



**THE CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER**

**INTERNAL CONTROL AND ACCOUNTABILITY DIRECTIVES**

**DIRECTIVE #22: ACCOUNTING, FINANCIAL REPORTING,  
AND AUDIT REQUIREMENTS FOR ENTITIES INCLUDED  
IN THE FINANCIAL REPORTING ENTITY OF THE CITY OF  
NEW YORK**

**INTRODUCTION**

The City's financial reporting entity consists of (a) the various City agencies and other entities established to perform the City's core functions and duties for its citizenry, also referred to as the primary government; (b) organizations, although legally separated from the City, for which the primary government is financially accountable, also known as Component Units; and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, such as Pension and Other Employee Benefit Trust Funds.

The primary government is presented in the government-wide financial statements, and consists of all of the activities of the City and of Component Units classified as business-type activities, while discretely presented Component Units are reported separately. The government-wide financial statements as a whole represents the City's financial reporting entity.

The City is also required to report its fiduciary activities in Fiduciary Funds financial statements. Fiduciary Funds are used to account for resources held in trust for individuals or entities other than the government itself, outside of the City's financial reporting entity. Fiduciary Funds, which include defined benefit pension plans, defined contribution plans, and other postemployment benefit plans or other employee benefit plans, represent a fiduciary activity to the City.

All Component Units and Fiduciary Funds must comply with the guidelines set forth by this Directive and with all other applicable Directives issued by the Office of the New York City Comptroller.

Compliance with Comptroller Directives ensures that the City's financial statements are prepared in accordance with promulgations issued by the Governmental Accounting Standards Board (GASB).

This Directive is issued pursuant to the authority of the Office of the Comptroller as provided in Chapter 5, Section 93 of the [\*New York City Charter\*](#).

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## 1. GENERAL INFORMATION

### 1.1 *Effective Date*

This Directive is effective immediately and supersedes the previous version, issued May 25, 2012.

### 1.2 *Assistance*

Questions or comments concerning this Directive should be addressed via [Technical and Professional Standards Unit Email](mailto:directives@comptroller.nyc.gov) (directives@comptroller.nyc.gov); by telephone at: (212) 669-3675; or by mail to: The Office of the Comptroller, Attention: Technical & Professional Standards Unit, Bureau of Accountancy, David N. Dinkins Municipal Building, One Centre Street, Room 200 South, New York, NY 10007.

### 1.3 *Comptroller's Internal Control and Accountability Directives*

An inventory of existing [Comptroller's Internal Control and Accountability Directives](#) is available on the [Comptroller's Website](#).

## 2. REPORTING ENTITY

GASB, as the organization responsible for establishing accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP), has established standards for defining the financial reporting entity.<sup>1</sup>

### 2.1 *Component Units*

In order to ensure the City's compliance with GASB standards regarding Component Units, all newly established entities with separate legal standing from the City (e.g. not-for-profits), must submit a copy of the completed [Potential Financial Reporting Entity Questionnaire](#) to the [Technical and Professional Standards by Email](#) (directives@comptroller.nyc.gov).

All entities, including those that have been previously evaluated by the Comptroller's Office, should submit a new *Potential Financial Reporting Entity Questionnaire* if there has been a change to an entity's bylaws or articles of incorporation subsequent to the entity's original GASB Statement No. 14 evaluation.<sup>2</sup>

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<sup>1</sup> Refer to GASB Statement No. 80, *Blending Requirements for Certain Component Units*, and GASB Statement No. 14, *The Financial Reporting Entity, as amended*.

<sup>2</sup> For example, changes to the Board of Directors, change to the sole corporate member status, and/or changes to the City's authority over the entity.

## **2.2 Discontinued Reporting Entities**

Once a plan for liquidation and dissolution has been approved by the Board of Directors of an entity (if it has the authority to make such a plan effective), or a plan for liquidation is being imposed by other authoritative forces during a fiscal year, the Comptroller's Bureau of Accountancy's Technical and Professional Standards Unit should be notified (*Refer to Section 1.2*). Upon notification, the entity must disclose the timeframe for dissolution/termination; completion of final audit; transfer of assets and liabilities (if applicable); plan for liquidation; depletion of revenue; and other information applicable to the discontinued entity. Audited financial statements should continue to be prepared and submitted to the Comptroller's Office for inclusion within the Annual Comprehensive Financial Report (ACFR) until financial activity ceases. To memorialize the City's removal of the entity within its financials, official correspondence finalizing the arrangement of the dissolution should be included with the final submission of the entities financial statements.<sup>3</sup>

## **2.3 Fiduciary Funds**

Fiduciary Funds represent a fiduciary obligation of the City and, as such, must be reported in the Fiduciary Fund statements. For additional information regarding Fiduciary Funds, see Comptroller's [Directive #27 – Fiduciary Accounts: Procedures for Requesting, Controlling, and Monitoring.](#)

## **3. ANNUAL AUDITS**

Entities that have been designated as part of the financial reporting entity of the City must prepare annual financial statements in accordance with GAAP of the United States, as promulgated by GASB. Annual financial statements must be audited by an independent Certified Public Accountant (CPA) firm.

