

Dryden Central School District

Cash Management

AUGUST 2020



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

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Report Highlights

Dryden Central School District

Audit Objective

To determine whether District officials maximized interest earnings.

Key Findings

District officials did not follow their investment policy. As a result, officials did not maximize interest earnings for the District.

- Officials did not develop and manage a comprehensive investment program.
- Officials did not seek competitive interest rates.
- Officials earned interest totaling \$246,431 during the audit period. However, they could have earned an additional \$614,606 if they used other available investment options.

Key Recommendations

- Develop and manage a comprehensive investment program.
- Prepare monthly cash flow forecasts to estimate available funds for investment.
- Solicit interest rate quotes and obtain investment information to ensure available funds are invested, within legal limits, to maximize interest earnings.

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

Subsequent Event

Our audit fieldwork was completed prior to the COVID-19 pandemic (pandemic). Our audit work does not factor in the pandemic's financial effects.

Background

The Dryden Central School District (District) is located in Tompkins County. The nine-member elected Board of Education (Board) is responsible for the general management and control of financial and educational affairs.

The District Superintendent serves as the chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

The District has funds on deposit at two local financial institutions. The Business Manager is responsible for maximizing interest and monitoring bank accounts with the Treasurer transferring funds between accounts as needed. Bank accounts are maintained for operating funds, trust and agency, property tax collection, scholarships and extra-classroom activities.

Quick Facts

2019-20 Appropriations	\$41 million
Enrollment	1,600
Interest Earned During the Audit Period	\$246,431

Audit Period

July 1, 2018 – January 31, 2020

Cash Management

How Should Officials Maximize Interest Earnings?

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 Law¹ (GML), preparing monthly cash flow forecasts to estimate available funds 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 Maximize Interest Earnings

Officials did not develop and manage a comprehensive investment program to ensure that interest earnings were maximized. The Board revised its investment policy in May 2015 and has annually reviewed and readopted the policy, as required by GML and the policy. However, officials did not prepare predictive cash flow forecasts to estimate available funds for investment and they only solicited competitive interest rates once during the audit period.

The District maintained accounts at two local financial institutions. At the end of each fiscal year, the Treasurer transferred funds into the District's highest interest bearing account. During the audit period, officials only contacted their two financial institutions during the 2018-19 fiscal year for certificate of deposit (CD) rates.

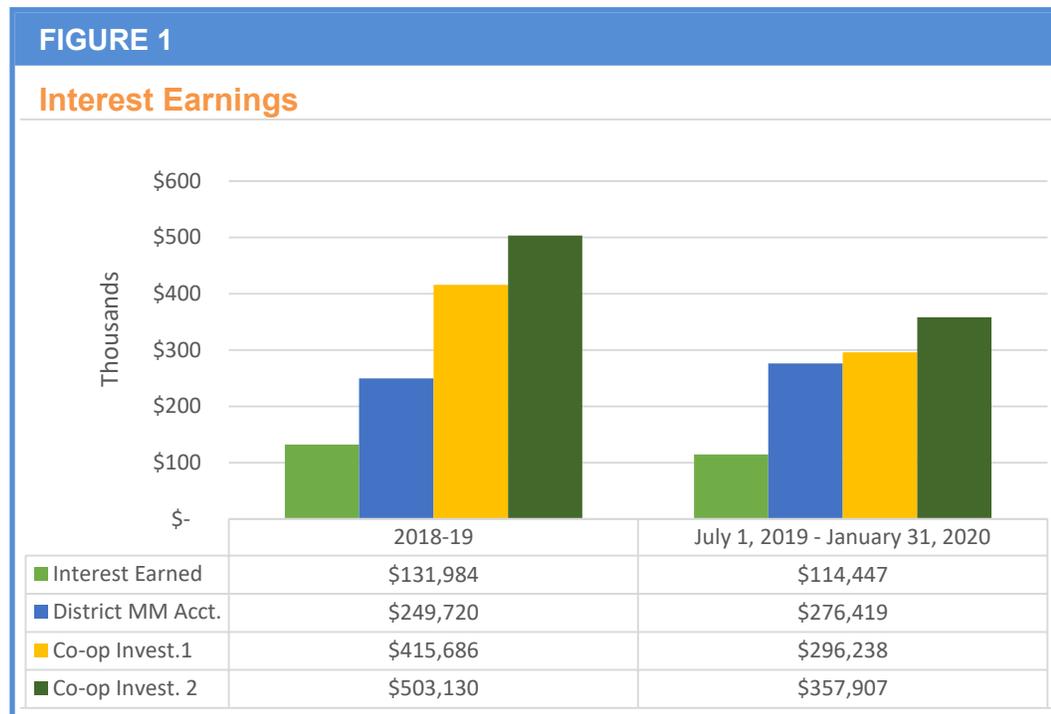
During the audit period, operating funds were deposited in checking accounts, savings accounts and money market (MM) accounts with rates ranging from zero to 1.50 percent. The District also maintains three CD accounts with interest rates ranging from 0.15 to 0.65 percent. The CD accounts renewed at their maturity dates and were reinvested at the going market rate, which did not change during the audit period. While during the audit scope period the District realized interest earnings totaling \$246,431 from all of its accounts, officials could have earned substantially more money for the District's taxpayers if more prudent investment decisions were made.

