



Philip J. LaTessa
City Auditor

Investment Policy Review
For the City of Syracuse
Fiscal Year End June 30, 2010

City of Syracuse
Department of Audit
June 30, 2010

Introduction

This report represents the results of our examination of the City of Syracuse Investment Policy for the fiscal year ended June 30, 2010.

We conducted our examination in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Standards for the Professional Practice of Internal Auditing*, as circulated by the Institute of Internal Auditors. Those standards require that we plan and perform the examination to afford a reasonable basis for our conclusions regarding the organization, program, activity or function under examination. An examination includes assessing and analyzing compliance with applicable internal controls, policies and procedures, laws and regulations when necessary to satisfy the examination objectives. The management of the City of Syracuse, New York, is responsible for establishing, maintaining and complying with the internal control structure, policies and procedures, and compliance with applicable laws, regulations and contracts.

This report is intended solely for the information of the Mayor and the Common Council of the City of Syracuse, New York. However, this report is a matter of public record and its distribution is not limited.

We would like to thank all personnel who assisted and cooperated with us during the course of our examination.

Objective

Our examination included determining whether the Investment Policy of the City of Syracuse was written, reviewed, amended and adopted in final form in accordance with General Municipal Law (GML) Section 39 as set forth in guidance established by the Office of the New York State Comptroller (OSC).

Additionally, City Ordinance Number 104 of 1999, which amended City Ordinance Number 197 of 1994 relative to a cash management and Investment Policy for the City of Syracuse, requires the City Auditor to annually audit the investments of the City of Syracuse for compliance with the provisions of Investment Policy guidelines. The City Auditor performed the last audit of the Investment Policy for the period ending June 30, 2009.

Scope

Our examination entailed reading the Investment Policy, comparing it to the guidelines and interviewing individuals who have responsibility for maintenance of the policy.

Conclusion

The objectives of the Investment Policy of the City of Syracuse are to minimize risk and to ensure that investments mature when the cash is required to finance operations. We found that an Investment Policy had been adopted in 1994 and had remained in effect in the original form until a revised policy was adopted by the Common Council and approved by the Mayor on April 1, 1999.

The amended Investment Policy altered the margin of market value of purchase securities in repurchase agreements; the original Investment Policy stipulated a margin of 5% or higher of the market value. This margin was found to be excessive to the City and was reduced to 2% or higher under the amendment. The revised margin was determined to be sufficient to minimize financial risk and continue to meet the objectives of the Investment Policy to safeguard City funds.

In the City of Syracuse, the Common Council has approved an Investment Policy that places the responsibility for the annual review of the Investment Policy required by General Municipal Law on the Commissioner of Finance.

The City of Syracuse Investment Policy requires the Commissioner of Finance to “prepare and submit to the Common Council recommendations for changes, if any, in these Investment Guidelines” within 120 days of the end of the fiscal year. This reporting requirement has been included in the policy since it was adopted in 1994.

In September, 2006, the Commissioner of Finance requested the Common Council to enact legislation that would add to the alternatives available to the City in considering investment options. The revision of the Investment Policy of the City of Syracuse recommended by the Commissioner of Finance was incorporated into the Policy with the adoption of legislation by the Syracuse Common Council which amended the section titled “Collateralizing of Deposits”.

Ordinance Number 518 of 2006 amended the Investment Policy with language authorizing, in addition to a pledge of “specific eligible securities” as already provided, a pledge of a pro rata portion of a “pool of eligible securities”. This amendment of the City of Syracuse Investment Policy was enacted after the Office of the State Comptroller provided new model agreements that could serve as examples to local governments. On October 10, 2006, the Common Council approved Ordinance Number 518 which allows

for the utilization of New York State approved pooling method for collateralizing deposits and investments.

On November 20, 2006, the Common Council adopted Ordinance Number 590 of 2006; this action served as formal affirmation and adoption of the Investment Policy for the City of Syracuse, as last amended by Ordinance Number 518 of 2006.

Subsequently, the City of Syracuse Investment Policy has been annually reviewed by the Commissioner of Finance with no recommendations for changes until this year. The last communication made for approval of the policy without amendment was made on October 23, 2009 for the period ending June 30, 2009.

