



# **ULSTER COUNTY INVESTMENT POLICY AUDIT**

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**Office of the  
Ulster County Comptroller  
March S. Gallagher**





# ULSTER COUNTY OFFICE OF THE COMPTROLLER

## ULSTER COUNTY INVESTMENT POLICY AUDIT

comptroller.ulstercountyny.gov

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### OBJECTIVES

- Determine if Ulster County complied with its Investment Policy during the audit period.
- Determine if the County's current investment strategy maximized cash investment opportunities during the audit period.

### Executive Summary

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#### Why this audit is important

Ulster County regularly maintains in excess of \$100 million in cash reserves at local banking institutions that could be invested to maximize the potential for earnings. An adequate internal investment policy should seek to follow state and local guidelines that dictate what qualifies as an allowable investment as well as optimize the yields on cash investments while maintaining sufficient liquidity to support government operations.

#### What we found

Our audit revealed noncompliance with several sections of Ulster County's investment policy. Specifically, written procedures for administering the County's investments, which are required by the investment policy, are lacking. Additionally, annual investment reports, as well as the required depository listing that details institutions the County may utilize for its cash investments, were not submitted to the Executive and approved. We further noted there is no formal review of the County's investment strategy on a regular basis, including the consideration of cash flows, cash available for investment, possible investment opportunities available, and present interest rates. The County did not analyze alternative investment opportunities, resulting in potential foregone interest revenues over \$650k during the audit period, and the County was not diversified in its investments.

#### What we recommend

We recommend the Commissioner of Finance establish written procedures to ensure that the County complies with the reporting and documentation requirements included in the current investment policy. The procedure should establish formal documentation of the receipt of depository listings and Executive approval, as well as formal documentation of the submission, receipt, and review of the annual investment report. The procedures should also include a monthly analysis of investment rates and a cash flow analysis to determine expected cash floor and cash cushions desired for daily activities to ensure that excess cash is generating optimal interest revenues. The County should also consider the current interest rates of callable debt in comparison to the amount of interest being earned on cash balances.

### Findings & Recommendations

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#### Finding 1: Interest revenues were not optimized

**Condition:** The Commissioner of Finance did not analyze cash investment opportunities to yield optimal interest revenues during the audit period. The County could have joined an intermunicipal agreement with the NYCLASS local government investment pool and obtained higher interest rates during the period of January 2019 through March 2020. This would have allowed the County an additional investment option with no minimum requirements and the ability to deposit and withdraw without penalty.

**Effect:** The County forewent additional interest revenues during the audit period. We determined had the County invested a percentage of the monthly cash floor into the investment pool, additional revenues would have been received. A cash flow analysis should be used to project the monthly cash floor balance and determine a cash cushion percentage desired for each month.

The projection of the monthly cash floor should be based on historical trends, expected activities, and current cash balances. The desired cash cushion percentage (which should also account for any cash that must be excluded from investment) multiplied by the expected cash floor determines the cash cushion amount. The original expected cash floor less the cash cushion amount indicates the amount of cash available for investment.

We calculated additional interest revenues from January 2019 through April 2020, using different cash cushion percentages. We had the benefit of knowing the cash floor amounts for each month, which allowed for easy calculation of cash cushion amounts. The cash floor amount less the cushion amount determined the amount available to invest for the month. We calculated interest revenues based on the amount available to invest and the interest rates of the investment for the month. We then added the projected interest revenue of the amount that would have remained in checking. This total calculated interest was then compared to the actual interest received by the County. We calculated the additional interest revenues using historical cash balances and interest rates along with three different sample cushion percentages:

Potential Investment Revenue				
	0% Cash Cushion	5% Cash Cushion	7.5% Cash Cushion	10% Cash Cushion
Average Monthly Cash Cushion Amount	\$ -	\$ 4,420,442	\$ 6,630,663	\$ 8,840,884
Projected Interest Revenue	\$ 2,506,509	\$ 2,471,457	\$ 2,453,931	\$ 2,436,405
Actual Interest Revenue	\$ 1,777,943	\$ 1,777,943	\$ 1,777,943	\$ 1,777,943
Calculated Additional Interest Revenue	\$ 728,566	\$ 693,514	\$ 675,988	\$ 658,462

The NYCLASS improvements in revenue only go through April 2020 because in March 2020 the interest rates obtained via checking accounts surpassed the rates in the NYCLASS investment pool. We expect the monthly cash flow analysis would have indicated this and the County would have withdrawn investment funds and deposited back in checking accounts due to the change in interest rates. This analysis builds in a month for re-allocation.

