



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

**INTERNAL CONTROL AND ACCOUNTABILITY DIRECTIVES**

**DIRECTIVE #27: REQUESTING, CONTROLLING,  
AND MONITORING DESIGNATED FUNDS**

**INTRODUCTION**

Designated Funds refer to financial resources maintained for a specific purpose that must not be comingled with funds appropriated through The City's normal budgetary process. For the purposes of this Directive, there are two types of Designated Funds: Fiduciary Accounts and Restricted Accounts.

Fiduciary Accounts are used to account for the activity of assets not belonging to The City, but are held and administered in a trust or custodial capacity. These funds are reported in the fiduciary fund financial statements of the basic financials and within the statement of changes in fiduciary net position, which is used to report additions to, and deductions from, the Fiduciary Accounts.

Restricted Accounts, although not classified as a Fiduciary Account, are other financial resources that may consist of a government's own source revenue that is restricted, generally by external parties, for a particular purpose. These funds are reported as part of The City's General Fund within the governmental funds' basic financial statements.

The Government Accounting Standards Board (GASB), the organization responsible for promulgating generally accepted accounting principles (GAAP) for governments, through its issuance of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 84, *Fiduciary Activities*, further defines the criteria that must be met to ensure accuracy and consistency in financial reporting with respect to the identification of fiduciary activities.

All expenditures from Designated Funds must comply with applicable Federal, State and City rules, and the *Internal Control and Accountability Directives* issued by the New York City Office of the Comptroller.

This Directive addresses the distinction between the two types of Designated Funds and provides guidance for the overall accountability and control of these funds.

Although not a fiduciary fund type as defined by GASB No. 54, the requirements of this Directive also apply to Permanent Funds. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings may be used to directly support the reporting government's programs. Permanent Funds are used to account for arrangements similar to those commonly referred to as endowments. Because the earnings of Permanent Funds are used to directly support a government's programs, Permanent Funds are considered 'governmental funds' rather than fiduciary funds under GASB No. 54. Examples of other governmental funds are the General Fund and Capital Projects Fund.

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## 1. GENERAL INFORMATION

### *1.1 Effective Date*

This Directive is effective immediately and supersedes the previous version, issued April 9, 2003. It also supersedes Comptroller's Memorandum #14-04, which provided a revised version of Appendix A.

### *1.2 Assistance*

Questions or comments concerning this Directive should be addressed to: The Office of the Comptroller, Attention: Technical and Professional Standards Unit, Bureau of Accountancy, Municipal Building, One Centre Street, Room 200 South, New York, NY 10007, or via email to the Technical and Professional Standards Unit ([directives@comptroller.nyc.gov](mailto:directives@comptroller.nyc.gov)).

### *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. DEFINITIONS

Definitions of key terms used in this Directive are provided here:

- “Agency Head” refers to the Commissioner of an agency; the Chief Official of an Office, where equivalent to a Commissioner, such as the Directors of the Mayor’s Office of Operations, the Office of Management and Budget, the Financial Information Services Agency, and the Office of Payroll Administration; and elected and appointed officials, include the Mayor, Comptroller, Public Advocate, Council Members, District Attorneys, Community Board Chairpersons, and Public Administrators.
- “Designated Funds” refer to Fiduciary Accounts and Restricted Accounts.
- “Designee” refers to an executive managerial-level employee who reports directly to an Agency Head and to whom the Agency Head has delegated Approval authority, as well as to a back-up Designee, if any.
- “Fiduciary Account” refers to assets held by The City, which meet the requirements of GASB Statement No. 84 – Fiduciary Activities. These requirements are summarized in Section 3.1 of this Directive.
- “Financial Reporting Entity” is defined as the primary government, which includes organizations for which The City is financially accountable.
- “General Fund” is the major operating fund for the City.
- “Permanent Fund” is used to account for resources that cannot be expended, but must be held in perpetuity.
- “Restricted Accounts” are used to report funds that are restricted for specific purpose(s) due to constraints placed on the use of the resources, generally by external parties, and do not meet the definition of a Fiduciary Account.
- “The City” refers to any City agency acting on behalf of or as an agent of The City of New York.

## 3. DESIGNATED FUNDS DETERMINATION

Prior to submitting a request to the Comptroller’s Office to establish a Designated Fund, agencies should be thoroughly conversant with Sections 3.1 and 3.2 below and should also refer to [Appendix A: Flowchart for Evaluating Designated Funds](#), to determine whether the asset(s) associated with the activity should be kept in a Fiduciary Account or a Restricted Account.