Officials had a monthly average of approximately \$27 million to invest. This money could have been invested in an alternative financial institution that offered higher interest rates than the District earned with its financial institutions. The alternate financial institutions' interest rates ranged from 1.49 percent to 2.37 percent for an average interest rate of 2.02 percent.

¹ General Municipal Law, section 39

We compared three different investment options that were available to the District. We found if officials followed their policy, they could have earned \$614,606 more than the \$246,431 that the District actually earned. Investing funds in any of the three available investment options would have resulted in increased interest earnings during our audit period as shown below.²

Because officials did not develop and manage a comprehensive investment program, the District did not realize significant potential revenues totaling up to \$614,606.



A significant portion of the potential interest earnings would have been from money available for investment in the debt service fund.³ While the District earned \$9,800 in 2018-19 fiscal year, had the debt service funds been invested in the highest interest earning option, the District could have earned about \$121,200. This additional interest amount is approximately 46 percent of the District's 2018-19 fiscal year debt interest payments.

Because officials did not develop and manage a comprehensive investment program, the District did not realize significant potential revenues totaling up to \$614,606.

Our fieldwork was completed in the beginning of March, prior to the start of the pandemic. Given the negative financial effect of the pandemic, it is even more important that District officials seek out competitive rates for investments.

² See Appendix A for a month-by-month comparison of actual interest versus potential interest for 2018-19 and July 1, 2019 through January 31, 2020.

³ Any interest earned on funds from debt service can only be used to pay principal and interest on outstanding debt.

What Do We Recommend?

District officials should:

1. Develop and manage a comprehensive investment program.
2. Prepare monthly cash flow forecasts to estimate available funds for investment.
3. Solicit interest rate quotes and obtain investment information to ensure available funds are invested, within legal limits, to maximize interest earnings.

Appendix A: Month by Month Interest Comparisons

FIGURE 2

Actual Interest Earned vs Potential Interest

2018-19 Fiscal Year

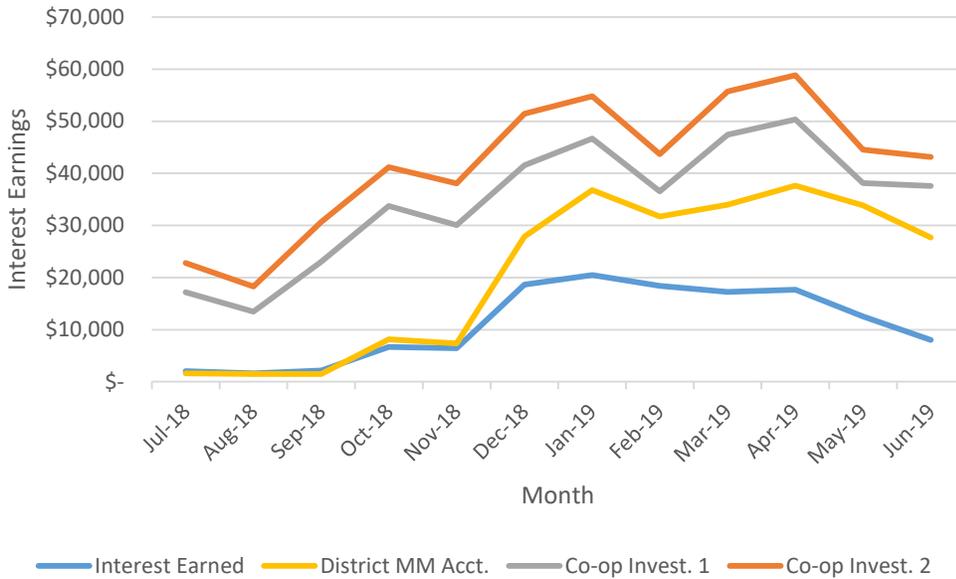
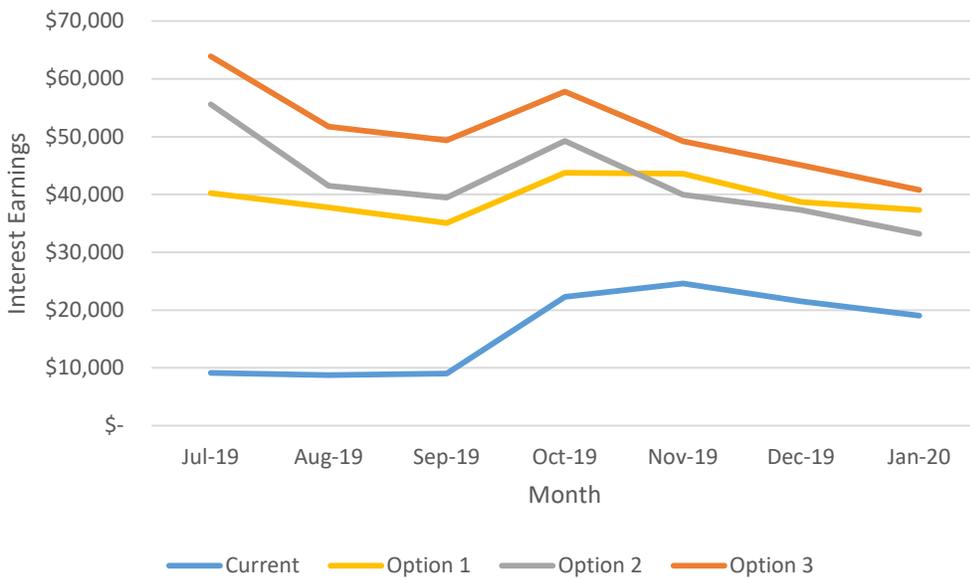


