



FEDERAL RESERVE BANK *of* NEW YORK

Sarbanes-Oxley Compliance at the Federal Reserve Bank of New York

Management and Operations Specialized Course

Salvatore F. Sanfilippo, CPA
Accounting Policy & Risk Management

May 19, 2015

Internal FR

Summary of Presentation

- Background of SOX at the Federal Reserve
- Overview of the 2013 enhanced COSO framework and how we are meeting it's objectives
- Discussion on SOX scoping

Appendices:

- Appendix I – 2015 SOX Program Timeline
- Appendix II – Enhanced COSO Principles (Summary)
- Appendix III – Central Service Provider Reliance Letter Review
- Appendix IV – External Service Providers
- Appendix V – In Scope Lines Items 2013-14



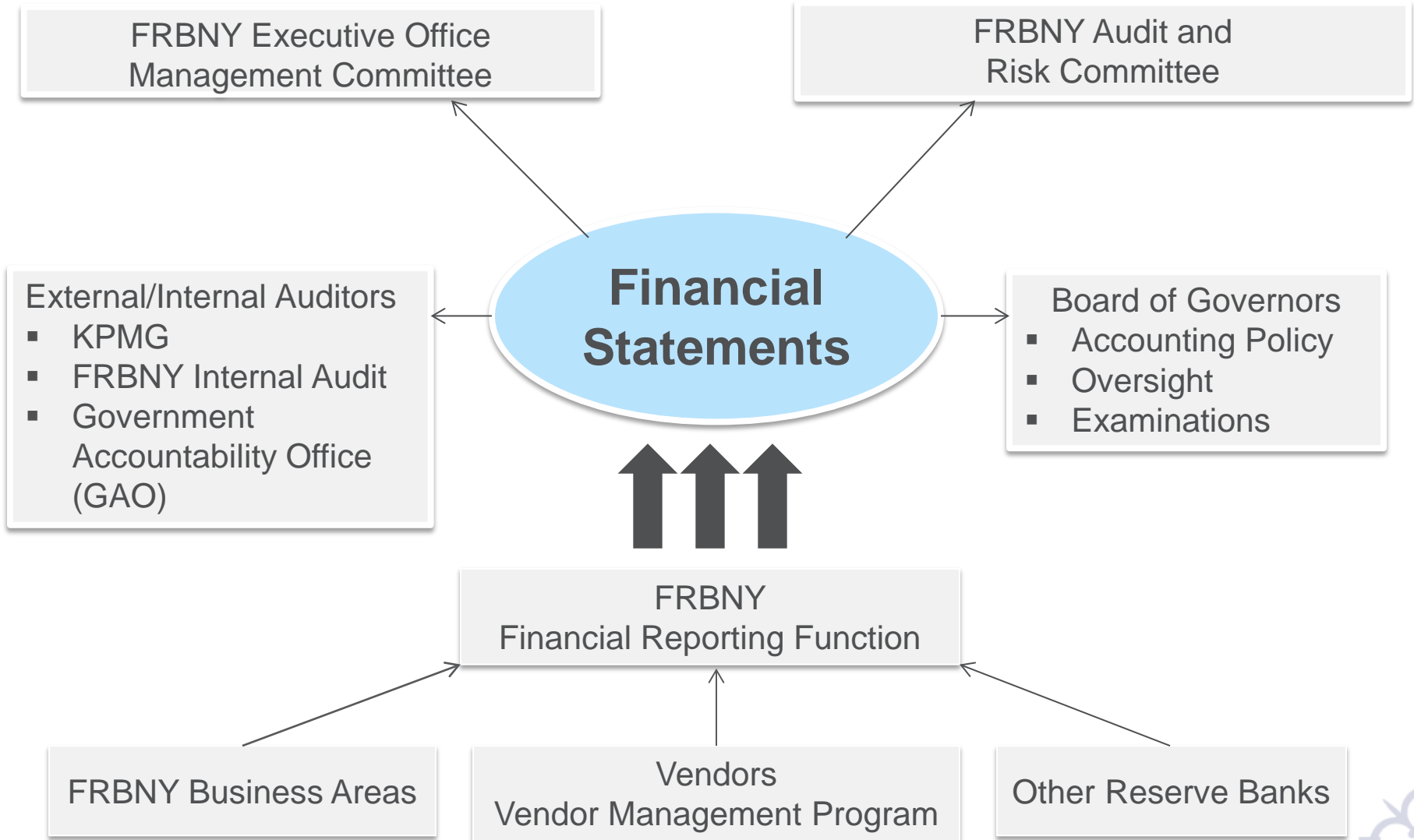
SOX Background

- Management asserts to the Board of Directors each year the effectiveness of the Bank's controls over financial reporting in conjunction with the financial statements issuance. This is a Sarbanes Oxley (SOX) requirement for public filers, we voluntarily comply.
- The Bank follows the integrated control framework issued by the Committee of Sponsoring Organizations (COSO) in 1992 and enhanced in 2013.
- Management's assertion is based on the Bank's testing of key controls as outlined in the COSO framework associated with the business processes that support the in-scope line items of the financial statements and footnotes.
- Each in-scope business area has an independent SOX compliance team responsible for testing.
- KPMG audits the Bank's controls and provides an integrated opinion on the effectiveness of the Bank's controls and the fair representation of the financial statements.
- KPMG may rely on management's testing, however, can also retest controls they believe are of greater risk.
