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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

November 1, 1996

Mr. Carl T. Hayden  
Chancellor  
The University of the State of New York  
Education Building  
Albany, NY 12234

Re: Report 96-F-6

Dear Mr. Hayden:

Under the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law, we reviewed the actions taken by officials of the State Education Department (Department) as of August 8, 1996 to implement the recommendations contained in our prior audit report 94-S-35. Our prior report, which was issued October 11, 1994, examined the Department's oversight of school districts' cash management and investment programs.

**Background**

The Department is responsible for overseeing the operations of the State's 718 local school districts. Specifically, Section 101 of the State Education Law charges the Department with the general management and supervision of all public schools and all of the educational work of the State. Section 305 of this Law empowers the Commissioner of Education with general supervision over all schools and institutions that are subject to any statute relating to education. According to Section 305 and 308, the Commissioner shall enforce all general and special laws relating to the educational system of the State. Section 305 also states that the Commissioner shall cause the schools to be examined and inspected, and shall advise and guide district officials in relation to their duties and the general management of the schools under their control.

Section 11 of the General Municipal Law and sections of the State Education Law authorize school districts to invest idle cash balances. Furthermore, to help ensure that school districts effectively manage cash and investments, Section 39 of the General Municipal Law requires districts to establish formal cash management policies and procedures.

Property taxes and State aid are the two primary sources of revenue for school districts. In addition, a well-managed investment program can generate additional income for school districts to help

offset operating costs. Districts statewide collected about \$24.5 billion in revenues during the 1995-96 school fiscal year. About \$12.5 billion of the total revenues were generated from real property taxes. About \$154.0 million of the total revenues were generated from interest earned from districts' bank account balances and investments.

### **Summary Conclusions**

In our prior audit, we determined that the Department needs to strengthen its oversight of districts' cash management and investment practices. We also identified opportunities for significant procedural improvements in the investment programs of some districts we visited and surveyed.

In our follow-up review, we found that Department officials have made some progress in implementing our prior audit recommendations. In general, those recommendations requiring site visits to school districts have not been implemented because Department officials believe they do not have sufficient staff. Most recommendations requiring the Department to disseminate information to improve school districts' cash management and investment programs have been implemented. Also, Department officials have established a Facilities Planning/Management Services web site that will help them in providing information to school districts.

While the Department has had a reduction in staff, we believe the issues identified in our audit report are significant. The Department must identify alternative means to address these issues. Possible alternatives could include using risk assessments to decide if certain Department resources might be better used elsewhere, or using technological advances to maximize the existing staff's oversight efforts.

### **Summary of Status of Implementation**

Department officials have fully implemented four, have partially implemented one, and have not implemented three of our eight prior audit recommendations.

### **Follow-up Observations**

#### **Recommendation 1**

*Formally advise school districts to review and follow the policies and procedures regarding cash management and investments, as prescribed by the General Municipal Law and the Comptroller's Guidelines. Emphasis should be placed on those elements of cash management addressed by recommendations #4 through #8 which are presented in subsequent sections of this report.*

Status - Partially Implemented

Agency Action - Department officials have published several articles in the publication School Executive's Bulletin regarding cash management and investments. The articles refer to the General Municipal Law and the Comptroller's Guidelines. The articles cover issues addressed in Recommendations 4,5,6,& 8. However, the issue of soliciting competition for banking services and investment purchases (Recommendation 7) were not conveyed to school districts.

Therefore, this recommendation has been partially implemented.

**Recommendation 2**

*Identify and collect the information needed to effectively monitor school districts' cash management practices.*

**Recommendation 3**

*Initiate management reviews based on formal analysis of data pertaining to individual district's cash management activities and performance, in addition to requests from specific districts.*

Status - Not Implemented

Agency Action - Department officials agreed with both these recommendations. But, they stated that they do not have enough staff to identify and collect the information needed to monitor school districts' cash management practices, or conduct management reviews based on this information.

Auditors' Comments - Using technological advances the Department should be able to identify and collect the information needed to monitor school districts cash management practices. This would also help the Department in selecting districts requiring management reviews, and reduce the time spent conducting reviews.

**Recommendation 4**

*Ensure school districts develop formal investment policies and procedures which comply fully with the General Municipal Law.*

Status - Fully Implemented

Agency Action - Department officials have revised the reference manual used by CPA firms in their annual financial audits of school districts. The revised manual now calls for a review of the districts' investment policies and procedures.

**Recommendation 5**

*Advise and encourage school districts to:*

- . prepare cash flow forecasts and use them to determine the amount of idle cash that can be invested;*
- . periodically update the forecasts as the fiscal year progresses;*
- . invest idle cash balances in eligible instruments that offer the most favorable yields, considering appropriate risk; and*

. *consolidate bank accounts to the extent possible.*

Status - Fully Implemented

Agency Action - The revised reference manual for the annual audits of school districts includes the issues addressed in this recommendation. Also, Department officials have published articles in the School Executive's Bulletin about this recommendation. Officials also noted that investment and cash management information will be available to districts via the Facilities Planning/Management Services web site.

### **Recommendation 6**

*Advise and encourage the districts to compare the interest rates available for time deposit accounts, CDs, investment pools, and other eligible investment options, and to invest idle cash balances in investment alternatives which offer the most favorable rates of return, considering appropriate risk.*

Status - Fully Implemented

Agency Action - As with the previous recommendation, Department officials have published articles in the School Executive's Bulletin providing investment and cash management advice. In addition, information regarding investments and cash management will be available via the Facilities Planning/Management Services web site.

### **Recommendation 7**

*Advise and encourage school districts to:*

. *Solicit competition for banking services. Specifically, this should include issuing requests for proposals, obtaining competition from several banks (including banks outside the immediate area of the district, if appropriate), and performing a cost-benefit analysis to determine which bank is providing the best offer; and*

. *Solicit sufficient competition for investment purchases. Again, consider rates available from banks outside of the district, when appropriate.*

Status - Not Implemented

Agency Action - Department officials had planned to encourage districts to solicit competition for banking services and investment purchases by publishing articles in various periodicals, and including it as a topic in various school district workshops. However, officials could provide no documentation that this has been done.

Agency Comment - Department officials noted that they will be holding regional workshops for school districts this spring, and stated that the issues discussed in this recommendation will be covered at those workshops.

**Recommendation 8**

*To ensure that collateral is sufficient, advise the districts to develop and implement formal procedures for monitoring the amount of collateral pledged to secure districts' account balances. Furthermore, collateral monitoring activities should be documented.*

Status - Fully Implemented

Agency Action - Like previous recommendations, Department officials have published articles in the School Executive's Bulletin dealing with districts having the proper amount of collateral. Also, the reference manual for audits now requires CPA firms to ensure districts have sufficient collateral for demand and time deposits, and certificates of deposit not covered by Federal Deposit Insurance.

Major contributors to this report were Carmen Maldonado, Frank Russo, Brian Reilly, and Robert Backus.

We would appreciate your response to this report within 30 days, indicating any action planned or taken to address any unresolved matters discussed in this report. We also thank the management and staff of the Department for the courtesies and cooperation extended to our auditors during this review.

Yours truly,

David R. Hancox  
Director of State Audits

cc: Patricia Woodworth