

STATE OF NEW YORK  
DIVISION OF THE BUDGET

Internal Control Report

October 1, 2017 through September 30, 2018

DIVISION OF THE BUDGET

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## INDEPENDENT ACCOUNTANTS' REPORT

Director of the Budget  
Division of the Budget  
State of New York:

We have examined management's assertion included in its representation letter dated October 4, 2018 that the New York State Division of the Budget's internal controls maintained during the period October 1, 2017 through September 30, 2018, are sufficient to meet the criteria for maintaining internal control as established in the "New York State Governmental Accountability, Audit and Internal Control Act." The New York State Division of the Budget's management is responsible for maintaining internal controls. Our responsibility is to express an opinion on whether internal control is adequate to meet such criteria based on our examination. The significant objectives and relevant controls supporting management's assertion are in the accompanying Appendix A.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Government Auditing Standards, issued by the Comptroller General of the United States and, accordingly, included obtaining an understanding of internal controls over accounting and administrative operations, testing, and examining the design and operating effectiveness of the internal controls, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination did not constitute an audit of any financial statement prepared by the New York State Division of the Budget, nor did it constitute an economy and efficiency or program audit described by the Government Auditing Standards.

Because of inherent limitations in any internal control, misstatements due to errors or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over administrative operations to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We understand that the New York State Division of the Budget considers the controls referred to in the first paragraph of this report that meet the criteria for maintaining internal control as established by the "New York State Governmental Accountability, Audit and Internal Control Act." In our opinion, based on this understanding and on our examination, the New York State Division of the Budget's internal controls maintained during the period October 1, 2017 through September 30, 2018, are sufficient, in all material respects, to meet the criteria established by the "New York State Governmental Accountability, Audit and Internal Control Act," based upon such criteria.

This report is intended for the information of the New York State Division of the Budget and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

EFPR Group, CPAs, PLLC

Williamsville, New York  
October 4, 2018

DIVISION OF THE BUDGET  
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

**BUDGET EXECUTION AND MONITORING**

SIGNIFICANT OBJECTIVES

To approve budget journals which allocate funds in accordance with the enacted budget, the State's Financial Plan, and the purpose for which the funds were appropriated, as defined by law and appropriation language.

RELEVANT CONTROLS

- Approp - Examiners prepare and submit a budget journal to their supervisor to reserve appropriation, as necessary.
- Approp - Supervising examiner reviews the budget journal to reserve appropriation and submits to section head or unit chief.
- Approp - Section head or unit chief approves (rejects) or modifies the budget journal to reserve appropriation.
- Cash - Examiners prepare and submit a budget journal to their supervisor to establish a ceiling, as necessary.
- Cash - Supervising examiner reviews the budget journal to establish a cash ceiling and approves.

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DIVISION OF THE BUDGET  
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

**BUDGET EXECUTION AND MONITORING**

SIGNIFICANT OBJECTIVES

To identify significant variations between actual cash receipts and disbursements and the estimates included in the Financial Plan.

RELEVANT CONTROLS

- Examiner and section head compare actual receipts and disbursements to projections on a monthly basis and identify significant variations.
- Examiner and section head analyze and obtain explanations for the variations.
- On a daily basis, an operations summary is prepared which recaps actual general fund receipts and disbursements compared to daily cash flow projections and provided to the Expenditure/Debt Unit (ETU) and Revenue Unit.
- The monthly cash flow report is prepared by ETU staff, reviewed by the section head(s) and submitted to the assistant unit chief and unit chief for review. It may also be submitted to the budget director.
- Monthly cash flows for the general fund are maintained and revised quarterly in conjunction with Financial Plan updates.

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DIVISION OF THE BUDGET  
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

**BUDGET EXECUTION AND MONITORING**

SIGNIFICANT OBJECTIVES

To monitor debt issuance/bonding consistent with the requirements of capital disbursements.

