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March 18, 2011

MEMORANDUM

To: Agency Heads/Fiscal Officers

From: Simcha Felder

Re: Comptroller's Directive #11, *Cash Accountability and Control (Revised)*

A new version of Comptroller's Internal Control and Accountability Directive #11 is attached. It supersedes the existing version dated February 24, 1986.

Cash is the asset most susceptible to misappropriation and loss. To safeguard cash and ensure the accuracy of the accounting records for cash, effective internal control over cash is imperative.

This Directive contains new requirements from the previous version in the following areas:

- Expands the guidance on segregation of duty control;
- Adds an electronic banking policy;
- Adds a new policy for vendor payment assignments;
- Revises the procedures for opening new bank accounts;
- Adds guidelines on the use of private bank accounts;
- Gives primary responsibility for performing the bank reconciliation to the agency that opens a bank account and mentions additional controls in preparing the reconciliation;

- Increases the dollar threshold for stops to be put on checks to $50 if a check is outstanding over six months;
- Adds a new section on accountability reporting.

This Directive also revises a number of the prior version's procedural details.

This Directive is effective immediately. Questions should be addressed to the Directives Unit, Municipal Building, 1 Centre Street, Room 827, New York, N.Y., 10007, (212)669-8216. E-mail directives@comptroller.nyc.gov.

Attachment

THE CITY OF NEW YORK

OFFICE OF THE COMPTROLLER

INTERNAL CONTROL AND ACCOUNTABILITY DIRECTIVES

DIRECTIVE 11 - CASH ACCOUNTABILITY AND CONTROL

INTRODUCTION AND SUMMARY

The purpose of this Directive is to provide overall guidance on the basic internal controls and accountability requirements for the receipt, disbursement, recording and reconciliation of all cash or cash equivalents inclusive of currency, checks, money orders and electronic fund transfers.

Included are guidelines in respect to the establishment and use of bank accounts and special services for the City of New York (City) business purposes as well as vendor requests for payment assignment to banking institutions or other third parties.

This Directive is issued pursuant to Section 93(h) of the *New York City Charter* which empowers the Office of the Comptroller (Comptroller) to prescribe methods for recording, reporting and accounting in the agencies and to conduct reviews to assure compliance.

1.0 GENERAL INFORMATION

1.1 Organization

1.0 General Information

2.0 Segregation of Duties

3.0 Cash Receipts

4.0 Cash Disbursements

5.0 Electronic Fund Transfers

6.0 Bank Reconciliations

7.0 Checks Returned As Uncollectible

8.0 Vendor Payment Assignments

9.0 Establishment of Bank Accounts and Special Services

10.0 Annual Accountability Reporting

Appendix:

A – Suggested Returned Check Log Format

1.2 Effective Date

This Directive is effective immediately. It supersedes the prior version dated February 24, 1986 and the following Comptroller Memoranda:

CM 92-12 *Use of Personal Bank Accounts for City Business*

CM 95-04 *Vendor Payment Assignments*

1.3 Assistance

Requests for additional copies and questions concerning this Directive should be addressed to: the Office of the Comptroller, Attention: Directives Unit, Bureau of Accountancy, Municipal Building, One Centre Street, Room 827, New York, N.Y. 10007, (212) 669-8216, Email directives@comptroller.nyc.gov.

1.4 Internet Availability

An inventory of existing Comptroller's Internal Control and Accountability Directives, most with download capability, is available on the Comptroller's Website at: http://www.comptroller.nyc.gov. Directives without download capability may be obtained by contacting the Directives Unit.

2.0 SEGREGATION OF DUTIES

An adequately managed and satisfactory cash receipts and disbursements system demands a distinct segregation of the major administrative duties involved within the various cash handling processes. Specifics on some of the more significant separation of duty requisites are covered in detail in the appropriate sections of this Directive.

3.0 CASH RECEIPTS

Cash receipts, for the purposes of this Directive, encompass all payments and deposits received in the form of cash or cash equivalents inclusive of currency, coin, checks, money orders and electronic fund transfers. Since cash is the asset most susceptible to misappropriation and loss, agencies must exercise the utmost of care in handling cash and when accounting for the individual transactions involving cash receipts.

3.1 General Cash Receipt Guidelines

The acceptance of currency or other types of negotiable or bearer instruments should be avoided wherever practical and the forwarding of currency by mail should be strongly discouraged.

