



Philip J. LaTessa
City Auditor

Investment Policy Review
For the City of Syracuse
Fiscal Year End June 30, 2006

City of Syracuse
Department of Audit
June 30, 2006

Introduction

This report represents the results of our examination of the City of Syracuse Investment Policy for the fiscal year ended June 30, 2006.

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 #104 of 1999, which amended City Ordinance #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, 2005.

Conclusion

We found that an Investment Policy had been adopted in 1994 and had been in effect 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 Policy to safeguard City funds.

A further revision of the Investment Policy of the City of Syracuse was enacted in October, 2006, with the adoption of legislation by the Syracuse Common Council which amended the Policy under the section titled "Collateralizing of Deposits" 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". On October 10, 2006, the Common Council approved Ordinance #518-2006 which allows for the utilization of New York State approved pooling method for collateralizing deposits and investments.

This change to the City of Syracuse Investment Policy was recommended by the Commissioner of Finance after the Office of the State Comptroller provided new model agreements that could serve as examples to local governments. In submitting the request for legislation letter of September 22, 2006, to the Common Council, asking the Council to amend the existing Policy to include the new provision for pooled collateral, the Commissioner concluded that he had met his obligation to review the Investment Policy and submit to the Common Council a communication speaking to the status of the Policy, and/or the Commissioner's recommendations for recommended changes.

Our Investment Policy review, which included reviewing the most recent amendment 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; however, our review also concluded that the Common Council failed to comply with the recommendation of the State Comptroller that the Policy be readopted at the organizational meeting of the legislative body. The most recent organizational meeting of the Common Council took place on January 9, 2006.

Scope

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

Finding: Common Council Has Not Complied With General Municipal Law Requiring Regular Review And Readoption Of Investment Policy By Legislative Body

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. In the case of the City of Syracuse's legislative body, the Common Council, this would mean that the Investment Policy would be readopted, with or without changes, every two years. New York State Government Finance Officers' Association's best practices recommend that the governing body (Common Council for the City of Syracuse) readopt the Policy annually.

In the City of Syracuse, the Common Council has given the responsibility for annual review of the Investment Policy to the Commissioner of Finance. The Commissioner of Finance has reviewed the Investment Policy annually as directed. The current City of Syracuse Investment Policy also 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.

While performing the Investment Policy Audit for the last three fiscal years, we interviewed the Commissioner of Finance and for two of the past three years, the Chairperson of the Common Council's Finance Committee. We were informed that the Common Council had not discussed the responsibilities of the council nor any of the particular details of the Investment Policy in any depth since it's amending in 1999. Based on that trending, the two previous annual audits have included the suggestion that, as ongoing practice, the Commissioner of Finance annually review the Investment Policy and report to the Common Council, within the 120 day period regardless of having recommended changes.

We had additionally recommended that the Common Council use the annual communication from the Commissioner of Finance 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. To date, this recommendation has not been acted on.

It was evident from the questions raised by Councilors during the deliberations on the most recent amending of the Investment Policy that there was a lack of familiarity with this specific governmental activity. While it is recognized by the City Auditor that some of the aspects of the City's investment practices can be on the arcane side, a good general understanding of the broader role and responsibility of the Common Council in determining the investment policies of the City is fundamental to sound governmental oversight.

Recommendations

The Chairperson of the Finance Committee of the Common Council should schedule a meeting as soon as possible to review the City's Investment Policy. Efforts should be made to ensure that all Common Councilors, regardless of the length of their Council service, are apprised of their current responsibility in overseeing the City's investment activities and to encourage all Councilors to have an awareness and understanding of the Policy going forward. Subsequently, the Common Council should readopt the Investment Policy as a separate legislative action.

The Auditor further recommends that the Chairperson of the Finance Committee of the Common Council be responsible for taking the initiative in seeing that an annual readopting of the Investment Policy is adhered to and timed to coincide with the Commissioner of Finance's review and report.

Philip J. LaTessa
Syracuse City Auditor
City of Syracuse
November 2, 2006