- The Bank used the 2013 COSO framework for the first time for the 2014 SOX program (see Appendix I for 2015 SOX Program Timeline).



Governance Structure

It's all about the integrity of the financials...



2013 Enhanced COSO Framework

- Update vs. rewrite of the predecessor framework, control structure continues to be built upon the five core components of controls: Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring.
- Specifies 17 principles of control that must be present, functioning and operating together in an integrated manner (see Appendix II for summary of 17 COSO Principles).
- Places additional emphasis on risk assessments, fraud risk, controls provided by Outsourced Service Providers (OSPs) and Information Technology, in particular data integrity (see Appendix III for list of Central Service Providers; see Appendix IV for list of External Service Providers).
- SOX documentation was updated to evidence the Bank had met the requirements of the new COSO framework (see next page for examples).



2013 Enhanced COSO Framework (cont'd)

Examples:

- Educated business areas on required updates to the SOX program, including enhancement of documentation for services provided by other Districts (e.g., review of supplemental information provided by National IT to support their reliance letter process).

- Mapped current key controls to the 17 principles in the new framework to ensure there are no gaps (none identified).
 - Mapping included the following 3 areas of focus:
 1. OSPs (coordinated with Markets to address how OSPs are monitored)
 2. IT (considered the Bank's IT general computing control environment)
 3. Fraud (met Compliance to ensure proper fraud assessment steps taken)

- In addition, business areas evaluated key controls to ensure proper controls over Information Produced by the Entity (IPE) exist.



