



KPMG LLP
515 Broadway
Albany, NY 12207-2974

Telephone +1 518 427 4600
kpmg.com

January 23, 2017

Mr. John Traylor
Executive Deputy Comptroller for Operations
Office of the State Comptroller
110 State Street
Albany, New York 12236

Dear Mr. Traylor:

This letter (the Engagement Letter) confirms our understanding of our engagement to provide professional services to the State of New York Office of the State Comptroller (the State).

Objectives and Limitations of Services

Financial Statement Audit Services

You have requested that we audit the State's basic financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, with the objective of expressing opinions as to whether the presentation of the basic financial statements, that have been prepared by management with the oversight of those charged with governance, conforms with U.S. generally accepted accounting principles.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to error or fraud, to provide a reasonable basis for our opinion on the basic financial statements. We also will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluate the overall basic financial statement presentation.

Our audit of the basic financial statements will be planned and performed to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. Also, an audit is not designed to detect matters that are immaterial to the basic financial statements, and because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to detect abuse.



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We will also perform certain limited procedures to the required supplementary information as required by auditing standards generally accepted in the United States of America. However, we will not express an opinion or provide any assurance on the information. Our report relating to the basic financial statements will include our consideration of required supplementary information.

Subject to the remainder of this paragraph, we will issue a written report upon completion of our audit of the State's basic financial statements addressed to the Legislative Audit Committee of New York State (the Committee). We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions, add emphasis-of-matter or other-matter paragraphs or withdraw from the engagement. If, during the performance of our audit procedures, such circumstances arise, we will communicate to the Committee our reasons for modification or withdrawal.

Management agrees to provide KPMG LLP (KPMG) a draft of its Comprehensive Annual Financial Report (CAFR) that includes the basic financial statements prior to the report release date of the audited basic financial statements, or, if that is not possible, as soon as practicable prior to the release of the CAFR. We will read the other information contained in the CAFR in order to identify material inconsistencies, if any, with the audited financial statements. However, we will not perform procedures to corroborate the other information.

Internal Control over Financial Reporting and Compliance and Other Matters

In making our risk assessments as part of planning and performing our audit of the basic financial statements, we will consider the State's internal control relevant to the preparation and fair presentation of the basic financial statements in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing opinions on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of the State's internal control.

As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of State's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the basic financial statements. However, our objective is not to provide an opinion on compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the basic financial statements. While the objective of our audit of the basic financial statements is not to report on the State's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the basic financial statements, this report will include any material weaknesses and significant deficiencies to the extent they come to our attention. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the basic financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. This report will also include instances of:

- Fraud and noncompliance with provisions of laws or regulations that have a material effect on the basic financial statements or other financial data significant to the audit objectives and any other instances that warrant the attention of those charged with governance;



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- Noncompliance with provisions of contracts or grant agreements that have a material effect on the determination of basic financial statement amounts or other financial data significant to the audit objectives; or
- Abuse that is material, either quantitatively or qualitatively.

The report will describe its purpose and will state that it is not suitable for any other purpose.

In accordance with *Government Auditing Standards*, we will issue a management letter to communicate instances of noncompliance with provisions of contracts or grant agreements or abuse that have an effect on the basic financial statements that is less than material but warrant the attention of those charged with governance.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the auditee.

Offering Documents

Should the State wish to include or incorporate by reference these basic financial statements and our audit report thereon into an offering of exempt securities, prior to our consenting to include or incorporate by reference our report on such basic financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the basic financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future offering documents will be determined at the time the services are to be performed.

Should the State wish to include or incorporate by reference these basic financial statements and our audit report thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our report on such basic financial statements, and we are not otherwise associated with the offering document, then the State agrees to include the following language in the offering document:

“KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the basic financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement.”

Our Responsibility to Communicate with the Legislative Audit Committee

We will report to the Committee, in writing, the following matters:

- Material, corrected misstatements that were brought to the attention of management as a result of audit procedures.



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- Uncorrected misstatements accumulated by us during the audit and the effect that they, individually or in the aggregate, may have on our opinions in the auditor's report, and the effect of uncorrected misstatements related to prior periods.
- Significant difficulties and disagreements with management, if any, encountered during our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

We will also read minutes, if any, of Committee meetings for consistency with our understanding of the communications made to the Committee and determine that the Committee has received copies of all material written communications between ourselves and management. We will also determine that the Committee has been informed of: i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

To the extent that they come to our attention, we will inform the appropriate level of management about any illegal acts, unless they are clearly inconsequential, material errors in the basic financial statements and any instances of fraud. Further, to the extent they come to our attention, we also will communicate directly to the Committee illegal acts, unless they are clearly inconsequential, material errors in the basic financial statements and any instances of fraud that involve senior management or that, in our judgment, cause a material misstatement of the basic financial statements.

Management Responsibilities

The management of the State acknowledges and understands that they have responsibility for the preparation and fair presentation, in accordance with U.S. generally accepted accounting principles, of the basic financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the State complies with laws, regulations, contracts, and grant agreements applicable to its activities, and for informing us of any known material violations of such laws and regulations and provisions of contracts and grant agreements. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the basic financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the basic financial statements whether due to error or fraud. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls. The audit of the basic financial statements does not relieve management or those charged with governance of their responsibilities.

Management of the State also acknowledges and understands that it is their responsibility to provide us with: i) access to all information of which management is aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation, and other matters; ii) additional information that we may request from management for purposes of the audit; and iii) unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. As required by auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the basic financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written



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representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming opinions on the basic financial statements.

