

STATE OF NEW YORK
DIVISION OF THE BUDGET

Internal Control Report

October 1, 2011 through September 30, 2012



TOSKI & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS
A DIVISION OF EFP ROTENBERG, LLP

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 December 7, 2012 that the New York State Division of the Budget's internal controls maintained during the period October 1, 2011 through September 30, 2012, are adequate 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 control 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, 2011 through September 30, 2012, are adequate, 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.

Toski & Co., CPAs, P.C.

Williamsville, New York
December 7, 2012

DIVISION OF THE BUDGET
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

BUDGET EXECUTION AND MONITORING

SIGNIFICANT OBJECTIVES

To approve certificates of allocation/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

- Agency prepares and submits a certificate of allocation/budget journal.
- A log of all certificates of allocation/budget journals is maintained and reviewed periodically.
- Examiner reviews the certificate of allocation/budget journal of allocation and prepares recommendation.
- Supervising examiner reviews the recommendation and approves (rejects) or modifies the certificate of allocation/budget journal.
- Section head or unit chief approves (rejects) or modifies the certificate of allocation/budget journal.

* * * * *

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.
- The section head prepares a memo from the unit chief to the budget director explaining the variances in cash flow.
- The monthly cash flow report is submitted by the unit chief to the unit chief for review and from the unit chief to the budget director.
- Monthly cash flows for the general fund are maintained and revised quarterly in conjunction with Financial Plan updates.

* * * * *

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.

* * * * *

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

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.

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.
- A log is maintained and requests are date stamped and forwarded to the appropriate examiner.
- 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.

* * * * *

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 support, assures that all assumptions regarding cost and benefits are accurate, and recommends approval or rejection of the rates and plans.
- The supervising examiner reviews the fringe benefit and indirect cost plan support for accuracy and clarity, discusses with the examiner the appropriateness of the rates and plan, and recommends approval or rejection of the rates and plan.
- Unit head reviews the fringe benefit and indirect cost plan support, discusses with the supervising examiner and examiner the appropriateness of the rates and cost plan, and makes a final determination for approval of the rates and plan.
- The approved rates and plan are transmitted by the unit chief to OSC which bills the "other funds" based on the approved rates.
- The approved rates and plan are submitted to the Federal Government, where applicable, for their review and approval.

* * * * *

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 certificate/budget journal 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 certificates/budget journals is maintained and reviewed periodically.
- Examiner reviews the certificate/budget journal, and if properly prepared, the examiner submits it with appropriate documentation to the supervising examiner and section head for approval.
- Supervising examiner and section head reviews the certificate/budget journal and approves (rejects) or modifies the request.

* * * * *

DIVISION OF THE BUDGET
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

BUDGET EXECUTION AND MONITORING

SIGNIFICANT OBJECTIVES

To ensure development, acquisition, and changes to programs of significant computer applications are authorized, tested, and approved prior to being placed into production.

RELEVANT CONTROLS

Application Project Tracking and Approval

- IT projects are approved by the system owners for existing applications or by a manager at the unit chief level or higher for new applications. Projects requiring more than five effort days to complete will also require the approval of the Chief Information Officer.
- Enhancements, bug fixes, etc., for existing applications can be approved by IT supervisors.
- All such modifications (projects, enhancements, bug fixes, etc.) are undertaken in consultation with application system owners, as appropriate.
- A project-level record is maintained for all approved projects which contains information on each project's sponsor and project manager, planned delivery dates, project status, etc.
- Changes to existing applications are recorded in the "Task Tracking" application. Task Tracking identifies the system, subsystem, or application affected by the change, the business analyst and developer assigned to the task, the priority assigned to the change, its status, task description, etc.
- When developers complete their work the appropriate business analyst is notified, the change is tested and any problems, as well as approved changes, are reported back to the developer. Approved changes are then incorporated into a production release and Task Tracking is updated accordingly.

DIVISION OF THE BUDGET
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

BUDGET EXECUTION AND MONITORING

SIGNIFICANT OBJECTIVES

To ensure development, acquisition, and changes to programs of significant computer applications are authorized, tested and approved prior to being placed into production.

RELEVANT CONTROLS

Database Control Tables

- A user initiates the process by requesting a change to a field (typically, creation of a new agency / fund / account / program during development of the executive budget).
- A ticketing system is used to track information about the request, including the person making the request, the business analyst responding to the request, and the action taken to resolve the request.
- Written procedures identify those who are authorized to approve such requests. Creation of new agencies, for example, requires approval by application owners and the appropriate unit chief. New funds and subfunds must be approved by the Expenditure/Debt Unit.
- After the control tables are modified, the requestor is notified and the ticketing system is updated. Temporary codes are used for changes proposed in the Executive Budget. Those codes are updated after budget enactment to correspond with permanent codes assigned by the Statewide Financial System (SFS).

DIVISION OF THE BUDGET
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

BUDGET EXECUTION AND MONITORING

SIGNIFICANT OBJECTIVES

To ensure development, acquisition, and changes to programs of significant computer applications are authorized, tested and approved prior to being placed into production.

RELEVANT CONTROLS

Database Control Tables, Continued

- During the fiscal year, codes are added or modified in accordance with modifications to the SFS.
- The Integrated Budgeting System (IBS) records the history of such transactions so that issues such as who made a change to the control tables can be promptly resolved.

* * * * *

DIVISION OF THE BUDGET
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

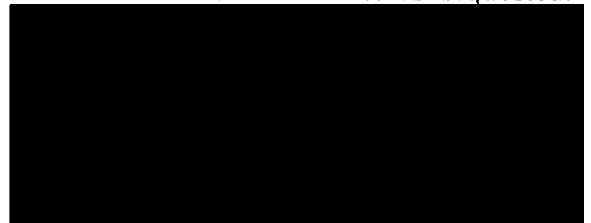
BUDGET EXECUTION AND MONITORING

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.



- [Redacted]

- [Redacted]

* * * * *

DIVISION OF THE BUDGET
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

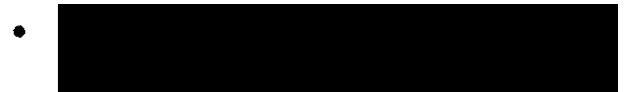
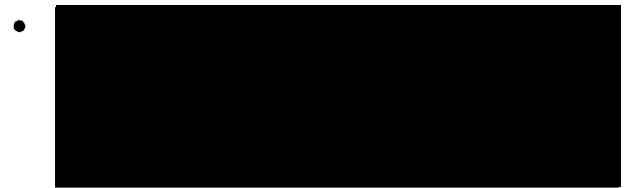
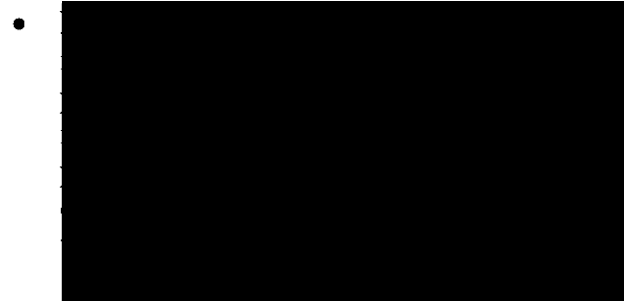
BUDGET EXECUTION AND MONITORING

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.



* * * * *

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

- During the year an examiner reviews the potential impact of special bills and disbursement/expenditure controls on receipt and disbursement estimates.
- The examiner monitors actual receipts and disbursements against the projections and makes any needed revisions to the annual estimates in conjunction with updates to the State Financial Plan.

* * * * *