



cutting through complexity

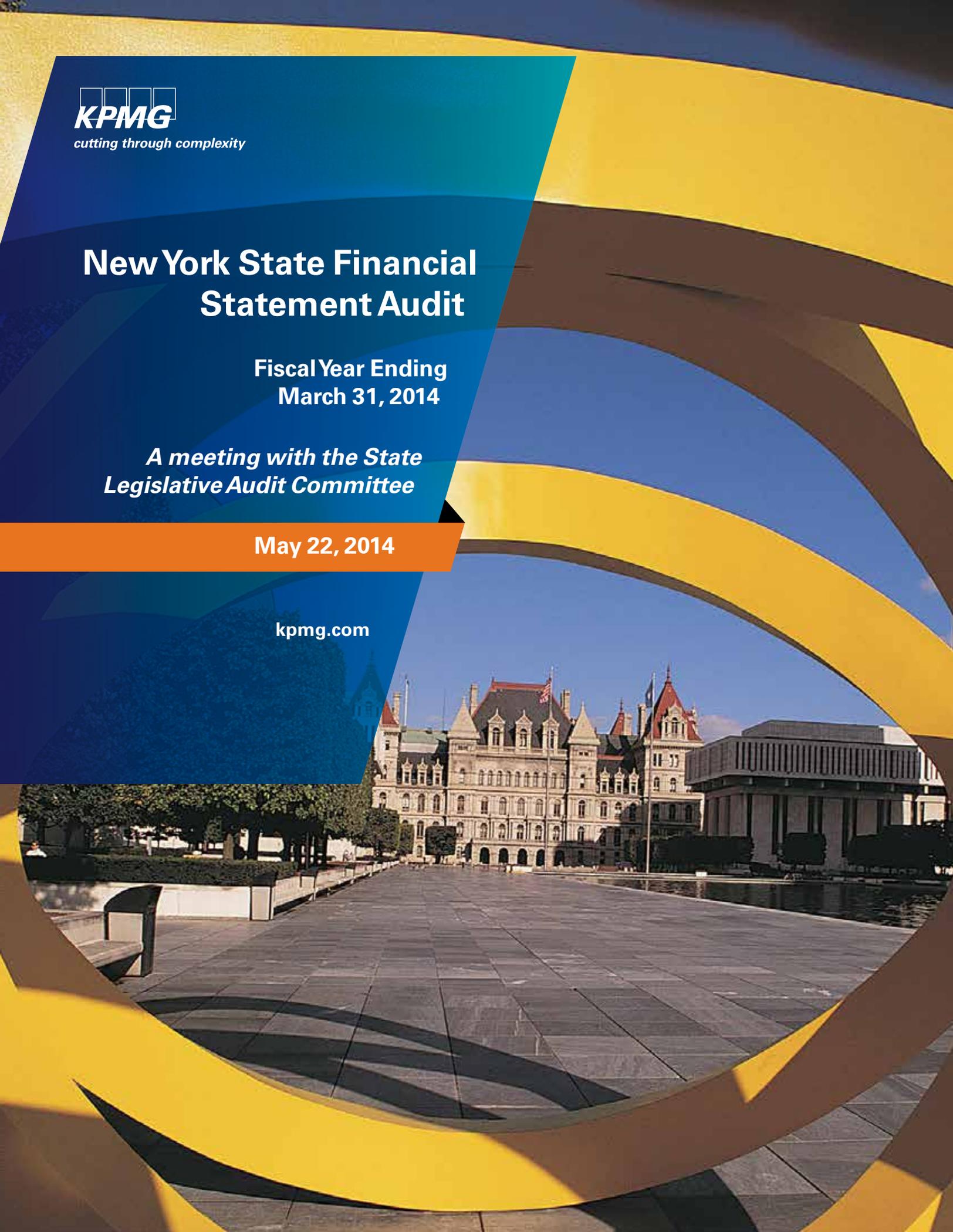
# New York State Financial Statement Audit

