



BRIAN T. BAXTER  
FIRST DEPUTY COMPTROLLER

THE CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
MUNICIPAL BUILDING  
NEW YORK, N.Y. 10007-2341  
ELIZABETH HOLTZMAN  
COMPTROLLER

COMPTROLLER'S MEMORANDUM

#92-12

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TO: Agency Heads/Fiscal Officers

FROM: Brian T. Baxter *Brian T. Baxter*  
First Deputy Comptroller

SUBJECT: Use of Personal Bank Accounts for City Business

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This Comptroller's Memorandum (CM) expands upon the Comptroller's Internal Control and Accountability Directive #11 - "Cash Accountability and Control".

Directive 11 establishes basic guidelines for safeguarding the City's cash and the use of bank accounts. This CM is specifically directed at special situations in which agencies may advance funds to city employees for deposit in personal bank accounts for official business purposes. Such funding arrangements create above average opportunities for misappropriation of City funds, and therefore require agencies to establish procedures in addition to those set forth in Directive 11. Generally, the procedures in Directive 11 apply to personal funding arrangements, however, because of their significantly higher risk, substantial additional agency control, monitoring and supervision is required.

As a basic policy, the Comptroller's Office strongly discourages the practice of funding 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. The use of non-city accounts also facilitates commingling of personal and City funds.

This Memorandum is effective immediately. It does not apply to travel advances made to City employees in accordance with Comptroller's Directive 6, "Authorization, Reimbursement and Audit of Travel, Meals, Lodging and Miscellaneous Agency Expenses." The

Department of Investigation, Police Department and District Attorneys should incorporate these guidelines, to the extent practicable, into their procedures for the establishment and operation of confidential accounts.

### General Guidelines

Agencies which are considering the use of personal funding arrangements 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 such arrangements to only the most unusual and limited circumstances where less risky alternatives do not exist.

Agencies which already have personal funding arrangements must carefully evaluate the continued need for them and the circumstances that have caused them to be created. Every effort should be made to replace existing personal funding arrangements with more conventional bank accounts.

All agencies that use personal funding 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 CM. 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. Agencies must insure that every employee who receives personal funding understands and complies with the written policies and procedures.

### Account Opening

New bank accounts should be opened in accordance with the procedures required by Directive 11. This includes obtaining Department of Finance approval and registering the account with the Office of the Comptroller. Agencies must immediately seek Finance's approval for and register with the Comptroller all personal funding accounts for which they have not already done so. 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.

In addition, when opening new accounts:

- The name of the account should make it clear that it is for official purposes by incorporating within it reference to the City of New York and/or the Agency name and a description of the account purpose; e.g., Mary

Jones, New York City Board of Education Custodial Operations Account.

- The City's right to account balances in the event of the death of the employee must be preserved.

### Account Operations

Agencies must insure that the following additional steps are followed in the operation of personal funding arrangements:

- 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.

### Agency Oversight

The lack of segregation of duties which exists in personal funding arrangements makes it vital that careful, independent bank reconciliations be conducted monthly, and other oversight procedures be more stringent 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 insure that funds are being used for appropriate program spending.
- Unopened monthly bank statements with canceled checks should be sent from the bank directly to the agency 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.

## Account Funding Practices

Agencies must carefully control the rate and level of funding for personal funding arrangements. Agencies should insure 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 can 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 insure that funding is neither excessive or deficient.