### ***3.1 Fiduciary Accounts***

According to the GASB, in order to determine whether assets should be maintained in a Fiduciary Account, the type of activity present within the Account must meet all of the following criteria:

1. The assets associated with the activity are controlled by The City, meaning the agency – on The City’s behalf – is holding the assets or has the ability to direct their use or exchange them in a manner that provides benefits to the specified or intended recipients. Restrictions from legal or other external restraints that stipulate the assets can be used only for a specific purpose do not negate a government’s control of the assets.
2. The assets associated with the activity are not derived either:
  - Solely from The City’s own-source revenues or taxpayer dollars; or
  - From government-mandated non-exchange transactions or voluntary non-exchange transactions with the exception of pass-through grants for which The City does not have administrative involvement or direct financial involvement.
3. The assets associated with the activity have one or more of the following characteristics.
  - The assets are:
    - Administered through a trust in which The City itself is not a beneficiary;
    - Dedicated to providing benefits to recipients in accordance with the benefit terms; and
    - Legally protected from the creditors of The City.
  - The assets are for the benefit of individuals, and The City does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from The City’s provision of goods or services to those individuals.
  - The assets are for the benefit of organizations or other governments that are not part of the Financial Reporting Entity. In addition, the assets are not derived from The City’s provision of goods or services to those organizations or other governments.

### ***3.2 Restricted Accounts***

Although not classified as Fiduciary Accounts, Restricted Accounts are also financial resources maintained for a specific purpose. Restricted Accounts are used for funds held by The City in a custodial capacity, which are used to support The City’s own programs. Funds held in these accounts are for The City’s benefit.

Specifically, Restricted Accounts are used for assets held by The City that are restricted for a specific purpose(s) due to constraints placed on the use of the resources by external parties. Some examples include school fundraiser monies for scholarships, seized federal assets, housing loan programs, and cash bail for use by the surety/assignee.

#### **4. GENERAL GUIDELINES FOR ESTABLISHING DESIGNATED FUNDS**

Agencies must complete the account opening form, which is included as [\*Appendix B: Request to Establish Designated Funds\*](#) in this Directive. The completed form must be submitted for review to the New York City Office of the Comptroller's Financial Reporting Division ([DesignatedFunds@comptroller.nyc.gov](mailto:DesignatedFunds@comptroller.nyc.gov)) of the Bureau of Accountancy.

Once approved, the requesting agency will be notified of the detail fund and sub-fund numbers along with the chart of account elements that have been established in The City's Financial Management System (FMS), to account for the transactions within the respective accounts. If the Designated Fund is determined to be Fiduciary, in FMS the fund would include a "7" followed by the agency code and the associated sub-fund, which represents the specific program or description. If the Designated Fund is determined to be Restricted, in FMS the fund would include a "6" followed by the agency code and the associated sub-fund, which represents the specific program or description. The requesting agency will then be responsible for recording all cash receipts and payment requests in FMS, as well as reconciling and ensuring that all activity in the account is in compliance with the purpose for which it was created. Although the financial resources are generally under the custodianship of the New York City Office of the Comptroller, the accounts are maintained and controlled by the City agency that requests their establishment.

Generally, the need for such an account arises upon the receipt of a donation or grant for a specific project that will continue for more than one year or for specific purposes prescribed by the donor. Please note that Designated Funds should not be used to account for retainage withheld from contractors. In addition, the existence of a requirement to separately account for interest earned on resources received under a grant or award (such as an advance received under a federal awards program) would not in itself be a sufficient reason to account for that grant or award in the manner set forth in this Directive. These accounts require the application of sound internal control mechanisms consistent with those in effect within The City of New York.

#### **5. INTERNAL CONTROLS**

Designated Funds are subject to the same internal controls applicable to those assets that are the property of The City. The following internal controls and other considerations are provided to assist City agencies in ensuring the proper management of these assets.

### ***5.1 Compliance with City Comptroller's Internal Control and Accountability Directive #1 – Principles of Internal Control***

Agency Heads must ensure that the annual evaluation of an agency's fiscal integrity addressed in the Office of the Comptroller's [Directive #1 – Principles of Internal Control](#) also encompasses Designated Funds maintained by the agency. Particular attention is required in the areas of authorized approval and certification signatories; segregation of duties; receipt and disbursement support documentation; and proper inventory and reconciliation procedures.

### ***5.2 Consistency with Stated Purpose***

Care must be taken to ensure that all receipts and disbursements within a Designated Fund are consistent with the declared or intended purpose for which they were received and that there is no commingling of unassociated resources within the account. Agencies must further ensure that the purpose for which the resources in the account were provided is being fulfilled and that the progress of the related project is adequately monitored.