Fiscal Year Ending  
March 31, 2014

*A meeting with the State  
Legislative Audit Committee*

May 22, 2014

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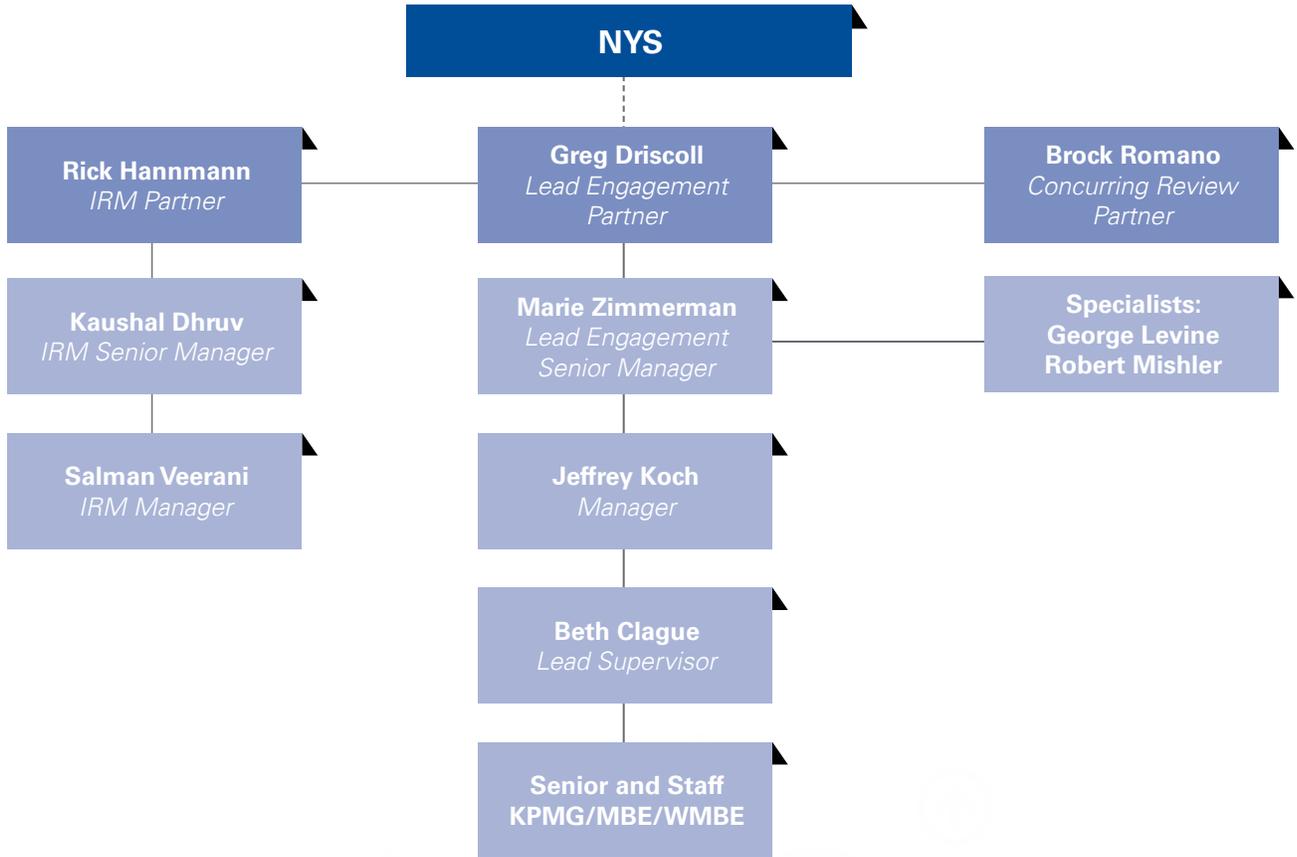


