



cutting through complexity

New York State Financial Statement Audit

Fiscal Year Ending
March 31, 2015

*A Meeting with the State
Legislative Audit Committee*

May 14, 2015

kpmg.com



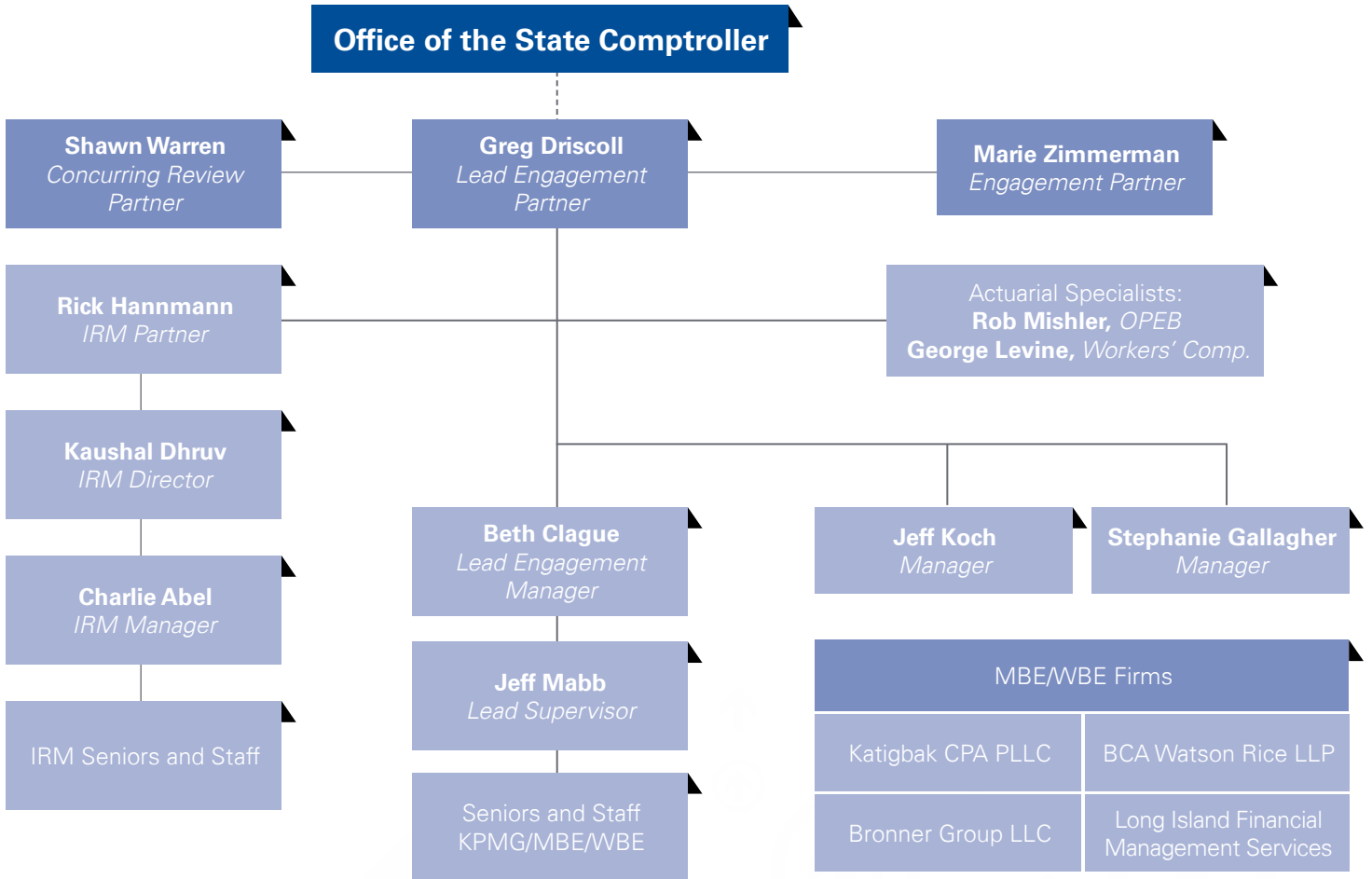


Engagement Plan

Table of Contents

| | |
|--|----|
| KPMG Engagement Team | 2 |
| Deliverables | 3 |
| Objective of an Audit..... | 4 |
| State of New York Responsibilities..... | 4 |
| KPMG Responsibilities..... | 5 |
| KPMG’s Audit Approach and Methodology | 6 |
| 2015 Audit Timetable..... | 7 |
