

STATE OF NEW YORK
DIVISION OF THE BUDGET

Internal Control Report

October 1, 2020 through September 30, 2021

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 March 8, 2022 that the New York State Division of the Budget's internal controls maintained during the period October 1, 2020 through September 30, 2021, 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, 2020 through September 30, 2021, 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
March 8, 2022

DIVISION OF THE BUDGET
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

BUDGET EXECUTION AND MONITORING

SIGNIFICANT OBJECTIVES

To initiate and approve budget journals in the Statewide Financial System. To adjust appropriation authorization as defined by law and appropriation language to align with the objectives of the enacted budget and the State's Financial Plan.

RELEVANT CONTROLS

- Within the Statewide Financial System (SFS), budget journal workflow for appropriation and segregations consists of three levels of review and approval within the New York State Division of the Budget (DOB). Approp – Examiners with the Level 1 role initiate and submit a budget journal in SFS to adjust appropriation authorization as necessary, which is systematically forwarded to the Level 2 approver.
- Approp – Level 2 approver reviews the budget journal for accuracy and alignment with budget and program objectives. Upon approval, the budget journal will be systematically forwarded to the Level 3 approver.
- Approp – Level 3 approver reviews the budget journal for accuracy and alignment with budget and program objectives. Upon approval the budget journal is systematically forwarded to the New York State Office of the State Comptroller (OSC) for approval and posting to SFS.

Within the SFS, budget journal workflow for cash ceilings consists of 2 levels within DOB – the initiator (Level 1) and the reviewer/approver (Level 2).

- Cash – Examiners with the Level 1 role initiate and submit a budget journal in SFS to adjust the cash controls within SFS authorization as necessary, which is systematically forwarded to the Level 2 approver.
- Cash – Level 2 approver reviews the budget journal for accuracy and alignment with the published Financial Plan and approves for posting to SFS.

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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

- On a daily basis, an operations summary is prepared which recaps actual general fund receipts and disbursements compared to daily cash flow projections. This is provided to the Expenditure/Debt Unit (ETU) and Economic and Revenue Unit (ERU).
- The monthly cash flow report is prepared by ETU staff, reviewed by the section head 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 sets up the bonding schedule with representatives of the bonding entity.
- 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 and public Authority staff, bond underwriters, bond counsel and rating agencies to understand and confirm the specific bonding requirements. The Official Statement includes the State's Annual Information Statement (AIS). The AIS is approved by DOB's General Counsel and Budget Director before it is released.
- 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 State plans consistency with Federal requirements, 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, including the Medicaid Global Cap, 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 recommendations 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 State plans consistency with Federal requirements, 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 DOB. For local Medicaid rates requests are submitted by the Department of Health to the DOB.
- 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.
- Commencing July 2019, the approved rates have been transmitted directly to the SFS for use by all State agencies, and billing has been automated through SFS.
- The rates and plan are submitted to the U.S. 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.
- Agency Submits a request for individual project approval through the Agency Spending Controls Application (ASCA).
- Examiner reviews project request and if properly submitted the examiner submits the journal for approval to the supervising examiner and 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. For example, new employees are granted ID's and temporary passwords only after their employment is verified against the notification of employment (NOE) report provided by DOB's Human Resources staff.
- 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. For example, non-standard access to applications must be approved by the application/data owners.
- User ID's and temporary passwords are distributed on a controlled basis to the individual being granted access.
- Security software on DOB's network/computer systems automatically disables a user ID after a predetermined number of failed login attempts.

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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.
- Documentation includes: description of input files, procedures to assure that proper data sets are received, and written instructions on how to initiate batch processing, automated and manual consistency and balance checks against valid sources, discrepancy reconciliation strategies and error resolution protocols.
- Documentation also includes an audit log on all data imports, exception reports for errors, information on how exceptions were resolved and recording of completed transactions.
- Users are notified of updates resulting from data imports.

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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) against projected amounts in order to assess risk 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 reviewed, prepared, and adjusted as needed by individual line unit budget examiners for each account in the Special Revenue, Capital Projects, and Debt Service fund types. The ERU prepares tax receipt estimates for the General Fund. Any adjustments are 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. The unit head and assistant unit head will then conduct their own review of the cash estimates for consistency with current assumptions, program recommendations, approved by the Front Office, and recent and historical receipts/disbursement trends

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INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

BUDGET EXECUTION AND MONITORING

RELEVANT CONTROLS

- 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 reviewed and explained in a monthly memo reviewed by section heads and made available to the Assistant unit head and unit head. It may also be submitted to the budget director particularly if the variations are determined to present significant risk.

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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 directors 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 send an email to confirm that internal systems (Appropriation Budget Bills Application, Budget Preparation System and Capital Plan Preparation System) reconcile to bill copy and that bill copy has been approved.
- Examiners drafts article VII bill parts later consolidated into one bill and BPU reviews and coordinates the approval process (for DOB and the Executive Chamber) using the Article VII Bill Tracking application.
- The Budget Director and deputy director approve the relevant budget documents and BPU coordinates the electronic release on DOB's website, along with an submission of the corresponding PDFs of the appropriation bill copy and Article VII bills as coordinated with the Executive Chamber of Legislative Secretary.
- The Budget Director and deputy director approve release of Executive Budget documents (bill copy, Article VII bills, Agency Presentations, and other relevant budget publications) 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 development and final enactment of the budget (Executive Resubmission to vetoes).

RELEVANT CONTROLS

- BPU coordinates 3-way sign-off (DOB and both houses of the Legislature) via email of resubmitted appropriation and Article VII bills to ensure all parts have reached consensus.
- After all parties have signed off that the 1) appropriation reflects three-way consensus, the Legislature submits the attachment to the Legislative Bill Drafting Committee (LBDC); and 2) the Article VII reflects mark-up using a bill drafting PDF editor, LBDC incorporate such three way agreed to revisions.
- Upon final sign-off of all budget bills (Appropriation and Article VII), the Budget Director approves release of Executive Resubmission of the Budget to both houses of the Legislature, which is coordinated with the Executive Chamber's Legislative Secretary.
- After the Executive Resubmission, the Legislature is able to make changes to the bills prior to Enactment. Once the bills have been delivered to the Governor, the Governor has ten days to veto any items added by the Legislature or unconstitutional alterations.
- BPU uses a Veto Production Application to create a list of all Legislative adds. Additionally, BPU has an Appropriation Budget Bills Application which compares the Executive Resubmitted Budget with the Enacted Budget and reports on any changes to the bills.
- DOB units review all changes made to the Executive Resubmission, and make recommendations to the Budget Director to include selective items to be vetoed based on certain criteria.
- The Budget Director reviews and approves, as applicable veto recommendations, which are then submitted for final signature by the Governor.

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