**Cause:** Lack of a process to determine highest potential interest rates and a cash flow analysis to determine the liquidity required for daily operations resulted in lost revenues. Had the Commissioner of Finance researched all potential investment options on a regular basis, the research may have found the NYCLASS investment opportunity and recommended the Legislature approve joining the intermunicipal agreement by majority vote.

**Criteria:** Maximizing revenues while adhering to the investment policy is best practice when it comes to cash optimization. Recommendations to optimize investment interest without affecting overall liquidity should be included as a part of the annual investment report.

**Recommendation 1:** Written procedures should be established to include a monthly analysis (or daily analysis during market turmoil) of investment rates, as well as a cash flow analysis to determine minimums needed for daily activities to ensure that excess cash is generating optimal interest revenues. Should the Department of Finance not have the ability to conduct this analysis due to time constraints or lack of staff, the County should investigate internal staffing allocations or utilizing a third-party vendor to maximize cash as an investment tool.

**Recommendation 2:** The investment report should highlight available investment opportunities, provide a comparison of interest rates, and guide the Legislature to the steps required to be eligible to achieve optimal rates. As rates of return can be variable based on a variety of factors, the County should be evaluating opportunities on an on-going basis to be responsive to changing market conditions. Currently, the NYCLASS investment rates are below the average rates achieved monthly by the County; however, an ongoing analysis should be conducted to investigate all investment opportunities, especially as interest rates are anticipated to rise during 2022 and beyond.

**Finding 2: Adoption of written procedures and timely oversight could increase revenues and improve diversification**

**Condition:** Based on the County's Investment Policy, the **Commissioner of Finance did not comply with required annual reporting**, including the provision of a listing of current depositories, trading partners, and custodians to the County Executive for approval. The Commissioner of Finance did not provide record of submission of an annual investment report for fiscal year 2019 to the Executive or Legislature. The fiscal year 2020 annual investment report was not submitted to the Executive until November 2021, and there was no record provided to indicate the report was submitted to the Legislature. We did not request the reporting for fiscal year 2021, as it was not due at the time this report was completed.

**Effect:** The lack of an effective and thorough investment report may result in a **failure to maximize investment revenues**. Without an evaluation of the listings approved at least annually, the County may not be optimizing or diversifying investments. Diversification alleviates the risk of all investments being maintained at one institution, all investments being in one instrument, or all investments maturing at the same time. The County Executive and Legislature may be unaware of investment activity or the lack of investment activity. Both the Executive and Legislature may be unable to make certain financial decisions based on potential cash analysis if reporting is not submitted timely.

**Cause:** The Commissioner of Finance has not established written procedures regarding the administration of the investment policy or the submission of depository listings. There are no written procedures to ensure diversification of investments or to determine if all elements of the investment policy have been completed and submitted to the Legislature for approval and review. There is a lack of awareness that the annual investment report is required to be submitted to both the Legislature and the County Executive within 150 days after year end.

**Criteria:** Section III of the **Ulster County Investment Policy** states, "The Commissioner of Finance shall establish such written procedures for the operation of the investment program consistent with these investment guidelines." Section V states it is the policy of the County to diversify investments. Section XI of the County's investment policy states "The Ulster County Commissioner of Finance is responsible for evaluating the financial position and maintaining a listing of depositories, trading partners and custodians. Such listing shall be evaluated at least annually and approved by the County Executive." Section XIV of the Ulster County Investment Policy states, "Within 150 days of the end of the fiscal year the Commissioner of Finance shall prepare and submit to the County Executive and County Legislature, an annual investment report and any recommendations for changes in the investment policy."

