



# Hammondsport Central School District

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## Investment Program

2024M-63 | August 2024

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# Report Highlights

## Hammondsport Central School District

### Audit Objective

Determine whether Hammondsport Central School District (District) officials developed and managed a comprehensive investment program.

### Key Findings

The Board of Education (Board) and District officials did not develop and manage a comprehensive investment program. From July 1, 2022 through February 29, 2024, the District earned \$321,316 from its 37 interest bearing bank accounts and 27 certificates of deposits (CDs). Had officials considered alternative legally permissible investment options, the District may have earned \$738,137, or \$416,821 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.
- Formally solicit interest rate quotes.
- Annually review and re-adopt the investment policy as required by New York State General Municipal Law (GML) Section 39.

### Key Recommendations

The audit report includes four recommendations to help improve the District's investment program.

Except as noted in Appendix A, District officials generally agreed with our recommendations. Appendix B includes our comments on the District's response.

### Audit Period

July 1, 2022 – May 15, 2024

### Background

The District is located in the Towns of Bath, Pulteney, Urbana, Wayne and Wheeler in Steuben County and the Town of Tyrone in Schuyler County and is governed by the five-member Board. The Board is responsible for the oversight of the District's Educational and financial affairs.

The Superintendent is the chief executive officer, and along with other administrative staff, is responsible for the District's day-to-day operations, and for preparing the annual budget.

The District Treasurer (Treasurer) is responsible for overseeing the financial affairs of the District, including investing District funds, banking, purchasing, payroll and preparing various financial reports.

#### Quick Facts

2022-23 Appropriations	\$15.5 million
Deposit and Investment Earnings	\$321,316
Total Average Available Funds for Investing	\$5.4 million
Total Invested in CDs	\$15.6 million

# Investment Program

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## What is a Comprehensive Investment Program?

A school district board and officials should develop and manage a comprehensive investment program.<sup>1</sup> 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,

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<sup>1</sup> OSC has a publication to assist officials in prudent cash management and investment practices entitled *Local Government Management Guide: Investing and Protecting Public Funds* available on our website at <https://www.osc.state.ny.us/files/local-government/publications/pdf/investing-and-protecting-public-funds.pdf>

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- Standards for diversification of investments,
  - 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**

We determined that the District's investments were legal, safe and generally liquid. However, the Board and District officials did not develop a comprehensive investment program or adopt written investment procedures to provide the Treasurer with more direct instructions. The Board adopted an investment policy; however, the Board and District officials did not annually review the policy as required.

From July 1, 2022 through February 29, 2024, District officials maintained 39 bank accounts for District operating, scholarship and reserve funds and invested in 27 CDs. Thirty-seven of the 39 bank accounts were interest bearing, with annual percentage yields between 0.01 percent and 0.86 percent depending on the balance of each account. The 27 CDs had interest rates ranging from 2.75 percent to 5.25 percent. The District realized investment earnings totaling \$321,316 over this period.

Had District officials invested the \$5.4 million of average minimally available funds in deposit accounts in alternate investment options, they could have realized at least an additional \$356,668 in investment earnings. Furthermore, had District officials invested the \$15.6 million in CDs into the same alternate option, the District would have realized an additional \$60,153 investment earnings.

Overall, the District could have more than doubled its investment earnings and received at least an additional \$416,821 (Figure 1), which could have supplemented the District's revenue and reduced the need to increase real property taxes.

The Treasurer stated they do not maintain a comprehensive investment program. The Treasurer and Superintendent ensure CD rates are higher than the current interest-bearing checking accounts that they maintain, review the reserve plan to ensure they are not locking up funds to meet future obligations and ensure that any invested reserves that they may need to touch remain fully liquid. While the Treasurer does maintain a cash flow statement, it is comprised of historical data and does not forecast available cash flow for investment purposes. Instead, she relies on her understanding and knowledge of what funds are available to invest.

Because the Board and 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 District officials should invest, officials missed an opportunity for the District to realize additional revenues which would benefit District operations and potentially reduce 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.



