix A: Response From District Officials

GROTON CENTRAL SCHOOL



November 20, 2020

Office of the State Comptroller
Attn: Ann C. Singer, Chief Examiner
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417

The Groton Central School District is in receipt of the New York State Office of the State Comptroller audit report 2020M-124 on Cash Management. We would like to thank the field auditor on sight for his time and effort.

Please accept the following comments as the District's official response and corrective action plan as they relate to the Cash Management report submitted to the Groton Central School District on November 4, 2020. As the audit report has only a single finding and two recommendations and allowed under the guidelines of the OSC guidance on responding to OSC audit reports (<https://www.osc.state.ny.us/local-government/audits/responding-osc-audit-report-audit-response-and-corrective-action-plans>), it is the conclusion of the Board of Education and District administration that this audit response and corrective action plan is able to be satisfactorily combined into a single correspondence. In documenting our response and corrective action plan, the district has chosen to address the observation and recommendations in the report.

District Response to the Audit Report: The District acknowledges the validity of the audit report and is pleased, given the length and depth of the audit process, that there was only one finding, with two recommendations. It is essential for the District to note for the record in this response that there were no findings from the OSC in this audit regarding: internal controls, treasury function, data process and transparency, potential exposure to fraud, or any other common areas of school district deficiency in terms of cash management. District officials and the Board of Education are proud of the consistent effort and continued successes of our business office staff.

See
Note 1
Page 8

*District Office - 400 Peru Road, Groton New York 13073
Phone: (607) 898-5301 Fax: (607) 898-4647 www.grotoncs.org*

The District generally agrees with the single finding of the Comptroller’s auditors: “District officials did not maximize interest earnings.” The Groton Central School District has historically worked closely with our municipal banking partners to maximize interest rate returns within our account structures and has utilized available savings methods and protocols within our existing banking agreements and investment policy (5010 - District Investments). The District’s acknowledgment and agreement with the findings of the audit is related specifically to the utilization of investment opportunities outside of previously approved municipal banking partners. Entering into these outside investment agreements may have improved our rate of return on investment of available funds. The potential interest revenue stated in the audit is based on minimum total monthly district cash in deposit, and the interest rate of return from [REDACTED] for that specific monthly period. Although that is a logical method for determining potential interest earnings, it does not take into account that the District is subject to municipal banking fees and penalties if minimum balances are not held in our existing bank accounts. Given that, actual funds available for deposit would have been less than what was used in the audit calculation, and therefore unachieved interest earnings results would actually have been lower than what was identified in the audit finding. That said, the District will continue to aggressively pursue optimal investment opportunities in the future.

See Note 2 Page 8

GROTON CENTRAL SCHOOL DISTRICT - CORRECTIVE ACTION PLAN
NYS OSC Audit 2020M-124

Key Findings of the Audit:

District officials did not maximize interest earnings. During the audit period, the District’s interest earnings totaled \$72,555, but the District could have earned another \$367,963 if officials invested available funds in a financial institution that offered higher interest rates.

- Officials did not develop and manage a comprehensive investment program or comply with the District’s Board of Education’s investment policy.
- Officials did not solicit interest rate quotes to maximize interest earnings or prepare monthly cash flow forecasts.

Recommendation #1: The District Treasurer should prepare monthly cash flow forecasts that estimate available funds for investment.

Contact Person: Cara Stevens, Business Administrator

Corrective Action Planned: Monthly cash flow is provided to the Board of Education in the monthly treasurer’s report. In the future, the business office will generate a monthly report of funds available for investment.

Anticipated Completion Date: June 30, 2021.

Recommendation #2: The Board of Education should ensure that available funds are invested, within legal limits, to maximize interest earnings.

Contact Person: Cara Stevens, Business Administrator

Corrective Action Planned: The District's investment philosophy is to support our local banking institution, as they are essential partners in the community. The District's policy 5010 - District Investments will be updated to officially reflect this philosophy.

Additionally, the District has periodically reviewed potential interest earnings rates and opportunities from our Board of Education approved municipal banking partners for well over a decade. The District business office will continue to explore additional options for investments and solicit quotes from approved financial institutions. We will continue to invest according to legal requirements and limitations, and we will have regular conversation with the Board of Education's finance committee regarding investment options.

Anticipated Completion Date: The Board of Education has always invested within legal limits without exception. Efforts to maximize interest earnings are ongoing.

On behalf of the Groton Board of Education, I would like to thank your staff for the time and effort provided to the District for the NYS OSC Audit. If you have any questions or comments regarding this response, or need to request or offer clarification of any kind, please do not hesitate to contact me.

Sincerely,

Margo Martin
Superintendent
(on behalf of the Board of Education President Sophia Darling)

Appendix B: OSC Comments on the District's Response

Note 1

The audit objective focused on whether District officials maximized interest earnings: we did not audit the other operational areas District officials detail in their response. The audit report does not state that there were no findings in those areas and should not be interpreted as such.

Note 2

We calculated the potential interest revenue based on daily average balances and on interest rates offered by two different cooperative municipal investment fund options that complied with the District's investment policy, offered services similar to the District's current banks and did not have minimum balance requirements. Electing to maintain balances in the District's current bank accounts with lower interest rates to avoid banking fees and penalties is a management decision. Developing and managing a comprehensive investment program could help ensure interest earnings are maximized.

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 objective and obtain valid audit evidence, our audit procedures 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 procedures. This included inquiries regarding the Board's annual review of the investment policy, the preparation of cash flow forecasts and soliciting interest rate quotes from financial institutions.
- We reviewed bank statements for operating fund bank accounts during the audit period and analyzed the corresponding cash balances to determine the funds that were available to be invested each month.
- We calculated the amount of interest earnings that could have been realized by District officials had they invested available funds each month in two other financial institutions with higher interest rates. The two financial institutions were cooperative municipal investment funds, which we used our professional judgment to select because they did not require minimum investment amounts, allowed funds to be withdrawn at any time without penalties or fees and made their daily interest rates publicly available.
- We compared our calculated monthly interest earnings that could have been realized to the interest earnings actually realized by the District 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.

The Board has the responsibility to initiate corrective action. A written correct 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

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

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

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

BINGHAMTON REGIONAL OFFICE – Ann C. Singer, Chief Examiner

State Office Building, Suite 1702 • 44 Hawley Street • Binghamton, New York 13901-4417

Tel (607) 721-8306 • Fax (607) 721-8313 • Email: Muni-Binghamton@osc.ny.gov

Serving: Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Sullivan, Tioga, Tompkins counties



Like us on Facebook at facebook.com/nyscomptroller

Follow us on Twitter [@nyscomptroller](https://twitter.com/nyscomptroller)