

6. Why doesn't the federal government of the United States have a sovereign wealth fund?
7. What is the purchase price per \$10,000 face value for a three-month (91-day) T-bill for an 5.5 percent discount rate?
8. The city of Saratov has \$895 million in its public employee pension fund, a defined benefit program that has only recently reached a fully funded status. The city council proposes to loan \$95 million of that fund to a struggling bus manufacturer in the city as a part of the growth and development plan. The council chair supports the proposal as yielding a double dividend to the city. Not only will a high interest rate be earned on the investment but also the city will be stimulating growth of its tax base. As city finance officer you must prepare a position statement on the proposal. Do so.

CASES FOR DISCUSSION

CASE 15-1

Managing Cash for the Sheriff's Interest?

The ability to control how public funds are managed can be used to reward friends and allies without making any immediately apparent payment. That is why governments often create limits and controls on cash management and why oversight bodies are established to review management practices. The report that follows shows what can happen when controls are absent or do not function properly.

Consider These Questions

1. Identify what procedures should have been installed and operating to prevent the losses that may have occurred.
2. In what proportion would you assign blame to the sheriff, the banking community, and public procedures, assuming the newspaper account is accurate?

Greene's Banking Cost Public at Least \$600,000

By Kay Stewart

Jefferson County Sheriff Jim Greene cost the county's government and the public schools at least \$600,000 by depositing tax money in bank accounts that earned no interest.

Greene said he deposited money in no-interest accounts from 1982 through 1989 because that was the way it was done before he became sheriff and he wanted to make this "concession" to past practices with the Louisville banks.

SOURCE: Louisville Courier Journal, June 14, 1992, A-1, A-10. Copyright © 1992. The Courier Journal. Reprinted by permission.

Although this was profitable for the banks, it was a loss to the taxpayers. Greene refused to answer questions about whether his political interests influenced his decision on the deposits.

But he has sought favors from the banks that profited. Their executives or political action committees have given him political contributions, and some of the banks have also given him tickets to the Kentucky Derby and other sporting events.

In a secretly recorded conversation made public last month, Greene claimed that one bank executive refused his request for Derby tickets, adding that the executive explained that Greene hadn't put money in a no-interest account.

Greene's office is responsible for collecting tens of millions of dollars in property taxes. The money bypasses the sheriff's office and goes directly into a bank account. Greene has authority to invest money, usually for not more than 30 days, before it is disbursed to state and local governmental agencies.

All the money could have been placed in interest-earning accounts, but instead Greene put substantial portions in no-interest accounts.

His office's records show that from 1986 through 1989, Greene deposited about \$86 million in no-interest accounts at six banks—approximately 12.5 percent of the roughly \$674 million his office collected in those years. The result was lost interest totaling about \$473,520.

Greene also put millions in taxes into no-interest accounts during his first term in office, from 1982 through 1985, but there was insufficient information in his records to accurately estimate the losses from those years. However, based on bank statements that were available, the newspaper calculated that at least another \$130,000 could have been earned from those years.

County commissioners expressed dismay last week when they learned from a reporter that Greene hadn't earned a return on all deposits.

"That's just unheard of," said Commissioner Tom Eifler, a stockbroker. "It's unbelievable to let dollars sit."

Eifler noted that the interest money could have benefited many agencies, including the strapped library.

Officials of the banks either wouldn't comment or said they had merely followed the instructions of the sheriff's office in depositing the money.

Asked if his bank was obligated to advise Greene to put all deposits into interest-bearing accounts, Republic Bank President Scott Trager suggested that the sheriff knew what he was doing.

"It's not like an 80-year-old grandmother walking in with a million dollars."

In a written response to the newspaper, the only reason Greene gave for depositing a "small minority" of tax receipts in no-interest accounts was that it was in keeping with "past practices."

Before 1982, the law did not address whether sheriffs could invest tax money to earn interest, although a 1978 Kentucky attorney general's opinion said sheriffs could not. Greene claimed credit for persuading state legislators in 1982 to approve a new law, which allows—but does not require—sheriffs to see that collected taxes earn interest.

The law, however, states that fiscal courts can order sheriffs to invest the money—authority that members of Jefferson Fiscal Court, including

County Judge-Executive Dave Armstrong, said last week they didn't realize they had.

Armstrong said he would ask Greene about his investment policies and would explore Fiscal Court's authority to oversee how Greene invests tax revenue.

Greene, a Democrat who is in his third term in office, refused to be interviewed about his bank dealings. He agreed to consider some written questions, but made only a brief response to some questions.

He has said that he has never received "anything of any value from any banks," but at least four of the banks have acknowledged giving him gifts, such as tickets to the Derby and to University of Kentucky basketball games. The bankers who acknowledged giving him tickets and political donations said the gifts were not related to banking transactions.

At the end of 1989, Greene stopped depositing tax money in the no-interest accounts, but he recently refused to say why. However, he addressed the issue last year in the secretly taped conversation with former deputy Randy Wells.

On the tape, which Wells released, Greene made vulgar, sexist and racist remarks and also talked about his attempts to get Derby tickets from banks.

At one point, Greene told Wells that he had asked a First National Bank vice president for Derby tickets but was told he wouldn't get any. Greene said the banker noted that the sheriff had not deposited any money that year in his "DDA"—a demand deposit account that did not earn interest.

Greene said he told the banker, "The paper's on my ass," adding that he had to deposit the money elsewhere. The banker, according to Greene, said, "That's the way we operate over here." Greene said he replied: "Well, goddamn it. You may get nothing next year."