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The Treasurer should:

3. Include cash flow forecasts in the cash flow statements.

The Board should:

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

# Appendix A: Response From District Officials

## HAMMONDSPORT

Central School District

8272 Main Street Hammondsport, New York 14840

Kyle C. Bower, Superintendent

Tad R. Rounds, Secondary Principal

Laine Gillette, Elementary Principal

Kelley Meade, Dir. of Curriculum/ Dir. of Spec. Ed.

Phone: 607.569.5200

Fax: 607.569.5212

August 15, 2024

Stephanie Howes, Chief Municipal Audits  
Office of the State Comptroller  
Rochester Regional Office  
The Powers Building  
16 W Main Street, Suite 522  
Rochester, NY 14614-1608

Dear Mrs. Howes,

This letter is in response to the Draft Report of Examination: Multiyear Planning for the audited period of July 1, 2020-April 22, 2024 and Investment Program for the audit period of July 1, 2022 – May 15, 2024. We had our exit interview on August 2, 2024.

The following will be serving as the response letter to address both examination topics.

See  
Note 1  
Page 9

### Examination One- Multiyear Planning

1. **Develop and adopt written multiyear financial and capital plans for a three- to five-year period that include specific estimates for revenues and expenditures based on actual historical trends, reasonable reserve and fund balances and long-term capital needs based on accurate capital asset inventories and replacement schedules.**
  - a. Although the District does regularly review past and projected trend data to estimate multi-year expenditures and revenues, due to the volatility and unpredictability of state aid, the District does not have a three to five year written financial and capital plan. The district will pursue available resources to develop a multiyear financial and capital plan for reserve, fund balance and long-term capital asset inventories and replacement schedules.
2. **Develop and adopt budgets that include realistic appropriation estimates, and which appropriate a reasonable and necessary amount of fund balance.**
  - a. The District strategically builds its budget based upon review of actual historical expenditures and trends, projected expenditures such as salaries, benefits, replacement or repair to equipment or infrastructure as prioritized and openly discusses this with our Board of Education during the budget development cycle.

See  
Note 2  
Page 9

See  
Note 3  
Page 9

### BOARD OF EDUCATION

Kevin Bennett, *President*

Corey Kennedy

Lynda Lowin

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William Goodrich



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**3. Ensure the District complies with statute and use any surplus fund balance in excess of the statutory limit as a financing source for funding one-time expenditures, needed reserves, paying down any debt and reducing real property taxes.**

- a. The District Office strategizes, in conjunction with the Board of Education, purposeful fund balance development above the statutory 4% for several purposes: one- time expenditures, funding reserves to provide for planned future expenditures and maintain operations/program in an environment wherein state aid funding is often volatile, inconsistent or known too late in the statutory budget process.

See  
Note 4  
Page 9

**4. Adopt a written reserve fund plan that addresses the accumulation, use and maintenance of reserve funds and analyze existing reserve levels. If necessary, make statutorily allowed transfers between reserve funds to best align funds with long-term needs and/or use the funds to reduce the tax levy in accordance with applicable statutes.**

- a. The District currently has a written reserve plan that addresses accumulation, use and maintenance of reserve funds and tracks reserve levels. The District does not however include the interest earned on each reserve in the reserve plan on a monthly basis. The District does present the total amount of each reserve fund to the Board of Education each month through the Treasurer's report which does include accumulated interest.

See  
Note 5  
Page 9

## Examination Two: Investment Program

### 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.**

- a. The District does have an investment policy in place, but as the comptroller report mentions, does not have a formal written program in place. The District will work to develop a comprehensive investment program that will detail investment options, cash flow, and duration of investments and share with the Board regularly.