# Engagement Plan

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# KPMG Engagement Team



## Deliverables



### **Auditors' report on the State's basic financial statements with accompanying required supplementary information:**

- Report comprises opinions on the financial statements of the following 11 opinion units: Governmental Activities, Business-type Activities, Aggregate Discretely Presented Component Units, General Fund, Federal Special Revenue Fund, Debt Service Fund, Unemployment Insurance Fund, NYS Lottery, SUNY, CUNY, and Aggregate Remaining Fund Information
- We issue separate financial statement audit reports covering the State's CAFR presentation and basic financial statements with other supplementary information presentation
- Audit report date is anticipated to be July 24, 2014

### **Auditors' report on internal control over financial reporting and compliance and other matters:**

- Report is required under *Government Auditing Standards*
- Report includes:
  - Any material weaknesses or significant deficiencies in internal control identified as part of the audit
  - Any material instances of noncompliance with laws, regulations, contracts and grants
  - Any material instances of fraud or abuse considered material to the financial statements
- Evaluation of these items is considered at the opinion unit level

### **Letter to the Audit Committee communicating matters addressed in SAS No. 114, *Required Communications***

#### **Closeout meetings with key agencies to discuss audit results**

#### **Management Letter:**

- Letter includes:
  - Any material weakness, significant deficiencies and certain other control deficiencies identified
  - Performance improvement opportunities and best practice suggestions
  - Industry information



## Objective of an Audit



The objective of an audit of financial statements is to enable the auditor to express an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

We plan and perform the audit to provide reasonable, not absolute, assurance that the financial statements taken as a whole are free from material misstatement, whether from error or fraud.

We design tests of controls to obtain sufficient evidence to support the auditors' control risk assessments for purposes of the audit of the financial statements:

- Although we issue a report describing any material weaknesses or significant deficiencies identified as part of our audit procedures, we do not express an opinion on the effectiveness of the State's internal control.

## State of New York Responsibilities



### Management is responsible for:

- Adopting sound accounting policies
- Ensuring the fair presentation of the financial statements in conformity with generally accepted accounting principles
- Establishing and maintaining effective internal control over financial reporting (ICFR)
- Identifying and confirming that the State is in compliance with laws and regulations applicable to its activities
- Making all financial records and related information available to the auditor
- Providing the auditor with a letter confirming certain representations regarding the preparation of the financial statements made during the audit.

### The Audit Committee is responsible for:

- Oversight of the financial reporting process and oversight of ICFR

### Management and the Audit Committee are responsible for:

- Establishing and maintaining internal controls to prevent, deter, and detect fraud
- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

