

advertising index, which measures the demand for jobs and has proven to be sensitive to labor market conditions, fell sharply on a year-over-year basis. It declined to 30 in July of 2001, from 31 in June of 2001 and 49 in July of 2000. The help-wanted advertising index averaged 35.3 for the first seven months of 2001 compared with 53.9 in the first seven months of 2000.

The seasonally adjusted initial unemployment claims, *i.e.*, the number of first-time applicants for unemployment insurance, increased by 7,297 to 43,651 in August from 36,354 in July of 2001. On a year-over-year basis, initial unemployment claims rose by 8,533 per month during the first eight months of 2001 compared with a decline of 1,434 during the first eight months of 2000.

Overall, the Comptroller's Office is concerned about the risks to the City's economy. These risks are related to the following:

The cost of demolition and cleanup.

The loss of jobs from companies that were in Manhattan and will choose to relocate outside of the City.

The costs of higher security precautions in offices and in airports.

On balance, however, by the end of 2002, the City's economy is expected to show strong growth as a result of a national recovery and strong local reconstruction efforts.

**THE COMPTROLLER'S
COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

The Comprehensive Annual Financial Report is required by Section 93.1 of the New York City Charter. The Comprehensive Annual Financial Report is presented in three sections. This transmittal letter serves as an introduction and summary. The financial section includes the basic financial statements and the combining and individual fund financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The City is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City and its various funds. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the United States Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations." Information related to the Single Audit, including the Schedule of Expenditures Federal Awards, findings and recommendations, and auditors' reports on internal controls and compliance with applicable laws and regulations, are issued as a separate report.

**Budgetary and Financial
Controls**

The City is responsible for establishing and maintaining internal controls designed to ensure that municipal assets are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. These internal

controls are subject to continuous evaluation by the City.

Budgetary Controls

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the Annual Appropriated Budget approved by the City's governing body. Activities of the General Fund are included in the Annual Appropriated Budget. The City also makes appropriations in the Capital Budget to authorize the expenditure of funds for various capital projects. A level of budgetary control, i.e., the level at which expenditures cannot legally exceed the appropriated amount, is established within each individual fund. As reported in the schedules to the financial statements, several agencies have expended more than legally appropriated amounts. The City also maintains an encumbrance accounting system as another technique of accomplishing budgetary control. Encumbrances lapse at the end of each fiscal year.

Financial Controls

The City maintains financial controls through the use of an integrated accounting and budgeting system. Beginning in fiscal year 2000, the City implemented the Financial Management System (FMS) to maintain its centralized accounting and budgetary controls. FMS is a new, state-of-the-art, integrated accounting and budgeting financial management system. FMS also is used by the City to maintain information on City contracts as well as capital projects.

FMS provides the ability for the Comptroller's, Mayor's and individual agencies' financial managers to access, analyze, and utilize the City's financial data. These capabilities will continue to improve as all of the functionality of FMS becomes fully operational, including the implementation of an automated procurement system. FMS also provides for a number of comprehensive improvements to the City's computing network and infrastructure, making a major step in moving toward a standard city-wide computing platform that will facilitate communication and connectivity among agencies.

To ensure the adequacy of the City's internal controls, directives and memoranda which outline appropriate policies and procedures for all City agencies and component units, are issued and periodically updated. These directives and memoranda establish internal controls and accountability which safeguard City assets. Comptroller's Office and agency auditors periodically check City agencies' and component units' adherence to internal control policies and procedures.

Each year, in accordance with the "City Manager Financial Integrity Directive," every City agency is required to prepare a report on its internal controls. Each agency's report must include an "Agency Financial Integrity Compliance Statement" signed by the agency head. The statement must include the agency head's opinion as to whether the agency's internal controls provide reasonable assurance that internal control objectives were achieved during the fiscal year and can continue to achieve those objectives in the future.

Should a control weakness prevent any significant control objective from being achieved, the agency head must describe management's plans for correcting it. Agencies must also explain and describe planned corrective action for any outstanding weakness described in audit reports prepared by the City Comptroller's Office auditors, the City's independent auditors, the State Comptroller, or other oversight or audit bodies.

The Comptroller's Office auditors administer the "City Manager Financial Integrity Directive" and collect agency responses. In addition, the auditors collate these responses and use the results as part of our risk assessment to identify future audits. This approach helps to ensure that agencies genuinely assess their internal controls, rather than just examine them perfunctorily. We also asked agencies to assess the adequacy of their internal audit functions.

As a further quality control, the Audit Committee for The City of New York, which includes experts in accounting and municipal finance from the private sector, provides oversight of the independent audit process. This includes reviewing the independent auditors' reports and the auditors' management letter, as well as the City's response. The Committee operates independently of the City's management and issues its own annual report.

Independent Audit

The City Charter requires an annual audit by independent certified public accountants. In addition to meeting the requirements set forth in the City Charter, the audit also is designed to meet the requirements of the Federal Single Audit Amendments Act of 1996 and related OMB Circular A-133. The auditors' report on the basic financial statements and combining and individual fund statements is included in the financial section of this report. The auditors' report which relates specifically to the single audit is included in a separately issued report.

The City received an unqualified opinion from its independent auditors for the nineteenth consecutive year.

Pension Trust Funds

Five municipal pension systems provide benefits to full-time employees. Under the New York State Constitution, the City guarantees the payments of benefits to members of the retirement systems.

Actuarial assumptions used to determine employer contributions to the City's pension funds and the computations of the contributions are audited every other year by an independent actuary.

The majority of City employees are members of one of five major actuarial retirement systems; those systems' assets are included in the City's financial statements. The following table shows the five major actuarial retirement systems' actuarial accrued liability, actuarial value of assets, and the unfunded actuarial liability as of June 30, 2000:

Pension Trust Funds			
(in millions)			
	<u>Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Actuarial Liability</u>
New York City Employees' Retirement System	\$ 42,419	\$ 42,394	\$ 25
New York City Teachers' Retirement System	36,147	36,142	5
New York City Board of Education Retirement System	1,749	1,749	—
New York City Police Department Pension Fund—Subchapter 2	17,602	17,602	—
New York City Fire Department Pension Fund—Subchapter 2	<u>6,531</u>	<u>6,388</u>	<u>143</u>
Total	<u>\$104,448</u>	<u>\$104,275</u>	<u>\$173</u>

***Deferred Compensation Plan
(DCP)***

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC) Section 457. The plan permits the City's employees to defer a portion of their salary until future years. The