### **3.1 Auditor Selection**

Entities covered by this Directive seeking audit services must solicit only those firms on the Office of the Comptroller's [Prequalified CPA List](#) (PQL) in accordance with Procurement Policy Board Rules, Section 3.10 (k). Independent auditors should be selected through the use of a competitive process. In accordance with accounting industry best practices, the Audit Committee or other independent body outside of management (i.e. Board of Directors, Finance Committee, etc.), should be actively involved in the selection of the most qualified firm and will ultimately be responsible for the award decision. The audit selection process should be completed

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<sup>3</sup> Official correspondence should include, but is not limited to, a legal dissolution agreement, Board minutes authorizing the dissolution, and tax filings regarding the dissolved entity's assets.

in a timely manner to ensure that the incoming and outgoing audit firms have an adequate timeframe for the transition, and are available to consult on accounting issues or questions that may arise during the first period under audit.

Timeliness in engaging a CPA firm is important to ensure that there is no break in continuity in the auditing process and, if necessary, to facilitate the transfer of information from one firm to its successor (see [\*Directive #5 – Audits of Agency Programs and Operations\*](#) for guidance on selecting independent auditors).

### **3.2 Audit Standards**

The Audit must be conducted in accordance with Generally Accepted Auditing Standards (GAAS) as promulgated by the American Institute of Certified Public Accountants (AICPA) and, where required, in accordance with the Government Accountability Office's (GAO) [\*Government Auditing Standards\*](#) (GAS or the Yellow Book).

### **3.3 Audit of Programs Expending Federal Aid**

Non-Federal entities that receive Federal Funds are subject to U.S. Office of Management and Budget's [\*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards\*](#) (also referred to as Final Guidance or Uniform Guidance), dated December 26, 2013. A Non-Federal entity that expends Federal Award(s) and that is subject to either a Single Audit or Program-Specific Audit must submit a copy of its final Single or Program audited report to the Office of the New York City Comptroller's Office of the New York City Comptroller's [\*Bureau of Accountancy's Component Unit\*](mailto:componentunit@comptroller.nyc.gov) (componentunit@comptroller.nyc.gov). Submission of the Single Audit or Program-Specific Audit to the Comptroller's Office must coincide with the Federal Audit Clearinghouse (FAC) submission.

For additional information regarding the Audit of Programs Expending Federal Aid, see Comptroller's [\*Directive #5 – Audits of Agency Programs and Operations\*](#).

**Note:** This section does not apply to entities incorporated into the City's Single Audit.

### **3.4 Audit Contract**

It is strongly recommended that the term of an audit contract not exceed four years, including renewals. After four years, a new request for proposals should be issued. If the same firm is awarded the contract in a subsequent four-year period, the audit firm is required to ensure that partner rotation requirements, in accordance with professional standards, are met.

Audit contracts should specify that the entity is a Component Unit of the City and is therefore included in the City's ACFR and subject to the timeline established by the

City in order to avoid delays in the issuance of the City's financial statements. As such, the contract should specify that the Component Unit's auditors are considered Component auditors and the City's independent auditors are considered to be the group auditors in accordance with AICPA professional standards AU-C Section 600: *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*. The contract should state that the Component Unit's auditors must perform all procedures and communications with the City and the City's auditors as required by the Group Audit Standards, which includes, but not limited to, the performance of subsequent event procedures up to the date of the City's auditors' report.

All reporting entities, under contract with audit firms other than the City's independent auditors, must coordinate with their respective audit firm to provide the audit representation letter to the City's auditors by the date indicated in the *Directive #22 Letter*.

### **3.5 Management Letter**

Audit contract terms must require that the auditor issue a management letter. The management letter must comment on the entity's internal controls, accounting systems and procedures, data processing controls, the status of prior year's comments, and other matters noted in connection with the audit. The entity's management must prepare a formal written response outlining corrective actions to all matters raised by the auditors, if any, and the responses must be included in the issued management letter. The current management letter must also include the status of prior year's comments. The financial statements and management letter of an organization must be presented to the City's Audit Committee. If the management letter contains no comments, the auditors must provide a statement indicating that no material weaknesses were found.

### **3.6 Access to Work Products**

Audit contract terms must require that audit working papers be made available to the Office of the Comptroller, if requested.

### **3.7 Timetable**

As noted early in this Directive, on an annual basis, the Office of the Comptroller sends to all Component Units a letter – the *Directive #22 Letter* – which outlines the required submissions, due dates, and a list of GASBs that the City intends to implement for the reporting fiscal year. For certain entities, the letter also includes an attached pro-forma financial statement template to be used for ACFR purposes. Adherence to the requirements outlined in the letter ensures that entities' audited financial statements are received in a timely manner for inclusion within the City's ACFR.