Greene has said he wasn't certain it was his voice on the tape. The banker has denied that he linked Derby tickets with deposits, although he acknowledged that Greene had solicited Derby tickets.

Greene's decisions on the depositing of tax receipts adds another questionable element to his record.

In the last two years, new reports have documented that he hired a political friend to build a workout room for employees, loaded his payroll with relatives and supporters, bought guns and ammunition from a deputy at a huge markup, and gave employees large bonuses.

Last month, Greene was fined a record \$21,600 for more than 200 violations of campaign-finance laws. In the last two weeks, five female deputies have charged in a lawsuit that they were sexually harassed by men in the sheriff's department. Three of the five said Greene himself had harassed them.

Several legislators and local officials called for his resignation, but Armstrong, Louisville Mayor Jerry Abramson and the executive committee of the local Democratic Party have not taken a public stand on his future.

The Accounts

The sheriff collects taxes on behalf of the state, the county, the county's public schools, and local sewer and volunteer fire districts.

The school system gets 14.45 percent of the interest earned on the tax money. The sheriff's office can spend the rest, but what is left must go to Jefferson Fiscal Court at the end of the sheriff's elected term.

Six banks—First National, Republic, Liberty, Bank of Louisville, Stock Yards and River City—received a total of about \$86 million in no-interest deposits and nearly \$272 million in interest-earning accounts from 1986 through 1989. The remaining money was in interest and no-interest accounts at Citizens Fidelity Bank and Trust Co.

The newspaper couldn't determine from sheriff's department records whether potential interest was also lost from the Citizens no-interest account. This account, which is where all the sheriff's tax receipts are initially deposited, operates differently from the other no-interest accounts.

Greene refused to comment on the Citizens account, and so did Rick Cook, a Citizens spokesman, saying such customer information is confidential.

To banks, no-interest deposits of the size Greene delivered are a boon. Banks can invest or lend that money without paying interest, increasing their profits.

Greene said in his written statement that he had no formula for dividing tax receipts among the banks, although the division was based primarily on their size. Nor was there a method in determining how much he divided between interest and no-interest accounts.

"It was simply my decision to maintain a small portion of the tax funds collected in non-interest-bearing accounts," he said.

Here are some results:

In December 1989, Greene kept an average of \$5.4 million per day in a no-interest account at First National. If that money had been in the sheriff's department's money-market account at First National, it would have earned 5.25 percent interest that month—about \$24,000.

For another 11 days in 1989, the sheriff had \$7 million in a no-interest account at the Bank of Louisville—a loss of \$11,075 at the 5.25 rate the bank was paying on the sheriff's money-market account.

At Republic Bank, Greene kept \$4 million for 35 days in December 1988 and January 1989. That money could have earned more than \$20,000 at 5.25 percent.

The Losers

Jefferson County government was the big loser because of Greene's practices.

Of the estimated \$600,000 lost, the county would have received an additional \$513,300—about \$108,300 in 1986 and about \$405,000 in 1990. The schools lost an estimated \$86,700.

In early 1986, Greene transferred to county government about \$833,000 his office didn't spend in his first term: in 1990, the amount was \$1.2 million.

But with no effort, it could have been more.

The money could have helped the county through tough times in 1990, Armstrong said. At the time, Fiscal Court adopted a new tax on most insurance premiums to balance the budget.

Lauren Melton, spokeswoman for the school system, said it would not offer an opinion on the potential money that was lost.

Since 1982, Greene said, his office did invest most tax receipts, which earned nearly \$7 million in interest for the schools and the county government, and to help pay for the operation of his office.

No Accountability

Greene's authority to invest tax receipts with little or no oversight is apparently unmatched in the state. Other sheriffs, under law, get their budgets approved by their respective fiscal courts.

But sheriffs in Jefferson and Fayette counties have for decades been required to submit only brief budget outlines to circuit court judges. In Fayette County, however, Sheriff Harold Buchignani said he turned over the job of collecting taxes to urban county government two years ago because it was better equipped to do the job.

Greene, however, "pretty much has a free rein to do what he wants" in determining how to invest tax receipts, said Assistant State Auditor Howard Kline. "Obviously . . . you hope he acts in the best interests of taxpayers."

Kline said most sheriffs solicit bids to obtain the highest interest rates—a practice Greene began only last year.

Citizens submitted the high bid—agreeing to pay 5.8 percent interest. In 1990, Greene did deposit tax receipts in interest-earning accounts but did not seek bids.

Most sheriffs, unlike Greene, also undergo an annual audit by the state auditor's office, which routinely checks on investment practices, Kline said. He said Greene has received permission from the auditor's office to hire a private firm to audit his office, although the state auditor remains responsible.

Greene has hired the firm of Deloitte & Touche, whose employees have given him political donations.

Kline said state auditors have reviewed the Deloitte & Touche reports, which contain no recommendations or concerns about Greene's investment practices. Greene said in his statement that "there have never been any major questions raised about the operation of this office and its tax-collecting function."

Joseph Blitzko, an accountant with the firm who was assigned to oversee audits of Greene's office, did not return several phone calls.

State Auditor Ben Chandler said his office will conduct the audit this year—not because of any concerns but because he wants his office to review all government agencies under his authority at least once during this term in office.

Greene's office has not been audited by the state for 10 years.

CASE 15-2

Tapping the Pension Fund Piggybank

Governments too often see the employee pension fund as a means of financing general operations without making the tough choices of taxation and spending reallocation that responsible government finance would entail. Because irresponsible