FIGURE 3

Actual Interest Earned vs Potential Interest

July 1, 2019 - January 31, 2020



Appendix B: Response From District Officials



DRYDEN CENTRAL SCHOOL DISTRICT

July 15, 2020

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

Subject: Response to Preliminary Draft Audit Findings

Dear Ms. Singer,

This letter is the Dryden Central School District's response to the draft audit report in regard to cash management covering the period of July 1, 2018 – January 31, 2020. I am pleased to say that the audit was a fair examination of the District's cash management system. The District's Administration and Board of Education believes in continuous improvement of our operations in order for us to become more efficient and serve our students, staff, and community members to the best of our ability.

Recommendation 1: Develop and manage a comprehensive investment program.

District Response: The School District agrees with this audit finding and recognizes the importance of an investment program. I would like to point out that the business office did adhere to three of the four objectives listed in the Board of Education policy (5220) in regard to district investments. We felt that safeguarding the funds of the School District was most significant given the economic environment and our current Capital Improvement Project.

Recommendation 2: Prepare monthly cash flow forecasts to estimate available funds for investment.

District Response: The School District agrees with this audit finding and recognizes the need for a more structured cash flow forecast process.

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Recommendation 3: Solicit interest rate quotes and obtain investment information to ensure available funds are invested, within legal limits, to maximize interest earnings.

District Response: The School District agrees with this audit finding and recognizes the need to appropriately solicit information from financial institutions. It will be important for the Board of Education to review and make necessary adjustments to the Board of Education policy in regard to district investments (5220). It will be our responsibility to work with the Board of Education to review the District's options on maximizing earnings from investments.

The State Comptroller's Audit has given the School District an opportunity to review our cash management system and has provided us with recommendations for improving the financial operation of the District. We are in the process of taking the necessary steps to develop our Corrective Action Plan (CAP) that will adequately address the auditors' recommendations.

This process was a good learning experience for our Administration and Board of Education. The District appreciates the informative and comprehensive report regarding the financial operations of the Dryden Central School District.

Sincerely,

Joshua I. Bacigalupi
Superintendent of Schools

cc:
Jennifer Case, Business Manager
DCSD Board of Education

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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 procedures 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, and the preparation of cash flow forecasts and soliciting of interest rate quotes from financial institutions.
- We discussed with District officials the District's requirements for liquidity, and availability of funds in each account for investment.
- We reviewed all 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 interest earnings that could have been realized by District officials had they invested the available funds in interest bearing accounts of two other financial institutions, or maximized the value of an existing account. Two financial institutions were cooperative municipal investment funds, one of which was currently used by the District. We selected the two cooperative municipal investment funds because they did not require minimum investment amounts, allowed for funds to be withdrawn at any time without penalties or fees and the daily interest rates were publicly available. We selected one of the District's current financial institutions that had the account with the District's highest interest rate. We compared our calculated amount of interest earnings that could have been realized to the interest earnings actually realized by the District for each of the three financial institutions.

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 2116-1(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 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
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110 State Street, 12th Floor, Albany, New York 12236

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

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

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