



Division of the Budget

ANDREW M. CUOMO
Governor

MARY BETH LABATE
Director of the Budget

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TO: ALL DEPARTMENT AND AGENCY HEADS

FROM: Mary Beth Labate *Mary Beth Labate*

SUBJECT: Statewide Financial System -- Move to Full Segregation and the KK Financial Plan within Commitment Control

The purpose of this Bulletin is to provide an overview of the changes to budget process driven by the SFS EE1 project.

EE1 Background

In December 2013, the Statewide Financial System (SFS) launched a new initiative to deliver significant new financial management functionality for State agencies. This initiative, called the SFS Enterprise Enhancement, Phase 1 (EE1) project, is scheduled for go-live in October 2015. This is the first of several steps in leveraging the power of SFS to align with best practices, improve financial transaction efficiency, retire legacy IT systems and create an end-to-end financial system for procurement, travel, payments, accounting, project costing, assets, and financial management.

The scope of EE1 includes implementing re-architected, standardized business processes related to budget management (KK) that will improve both system processing efficiency and consistency.

Segregation Overview

A segregation authorizes expenditures from appropriations for specific purposes and activities. In current practice, a segregation is used as a control to limit the amount of money that may be spent from an appropriation. The Division of the Budget (DOB) is responsible for segregating part of an appropriation by issuing budget journals. By segregating only part of an appropriation, DOB can limit spending to maintain a balanced budget and meet operating benchmarks, consistent with the State's Financial Plan. However, the long-standing practice of partially segregating appropriations interferes with the State's ability to use features delivered in SFS that embody best practices in government financial management, especially in the area of procurement.

Prior to EE1, the State did not have a viable alternative to the segregation-based approach to managing the risk of overspending against the State's cash-based Financial Plan. With the advent of EE1, the State can now replace the use of segregations as a spending control with a new system of

financial plan ledgers and quarterly spending ceilings that will ensure compliance with the cash-basis Financial Plan throughout the fiscal year. The quarterly spending ceilings are expected to be used in conjunction with other workflow tools to meet statewide fiscal objectives.

Revised Segregation Process

With the implementation of EE1, segregations will be systematically aligned with appropriations. Segregations will establish the budgetary authority to incur liabilities and expenditures for the fiscal year, but generally not as a means of exerting control over spending at an amount less than the appropriation control. Accordingly, at the start of the fiscal year, DOB will, in most cases, authorize OSC to fully segregate appropriations. In the area of procurement, with full segregation, the agency will now have the ability and responsibility for managing and recording all procurement activity in SFS.

Although DOB will, as a general rule, fully segregate all new appropriations at the start of the fiscal year, there may be need for DOB to selectively limit a portion of the appropriation. This will be accomplished through the establishment of a “reserved” segregation amount. Use of the segregation reserve will be evaluated on an individual agency basis, and agencies will be notified of any reserved amount. For prior-year enacted appropriations, any unsegregated or reserved portion of an appropriation at the end of the fiscal year will continue to be reserved at the beginning of the next fiscal year.

KK Financial Plan Overview

DOB is rolling out a new cash management control oriented around the State’s Financial Plan in the SFS. This control is managed within Commitment Control (KK) and is called the KK Financial Plan. The KK Financial Plan in SFS enables full segregation of the appropriation, improves fiscal management, reduces cash risk, and automates controls performed outside of the system. As part of this control, future cash impacts relating to purchase order encumbrances are maintained within the Planned Ledger within the KK Financial Plan.

Spending will be managed through the KK Financial Plan ledgers within SFS, replacing the spending controls currently achieved through the use of partial segregations. The KK Financial Plan ledgers provide the spending management function that will be used for the entry of monthly budgets by agency, fund, financial plan category, and program. This information will be rolled up to establish quarterly budget controls. The quarterly budgets will control the sum of actual expenditures and planned expenditures representing the future forecast of spending [established through the Payment Schedule Projection (PSP)]. Agencies must manage their actual and planned spending within the ceilings established by the quarterly KK Financial Plan.

DOB will update the quarterly spending plans during the year and, as a general rule, they will be consistent with (or reconcile to) the quarterly cash flow estimates published in the Financial Plan, as updated during the fiscal year. Additionally, for multi-year capital spending, KK Financial Plans will be established in future years consistent with the Five-Year Capital Program and Financing Plan. The budgetary controls established for the carry-out period for Non-Capital Projects fund types will reflect the anticipated spending attributable to previously enacted appropriations.

As the fiscal year progresses, if an agency underspends in a quarter, the balance is automatically available (i.e., rolled) into the next quarter (cumulative budgeting).

KK Financial Plan Establishment

During the final quarter of each fiscal year, DOB, in concert with the Executive agencies, will establish the KK Financial Plan for the upcoming fiscal year(s) based on the proposals in the Executive Budget for that year¹. As soon as practicable following enactment of the budget for the new fiscal year, the KK Financial Plan will be updated to reflect changes between the Executive and Enacted Budgets.

KK Financial Plans will be established for all Executive-controlled agencies for the following Fund Types: General Fund, State Special Revenue, State Capital Projects, and Debt Service. All controls for the current fiscal year will be established as hard controls (i.e., transactions will not process through the system to completion if control amounts are exceeded) unless subsequent communication from DOB indicates otherwise. A decision whether hard controls will be utilized for future-year budgets is pending.

The level of KK Financial Plan controls vary by agency and fund. Please contact your budget examiner for specific control levels established for your agency.

¹ For FY 2016, the KK Financial Plan budgets will be established prior to October "Go Live". For the period between April 1, 2015 and the establishment of the Financial Plan budgets in SFS, the KK Financial Plan controls will be turned off.

KK Financial Plan Monitoring

Agencies can access KK Financial Plan budgets and related activity by generating the KK Financial Plan Budget Status report in SFS. This report provides agencies with the ability to either run a summary or detail report showing the budgetary status for their business unit (BU). The summary report is a printable PDF version that provides KK Financial Plan totals by BU and Fund or Fund Rollup. The detail report is a downloadable version to support KK Financial Plan budget-level information for a detailed agency view of the KK Financial Plan within Excel. Both report options show information for the four quarters of the fiscal year and a total for the year and include the Budget, Planned (PSP), Expense, and Remaining amount as report columns. Information regarding report access and navigation is detailed below.

Report Name	KK Financial Plan Status report (NYKK4000)
Report Navigation	Main Menu > Commitment Control > Budget Reports > KK Financial Plan Status
Report Role	NYF_AGY_KK_REPORTS

Questions regarding this Budget Bulletin may be directed to your agency's budget examination unit.