RELEVANT CONTROLS

- Examiner reviews estimates of capital disbursements submitted by State agencies, authorities, and public benefit corporations, and, with representatives of the Office of the State Comptroller (OSC) and the bonding entity, sets up the bonding schedule.
- Examiner ensures that the bonding plan is on schedule to be presented to the Board of Directors of the Public Authority and the Public Authorities Control Board for their approval or disapproval.
- Examiner prepares or revises material to be in the Official Statement. Source documents used include the State's Financial Plan, State's annual report, previous Official Statements, and New York City reports, if applicable.
- Section head reviews Official Statement support and with the examiner meets with OSC staff, bond underwriters, bond counsel and rating agencies to understand and confirm the specific bonding requirements.
- The Official Statement is sent to the rating agencies. The rating agencies release the ratings for the bonds, which cannot be sold without ratings.
- Examiner revises and updates the Official Statement draft as circumstances warrant and prepares the bond certificates.
- Examiner prepares disclosure certificates and related contracts for the signature of the budget director. Documents are reviewed by the team leader, section head and unit head.
- Budget director signs the corresponding bond deal contracts.

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DIVISION OF THE BUDGET  
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

**BUDGET EXECUTION AND MONITORING**

SIGNIFICANT OBJECTIVES

To evaluate State plans, promulgated rates and related allocations for health, mental health and social services programs to ensure consistency with Federal requirements, and State policies, statutes and regulations to the extent that the Division of the Budget (DOB) is statutorily required to review such plans.

RELEVANT CONTROLS

State Plans

- A log of plans received and processed is maintained.
- Examiner reviews proposed plans or amendments to determine if they meet Federal requirements and whether it reflects agreements reached by the State.
- Examiner reviews program plans or amendments, and researches statute and regulation, to determine if the plan is in conformity with State legislative intent, regulations, and policies.
- Examiner analyzes the plan to determine potential fiscal impact and whether State financial or administrative responsibilities can be accommodated within the Financial Plan and Federal fund limits.
- Examiner assesses and considers coordination with other programs and funding streams and identifies issues of interest to other agencies.
- Examiner confers with section head (and unit head, when necessary) and makes recommendation on the plan or amendment to the agency.
- For certain plans, examiner, section head and unit head approve the plan for the Governor's signature, if applicable, and submission to the Federal government.

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DIVISION OF THE BUDGET  
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

**BUDGET EXECUTION AND MONITORING**

SIGNIFICANT OBJECTIVES

To evaluate State plans, promulgated rates and related allocations for health, mental health and social services programs to ensure consistency with Federal requirements, and State policies, statutes and regulations to the extent that the Division of the Budget is statutorily required to review such plans.

RELEVANT CONTROLS

Reimbursement Rates

- Agency submits request for a rate adjustment to the Division of the Budget. For local Medicaid rates, requests are submitted by the Department of Health to the Division of the Budget.
- A log is maintained and requests are date stamped and forwarded to the appropriate examiner. For local Medicaid rate adjustment requests from a non-Department of Health agency, the package is reviewed by both the Health Unit and the requesting agency's relevant unit.
- Examiner evaluates the request for conformity with relevant statutes, regulations, or administrative policies or guidelines and analyzes the potential fiscal impact on the State Financial Plan.
- Examiner prepares a preliminary recommendation for review by supervisors and the unit head.
- Supervising examiner initials the recommendation indicating approval and forwards to unit head for final review.
- Unit head reviews and approves the staff recommendation, and in cases where the budget director approval has been delegated to the unit head, approves the request. For local Medicaid rate adjustment requests from a non-Department of Health agency, the unit head of the relevant unit will give final approval upon the completion of the Health Unit's review and recommendation.

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DIVISION OF THE BUDGET  
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

**BUDGET EXECUTION AND MONITORING**

SIGNIFICANT OBJECTIVES

To develop and promulgate statewide fringe benefit and indirect cost billing rates to ensure proper funding of overhead cost.

RELEVANT CONTROLS

- The examiner reviews the fringe benefit and indirect cost plan, assures that all assumptions regarding cost and benefits are accurate, develops supporting documentation, and recommends approval or rejection of the rates and plan.
- The supervising examiner reviews the fringe benefit and indirect cost plan and supporting documentation for accuracy and clarity, discusses the appropriateness of the rates and plan with the examiner, and recommends approval or rejection of the rates and plan.
- Unit head reviews the fringe benefit and indirect cost plan and supporting documentation, discusses the appropriateness of the rates and cost plan with the General State Charges Team, and makes a final determination for approval of the rates and plan.
- The approved rates and plan are transmitted by the unit head to OSC which bills the "other funds" based on the approved rates. Commencing July 2019, the rates will be transmitted directly to the Statewide Financial System (SFS) for use by all State agencies, and billing will be automated through SFS.
- The rates and plan are submitted to the Department of Health and Human Services/ Cost Allocation Services, where applicable, for their review and approval.