| Risk Assessment Procedures | 8 |
| 2015 Audit Considerations | 9 |
| Information Risk Management..... | 10 |
| New and Emerging Accounting Pronouncements | 12 |

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 23, 2015

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, *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 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 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

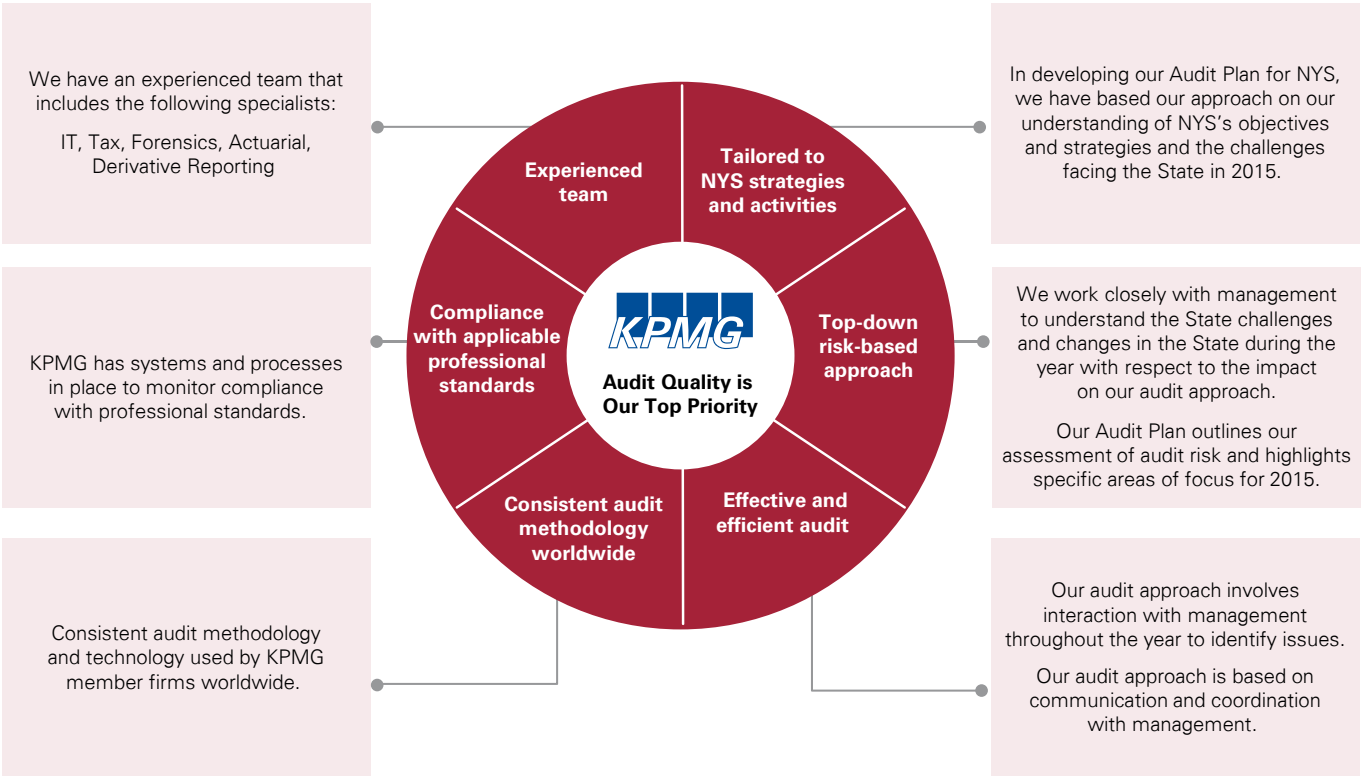


KPMG is responsible for:

