



New York State Financial Statement Audit

**A Meeting with the New York State Legislative Audit Committee
Fiscal Year Ending March 31, 2016**

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May 12, 2016





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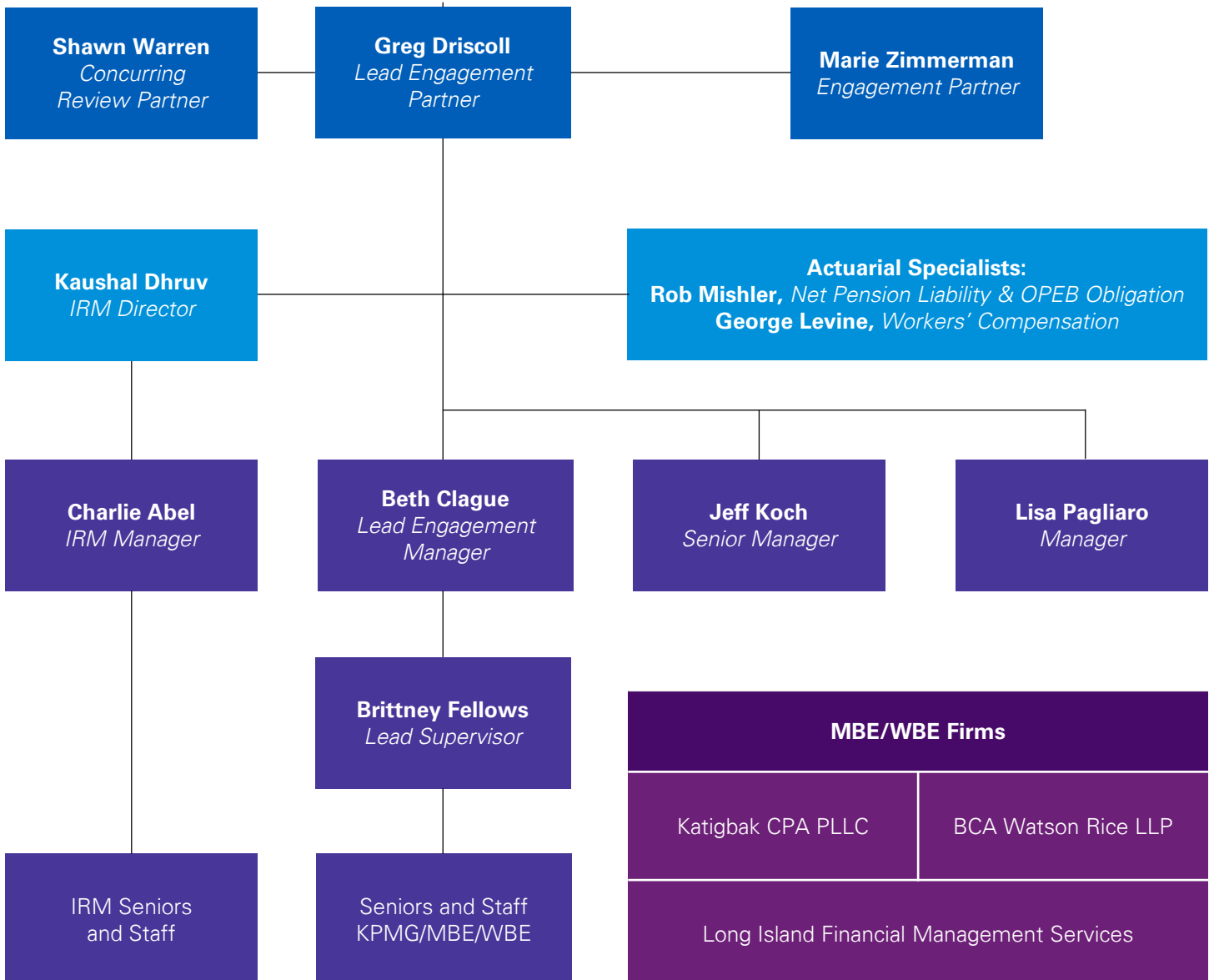
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NEW YORK STATE LEGISLATIVE AUDIT COMMITTEE