As part of his review of the policy for the period ending June 30, 2010, the Commissioner of Finance requested that the Common Council amend the City of Syracuse Investment Policy under the section titled "Collateralizing of Deposits". This section specifies the manner in which deposits in excess of the amount insured under the provisions of the Federal Deposit Insurance Act shall be secured. The recommendation was to include a new item D which read:

D. By an "irrevocable letter of credit" issued by a Federal Home Loan Bank with an aggregate value equal to 100% of the aggregate amount of deposits and the agreed upon interest, if any.

In the communication sent on October 12, 2010 to request legislation for inclusion of this method of collateralizing deposits, the Commissioner noted that New York General Municipal Law Article 2, Section 10 (3) (c) was amended in 2002 to allow a Home Loan Bank Letter of Credit to be accepted as collateral at 100% of a municipality's public deposits. Furthermore, in 2006, the Office of the New York State Comptroller released an opinion statement authoring the Home Loan Letter of Credit.

The intention of the newly sanctioned method for collateralizing deposits is to add an alternative way to secure municipal deposits in a safe and legal manner that is also operationally efficient for all parties while providing for prompt payout for the full dollar amount of the deposit in the unlikely case of a draw. Now, under New York State regulations, commercial banks that are approved to have branches in New York State Banking Development Districts are eligible to use a Federal Home Loan Bank Letter of Credit as collateral. The Commissioner of Finance believed that amending the City's Investment Policy in this manner will provide a dual benefit in making it easier for the institutions holding municipal deposits to provide adequate security while at the same time providing a type of collateral that holds an "AAA" credit rating thus giving greater protection to governmental entities that their deposits are secure.

On October 25, 2010, the Common Council approved Ordinance No. 531-2010 amending the City of Syracuse Cash management and Investment Policy as previously amended by Ordinances No. 104-1999 and Ordinance No 518-2006 to expand the alternatives available to the City of Syracuse for the collateralization of deposits.

In the communication issued by the Commissioner of Finance in 2009, he advised Councilors that he wanted to provide an understanding as to how the City safeguards its deposits and investments. To provide reassurances to the Common Councilors, the Commissioner reminded them that cash is deposited in checking accounts, time deposit accounts, certificates of deposit, and United States Treasury Bills, all being investment instruments that minimize risk. The City's deposits and investments are solely with banks authorized to do business in New York State.

General Municipal Law Section 39 requires that the Investment Policy be reviewed annually, and the OSC recommends that the Policy be readopted at the organizational meeting of each new legislative body. For Syracuse, this means would mean that the Investment Policy would be re-adopted, with or without changes, every two years.

In the case of the City of Syracuse's legislative body, the Common Council, the action taken at the October 25, 2010 meeting served as formal re-adoption of the policy in amended form. Ideally, to comply with the recommendations of the OSC, formal action should be taking place on a more consistent schedule; as no formal took place since November, 2006, until October, 2010, four years passed between Common Council actions.

The City Auditor continues to stress that it is in the City's taxpayer's best interest for elected officials to have a working knowledge of this important governmental activity that has been delegated by the Common Council to the Commissioner of Finance. The importance of being conversant with all the actions being taken to protect public funds in the City's custody is of the upmost importance, especially in these uncertain economic times.

Our Investment Policy examination, which included reviewing the most recent amendments of the Policy, determined that the Policy met the requirements of GML Section 39, as amended, as set forth in guidance established by the Office of the New York State Comptroller.

Auditor's Note:

The New York State Government Finance Officers' Association's (GFOA) best practice recommendation is that the governing body (Common Council for the City of Syracuse) re-adopt the entity's Investment Policy annually, and the Office of the City Auditor continues to support this practice and encourages the Common Council to consider formal annual re-adoption going forward.

The Office of the City Auditor has recommended and continues to recommend that the annual communication from the Commissioner of Finance to the Chairperson of the Common Council Finance Committee be used as the basis for scheduling a Finance Committee meeting. These meetings could be used as the vehicle for the Commissioner of Finance to familiarize each of the Common Councilors in attendance with the procedures, restrictions and practical considerations placed on the City during the investing of its cash assets. With the addition of individuals newly elected to the Council being a somewhat regular reoccurrence, annual briefings appear to be the most appropriate and expedient procedure to keep Common Councilors familiar with their fiduciary responsibilities.

Philip J. LaTessa
Syracuse City Auditor
City of Syracuse
December 7, 2010