- 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 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



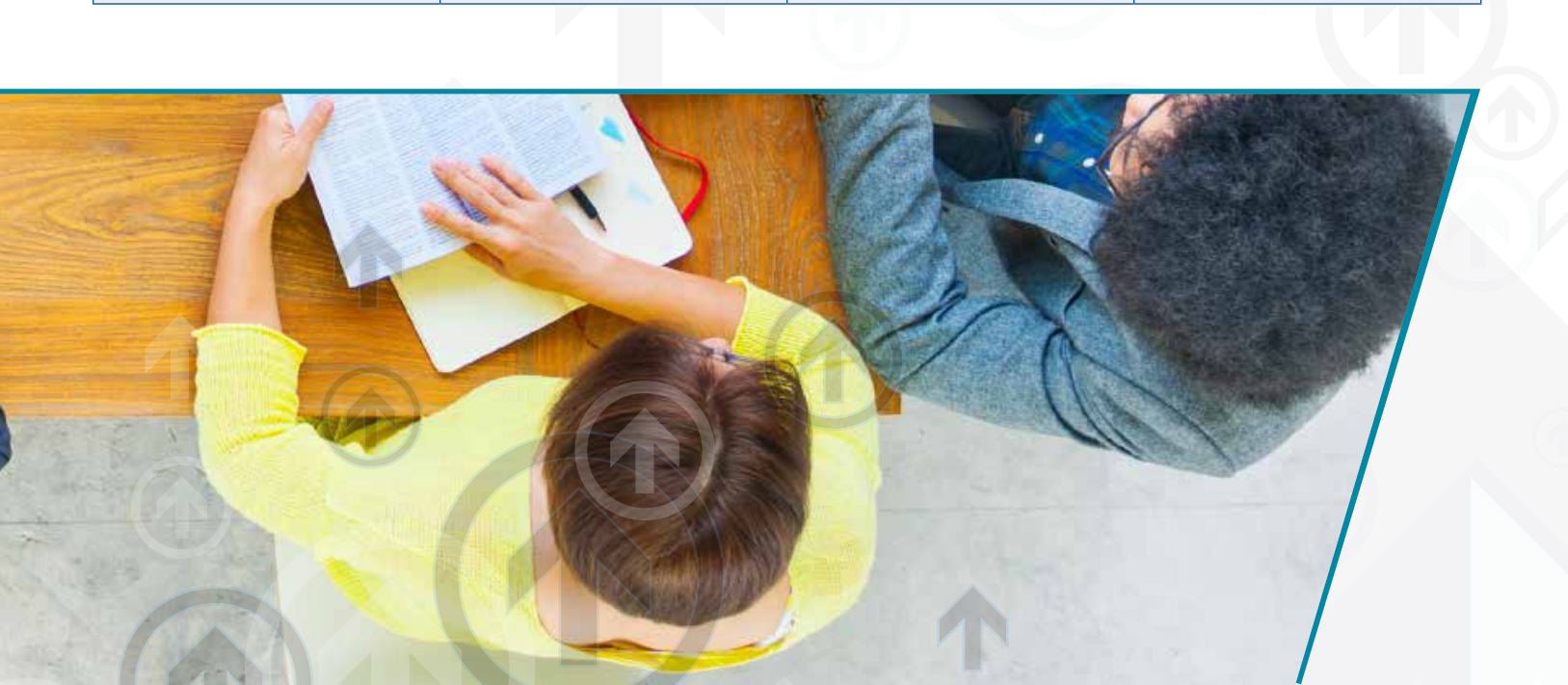
KPMG's Audit Approach and Methodology



2015 Audit Timetable



| January–April 2015 | April–May 2015 | June–July 2015 | June–August 2015 |
|--|---|---|---|
| <p>Perform Planning Activities</p> <ul style="list-style-type: none"> • Update our understanding of the State and its environment • Determine preliminary quantitative audit materiality thresholds • Review internal audit reports • Identify significant financial statement accounts and inherent risk associated with these accounts • Identify new audit and accounting pronouncements and their impact on the audit • Develop preliminary audit approach • Present audit plan to New York State management and the NYS Legislative Audit Committee • Hold agency entrance conferences | <p>Perform Interim Fieldwork</p> <ul style="list-style-type: none"> • Document our understanding of key operating processes • Document our understanding of accounting and financial reporting activities • Evaluate and test the design and implementation and operating effectiveness of selected entity-level and process-level controls, including general and application controls over key information systems • Determine substantive procedures based on preliminary results of control testing • Perform substantive procedures on select accounts | <p>Perform Final Fieldwork</p> <ul style="list-style-type: none"> • Perform rollforward procedures related to internal control testing • Finalize and perform year-end substantive procedures • Review enterprise fund component unit stand-alone reporting results and assess impact on audit • Perform remaining audit completion procedures and draft financial statement reviews • Reassess appropriateness of preliminary materiality thresholds • Evaluate any uncorrected audit differences and identified control deficiencies • Form audit conclusions • Discuss key issues with management | <p>Perform Completion Activities</p> <ul style="list-style-type: none"> • Obtain management’s representations related to the financial statements • Evaluate subsequent events and assess need for related accrual or disclosure in financial statements • Obtain Attorney General assessment of litigation • Present audit results and perform required communications related to the audit • Issue reports and other deliverables, including Yellow Book Report and management letter • Conduct internal and external debrief on audit process |



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