OFFICE OF THE STATE OF COMPTROLLER





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 25, 2016

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 instances of noncompliance with laws and regulations or fraud that have a material effect on the financial statements or otherwise warrant the attention of those charged with government
 - Any instances of noncompliance with grants and contracts or abuse considered material to the financial statements
 - Evaluation of these items is considered at the opinion unit level

Letter to the Legislative Audit Committee communicating matters addressed in SAS No. 114, *The Auditor's Communication with Those Charged with Governance*

- Letter includes:
 - Accounting practices and alternative treatments
 - Management judgments and accounting estimates
 - Uncorrected and corrected misstatements
 - Significant issues discussed with management
 - Confirmation of auditor independence

Management Letter:

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

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 those charged with governance 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 under *Government Auditing Standards* 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 Legislative Audit Committee is responsible for:

- Oversight of the financial reporting process and of the maintenance of effective ICFR

Management and the Legislative 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 Legislative 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 U.S. Government Accountability Office
- Forming and expressing opinions about whether the financial statements that have been prepared by State management with the oversight of the Legislative 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 Legislative 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 related to the results of the audit, including significant matters, to management and the Legislative Audit Committee
- Reviewing other information not covered by our audit report in documents containing the audited financial statements

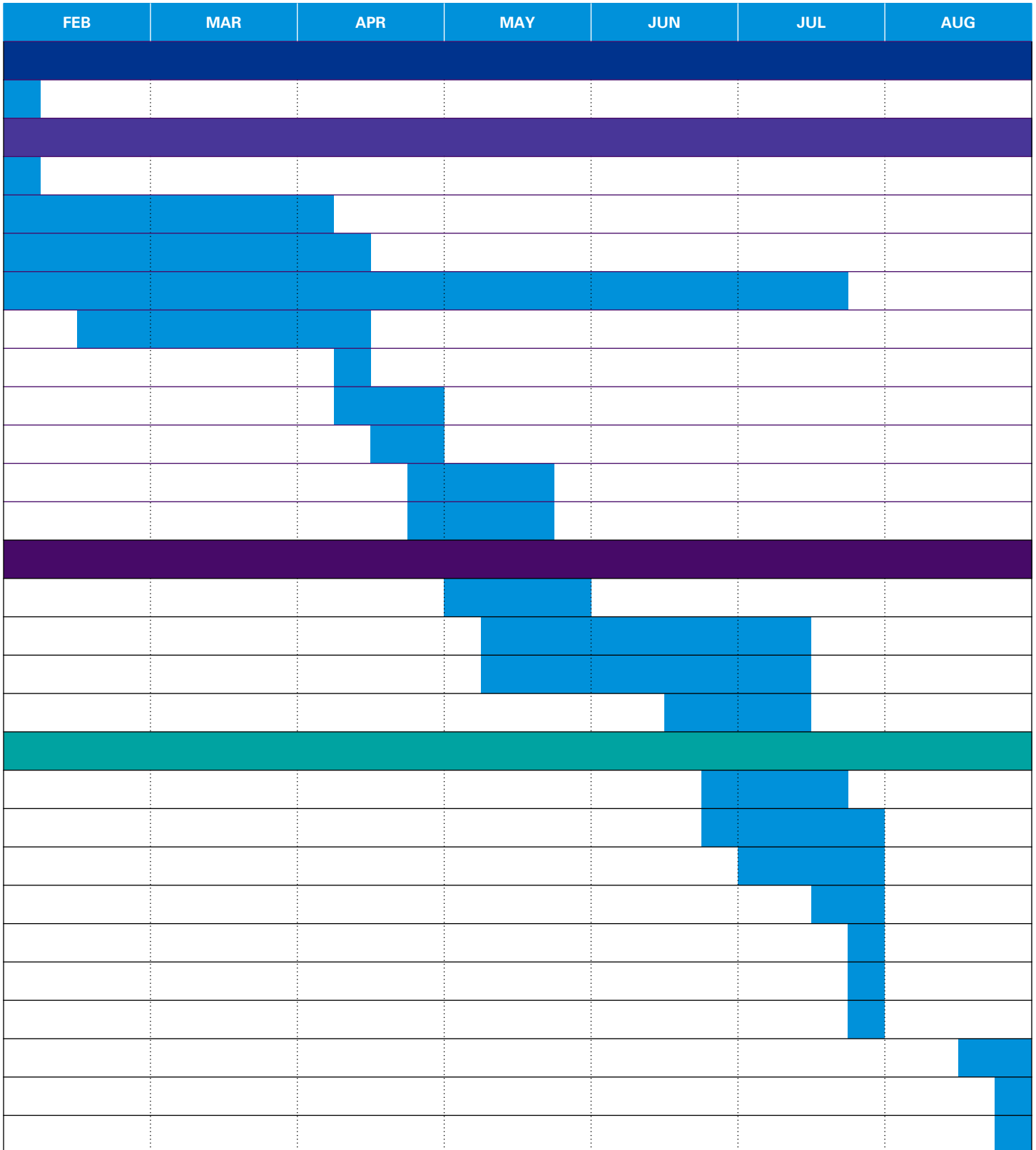


2016 audit timetable



Engagement Setup
— Perform initial engagement set-up and planning activities
Risk Assessment
— Conduct planning meeting with OSC Bureau of Financial Reporting (BFR) management to understand accounting and reporting activities relevant to the period under audit and evaluate impact on audit approach
— Identify critical accounting matters, including implementation of new accounting standards, and determine audit strategy
— Perform preliminary risk assessment and planning procedures, including determination of significant accounts/disclosures and quantitative materiality thresholds
— Hold routine status meetings with BFR to communicate audit progress and discuss any new developments that may impact audit approach
— Evaluate entity level controls, including general IT controls
— Present audit plan to OSC management and NYS Legislative Audit Committee
— Review internal and external audit reports
— Hold entrance conferences with key agencies
— Perform walkthroughs of significant business processes
— Evaluate design and implementation of key controls
Testing
— Test operating effectiveness of key controls
— Perform substantive analytical procedures and/or tests of details over significant accounts and disclosures
— Evaluate critical accounting matters and issues
— Review enterprise fund component unit stand-alone reporting results and assess impact on audit
Completion
— Review and comment on draft financial statements provided by management
— Evaluate subsequent events
— Reassess appropriateness of preliminary materiality thresholds and audit evidence obtained
— Form audit conclusions
— Obtain management's representations related to the financial statements
— Obtain Attorney General assessment of litigation
— Issue audit reports
— Issue other deliverables, including Yellow Book Report and management letter
— Hold exit conferences with key agencies
— Present final audit results to OSC management and NYS Legislative Audit Committee