Agencies should insist that all customer or debtor remittances be made by check, money order or electronic funds transfer, payable to the order of the City of New York or the agency itself. Any checks made out to the order of an individual or other third party should be returned to the payor with instructions for the proper preparation and re-submission.

3.2 Acknowledgment of Cash Receipts

In those instances where it is necessary for an agency or its personnel to directly accept currency as payment, the transaction must be documented by the issuance of a signed receipt with a copy of the receipt retained for agency use as appropriate.

All receipts must bear the appropriate agency letterhead and be pre-printed and pre-numbered for use in sequential order. The agency must maintain a strict control over the inventory of blank receipt forms. Employees issued blank receipt forms must sign for and be held accountable for their use.

3. 3 Handling of Cash Receipts

Individuals responsible for handling cash receipts should prepare daily listings (tally sheets) of all receipts. These listings along with the related cash receipts and the copies of the customer receipts should be turned in, on a daily basis, to the person responsible for coordinating the bank deposit.

Before acceptance, the person responsible for coordinating the bank deposit must independently count and validate the cash receipts against both the daily tally sheets and the copies

of the customer receipts. Upon validation, a copy of the tally sheet should be sent to the agency accounting department.

3.4 Deposit of Cash Receipts

The inordinate accumulation of in-office cash receipts is not acceptable and, generally, all funds received must be deposited in the bank on at least a daily basis.

3.4.1 All bank deposits must be made into a treasury collection account unless otherwise authorized by the New York City Department of Finance (DOF).

3.4.2 Those agencies for which the DOF has authorized an agency clearing account must transfer daily cleared balances into the treasury collection account. All transfers from these agency clearing accounts must be made by check drawn to the order of the City of New York, or by automatic bank transfer as authorized by the DOF. No other withdrawals are permitted against funds on deposit in these agency clearing or holding accounts.

3.4.3 All deposit receipts must be re-verified, at least weekly, against the daily cash receipt tally sheets (§ 3.3.) An individual other than the person responsible for preparing the bank deposit should be assigned this responsibility.

3.4.4 Agencies should maintain the deposit tickets and all supporting documentation for audit purposes. Photocopies of large checks (e.g., over $10,000) should also be kept to facilitate any actions required in the event of a lost or uncollectible deposit.

3.5 Use of Safes

3. 5.1 Cash and checks received too late to be included in the daily deposit must be stored overnight in an agency safe. Safes should also be used for temporary security of cash receipts awaiting the daily deposit.

3.5.2 If cash is frequently received after banking hours or received in large amounts, consideration should be given to the use of some type of night depository or armed delivery service acceptable to the banking institution.

3.5.3 Where mail volume is heavy, consideration should be given to entering into a lockbox arrangement with a local bank. However, such arrangements require the

advance approval of the DOF.

3.6 Cash Receipts and Disbursement Journal

Agencies must maintain a centralized cash receipts and disbursements control (cash book) in which all cash receipts and disbursements are recorded on a daily basis. Cash receipts may be transposed in summary form, from the various individual daily cash tally sheets (§ 3.3), provided all supporting details and documents are adequately maintained. This journal must be reconciled monthly with the appropriate general ledger account balances.

4.0 CASH DISBURSEMENTS

4.1 General Guidelines

4.1.1 Except for small petty cash payments (made in accordance with procedures outlined in the Comptroller's Directive # 3, *Procedures for the Administration of Imprest Funds*), disbursements must be made only by check or electronic funds transfer and recorded in the cash receipts and disbursements journal (§3.6). Agencies should avoid withdrawals using a bank teller or cash withdrawals of any kind. Checks should not be drawn to "bearer" or "cash" and should never be released blank, without an appropriate entry in the "pay to the order of" section.

In limited situations, where currency disbursement cannot be avoided, agencies must have established written procedures which provide for the adequate documentation and control of these transactions. Such procedures must be reviewed with and have the written approval of both the chief fiscal officer and agency head.

4.1.2 Agencies must ensure that there is a distinct separation of duties between individuals who are responsible for:

- The approval of invoices for payment.
- The preparation of checks or electronic fund transfers.
- The authorization of the check or payment itself.

4.1.3 Payments should be made only on original invoices bearing the proper signature approvals. Statements of account must not be accepted for payment processing.