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DIVISION OF THE BUDGET  
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

**BUDGET EXECUTION AND MONITORING**

SIGNIFICANT OBJECTIVES

To approve capital construction programs/projects consistent with appropriation language, compatible with agency expenditure plans and program goals, and other appropriate requirements.

RELEVANT CONTROLS

- Agency prepares and submits a budget journal in the SFS for the capital construction program/project to be awarded for proper funding source, amount and consistency with the program/project request as submitted.
- A log of all SFS budget journals is maintained and reviewed periodically.
- Examiner reviews the budget journal in SFS, and if properly prepared, the examiner submits the journal for approval to the supervising examiner and then section head.
- Supervising examiner and section head reviews the budget journal and approves or rejects the request.

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DIVISION OF THE BUDGET  
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

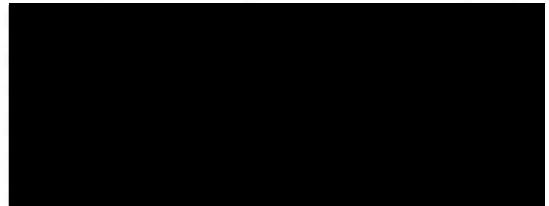
**BUDGET EXECUTION AND MONITORING**

SIGNIFICANT OBJECTIVES

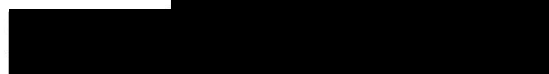
Access to significant computer system data files is appropriately restricted to authorized users and programs.

RELEVANT CONTROLS

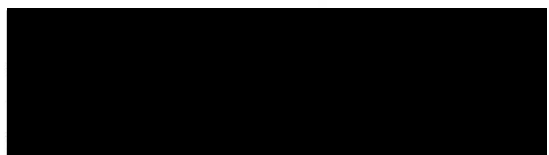
- Application access changes are submitted to the HELP desk on a user change request form.
- The HELP desk maintains a log of such requests and submits them to system support staff for processing.
- Written procedures identify the various steps used to add, modify or delete users for whom standard access is requested. ■



- Written procedures also describe the process used to grant non-standard access to DOB's applications and network, including granting of administrator rights and access to the non-production databases. ■



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INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

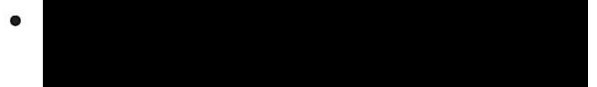
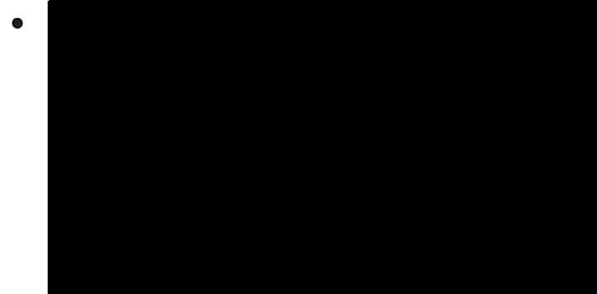
**BUDGET EXECUTION AND MONITORING**

SIGNIFICANT OBJECTIVES

To ensure that data received by the Division of the Budget is received completely and accurately from other state information technology systems.

RELEVANT CONTROLS

- Developers and business analysts are responsible for data integrity and maintain documentation on procedures followed and results obtained when information is imported.



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DIVISION OF THE BUDGET  
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

**BUDGET EXECUTION AND MONITORING**

SIGNIFICANT OBJECTIVES

To monitor non-General Fund revenues (Medicaid, third-party receipts, tuition, and user fees) in order to reduce the amount of general State revenue needed to fund these activities.