### ***5.3 File Documentation***

Agencies are required to maintain separate and complete files for each individual Designated Fund. The files should contain documentation supporting the creation of the account, in addition to records supporting all cash receipts and disbursements, and any other pertinent information. Complete files are essential to provide proper audit trails and must reconcile to the information maintained within FMS.

### ***5.4 Interest-Bearing Accounts***

Normally, on interest-bearing accounts, the principal and interest are accumulated in the same account. However, if the interest is not required, by agreement, to be used for the program, it should be remitted to the General Fund.

Where a trust or other agreement stipulates that the principal in a Designated Fund must remain intact and only the interest earnings may be expended (i.e. a Permanent Fund), the agency which set up the Designated Fund has the responsibility of ensuring that the principal remains untouched. The interest earned should be accounted for, either by using separate accounting codes within FMS to distinguish it from the accounting codes used to account for the principle held, or the Description field of the entry recording the interest in FMS must clearly indicate "interest earned" or a similar term to make this distinction.

### ***5.5 Arms-Length Relationship with Third-Party Organizations***

Some agencies and community boards have established third-party organizations to handle private donations raised from interested individuals or entities. While the creation of these separate organizations may be acceptable in some situations, care must be exercised to ensure an arms-length relationship exists between The City and such entities, and that the entities are not being utilized to supplement or bypass agency budgets or divert funds that rightfully should be reported as revenue in the General Fund.



Generally, any resources received from the sale of City goods or services, the use of City property and City resources, and/or the receipt of donations to City employees for City business or programs, are assets of The City and must be accounted for in the General Fund. Third-party organizations, on the other hand, may only accept grants or donations that are specifically and clearly directed to them for their sole benefit and use.

It is important that an agency having dealings with its third-party organizations ensure that adequate internal controls are in place over the processing, recording, and reporting of funds. The agency must prepare written guidelines for itself and its third-party organization clearly differentiating the activities and handling of donations, grants, and expenditures by each. The agency should also ensure that third-party organizations comply with all applicable Federal, State and City regulations. If any questions exist on the propriety of the activities of a third-party organization relating to the sponsor agency, the [\*New York City Law Department's Office of the Corporation Counsel\*](#) should be contacted for advice and assistance.

## **6. REPORTING REQUIREMENTS**

Agencies that are maintaining a Designated Fund must submit an annual certification for each individual account providing the following information.

### ***6.1 Annual Certification***

Agencies must submit an annual certification for each individual account providing that the internal controls of the account have been evaluated on the basis of the Financial Integrity Statement checklist provided in the Comptroller's Directive #1. This certification will also be used to verify the accounts status, balances and additional annual reporting criteria. [\*Appendix C: Annual Designated Fund Certification and Representation\*](#) is a sample of this requirement. For a recent version of this form, please visit the Comptroller's Office website, [\*Fiscal Year-End Closing Instructions\*](#) page.

The annual agency certification of each individual Designated Fund sub-fund must be signed by the Agency Head (or authorized Designee) and forwarded to the New York City Office of the Comptroller Financial Reporting Division ([\*DesignatedFunds@comptroller.nyc.gov\*](mailto:DesignatedFunds@comptroller.nyc.gov)). This information must be submitted after the close of the fiscal year but no later than August 15<sup>th</sup> of the subsequent fiscal year, or the date as required by the Closing Instructions noted above.