4.1.4 Agencies should control an inventory of pre-numbered blank checks. Usage should be recorded daily as part of the cash receipts and disbursements journal.

4.1.5 Check stock should be kept secure. Missing or stolen check stock must be reported immediately to the bank, the Comptroller's Bureau of Accountancy, the DOF, Inspector General's Office and other City officials as agency guidelines dictate.

4.1.6 Checks should state on their face that they are void after a specified period. This time period should not extend more than six months from the date of issue.

4.1.7 Unused or voided checks should be mutilated or marked "void" and permanently maintained in a separate file, or with the cancelled checks returned from the bank. Employees responsible for the inventory control of blank checks must be held accountable for them and must guard against improper use.

4.1.8 Checks returned from the Post Office as undeliverable should be cancelled after verifying the mailing address with the original documentation. The cancellation should be noted on the appropriate file documentation with copies sent, for appropriate action, to both the agency accounting department and to the individual responsible for reconciling the bank account.

4.2 Authorized Signatory Procedures

4.2.1 Agency heads must designate, in writing, both the employees authorized to approve invoices for payment and those other employees authorized to sign checks or approve electronic fund transfers. Specimen signatures must be included with the authorization, dollar limits should be established by individual signatory and two signatories should be the rule, rather than the exception.

The authorized signatory listing should be updated as personnel changes are made, and reviewed at least annually. Notification of changes in check signatories must be made in accordance with DOF policies and procedures.

4.2.2 Authorized signatures should be affixed manually for payments, except in situations where large volumes of checks are handled. In those instances, mechanically affixed signatures are permissible but only under the following conditions:

- All signature plates and or stamps must be under the control of the signatory and must be used only in the presence of the signatory or his or her authorized designee. Blank checks must never be run through signature machines. Plates and stamps must be kept secure and locked.
- Signatories agree to be held responsible for any misuse of their signature plate and to return it to their superior upon resignation, transfer or retirement.

4.3 Imprest Funds

Disbursements from an Imprest fund are subject to the same controls as any other disbursement. Imprest funds are established for the minimum amounts necessary and payments made, primarily, by check. The policies and procedures governing the creation and use of imprest funds are contained in Comptroller's Internal Control and Accountability Directive # 3.

5.0 ELECTRONIC FUND TRANSFERS

Generally, cash receipts or disbursements made by electronic fund transfer are subject to the same basic controls as conventional cash transactions. However, the rapidity with which fund transfers are made, the "paperless" nature of the transactions and continued advances in technology, compound the usual problems of control.

5.1 General

Agencies should be aware that with the accelerated movement of funds characteristic of electronic fund transfer:

- It is essential that all control procedures be initiated promptly. Failure to do so can facilitate the theft or misappropriation of funds and frustrate recoupment efforts.
- The significance of cash flow planning and the demands of float management for the purposes of income generation are magnified.
- Overall control and planning will, in general, become much more demanding as electronic fund transfer payments frequently involve voluminous transactions and large dollar amounts.

5.2 Control Procedures

Agencies must establish adequate overall control procedures to ensure the integrity of electronic fund transfers.

5.2.1 Existing books and registers used to record cash transactions may need to be revised to better account for the electronic transfers. If necessary, new accounting records should be developed.

5.2.2 Acknowledgements should be obtained promptly for all fund transfers. This is commonly done using:

- Printed conformations, summaries or statements.
- Tape recordings of telephone transactions (where proper legal arrangements, including advance written agreement, have been made).
- Other acknowledgements as dictated by the capabilities of the particular input device being used.

5.2.3 Reconciliation of both the number of transactions and the dollar amount must be made promptly upon receipt of periodic statement(s) from the financial institution. Where practicable daily bank statements should be requested and reconciled immediately by the agency.

5.2.4 Conventional input/output data controls and security measures as provided in Comptroller's Directive # 18, *Guidelines for the Management, Protection and Control of Agency Information and Information Processing Systems,* are applicable to all electronic fund transfer payments.

In addition:

- Password access to on-line terminals must be strictly controlled, centrally administered and limited to authorized personnel only.
- Where multi-use terminals exist, agencies should consider the use of encryption devices and financial institution authentications for all electronic fund transfer applications.