RELEVANT CONTROLS

- On a quarterly basis, with each Financial Plan update, estimates of certain cash receipts are prepared/adjusted by individual line unit budget examiners for each account in the Special Revenue, Capital Projects and Debt Service fund types. The Economics and Revenue Unit (ERU) prepares tax receipt estimates for all fund types and all receipt estimates for the General Fund. Such estimates are prepared and entered into the Budget Making System (BMS) in response to memorandums issued by the Budget Planning, Operations and Management Unit (BPU).
- The cash estimates are then analyzed by budget examiners in the ETU. The cash estimates are reviewed for consistency with current approved assumptions, Front Office policy direction, and recent and historical receipt/disbursement trends.
- If necessary, the responsible ETU budget examiner then consults with the appropriate line unit examiner to discuss any unexplained or unanticipated variances from previous cash estimates or prior year actuals. The ETU examiner may also discuss the reasonableness of projected growth rates with line unit examiner.
- All cash estimates by Financial Plan category and fund type, along with other related information, are presented to the unit head and assistant unit head, who will then conduct their own review of the cash estimates for consistency with current assumptions, program recommendations,

DIVISION OF THE BUDGET  
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

**BUDGET EXECUTION AND MONITORING**

RELEVANT CONTROLS

approved by the Front Office, and recent and historical receipts/disbursement trends.

- Based upon any or all of the reviews conducted above, ETU may determine a need to revise the cash estimates reflected in BMS by the line unit examiner. ETU will discuss the need for possible revisions with the appropriate line unit budget examiner, for entry by the line unit budget examiner into BMS.
- Throughout the review process, reports are produced by BMS that enable ETU to review estimates at various levels of detail, and in relation to various points in time. Accordingly, ETU staff will review information on a very detailed level. The unit head and assistant unit head may choose to review financial information on a more summarized level, such as by fund or fund type, and then ask for more detail where necessary. This allows all cash estimates to be reviewed by several individuals to ensure reliability and integrity of the Financial Plan.
- On a monthly basis, ETU staff will review monthly All Funds cash flow projections against actual results for large variances. If necessary, the responsible ETU budget examiner then consults with the appropriate line unit examiner to discuss any unexplained or unanticipated variances from current cash flow estimates prior year to date actuals. Significant variances are explained in a monthly memo prepared for Assistant unit head and unit head review. The monthly cash flow variances memo may also be shared with the Front office.

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DIVISION OF THE BUDGET  
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

**BUDGET EXECUTION AND MONITORING**

SIGNIFICANT OBJECTIVES

To produce the Executive Budget Appropriation Budget Bills, Article VII Budget Bills, and other associated documents.

RELEVANT CONTROLS

- BPU provides direction on development of appropriations to agencies through the Budget Request Manual (BRM) and Call Letter.
- Agencies provide their Budget Requests electronically via SharePoint.
- Examiners have budget making meetings with the budget director and deputy director and provide packages according to instructions provided by BPU. As a result of these meetings and any other follow up as necessary, the budget director makes recommendations on which proposals will be included as part of the Executive Budget.
- Examiners formulate appropriation bill copy and BPU reviews. Examiners complete clearance form to confirm that internal systems (Budget Preparation System and Capital Plan Preparation System) reconcile to bill copy and that bill copy has been approved.
- Examiners draft and BPU coordinates approval of Article VII bills.
- The budget director and deputy director approve the relevant budget documents and BPU coordinates the printing of appropriation bill copy and Article VII bills are printed.
- The budget director and deputy director approve release of Executive Budget documents (bill copy, Article VII bills, Consulting Service Contract Report, etc.) and BPU executes release in coordination with the Press Office.

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DIVISION OF THE BUDGET  
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

**BUDGET EXECUTION AND MONITORING**

SIGNIFICANT OBJECTIVES

To coordinate the Executive Resubmission of the Budget.

RELEVANT CONTROLS

- BPU coordinates 3-way sign-off (DOB and both houses of Legislature) of resubmitted appropriation and Article VII bills to ensure all parts have reached consensus.
- Upon final sign-off of all budget bills (Appropriation and Article VII), the budget director approves release of Executive Resubmission of the Budget to the houses, which is coordinated with the Executive Chamber's Legislative Secretary.

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