SOX Scope

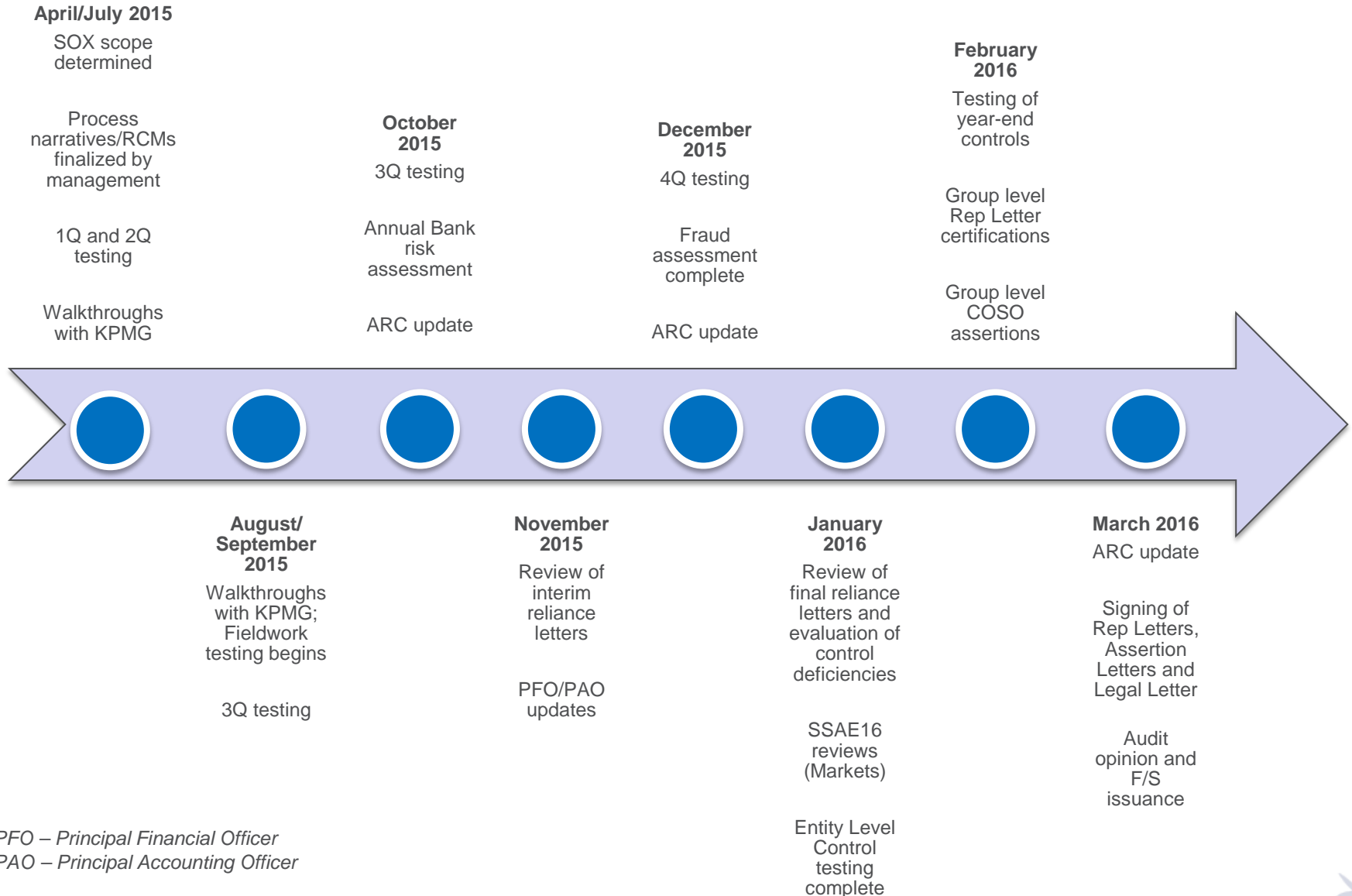
- Processes deemed in-scope for SOX are determined quantitatively as financial statement line items above a specific dollar threshold (calculation set at the System-level) and qualitatively by risk assessment
 - In-scope processes require documented process flows and a summary of key risks and controls which are tested for effectiveness using a standard testing methodology
 - NY Markets Group has established a separate dollar threshold calculation to determine in-scope processes for System Open Market Account (SOMA)
 - OSPs that have an impact on the Bank's financial reporting are also covered
- Over 95% of the balance sheet and income statement is deemed in scope, primarily related to SOMA.
- Changes to the scope in 2014 included adding foreign deposits and eliminating testing for central bank liquidity swaps and the Maiden Lane II, III and TALF LLCs due to reduced balances (see Appendix V for In Scope Lines Items).



Questions?



Appendix I - 2015 SOX Program Timeline



PFO – Principal Financial Officer
PAO – Principal Accounting Officer

Appendix II – Enhanced COSO Principles (Summary)

The 2013 COSO Framework addresses some of the key changes in the business environment since the original framework was published in 1992. The updated framework includes 17 principles to describe the components of internal control.