5.3 Miscellaneous

5.3.1 Electronic fund transfer procedures, and the related agreement terms, can vary significantly from bank-to-bank or even within the same bank for different accounts. Therefore, it is imperative that agencies have a clear understanding of the financial institution's proposed terms and conditions when discussing any arrangements for opening an account or adding fund transfer capabilities to existing accounts.

Special attention should be given to:

- The financial institution's liability for unprocessed or improperly processed transactions including any out-of pocket costs related to delayed or misplaced payments and unauthorized usage.
- A competitive analysis of which includes the costs of both the basic service and any potential for special services requests.

5.3.2 Agencies must first obtain written approval from all creditors before authorizing electronic fund transfers into their accounts.

6.0 BANK RECONCILIATIONS

6.1 General

6.1.1 The agency that opens the bank account has the primary responsibility for performing the bank reconciliations. Bank reconciliations must be performed on a monthly basis and only by persons other than those who:

- Approve invoices or otherwise authorize disbursements.
- Sign checks or approve electronic fund transfers.
- Collect cash receipts, make deposits or otherwise perform accounting functions associated with recording in the original books of account. e.g., Cash Receipts and Disbursements Journal, General Ledger or subsidiary ledgers.

6.1.2 Many banks, rather than showing voluminous transactions on their monthly statements, will accumulate and batch paid checks and reflect the batch total as a single charge on the statement. For reconciliation purposes, the batched checks

should be listed and totaled. The paid checks must be individually reconciled to the official books of account and the total amount matched against the related batched charge on the monthly statement.

6.1.3 The monthly reconciliations are to be maintained with the original paid checks and bank statements and are subject periodic audit.

6.1.4 Supervisors must review completed bank reconciliations in efforts to promote adequate controls over the bank reconciliation process. Supervisors must initial or sign the bank reconciliations not only as evidence to indicate that the reconciliation has been reviewed, but also to ensure the accuracy and completeness of the data presented.

6.2 Electronic Banking Policy

Banking institutions will normally offer various electronic payment options which are coupled with the opening of a new account such as the availability of automatic teller machine (ATM) access, direct debit cards, or electronic payment of invoices.

Agency acceptance and/or use of the electronic payment options referred to in the above paragraph are generally prohibited. However, if an agency believes that it has a valid need for electronic payment capability, the agency should request, in writing, approval for those options from DOF Bank Account Unit of the Treasury Division, Department of Finance, 66 John Street, 12th Floor, New York, NY 10038, (212) 487-2582, BankAccount@finance.nyc.gov. The request must substantiate the need for the electronic payment capability and contain the internal control mechanisms that will be put into place to prevent misuse. For example, these controls may include, but are not limited to, ATM card security, limiting PIN number access to the cashier and a senior agency official, and a listing of the permitted circumstances for which electronic payments can be used. The request must be signed by the agency head or authorized designee as described in Comptroller's Internal Control and Accountability Directive # 6, *Travel, Meals, Lodging and Miscellaneous Agency Expenses*, § 2.1.

In addition, due to advances in technology, electronic banking has become a more prevalent way of doing business. As a result, monthly bank reconciliations, as well as, cancelled checks and bank statements, are now provided to City agencies in an electronic format in lieu of paper which is acceptable evidential matter for audit purposes. Agencies desiring to maintain

paper documents must obtain approval from DOF Bank Account Unit of the Treasury Division, BankAccount@finance.nyc.gov. This includes, but is not limited to, monthly bank reconciliations, cancelled checks and bank statements.

6.3 Unreconcilable Differences

6.3.1 Each agency should establish written procedures for adjusting unreconcilable differences indicating the names and titles of persons authorized to approve the adjusting entries. The authorization should be granted to a limited number of individuals. In, addition, dollar limits should be established at progressively higher levels of responsibility.

6.3.2 Unreconciled differences between the bank balance and the book balance must be resolved within three months after the date of the bank statement. An aging schedule, with appropriate comments, must be prepared for all open items remaining unresolved for over three months. This aging analysis should be reviewed monthly with an agency official having authority to approve adjustments or write-offs within the account.

6.4 Outstanding Checks

Checks outstanding more than six months should be cancelled and stop payment orders issued. The original documentation that authorized the payment should be so noted.