To facilitate our audit planning, in accordance with *Government Auditing Standards*, management agrees to identify and provide copies of reports, if applicable, of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented, prior to April 30th of each year.

Management is responsible for adjusting the basic financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the basic financial statements being reported upon, taken as a whole. Because of the importance of management's representations to the effective performance of our services, the State will release KPMG and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost or expense, whether in contract, statute, tort or otherwise.

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAGAS report within 14 days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the report, the report will indicate the status of management's responses.

Management is responsible for the distribution of reports issued by KPMG.

Other Matters

In the event that any term or provision of this Engagement Letter shall be held to be invalid, void or unenforceable, then the remainder of the Engagement Letter shall not be affected, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

This letter shall serve as the State's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the State and between KPMG and outside specialists or other entities engaged by either KPMG or the State, in accordance with Section XI of the Agreement.

Further, for purposes of the services described in this letter only, the State hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all logos, trademarks and service marks of the State solely for presentations or reports to the State or for internal KPMG presentations and intranet sites related to the Agreement.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.

The audit documentation for this engagement is the property of KPMG. In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents and/or testimony relating to this engagement for the State in judicial or administrative proceedings to which KPMG is not a party, the State shall



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reimburse KPMG at standard billing rates for its professional time and expenses, including attorney's fees deemed by the State to be reasonable, incurred in responding to such requests.

Pursuant to *Government Auditing Standards*, we are required to make certain audit documentation available in a full and timely manner to regulatory agencies upon request for their reviews of audit quality and for use by their auditors. In addition, we may also be requested to make certain audit documentation available to other regulators pursuant to authority provided by law or regulation. If so requested, access to such audit documentation will be provided. Furthermore, other regulators may obtain copies of selected audit documentation. Such regulators may intend, or decide, to distribute the copies or information contained therein to others, including other government agencies.

KPMG, as an accounting firm, has an obligation to comply with applicable professional standards. Certain professional standards, including AICPA Code of Professional Conduct Section 1.700, "Confidential Client Information Rule," adopted by the American Institute of Certified Public Accountants and similar rules adopted by the boards of accountancy of many states, prohibit the disclosure of client confidential information without client consent, except in limited circumstances. KPMG represents to the State that KPMG will treat the State's confidential information in accordance with applicable professional standards and Section XI of the Agreement.

KPMG uses the services of KPMG controlled entities, KPMG member firms and/or third party service providers to provide professional services and administrative, analytical and clerical support. These parties may have access to certain of your information with the understanding that the confidential information will be maintained under information controls providing equivalent protection as our own. You also understand and agree that KPMG aggregates your information with information from other sources for the purpose of improving audit quality and service, and for use in presentations to clients and non-clients in a form where it is sufficiently de-identified so as not to be attributable to the State or where the State could be identified as a source of the information.

Except as otherwise provided for in this Engagement Letter, neither party may assign, transfer or delegate any of its rights, obligations, claims or proceeds from claims arising under or relating to this Engagement Letter (including by operation of law, in which case the assigning party will, to the extent legally permissible, give as much advance written notice as is reasonably practicable thereof) without the prior written consent of the other party, such consent not to be unreasonably withheld. Any assignment in violation hereof shall be null and void.

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

Additional Reports and Fees for Services

Appendix I to this letter lists the additional reports we will issue as part of this engagement and our fees for professional services to be performed under this letter.

Our engagement herein is for the provision of annual audit services for the financial statements for the periods described in Appendix I, and it is understood that such services are provided as a single annual engagement. Pursuant to our arrangement as reflected in this letter, we will provide the services set forth in Appendix I as a single engagement for each of the State's subsequent fiscal years under the existing agreement.



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In accordance with your instructions, we have forwarded a copy of this letter to the members of the Legislative Audit Committee of the New York State Legislature.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the basic financial statements including our respective responsibilities.

Very truly yours,

KPMG LLP

Gregory Driscoll
Partner

GD:bac:md

Enclosures

ACCEPTED

Office of the State Comptroller

Authorized Signature

Exec. Deputy Comptroller
Title

1/31/17
Date

Office of the State Comptroller

Authorized Signature

Director of Finance
Title

2-2-17
Date

Fees for Services

Based upon our agreement C000952, our fees for services we will perform are estimated as follows:

Cost Proposal for Review of Controls of eMedNY	\$ 208,080
Audit of the State's Annual Financial Statements	<u>1,426,270</u>
Audit of the financial statements, including eMedNY audit services, of the State of New York as of and for the year ending March 31, 2017	<u>\$1,634,350</u>

The above estimates are based on the level of experience of the individuals who will perform the services. Circumstances encountered during the performance of these services that warrant additional time (for example, time associated with new or forthcoming audit requirements, such as GASB Statement No. 77, *Tax Abatement Disclosures*) or expense will be brought to the attention of OSC in accordance with the Agreement.

Our fees will be billed every month as charges are incurred. The ethics of our profession prohibit the rendering of professional services where the fee for such services is contingent, or has the appearance of being contingent, upon the results of such services. Accordingly, in order to avoid the possible implication that our fee is contingent upon the success of the contemplated offering, it is important that our bills be paid promptly when rendered. If a situation arises in which it may appear that our independence would be questioned because of significant unpaid bills, we may be prohibited from signing our audit report and consent.



System Review Report

To the Partners of KPMG LLP
And the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, an audit performed under FDICIA, audits of a carrying broker-dealers, and examinations of services organizations [Service Organizations Control (SOC 1) engagements].

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

PricewaterhouseCoopers LLP

December 5, 2014