**The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.**

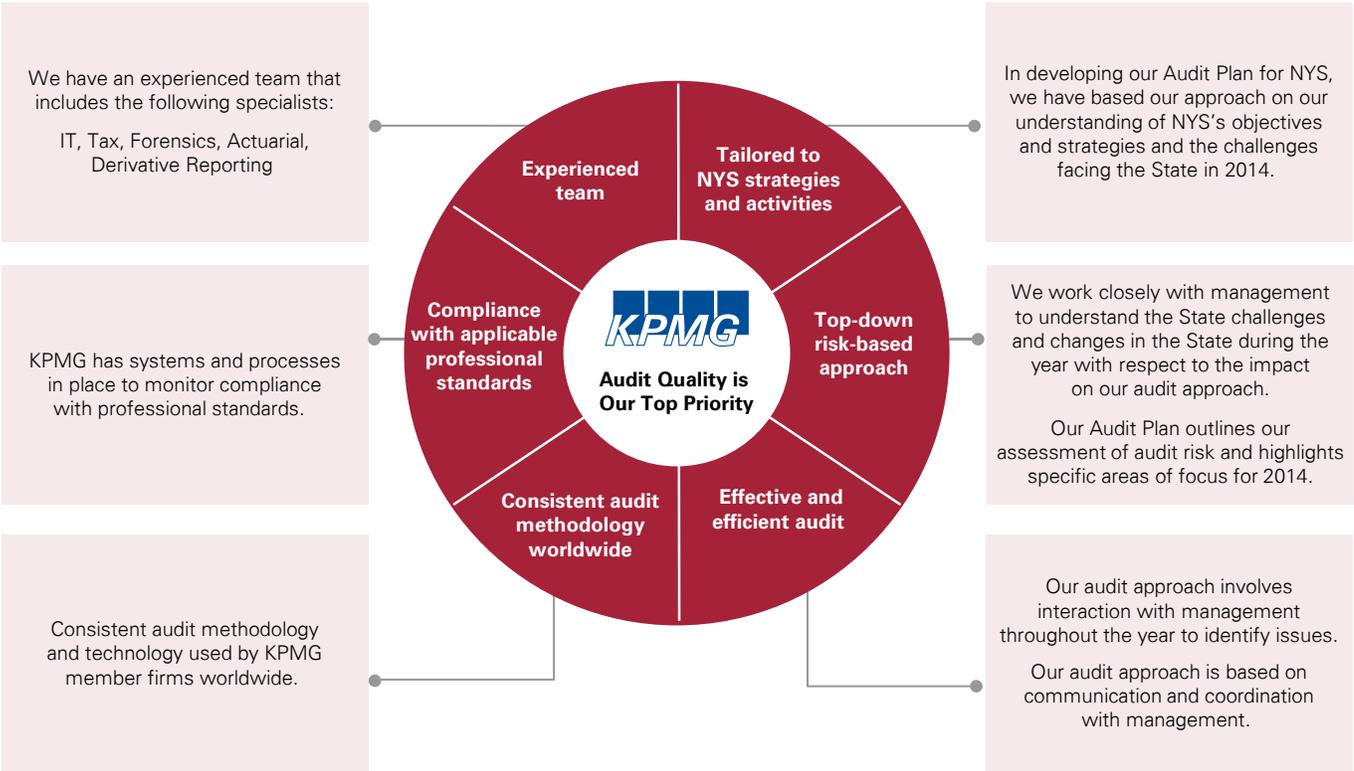
## KPMG Responsibilities



### KPMG is responsible for:

- Conducting our audit in accordance with professional standards, including:
  - Auditing standards generally accepted in the United States, promulgated by the AICPA
  - *Government Auditing Standards*, issued by the Government Accountability Office
- Forming and expressing opinions about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles.
- Planning and performing the audit to obtain reasonable—not absolute—assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Because of the nature of audit evidence and the characteristics of fraud, we are able to obtain reasonable, but not absolute, assurance that material misstatements will be detected. Our audit is not designed to detect error or fraud that is immaterial to the financial statements.
- Evaluating whether the State’s controls sufficiently address:
  - Identified risks of material misstatement due to fraud
  - The risk of management override of other controls
- Communicating to the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management deficiencies that, in our professional judgment, are of sufficient importance to merit management’s attention
- Complying with the rules and regulations of the Code of Professional Conduct of the AICPA, and the ethical standards of relevant CPA societies and relevant state boards of accountancy
- Planning and performing our audit with an attitude of professional skepticism
- Communicating all required information, including significant matters, to management and the Audit Committee
- Reviewing other information not covered by our audit report in documents containing the audited financial statements