**Recommendation 1:** We recommend the elements required by the investment policy be completed in a timely manner in accordance with the policy and documented with appropriate approvals from the Executive and Legislature.

**Recommendation 2:** We recommend the Commissioner of Finance establish written procedures in accordance with Section III of the investment policy to ensure that all the requirements of the policy are addressed. Those procedures should include a process for ensuring the depository and other required listings were received and approved by the County Executive. This will ensure the listing is completed and the proper approvals are achieved in accordance with section XI of the policy. We also recommend establishing a documentation process to indicate the annual investment report was submitted and received timely and reviewed by both the County Executive and Legislature to satisfy section XIV of the investment policy.

## Scope

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The scope of this audit included an audit period from January 1, 2019, through June 30, 2021, which was expanded to include fiscal year 2021 data as it became available. The analysis included a review of the County's investment policy and the required deliverables for the period, as well as the compilation of data related to the County's earnings on investments including average cash balances, monthly cash flow amounts, interest rates, and historical municipal rates. We requested all deliverables included in the policy from the Commissioner of Finance and evaluated the submissions for timeliness, completeness, and accuracy. The request included the following:

- Any written procedures established for the operation of the investment program as outlined in (Section III of the Investment Policy).
- Any written procedures to ensure diversification in investments by financial institution, investment instrument, and/or maturity schedule (Section V).
- Any communications to department heads and/or elected officials regarding the Investment Policy, specifically, Section VI which requires transfer of moneys collected by any officer or employee to the Commissioner of Finance in a timely manner.
- The current list of financial institutions and dealers approved for investment purposes and the limits to the amount of investment by source (Section XI).
- Copies of any Consolidated Report of Condition (Call Reports) requested or received by Ulster County during the audit period.
- Copies of all evaluations of financial position including the listing of depositories, trading partners and custodians that was provided to the County Executive for approval (outlined in Section XI of the Investment Policy).
- Copies of any custodial agreements for obligations held in the custody of a bank or trust company pursuant to General Municipal Law §10.
- Documentation of any competitive or negotiation processes regarding the purchase of Certificates of Deposit.
- Copies of the annual investment reports for fiscal years 2019 and 2020 as submitted to the County Executive and the County Legislature, along with any recommendations for changes in the investment policy.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

### Background

The investment options available to municipalities are somewhat restricted by state and local laws to reduce the risk of loss related to highly volatile investments, while still allowing municipalities housing large volumes of cash to put available cash balances "to work". The amount of investment risk allowed is low, and as a result the investment reward is similarly low. While municipalities are often limited to investing in low risk investments, because of the large volume of cash the County has available to invest, even small changes in rates of return can have a significant impact on the County's ability to maximize revenues with these funds.

Section 11 of General Municipal Law "GML" contains statutory provisions on the authority to invest and types of investments permitted. GML Section 39 requires governing boards to adopt a comprehensive investment policy that details the government's operative policy and instruction to officers and staff regarding the investing, monitoring and reporting of funds of the local government.

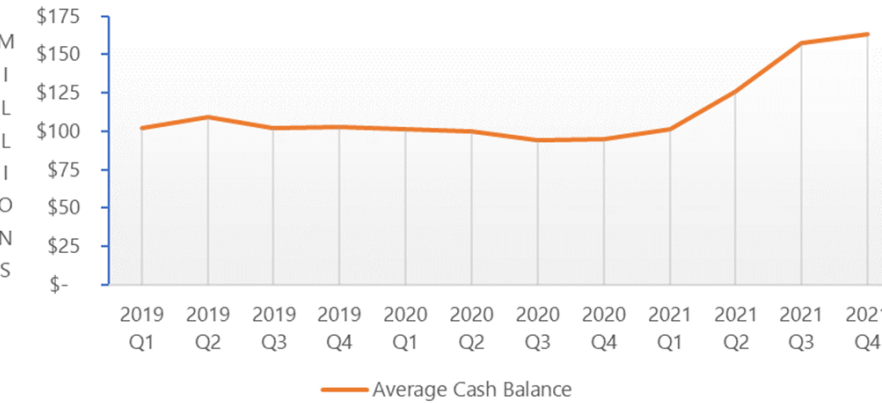
Ulster County adopted an investment policy pursuant to Section 39 of NYS GML and the NYS OSC Local Management Guide – Investing and Protecting Public Funds, with Resolution #35 of 2013. The County's investment policy is required to be updated annually with any potential enhancements noted from the annual investment report. The investment report details the interest earned for the year at each of the financial institutions that held County funds under Department of Finance control. The report shows cash balances for each financial institution and the associated interest rates, as well as an indication if there were other investments pursued during the year, and any recommendations for changes to the investment policy.