Agencies should consider both the level of bank charges and the administrative costs involved with the processing of stop payment orders on checks for small amounts. Stops should be placed on checks outstanding over six months only when the value of the check is over $50.00. Smaller items would still be cancelled on the City's records by the agency with proper in-house authorization.

7.0 CHECKS RETURNED AS UNCOLLECTIBLE

7.1 General

Checks returned from the bank as uncollectible represent the potential for lost revenue to the City and, as such, should be monitored closely in accordance with the following guidelines.

7.1.1 Agencies are required to maintain separate records to ensure the adequate control and auditable tracking of each check returned by the bank as uncollectible.

7.1.2 Agencies must appoint a returned check officer. The officer's name and telephone number must be registered in writing with the Comptroller's Bureau of Accountancy - Revenue Monitoring Unit.

7.1.3 Wherever possible, returned checks are to be collected and not written off. Agencies must establish a formal policy defining the specific steps that are to be taken and the authorizations necessary for writing off any uncollectible checks. A copy of this policy should be sent to the Bureau of Accountancy - Revenue Monitoring Unit.

7.1.4 When a check is returned, the maker must be contacted promptly. If collection is not possible, the check should be written off in conformance with agency policy and with the written approval of, at least, the chief fiscal officer or his designee. Additional policy guidance for the write-off of uncollectible checks is contained in Comptroller's Internal Control and Accountability Directive # 21, *Revenue Monitoring*.

7.2 Returned Check Log

Each agency should maintain an "Agency NG [not good] Checks Log" (Appendix A) for recording as receivables all returned checks. This log lists each returned check and shows collection attempts and the current status. Separate logs must be maintained for each agency bank account and treasury bank account. The information contained in the "Agency NG Checks Log" should also be used to move money from the returned check code to the appropriate revenue code. Agencies needing assistance should contact the Bureau of Accountancy - Revenue Monitoring Unit.

7.3 Procedures for the Processing of Returned Checks

The following procedures apply to returned checks that have been deposited into treasury collection accounts and agency bank accounts. All instructions related to revenue coding and the cash receipts forms should be ignored when in connection with returned checks deposited into agency bank accounts.

Prior to initially depositing checks into treasury collection accounts, the document number

of the corresponding cash receipt should be written on the back of each check. This enables the agency to determine the original cash receipt form number by examining the check when returned. Because this may not always be practical when checks are deposited through a bank lock box, care should be taken in negotiating lock box arrangements to ensure that an alternative means of linking a payment to the original cash receipt is a part of the bank's procedure.

Upon receipt of a returned check agencies should:

- Record the check in the Returned Check Log.
- Inform the Comptroller's Revenue Monitoring Unit of the revenue source the returned check is to be charged against and the document number of the new cash receipt form prepared by the bank when the check is returned.
- Attempt collection. If collection is not successful, follow agency policy for writing off uncollectible checks. If collection is made, deposit check with a new cash receipt form using the same revenue code as used for the original deposit. Revenue coding is not necessary for checks drawn on Agency Bank Accounts.
- Adjust Returned Check Log to reflect collection, or the attempt at collection.

7.4 Endorsement Stamps

7.4.1 In order to facilitate the collection of returned checks, a descriptive rubber stamp endorsement must be used on all checks deposited by the agencies.

The following format must be used for endorsement stamps:

NAME OF BANK
For Deposit Only to the Account of
Commissioner of Finance
City of New York

Name of Agency and Division/Bureau

(Treasury Collection or Agency Account Name)
(Account Number) (Agency Code Number)

7.4.2 A separate stamp must be used for each bank account.

7.4.3 When various bureaus or divisions deposit checks, each must have a separate endorsement.

7.4.4 Endorsement stamps can be ordered through the DOF - Treasury Division.

7.4.5 Samples of all endorsement stamps must be submitted to:

Office of the Comptroller, c/o Revenue Monitoring Unit
Municipal Building
1 Centre Street, Room 822
New York, N.Y. 10007

8.0 VENDOR PAYMENT ASSIGNMENTS

City agencies may occasionally encounter situations where a vendor wishes to assign payments due to it under City contracts or other obligations. The City's policies and procedures for such assignments are set forth below to help both the agencies and the vendor community facilitate payment processing.

It is important to note the distinction between vendor requests for payment assignment to a third party in general, as opposed to those requests for assignment to a specific vendor's banking institution.