# KPMG's Audit Approach and Methodology



## 2014 Audit Timetable



January – March 2014	April – May 2014	June – July 2014	June – August 2014
<p><b>Perform Planning Activities</b></p> <ul style="list-style-type: none"> <li>• Update our understanding of the State and its environment</li> <li>• Determine quantitative audit materiality thresholds</li> <li>• Review internal audit reports</li> <li>• Identify significant financial statement accounts and inherent risk associated with these accounts</li> <li>• Identify new audit and accounting pronouncements and their impact on the audit</li> <li>• Develop preliminary audit approach</li> </ul>	<p><b>Perform Interim Fieldwork</b></p> <ul style="list-style-type: none"> <li>• Document our understanding of key operating processes</li> <li>• Document our understanding of accounting and financial reporting activities</li> <li>• Evaluate and test the design &amp; implementation and operating effectiveness of selected entity-level and process-level controls, including general and application controls over key information systems</li> <li>• Determine substantive procedures based on preliminary results of control testing</li> <li>• Perform substantive procedures on selected accounts</li> <li>• Attend audit plan presentation</li> <li>• Hold agency entrance conferences</li> </ul>	<p><b>Perform Final Fieldwork</b></p> <ul style="list-style-type: none"> <li>• Perform rollforward procedures for internal controls</li> <li>• Finalize and perform year-end substantive procedures</li> <li>• Review other entities' reporting results and assess impact on audit</li> <li>• Perform remaining audit completion procedures and draft financial statement reviews</li> <li>• Reassess appropriateness of initial materiality thresholds</li> <li>• Evaluate any uncorrected audit differences and identified control deficiencies</li> <li>• Form audit conclusions</li> <li>• Discuss key issues with management</li> </ul>	<p><b>Perform Completion Activities</b></p> <ul style="list-style-type: none"> <li>• Obtain management's representations related to the financial statements</li> <li>• Evaluate subsequent events and assess need for related accrual or disclosure in financial statements</li> <li>• Obtain Attorney General assessment of litigation</li> <li>• Attend audit results meeting and perform required communications related to the audit</li> <li>• Issue reports and other deliverables, including Yellow Book Report and management letter</li> <li>• Conduct internal and external debrief on audit process</li> </ul>



## Risk Assessment Procedures



In conducting a risk-based audit, we perform the following procedures to determine areas that could be susceptible to material misstatements throughout the course of our audit:

- Review of Oversight Agency Publications:
  - Annual Information Statements
  - Comptroller’s Monthly Report on State Funds Cash Basis of Accounting
  - Division of the Budget documents on enacted budget
  - Comptroller’s Report on Enacted Budget
  - Attorney General’s press releases
  - Inspector General’s press releases
  - Governor’s press releases
  - OSC press releases
- Consideration of Internal and External Audits:
  - Review audits completed by OSC
  - Review major agencies’ internal and external audits
- Monitoring of Current Trends and Topics:
  - KPMG industry and accounting publications
  - Media coverage
- Periodic Meetings with Specific Agencies, including:
  - Department of Health
  - Department of Labor
  - Department of Taxation and Finance
  - Department of Transportation
  - Division of the Budget
  - New York State Inspector General
  - Office of the Attorney General
  - Office of Child and Family Services
  - Office of General Services
  - Office of the State Comptroller
  - Office of Temporary Disability Assistance
  - State Education Department



## 2014 Audit Considerations



### Financial Statement Audit and Accounting Matters

We identify audit and accounting matters that could have a material impact on the State's financial statements. We then consider these matters when developing our audit approach and tailor our procedures to address these risks.

<i>Material routine transactions</i>	<i>Significant estimates</i>	<i>Non-routine transactions</i>
<ul style="list-style-type: none"> <li>• Cash and investments</li> <li>• Tax revenues and deferred revenues</li> <li>• Federal grant revenues and receivables</li> <li>• Public health/patient fees revenue</li> <li>• Local Assistance Grant expenditures</li> <li>• Employee compensation expense and related accruals</li> <li>• Vendor service expense and related accounts</li> <li>• Debt management and compliance</li> <li>• Capital assets</li> <li>• Unemployment insurance</li> <li>• Interfund transfers and due to/from other funds</li> </ul>	<ul style="list-style-type: none"> <li>• Medicaid liability</li> <li>• Deferrals and disallowances</li> <li>• Other postemployment benefit (OPEB) obligations</li> <li>• Workers' compensation liability</li> <li>• Litigation accrual</li> <li>• Tax receivable and tax refund payable</li> <li>• Interest rate swap</li> </ul>	<ul style="list-style-type: none"> <li>• Determination of financial reporting entity</li> <li>• Superstorm Sandy-related transactions</li> <li>• Adoption of new accounting standards:               <ul style="list-style-type: none"> <li>– GASB 61, <i>The Financial Reporting Entity: Omnibus, an Amendment of GASB Statements No. 14 and No. 34</i></li> <li>– GASB 65, <i>Items Previously Reported as Assets and Liabilities</i></li> <li>– GASB 66, <i>Technical Corrections 2012, an Amendment of GASB Statements No. 10 and No. 62</i></li> </ul> </li> </ul>