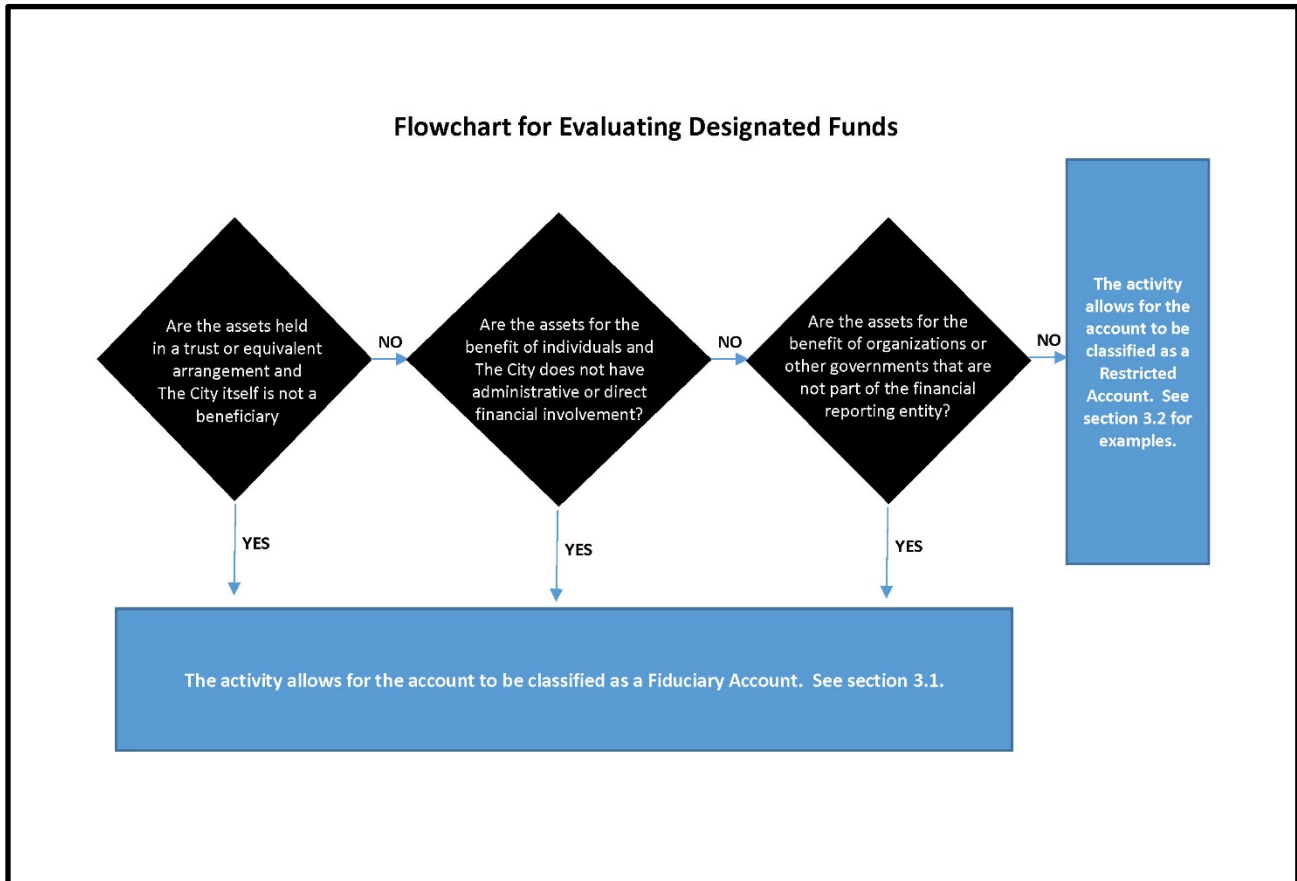
### ***6.2 Identification and Reporting of Inactive Accounts***

If an agency determines that a Designated Fund sub-fund is no longer necessary and no longer legally required, the agency should immediately recommend its closure to the New York City Office of the Comptroller Financial Reporting Division ([\*DesignatedFunds@comptroller.nyc.gov\*](mailto:DesignatedFunds@comptroller.nyc.gov)) and should complete the [\*Appendix D: Inactive Designated Fund Request\*](#).

It should be noted that all closing procedures must conform to the terms of dissolution as stated in the original agreement on file that established the Designated Fund, if specified.


## 7. APPENDICES

### 7.1 Appendix A: Flowchart for Evaluating Designated Funds



**7.2 Appendix B: Request to Establish Designated Fund(s)**

A fillable version of this form can be found on the [Comptroller's Directives and Memoranda](#) page on the Comptroller's website.



**Office of the New York City Comptroller**  
APPENDIX B - REQUEST TO ESTABLISH DESIGNATED FUND(S)

Requesting NYC Agency Name: \_\_\_\_\_ Agency Code: \_\_\_\_\_

Account Name: \_\_\_\_\_

Type of Fund (check one):     Fiduciary                       Restricted  
     Permanent Fund

Interest-Bearing:             Yes                                       No

Account Purpose (\*):  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Sources and Frequency of Revenue (\*\*): \_\_\_\_\_

Estimated Initial Deposit Amount: \_\_\_\_\_ Anticipated Date of Deposit: \_\_\_\_\_

Expected Duration of Account (check one):  
                           Less than 1 year     1-5 years     Greater than 5 years

Reasons why account should not be set up in the General Fund:  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Account Contact:  
 Name \_\_\_\_\_ Title \_\_\_\_\_  
 Telephone \_\_\_\_\_ Email \_\_\_\_\_

This *Request to Establish Designated Fund(s)* Form is submitted with the understanding that, in order to fulfill the purpose for which the funds were provided, \_\_\_\_\_ is required to establish this account outside of budgetary appropriations. Once authorized, the funds will be administered and maintained in accordance with the purpose for which they were established and in compliance with all applicable laws and regulations, including the Office of the New York City Comptroller's *Directive #27 –Requesting, Controlling, and Monitoring Designated Funds*.