8.1 Vendor Payment Assignments to Third Parties

This Directive applies primarily to vendor assignment arrangements with banking institutions where payments owed to the vendor are to be sent directly to the bank for deposit in the vendor's account (§ 3.4).

In those situations where vendors apply for payment assignment arrangements with third parties other than banking institutions, the agencies must contact the DOF and follow the regulations issued by their Liens and Disbursements Division.

8.2 Vendor Payment Assignments to Banking Institutions

A vendor's instruction to have City payments submitted directly to its banking institution is a bona fide business transaction which can be accommodated by the City's payment process. If instructed to do so by the vendor, therefore, it is permissible for agencies to forward a vendor's

checks to a banking institution. Agencies should assist in the processing of assigned payments by clarifying mailing arrangements with vendors who wish to make such assignments. To ensure that payments are properly routed to the assignee, vendors must notify the agency of the assignment arrangement and provide the agency with the assignee bank's name and address. Agencies should request a copy of the assignment agreement or other written authorization from the vendor.

Agencies are advised that the relationship between the City and the vendor does not change as a result of the payment assignment. The City's liability is to the vendor, not the assignee. As such, payment vouchers for vendor assigned payments must continue to name the agency's vendor/obligee as payee.

The City and its agencies are not parties to assignment arrangements and should not deal directly with the assigned banks. Assignment arrangements can only be made between the vendor and its banking institution. Payment processing instructions or other instructions to begin, modify or terminate assignment processing can only be initiated by the vendor.

9.0 ESTABLISHMENT OF BANK ACCOUNTS AND SPECIAL SERVICES

As a basic policy, the Comptroller strongly discourages the practice of maintaining private agency or personal bank accounts for City business purposes. It is contrary to prudent business practice and exposes City funds to an unnecessary level of risk. Because the internal controls afforded by the segregation of check writing, payment approval and bank reconciliation duties are essentially eliminated, these arrangements weaken the City's accountability and control over its cash. In general, the introduction of non-city accounts serves to facilitate the wrongful commingling of personal and City funds.

9.1 Account Opening

9.1.1 Bank accounts must be opened in accordance with *Department of Finance Bank Account Policies and Procedures.* Agencies must request a DOF *City Bank Account Request Form* by contacting the Bank Account Unit of the Treasury Division, Department of Finance, 66 John Street, 12th Floor, New York, NY 10038, (212) 487-2582, BankAccount@finance.nyc.gov. The DOF City Bank Account Request Form is also available online at http://cityshare.nycnet under Forms & Downloads. After approval

by the DOF new bank accounts are automatically registered at the Comptroller's Bureau of Accountancy.

All bank accounts and special banking services such as lock box arrangements, automated reconciliations, electronic fund transfers and any other special services must be approved by the DOF Bank Account Unit. Inquiries regarding all fees associated with maintaining a bank account must also be discussed with DOF Bank Account Unit. Agencies must ensure that the name of the account is clear, that the bank account is for official purposes by incorporating within its reference to the City and/or the Agency name and a description of the account purpose; e.g., *New York City Department of Education Custodial Operations Account*.

9.2 General Guidelines for Use of Personal Bank Accounts for City Business

This section is specifically directed at those special situations in which agencies advance funds to City employees for deposit in personal bank accounts for official confidential-related business purposes. Such funding arrangements create above average opportunities for misappropriation of City funds, and because of their significantly higher risk, there is a need for substantial additional agency control, monitoring and supervision.

The following guidelines apply for all advances given to City employees for deposit in personal bank accounts except for travel advances issues in accordance with Comptroller's Directive # 6, *Travel, Meals, Lodging and Miscellaneous Agency Expenses.*

The Department of Investigation, Police Department, District Attorney and other such agencies may have the need for personal bank accounts which require the utmost in confidentiality. These agencies should incorporate the guidelines contained in this section, to the extent practicable, as part of their internal procedures for the establishment and operation of confidential accounts.

9.2.1 Agencies which are considering the use of personal bank accounts should:

- Carefully evaluate the necessity of such an arrangement. Such consideration should include weighing the benefits derived compared to the risk incurred.
- Restrict the use of personal bank accounts only to the most unusual and limited circumstances where less risky alternatives do not exist.