2015 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"> • 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 | <ul style="list-style-type: none"> • New York State of Health benefit exchange transactions • Superstorm Sandy-related transactions • Determination of financial reporting entity • Adoption of new accounting standards: <ul style="list-style-type: none"> – GASB 67, <i>Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25</i> – GASB 69, <i>Government Combinations and Disposals of Government Operations</i> (if applicable) – GASB 70, <i>Accounting and Financial Reporting for Nonexchange Financial Guarantees</i> • Department of Financial Services compliance settlements • Delivery System Reform Incentive Program (DSRIP) and Vital Access Program (VAP) transactions • Tribal casino settlements • OPWDD OMS Settlement Agreement |



Information Risk Management



In-Scope Applications by State Agency:

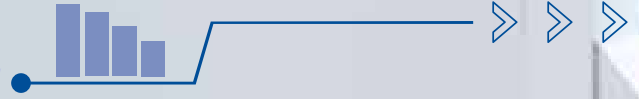
- Office of the State Comptroller (OSC):
 - PeopleSoft Application
 - Oracle database supporting PayServ
 - AIX (UNIX) operating system supporting PayServ
 - Windows Network supporting PayServ
 - PayServ Upgrade
 - Data center review (OSC)
- Department of Labor (DOL):
 - Unemployment Insurance (UI) Application
 - VSAM database supporting UI
 - Z/OS Operating System supporting UI
- Department of Taxation and Finance (DTF):
 - eMPIRE – 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
- 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
 - Distributed client/service environment
 - Mainframe environment
- Office for Information Technology Services (OITS):
 - Data centers located at Swan Street, Pearl Street and the SUNY Nano Center
 - Backups and restorations
 - Batch jobs
 - OITS – Network
 - DOL – Unemployment Insurance (UI) System
 - DTF – CARTS and eMPIRE Systems
 - OTDA – Automated Claiming System (ACS)

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:
 - Configuration setting controls
 - Three-way match controls
 - Edit controls
 - System access profiles
 - System interfaces



New and Emerging Accounting Pronouncements and Other Key GASB Projects



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 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

Other Key GASB Projects

- Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
- Tax Abatement Disclosures







kpmg.com

Restriction on Disclosure and Use of Data

The data in this document contains proprietary information and is the intellectual property of KPMG LLP, the disclosure of which would provide a competitive advantage to others. As a result, this document shall not be disclosed, used or duplicated – in whole or in part – for any purpose and is restricted for use to the State of New York Office of the State Comptroller.

© 2015 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. Printed in the U.S.A. The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International. NDPPS 376817