Recently, State laws were changed to temporarily allow New York City additional investing options through July 1, 2023. Subsequently, in July of 2021, New York State has a passed bill to expand the investment vehicles available to counties to match the investment options available to New York City.

Considering the expanded opportunities, anticipation of rising rates in 2022, and high cash balances, we expect the use of cash as a revenue generator to have amplified value in future years. Historically, the County has utilized interest-bearing checking and savings accounts as the main investment vehicle and has not diversified the use of cash. The County should explore other options that may yield higher rates of return and improve diversification.

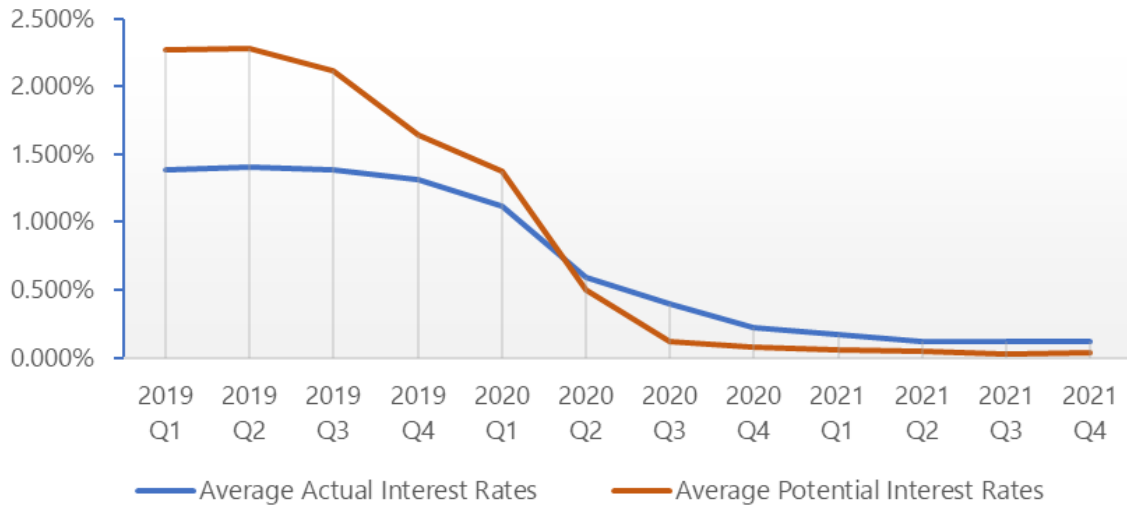
The County's average cash balance has increased from \$104.1 million for the fiscal year 2019 to \$136.8 million for the fiscal year 2021. The balance in the fourth quarter of 2021 was \$162.5 million. The County's cash balances have not fallen under \$100 million at any point in time since March of 2021. As of March 15, 2022, Ulster County had a cash balance in checking that exceeded \$192 million.

Average Cash Balance



Because the County did not analyze alternative investments available, the amount of revenues on available cash balances were not maximized in 2019 and the first quarter of 2020. We recognize a cash flow analysis would be needed to determine the percentage "cushion" over cash floor amounts to remain in checking accounts in case of any potential delays in withdrawing from the intergovernmental pooled investment. However, available interest rates in NYCLASS dropped below the rates obtained by the County. Had the Commissioner of Finance performed monthly interest rate analysis, revenues would have maximized through the first quarter of 2020 with the investments described above. Also, in April of 2020 when the bank's interest rates exceeded the rates of proposed investments, cash would have been moved back into the bank.