Signature of Agency Head/Designee	Name & Title	Date
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(\*) If account is established based on new legislation or written agreement, please attach a copy for submission along with this request form.  
 (\*\*)For example: State/Federal grant or private donor. One-time, daily, weekly, monthly, quarterly, annually, or unknown quantity of deposits.  
 Send this form via email to: [DesignatedFunds@comptroller.nyc.gov](mailto:DesignatedFunds@comptroller.nyc.gov)

Appendix B - Request to Establish Designated Fund(s) Revised April 2020

**7.3 Appendix C: Annual Designated Fund Certification and Representation**

A fillable version of this letter can be found on the [Comptroller's Directives and Memoranda](#) page on the Comptroller's website.



**Office of the New York City Comptroller**  
APPENDIX C – ANNUAL DESIGNATED FUND CERTIFICATION AND REPRESENTATION

Date: \_\_\_\_\_

Division Chief, Financial Reporting  
Office of the New York City Comptroller  
One Centre Street – Room 200 South  
New York, NY 10007

Dear Division Chief, Financial Reporting:

We confirm that the internal controls of the Designated Fund listed below have been evaluated on the basis of the checklist provided in the Office of the New York City Comptroller's *Directive #1 – Principles of Internal Control*. We ( have/ have not) identified any material weaknesses in these controls.\*

We also verify that the Fund remains active, will be used for its original purpose, and the balance remaining for the current fiscal year is correct and will be required in its entirety in the foreseeable future.\*\*

Designated Fund Name: \_\_\_\_\_

Fund (e.g. 7 or 6 + Agency Code): \_\_\_\_\_ Sub-Fund: \_\_\_\_\_

\*\*Fund Balance at Close of Fiscal Year: \$ \_\_\_\_\_ Fiscal Year: \_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Agency Code: \_\_\_\_\_ Agency Name: \_\_\_\_\_

Telephone: \_\_\_\_\_ Fax: \_\_\_\_\_ E-Mail: \_\_\_\_\_

If the Fund has a zero balance, please provide justification for the Fund to remain active:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Note:** For multiple Funds attach an Excel spreadsheet, including Designated Fund Name(s), Fund, Sub-Fund, and the Fund Balance at Close of Fiscal Year.

\_\_\_\_\_  
**Signature**


Send this form via email to: [DesignatedFunds@comptroller.nyc.gov](mailto:DesignatedFunds@comptroller.nyc.gov) \*For any material weaknesses identified, in an attachment to this Certification, provide all relevant details, including what actions are being taken to rectify the situation.

\*\*The Fund Balance reported should be as of the end of the current fiscal year.

Appendix C – Annual Designated Fund Certification and Representation Revised April 2020

**7.4 Appendix D: Inactive Designated Fund Request**

A fillable version of this form can be found on the [Comptroller's Directives and Memoranda](#) page on the Comptroller's website.

		
<b>Office of the New York City Comptroller</b> APPENDIX D – INACTIVE DESIGNATED FUND REQUEST		
NYC Agency Name: _____	Agency Code: _____	
Account Name: _____		
Type of Fund (check one):	<input type="checkbox"/> Fiduciary	<input type="checkbox"/> Restricted
Fund (e.g. 7 or 6 + Agency Code): _____	Sub-Fund: _____	
Account Purpose: _____ _____		
Sub-Fund Balance: \$ _____		
If the Sub-Fund has a balance, please state how the funds will be disbursed to close the account with a zero balance (Describe the disposition of any remaining resources and any other pertinent information.): _____ _____ _____ _____ _____ _____		
Anticipated Final Day of Transactions: _____		
<b>We confirm that the remaining resources are no longer legally required to be held in a segregated account. The purposes for which the account was originally maintained are no longer required, and the account should be rendered inactive.</b>		
_____ Signature Agency Head/Designee	_____ Name & Title	_____ Date
NOTE: Attach a final reconciliation with this <i>Inactive Designated Fund Request Form</i> .		
Send this form via email to: <a href="mailto:DesignatedFunds@comptroller.nyc.gov">DesignatedFunds@comptroller.nyc.gov</a>		
Appendix D – Inactive Designated Fund Request		Revised April 2020

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