The final audited financial statement, management letter, and response to the management letter must be submitted to the Office of the New York City Comptroller's [Bureau of Accountancy's Component Unit](mailto:componentunit@comptroller.nyc.gov) (componentunit@comptroller.nyc.gov) in accordance with the dates outlined in the *Directive #22 Letter*.

#### **4. COMPONENT UNITS THAT USE PROPRIETARY FUND ACCOUNTING**

*GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporated into the GASB authoritative literature certain accounting and financial reporting guidance that was issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

GASB No. 62 also allows proprietary funds and other governmental entities that use proprietary fund accounting to apply, as other accounting literature, post-November 30, 1989, FASB pronouncements that do not conflict with GASB pronouncements. However, to promote uniformity within the City's ACFR, Component Units and Fiduciary Funds should not apply post-November 30, 1989 FASB pronouncements.

#### **5. AUDIT COMMITTEES**

Each Component Unit and Fiduciary Fund is required to establish an Audit Committee that is independent of management and capable of monitoring the fiscal and operational performance of the organization. This provides control that the New York City's Audit Committee can rely upon each entity's Audit Committee review of its financial statements.

##### ***5.1 Responsibilities***

Each entity's Audit Committee should perform the following duties, including, but not limited to:

- If authorized, be actively involved in selecting of the most qualified independent auditor and approve the audit scope.
- Monitor and review the critical aspects of the audit engagement, including the general performance of the auditors, the planned scope of work and audit progress, and availability for consultation on issues which may arise during the course of the audit.
- Review the financial statements for reliability, timeliness, clarity, appropriateness of disclosure and compliance with GAAP and legal requirements.
- Review and evaluate the auditor's management letter, management's response and, where appropriate, comment on the letter and response.

- Review and evaluate the annual *Financial Integrity Statements* as required by this Directive.
- Ensure that the auditor's recommendations receive appropriate consideration and attention from management and, where deemed appropriate, are implemented on a timely basis.
- Provide general oversight of the Component Unit's and Fiduciary Fund's management and its accountability for public funds.
- Monitor the independence of the Component Unit's and Fiduciary Fund's auditor and approve of any non-audit services.

## 5.2 Meetings

The Audit Committee must meet periodically with management and the auditors. At a minimum, the Audit Committee must meet at least twice annually to ensure that the annual audit is appropriately planned and monitored and to allow the Committee to exercise a sufficient degree of oversight.

Executive sessions of government Audit Committees are very strongly recommended by the Government Finance Officers Association and the American Institute of Certified Public Accountants. Executive sessions allow the auditors to meet privately with Committee members to express any concerns about management and allow Committee members to ask questions about and/or express any concerns they may have.

Minutes of the meetings, exclusive of executive sessions, must be prepared and kept on file by the entity.

## 5.3 Annual Report

The Audit Committee must prepare and submit an annual report. The report should detail the committee's activities and decisions for the prior calendar year. Individual members may express their dissent, if any, to the content of the report. The annual report must be submitted to the Office of the New York City Comptroller's [Bureau of Accountancy's Component Unit](#) ([componentunit@comptroller.nyc.gov](mailto:componentunit@comptroller.nyc.gov)).

## 6. AGENCY FINANCIAL INTEGRITY COMPLIANCE STATEMENT

The Comptroller's [Directive #1 – Principles of Internal Control](#), requires that Internal Control be an integral responsibility of agency management in satisfying the agency's overall accountability for successfully achieving its assigned mission and assuring full accountability of its resources. It further requires management to assess the effectiveness of their internal control structure and procedures for financial reporting in an annual *Agency Financial Integrity Statement* and attest to the effectiveness of the agency's internal control environment. It includes the requirement for a written

description of corrective actions to be taken, the current status of any unresolved recommendations, a progress statement of corrective actions from previous Financial Integrity Statements, and the signature of the agency head. The completed *Agency Financial Integrity Statement* should be kept on file and provided to auditors upon request.

## 7. DOCUMENT REVISION HISTORY

Date	Description
December 27, 1994	The most significant changes in this revision consist of modifications needed to reflect the Comptroller’s implementation of GASB Statement No. 14 and the reclassification of entities formerly defined as Component Units and as Fiduciary Funds in accordance with GASB 14 criteria.
May 22, 2008	This revision contains updated lists of entities deemed to be Component Units and pension and other employee benefit trust funds of The City of New York.
May 25, 2012	This Directive now incorporates the requirements of GASB Statement No. 61, <i>The Financial Reporting Entity: Omnibus: an amendment of GASB Statements No. 14 and No. 34</i> .
April 19, 2018	The Directive includes a link to the Comptroller Office’s <i>GASB Statement No. 14 Questionnaire</i> , used to determine whether an entity meets the requirements to be included as a financial reporting entity of the City. It also contains two new sections. The new section on the <i>Audit of Programs Expending Federal Aid</i> requires that the City’s financial reporting entities with federal aid expenditures must submit a final single audit or program audit report to the Comptroller’s Bureau of Accountancy. The section on <i>Discontinued Reporting Entities</i> addresses entity actions once a plan for liquidation and dissolution has been approved.

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