**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.**

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- a. Due to Business Office capacity, we have not been able to monitor investments to the level the comptroller would like to see for public entities. The District believes that it does due diligence when investing by seeking the largest rate of return from competitive banks and negotiating those rates and liquidity in short and long term CD's with a bank in our local community. Although the District is still concerned about the logistical management of daily monitoring and movement of funds due to human capacity in the office, the Board of Education has approved an investment vehicle with [REDACTED] for purposes of investing its tax revenue. The Business Office will work with our local BOCES for assistance with wiring of funds from our local bank to [REDACTED] and back for operations, in an effort to capture the largest return. We will continue to work with our local banks, who have been willing to match the best interest rates, and lock up funds through higher rate CD's if we believe daily interest rates will decrease over the long term.

**The Treasurer should:**

**3. Include cash flow forecasts in the cash flow statements.**

- a. As reviewed, the Treasurer does a detailed yearly cash flow. We will work to expand this process to include multi-year forecasting of revenue and expenditures to the extent that information is reliably known.

**The Board should:**

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

- a. The Board does review and adopt the investment policy at the yearly re-organization meeting and will continue to do so as required.

See  
Note 6  
Page 9

We appreciate your recommendations and will work towards them accordingly. If there are any questions or concerns with this response, please contact me at (607)569-5200 ext 5240.

Sincerely, ^

Kylé C. Bower  
Superintendent of Schools

**BOARD OF EDUCATION**

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Corey Kennedy

Lynda Lowin

Carre Doyle, *Vice President*  
William Goodrich

# Appendix B – OSC Comments on the District’s Response

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## Note 1

Officials provided a singular response for two audit reports (2024M-54 - Multiyear Planning and 2024M-63 - Investment Program).

## Note 2

The District’s projected State aid in the State’s enacted budget has consistently increased since 2020-21.

## Note 3

District officials did not use actual expenditures to estimate appropriations or include provisions to fund reserves. By overestimating appropriations, the District realized operating surpluses totaling \$3.3 million from 2020-21 through 2022-23, instead of planned operating deficits.

## Note 4

Regardless of District officials’ rationale, Real Property Tax Law Section 1318 limits the amount of surplus fund balance the District can retain to no more than 4 percent of the budget.

## Note 5

The District’s reserve policy (Board Policy 5511 Reserve Funds) states that the District will prepare and submit an annual report of all reserve funds to the Board, which must include the interest earned by the reserve funds.

## Note 6

While the Board adopted the District’s investment policy at the July 10, 2024 re-organizational meeting, the Board’s last documented review of the policy was December 19, 2018.

## Appendix C: Audit Methodology and Standards

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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 Board's investment policy and District's 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 financial policies, the preparation of cash flow forecasts and solicitation of interest rate quotes from financial institutions.
- We reviewed monthly bank statements for all operating funds, scholarship funds and reserves from July 1, 2022 through February 29, 2024, and analyzed the available cash balances to determine the funds available for investment each month by determining the lowest available balance each month.
- We reviewed all investments from July 1, 2022 through February 29, 2024 to determine whether they were legally authorized and sufficiently liquid.
- We reviewed bank deposits and investments to determine whether District officials safeguarded District funds by comparing February 29, 2024 CD and bank balances against pledged collateral agreements.
- We compared the District's earned interest rates on CDs and annual percentage yields on bank accounts to the historical interest rates of alternative investments options to determine whether District officials could have achieved higher interest earnings.
- We used our professional judgment to select an alternative investment option that does not require minimum investment amounts, allowed funds to be withdrawn at any time without penalties and fees, made its daily interest rates publicly available, and is an eligible investment option per Board policy and GML requirements. We then calculated the potential investment earnings from July 1, 2022 through February 29, 2024 had District officials invested available funds in the alternative option.
- We compared our calculated potential monthly investment earnings with the investment earnings the District realized, and evaluated any impact on taxpayers due to the missed opportunity for higher investment earnings.

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.

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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 D: Resources and Services

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### **Regional Office Directory**

[www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.osc.ny.gov/local-government/academy)

## Contact

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**ROCHESTER REGIONAL OFFICE** – Stephanie Howes, Chief of Municipal Audits

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