## Information Risk Management



### In-Scope Applications by State Agency:

- Office of the State Comptroller (OSC):
  - PeopleSoft Application
  - Oracle database supporting PayServ
  - AIX (UNIX) operating system supporting PayServ
  - Windows Network supporting PayServ
  - Network Infrastructure supporting SFS
  - Data center review (OSC and SFS)
- Statewide Financial System (SFS):
  - PeopleSoft application Modules
  - Oracle database
  - Sun Solaris operating system
  - Cobol batch processing
- Department of Labor (DOL):
  - Unemployment Insurance (UI) Application
  - VSAM database supporting UI
  - Z/OS Operating System supporting UI
- Office for Information Technology Services (OITS):
  - Data centers located at Swan Street, Pearl Street and the State Office Campus
  - Backups and restorations
  - Batch jobs
  - OITS – HSEN Network
  - DOL – Unemployment Insurance (UI) System
  - DTF – CARTS and eMPIRE Systems
  - OTDA – Automated Claims System (ACS)
- Office for Temporary and Disability Assistance (OTDA):
  - Automated Claiming System (ACS)
  - Oracle DB supporting ACS
  - AIX (Unix) Operating System Supporting ACS
- Department of Health (DOH):
  - eMedNY
- Department of Taxation and Finance (DTF):
  - eMPIRE – Mainframe Application
  - DB 2 database supporting eMPIRE mainframe environment.
  - z/OS operating system supporting eMPIRE mainframe environment.
  - eMPIRE – WebSphere Distributed Application
  - AIX (Unix) Database supporting eMPIRE distributed environment
  - Operating System supporting eMPIRE distributed environment
  - CARTS Application
  - DB 2 database supporting CARTS
  - z/OS operating system supporting CARTS
  - Business processes: PIT, Corporate Tax, and Sales Tax

**Approach for NYS in-scope IT applications:**

- Obtain and document an understanding of relevant IT general controls
- Perform walkthroughs of the control processes and evaluate the design of the controls identified by management to address certain IT control risks, and determine reliance on the controls to mitigate these risks.
- For the controls to be relied upon, perform tests of operating effectiveness to achieve reliance.
- Review and test the following elements of IT general controls:
  - Access to Programs and Data
  - Program Changes
  - Program Development
  - Computer Operations
- In addition to evaluating IT general controls, we also evaluate and test certain application controls (automated controls) that are determined key by the engagement team:
  - Configuration setting controls
  - Three-way match controls
  - Edit controls
  - System access profiles
  - System interfaces



## New and Emerging Accounting Pronouncements



### ***GASB 67 – Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25***

- Effective for period ending March 31, 2015.
- Modifies financial reporting for stand alone pension plan financial statements and pension trust funds reporting as part of a primary government.

### ***GASB 68 – Accounting and Financial Reporting for Pensions & GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date***

- Effective for period ending March 31, 2016.
- Modifies financial reporting requirements related to pension benefits for sponsoring employers.

### ***GASB 69 – Government Combinations and Disposals of Government Operations***

- Effective for period ending March 31, 2015.
- Establishes financial reporting requirements for certain combination transactions involving governments.

### ***GASB 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees***

- Effective for period ending March 31, 2015
- Establishes financial reporting requirements for financial guarantees that are nonexchange transactions either extended or received by governmental entities.

A man in a grey suit and glasses is holding a newspaper and looking thoughtfully to the side. The background is a blurred office setting with a window showing a view of a city.

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**Thank you**



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