Control environment	Risk assessment	Control activities	Information and communication	Monitoring activities
<ol style="list-style-type: none"> 1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibilities 3. Establishes structure, authority, and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability 	<ol style="list-style-type: none"> 6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change 	<ol style="list-style-type: none"> 10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures 	<ol style="list-style-type: none"> 13. Uses relevant, quality information 14. Communicates internally 15. Communicates externally 	<ol style="list-style-type: none"> 16. Conducts ongoing and/or separate evaluations 17. Evaluates and communicates deficiencies

What are Points of Focus (POF)?

- There are 87 Points of Focus related to the above 17 principals
- POF are important characteristics of principles
- The assessment of whether a principle is present and functioning would likely include the consideration of the POF
- D&T will consider the Points of Focus in our audit of ICFR to determine what controls link to the POF, which then link to the principles

Appendix III – Central Service Provider Reliance Letter Review

Reliance letters provide assurance that controls are adequate in those centralized service providers at other Reserve Banks that have a material effect on the Bank’s financial statements or the safeguarding of assets

Reliance Letter	Sponsor	Processes and Applications	F/S Line Item
Cash Product Office (CPO)	San Francisco	Standard Cash Application (SCA); Banknote Processing System (BPS)	FR Notes Outstanding
BOG-RBOPS Assessment	Washington DC	Allocation Ratio	FRBNY portion of Foreign SOMA and Distribution of Board Assessments
BOG-RBOPS (FR5)	Washington DC	FR Notes Allocation and Destruction	FR Notes Outstanding
Financial Support Office (FSO)	Boston	General Ledger System – EASy; Centralized Accounts Payable – Lawson, CARS, APSSC	All
Markets	New York	System Open Market Account Collateral Valuation	SOMA Accounts
Human Resources Technology Center (HRTeC)	Kansas City	PeopleSoft System	Salaries and Other Benefits
Payroll Central Business Administrative Function (PCBAF)	Richmond	Payroll Processing	Salaries and Other Benefits
Office of Employee Benefits (OEB)	Newark	Benefits Administration	Pension and Benefit Costs
BOG - Monetary Affairs	Minneapolis	Statistics & Reserves Application (STAR)	IOR and TDF
Subcommittee of Credit Risk Management (SCRM)	Dallas	Accounts, Risk and Credit Application(ARC) ; Collateral Management System (CMS)	Loans to DIs
Federal Reserve Information Technology (FRIT)	Richmond	IT Infrastructure	General Computing Controls

Appendix IV – External Service Providers

The following external service providers receive a Statement on Standards for Attestation Engagements (SSAE) No. 16 Audit Opinions to ensure effectiveness of controls.

- *Markets - System Open Market Account (SOMA)*

- JP Morgan Chase
- Wellington Financial
- Bank of NY Mellon (BONY)

- *Markets - Maiden Lane LLC*

- BlackRock
- State Street

- *Office of Employee Benefits (OEB)*

- Aon Hewitt
- Blue Cross Blue Shield
- CIGNA
- Express Scripts (MEDCO)
- Matrix Absence Management
- State Street
- United Health Care
- Vision Service Plan

- *FRB Richmond*

- Automatic Data Processing (ADP)



Appendix V – In Scope Lines Items 2013-14

2013 Scope

- System Open Market Account (SOMA), including accrued interest receivable
- Maiden Lanes I, II & III, Term Asset-Backed Securities Loan Facility (TALF) LLC
- Central Bank Liquidity Swaps
- TALF Loans
- Depository Institution (DI) Deposits and Other Deposits
- Term Deposit Facility (TDF)
- Treasury General Account (TGA)
- Federal Reserve Notes
- Capital paid-in and surplus, Payments to Treasury
- Salaries and Benefits, Pension
- Interdistrict Settlement Account (ISA)

2014 Scope

All items above with exception of:

Removing

- Maiden Lanes II & III, TALF LLC
- Central Bank Liquidity Swaps

Adding

- Foreign Deposits