2016 audit timetable



KPMG's audit approach and methodology

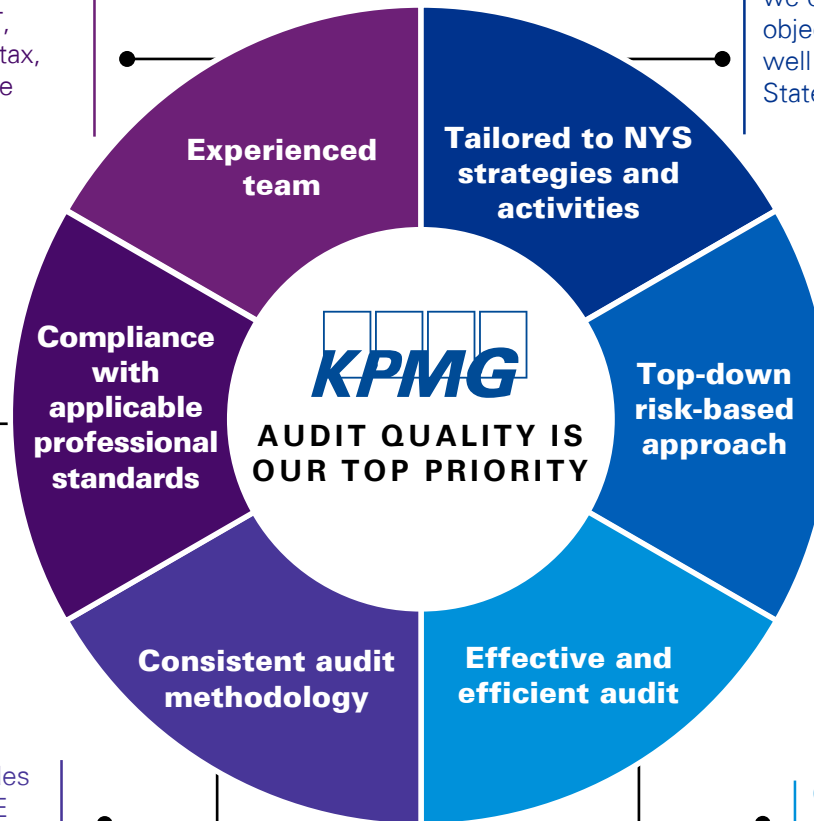


We have an experienced team that includes individuals specializing in:

Implementation of the GASB 68 pension standard, IT, actuarial assumptions, tax, forensics, and derivative reporting.

KPMG has systems and processes in place to monitor compliance with professional standards.

Our team, which includes both KPMG and MWBE professionals, utilizes consistent technology and methodology to conduct our audit.



In developing our Audit Plan, we consider the State's objectives and strategies, as well as challenges facing the State, in 2016.

We work closely with management to understand the significant risks to accounting and financial reporting, including changes in the State's operating environment, which may impact our audit approach. Our Audit Plan outlines our assessment of these risks and highlights specific areas of focus for 2016.

Our audit approach is based on communication and coordination with management throughout the year to identify and respond to issues.

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
- Routine status meetings with OSC Bureau of Financial Reporting throughout the audit
- Periodic Meetings with Specific Agencies, including:
 - Department of Health (DOH)
 - Department of Labor (DOL)
 - Department of Taxation and Finance (DTF)
 - Department of Transportation (DOT)
 - Division of the Budget (DOB)
 - New York State Inspector General (IG)
 - Office of the Attorney General (AG)
 - Office of Child and Family Services (OCFS)
 - Office of General Services (OGS)
 - Office of Temporary and Disability Assistance (OTDA)
 - NY State Education Department (SED)





Processes reviewed during the audit

- Appropriations and Segregations (Accounting Operations)
- Financial Reporting and General Ledger Reconciliations (Financial Reporting)
- Cash and Investments (Pension Investment and Cash Management)
- Sole Custody Account Reconciliations (Accounting Operations)
- Cash Receipts (Accounting Operations)
- Debt (Budget Policy and Analysis, Financial Reporting)
- Payroll (State Payroll Services, BSC)
- Civil Service Benefit Operations (Department of Civil Service)
- Purchase Orders and Contracts (Contracts)
- Expenditures and Disbursements (State Expenditures)
- Contract and Voucher Payment (State Expenditures)
- Miscellaneous Revenue – HCRA Fees (DOH)
- Journal Vouchers (Accounting Operations)
- Capital Assets (OSC, OGS, DOT, DASNY)
- Federal Draw Downs (Accounting Operations)
- Tax and Miscellaneous Cash Receipts (DTF, State Expenditures and OSC Revenue Unit)
- Tax Refunds (DTF and State Expenditures)
- Processing and Recording of Medicaid Expenditures (DOH)
- Unemployment Insurance Collections and Reconciliations (DOL)
- Unemployment Payments (DOL and State Expenditures)

Consideration of entity-wide internal controls

- Fraud and ethics programs
- Human resource policies and procedures
- Review and oversight by control agencies and those charged with governance



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.

Material routine transactions	Significant estimates and valuations	Other areas of focus
<ul style="list-style-type: none"> — Cash and investments — Tax revenues and related deferred inflows of resources — Federal grant revenues and receivables — Public health/patient fees revenue — Local assistance grant expenditures — Employee compensation expenses/expenditures and related accruals — Vendor service expenses/expenditures and related accruals — Debt management and compliance — Capital assets — Unemployment insurance — Interfund transfers and due to/from other funds — Equity classification 	<ul style="list-style-type: none"> — Medicaid liability — Disallowance of Federal awards — Other postemployment benefit (OPEB) obligations — Workers’ compensation liability — Litigation accrual — Tax receivable and tax refund payable — Interest rate swap valuations — Net pension liability 	<ul style="list-style-type: none"> — Determination of financial reporting entity — Adoption of new pension accounting standards — Department of Financial Services compliance settlements — Delivery System Reform Incentive Program (DSRIP) and Basic Health Program (BHP)