## Interest Rate Comparison



As the Federal Reserve increases rates, the optimal interest rates available to the County will likely exceed those achieved via checking accounts.

### Conclusion

Ulster County maintains a substantial amount of cash available for investment opportunities. Ulster County has not fully complied with investment policy annually. Ulster County has a comprehensive investment policy with many elements and required documentation. It is recommended that the Commissioner of Finance assist their staff by creating written procedures in accordance with the Ulster County Investment Policy so that staff may collect and review all required documents. Written procedures would also help mitigate our current findings that annual investment reports were not filed timely or at all, and depository listings were not maintained and/or approved by the Executive. Currently, there is no formal review process of trending interest rates or a cash flow analysis that determines the amount available for other investment opportunities or the potential benefit of paying off callable debt.

#### \*\*Management's Response

Management's response to our recommendations will be included at the end of our report. If there are factual errors or incorrect information, we will notate these items in the last paragraph of our report.

#### Comptroller's Response to Management Comment

The original period of the investment policy audit from January 2019 through June 2021 was chosen to span the pre-covid era which is more indicative of a normal economy and allow for the review of more than one year of required reporting. We elected to expand through the end of 2021 as the information was readily available. As of mid-March 2022, the rate yields through NYCLASS exceed those offered at Bank of Greene County. Lack of awareness that available rates currently exceed the interest-bearing checking rates emphasizes our recommendation that the County should be engaged in ongoing analysis of liquid vehicles that would allow the County to reallocate investments when rates change. Going forward the spread between interest-bearing checking and other liquid, safe, diverse investments will likely become much larger given interest rate trajectory and the amount of cash on hand. Finally, the analysis requested is not limited to NYCLASS, we suggest investigating diversification, as not only mandated by our current policy but is prudent investment strategy.

Additionally, The Bank of Greene County also has Certificate of Deposits ranging from six months to five years that would generate higher rates of return. These were not used in our analysis because the historical rates were not available at the time, however, staggering these types of investments should be considered while conducting the recommended ongoing cash analysis.

# ULSTER COUNTY DEPARTMENT OF FINANCE

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**Burton Gulnick Jr.**  
Commissioner of Finance



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Deputy Commissioner of Finance  
Director of Real Property

March 28, 2022

March Gallagher  
Ulster County Comptroller  
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Dear Ms. Gallagher,

Thank you for providing me the opportunity to respond to the report entitled "Ulster County Investment Policy Audit". As the Commissioner of Finance, I take my responsibility to ensure the fiscal condition of the County is maintained seriously. I appreciate the feedback on how we can continue to strengthen our financial position, while adhering to required laws, rules, and our policies, in addition to implementing best practices whenever possible.

During the review, your team identified some areas of improvement regarding further documentation of existing practice about compliance with the Investment Policy of Ulster County. The Department of Finance will begin to work toward the recommended action of creating written procedures to codify the existing process moving forward.

Further, your office identified an additional investment opportunity that has been characterized as a "missed financial opportunity" for the County. The specifically identified investment opportunity named in the report, in addition to other similar type vehicles are not permissible under the Investment Policy as it is currently written. While a change to the policy could be recommended, I have concerns about such a change.

While the report identifies significant additional interest income that could have been earned during a stated period, it also acknowledges that the time period used was selected because it strengthened the argument. Additionally, the report dismisses the fact that since April 2020, our current bank provides a higher rate of return than the specific investment vehicle identified.

Second, the County invests its money, consistent with the Investment Policy of Ulster County, in a local bank. This bank, as stated in the report, currently provides a higher rate of return than the named investment opportunity. By keeping our money locally and receiving better than market competitive rates, we further benefit our community. This local bank utilizes our money to invest in members of our community, by allowing the bank to make business loans, mortgages, car loans and make other investments in our area because our money is invested locally. If we were to pursue the specific investment opportunity mention in the report, it would take this money out of the community and make investments in other areas outside of our community and state.

Again, I would like to thank you and your team for the opportunity to respond and for your hard work in this review.

Sincerely,

Burton Gulnick, Jr.  
Commissioner of Finance