9.2.2 Agencies that already have personal bank accounts must carefully evaluate the continued need for them and the circumstances that have caused them to be created. Every effort should be made to discontinue the use of existing personal bank accounts and account for the funds using the City's Financial Management System (FMS).

9.2.3 All agencies that use personal bank accounts must prepare detailed written procedures specifying the agency's policies for establishing the accounts and the account's operating procedures. The procedures, at a minimum, must incorporate the guidance provided in this Directive.

9.2.4 Agency policies and procedures must state clearly that under no circumstances may City funds be deposited in a bank account that the employee uses for personal expenditures or shares with a spouse, family member or any other person, and that the account must not be used to process non-City transactions of any kind, including deposits, transfers or disbursements.

9.2.5 Agencies must insure that every employee who receives personal funding understands and complies with the written policies and procedures.

9.2.6 In the event that an employee is funded for more than one program or area of responsibility, separate accounts must be established for each business activity.

9.2.7 Agencies must ensure that the City's right to account balances in the event of the death of the employee is preserved by including City of New York and/or the agency name as part of the name of the account.

9.3 Account Operations

Agencies must ensure that the following additional steps are followed for personal bank accounts:

- Agencies should use electronic fund transfers to make deposits to employee accounts whenever feasible. If warrants are used, the purpose and account name should be evident on the face of the check.
- The employee must be the sole signatory for disbursements from the account. The employee's family members or others must not be permitted access to the account.

- Checks drawn on the account must not be written to "bearer" or to "cash.
- Funds from personal or other non-City sources must not be deposited into the account.
- The account must not be used to cash personal checks.

9.4 Agency Oversight

Careful, independent bank reconciliations must be conducted monthly, and other oversight procedures must be more stringent for personal bank accounts than those for conventional bank account arrangements.

- The employee in whose name the account has been established should provide to the agency a monthly accounting of all expenditures made from the account. The accounting should be accompanied by supporting documentation which, at a minimum, shows the date, check number, amount and purpose for each expenditure.
- Agencies should conduct monthly audits of expenditures made through the accounts to ensure that funds are being used for appropriate program spending.
- Unopened monthly bank statements with canceled checks should be sent from the bank directly to an individual at the agency, other than the account holder, for independent reconciliation. Agencies must be satisfied that all differences between accounting and bank statements, gaps in check sequences, questionable endorsements, bank charges and other irregularities are adequately explained.

9.5 Account Funding Practices

Agencies must carefully control the rate and level of funding for personal bank accounts. Agencies should ensure that funding levels are neither excessive, resulting in the accumulation of balances, nor insufficient to meet bona fide program needs. The City's cash flows and earnings are affected when excess funds lie unused in personal accounts. Such practices also unnecessarily subject the funds to a greater risk of misappropriation.

Underfunding, on the other hand, can cause operational difficulties and encourage temporary commingling of non-City funds to cover shortages. Rather than using a fixed rate of funding during the course of the year, funding levels should be matched with the expected rate of disbursement from the account. Agencies must carefully examine historical and/or expected expenditure patterns to ensure that funding is neither excessive nor deficient.

10.0 ANNUAL ACCOUNTABILITY REPORTING

Prior to the end of the City's fiscal year, The Comptroller's Bureau of Accountancy issues its annual *Fiscal Year End Closing Instructions.* Included in these year-end instructions are requirements for agencies maintaining private bank accounts.

Some of the requirements are that agencies:

- Verify and confirm active bank accounts.
- Indicate closed bank accounts.
- Submit June 30 bank reconciliations.
- Submit outstanding checks as of June 30.
- Process the Cash Transfer Journal Entry (J2I), for expense demand accounts.

Agencies should review the Comptroller's website for the most recent *Fiscal Year-End Closing Instructions*, "Department Bank Accounts and Investments" section.

SUGGESTED AGENCY NG CHECKS LOG FORMAT

TOTAL OF NG:

TOTAL RECOVERED:

NG BANK DATE	NAME OF MAKER	CHECK #	CHECK AMOUNT	REASON RETURNED	DEPOSITING CASH RECEIPT ID	LINE #	REVENUE SOURCE	SUB REVENUE SOURCE	REPORTING CATEGORY	BUDGET CODE	DATE OF COLLECTION ATTEMPT	DATE COLLECTED	DATE WRITTEN OFF	REMARKS	WRITE OFF APPROVED BY

Appendix A