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
 - Statewide Financial System (SFS)
 - Data center review (OSC)
- Department of Labor (DOL):
 - Unemployment Insurance (UI) Application
 - VSAM database supporting UI
 - Z/OS Operating System supporting UI
- Department of Taxation and Finance (DTF):
 - eMPIRE – WebSphere Distributed Application
 - AIX (Unix) Database supporting eMPIRE distributed environment
 - Operating System supporting eMPIRE distributed environment
 - CARTS Application
 - DB 2 database supporting CARTS and eMPIRE
 - Z/OS operating system supporting CARTS and eMPIRE
- Department of Health (DOH):
 - eMedNY
 - Distributed client/service environment
 - Mainframe environment
- Office for Information Technology Services (ITS):
 - Data centers located at Swan Street and the SUNY Nano Center
 - Backups and restorations
 - Batch jobs
 - Active Directory / Networks (HSEN & DTF)
- Statewide Financial System (SFS):
 - PeopleSoft Financials 9.2 (Statewide Financial System –SFS)
 - Design assessment procedures over general IT controls
 - Design assessment procedures over SFS upgrade
 - Oracle Database supporting SFS
 - Unix operating system supporting SFS

Information risk management



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 to be key by the engagement team:
 - Automated configurable controls and/or calculations
 - Restricted access / segregation of duties
 - Key system-generated reports
 - Key system interfaces
 - Other system-generated information





GASB Statement No. 68 – Accounting and Financial Reporting for Pensions

- Effective for period ending March 31, 2016
- Addresses accounting and financial reporting for pension benefits provided by governmental employers

GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date

- Effective for period ending March 31, 2016
- Provides a technical clarification associated with reporting contributions made subsequent to the measurement date in the year of transition to GASB Statement No. 68

GASB Statement No. 72 – Fair Value Measurement and Application

- Effective for period ending March 31, 2017
- Addresses accounting and financial reporting issues related to the determination of fair value measurements and application of fair value for investments

GASB Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to GASB Statements 67 and 68

- Effective for periods ending March 31, 2017 and 2018
- Addresses accounting and financial reporting for pension benefits related to pension plans not administered through a trust
- Provides certain technical corrections and clarification of provisions of GASB Statements 67 and 68

GASB Statement No. 74 – Financial Reporting for Postemployment Benefits Other Than Pension Plans

- Effective for period ending March 31, 2018
- Modifies financial reporting requirements related to plans through which postretirement benefits other than pensions are provided

GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

- Effective for period ending March 31, 2019
- Modifies financial reporting requirements related to postretirement benefits other than pensions provided by governmental employers

GASB Statement No. 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

- Effective for period ending March 31, 2017
- Reduces GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative literature and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP

GASB Statement No. 77 – Tax Abatement Disclosures

- Effective for period ending March 31, 2017
- Requires new disclosures related to tax abatement agreements as defined in the standard

GASB Statement No. 78 – Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans

- Effective for period ending March 31, 2017
- Provides guidance for accounting and financial reporting for pension benefits provided through nongovernmental multiple-employer plans

GASB Statement No. 79 – Certain External Investment Pools and Pool Participants

- Effective for period ending March 31, 2017
- Provides guidance on when external investment pools can report its investments at amortized costs and the impact on pool participants

New and emerging accounting pronouncements



GASB Statement No. 80 – *Blending Requirements for Certain Component Units*

- Effective for period ending March 31, 2018
- Amends GASB Statement No. 14 to add an additional blending criterion for when the primary government is the sole corporate member of a non-profit corporation

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements*

- Effective for period ending March 31, 2018
- Provides measurement and recognition guidance for irrevocable split-interest agreements to which a government is a beneficiary

GASB Statement No. 82 – *Pension Issues*

- Effective for period ending March 31, 2018
- Addresses practice issues associated with the new pension standards raised by stakeholders during implementation

Other GASB Projects

- Asset Retirement Obligations
- Leases
- Fiduciary Activities





Thank you

