

Minutes of the Advisory Board to the Comptroller

Meeting Date: Tuesday, April 29, 2025
Time: 1:00 p.m.
Location: Virtually via ZOOM, consistent with Chapter 2 of the Acts of 2025.

MEMBERS AND OTHER ATTENDEES

Members Present

Matthew Gorzkowicz (Chair), Secretary for Administration and Finance
Meredith Barrieau (Designee), First Deputy State Auditor, Office of the State Auditor
Kathleen McNamara (Designee), Director of Internal Audit, Office of the State Treasurer
Paula McManus (Designee), Chief Operating Officer, Office of the Attorney General
Thomas G. Ambrosino, Court Administrator of Massachusetts Trial Court
Michael Esmond (Gubernatorial Appointment), Director of Municipal Finance, Town of Braintree

Members Absent

Natalie Monroe (Gubernatorial Appointment), Chief Magistrate, Massachusetts Division of Administrative Law Appeals

Office of the Comptroller Participants

Pauline Lieu, Chief Financial Reporting Officer
William McNamara, Comptroller
Howard Merkowitz, Senior Advisor
Thomas Smith-Vaughan, Chief Operating Officer

Clifton Larson Allen (CLA) Participants

Chris Rogers, Managing Principal of Industry, State and Local Government
Matthew Goulet, Manager, State and Local Government

AGENDA

1. CALL TO ORDER

1.1 Recording Announcement by the Chair

The Chair announced that, pursuant to the Commonwealth's Open Meeting Law, Massachusetts General Laws, Chapter 30A, Section 20, any person may make a video or audio recording of this open meeting.

The Chair noted that the Office of the Comptroller (“CTR”) was recording for the purpose of keeping the minutes and asked anyone else making a recording to please identify themselves. No one identified themselves.

1.2 Statement on Remote Participation

The Chair announced that on March 28, 2025, Governor Healey signed into law Chapter 2 of the Acts of 2025, which extends certain temporary provisions pertaining to the Open Meeting Law until June 30, 2027. Specifically, this further extension allows public bodies to continue holding meetings remotely without a quorum of the public body physically present at a meeting location, and to provide "adequate, alternative" access to remote meetings. In accordance with that law, all members of the Advisory Board and members of the public are participating remotely in today’s meeting.

Because members of the Board are participating remotely, all votes will be taken by roll call.

2. REVIEW AND APPROVAL OF FEBRUARY 4, 2025, ADVISORY BOARD MEETING MINUTES

On a motion by Mr. Esmond, seconded by Ms. McManus, the Board approved by roll call vote the February 4, 2025, Advisory Board meeting minutes.

- Secretary Gorzkowicz – Yes
- Meredith Barrieau – Yes
- Kathleen McNamara – Yes
- Paula McManus – Yes
- Thomas Ambrosino – Yes
- Michael Esmond – Yes

3. REMARKS FROM THE CHAIR OF THE ADVISORY BOARD

The Chair welcomed participants and observers to the meeting. He stated that the purpose of this meeting is to review the Annual Comprehensive Financial Report (“ACFR”). He

reminded the Board that this meeting is meant to provide members with an opportunity to review and ask questions about the ACFR, but no votes by the Board are necessary to approve it.

The Chair turned the presentation over to the Comptroller.

4. REPORTING PROCESS OVERVIEW

The Comptroller thanked all those involved for their help completing the ACFR. The Comptroller reviewed the three major reporting requirements: SBFR; ACFR; and the Single Audit. The SBFR is a requirement under state law and was the subject of the previous meeting. The ACFR is a federal requirement and must comply with accounting requirements promulgated by the Governmental Accounting Standards Board (“GASB”), which sets Generally Accepted Accounting Principles (“GAAP”). It includes “component units” and activities that are not reported in the SBFR and is audited by our independent CPA firm, CLA.

The Comptroller said that the ACFR is ready four weeks earlier than last year. It is still too early to set an expected completion date for the Single Audit, but it will likely be completed earlier than last year as well. The Comptroller said that the SBFR and ACFR this year once again demonstrate that the finances of the Commonwealth are sound and that the business of the Commonwealth is being done faithfully, both to the budget and to state finance law, and efficiently and securely with accurate accounting and reporting.

The Comptroller then turned the presentation over to CTR Senior Advisor Howard Merkowitz and Chief Financial Reporting Officer Pauline Lieu to review the ACFR.

5. REVIEW OF THE ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)

Mr. Merkowitz first provided a brief review of the FY24 (“Fiscal Year”) SBFR. It was issued on February 14, 2025, after a review by CLA. It was presented on a budgetary or statutory basis, which excludes trust funds and business-type activities such as unemployment insurance and higher education and component units. The SBFR determines whether the budget is balanced according to state finance law and includes the calculation of the “consolidated net surplus” and end of year transfer to the Commonwealth Stabilization Fund, if there is one. FY24 ended with a budgetary fund balance of \$15.004 billion and a consolidated net surplus of \$426 million, which

was transferred to the Student Opportunity Investment Fund, as required by the final supplemental appropriation act. The balance of the Stabilization Fund was \$8.524 billion, an increase of \$488 million.

CTR expects the FY24 ACFR to be issued within the next few days and it will be submitted to the Government Finance Officers' Association for review as part of the Certificate of Achievement for Excellence in Financial Reporting Program. The FY23 ACFR represents the 34th consecutive year that the ACFR was awarded this certificate.

Mr. Merkowitz provided general background regarding the ACFR. The basic financial statements in the ACFR are presented on two bases of accounting under GAAP, as defined by the GASB: (1) fund perspective; and (2) government-wide perspective. The purpose of the ACFR fund perspective is to measure the government's ability to meet obligations from currently available resources. It uses a "modified accrual" basis of accounting, in accordance with GAAP, and takes into account short-term accruals. It does not include long-term accruals, such as debt or capital assets, depreciation, or pension and OPEB liabilities. The ACFR government-wide perspective treats government according to accounting rules similar to private businesses. It includes business-type activities, such as Unemployment Insurance, Paid Family and Medical Leave, and the Institutions of Higher Education, within the Commonwealth's net position. It provides full accrual accounting for long-term assets and liabilities and includes component units that have a close relationship to the Commonwealth but are not part of the "primary government" as defined by GASB, such as MassDOT and the MBTA.

Mr. Merkowitz provided information regarding GASB requirements. GASB Statement Nos. 68 and 75 changed the requirements for reporting pension and OPEB liabilities for government entities. They require the presentation of the net pension and net OPEB liabilities on the government-wide Statement of Net Position. For reporting purposes, GASB allows these liabilities to be presented using a measurement date that is a year prior to the fiscal year end date. For FY24, they are measured as of June 30, 2023. In FY24, the Commonwealth's net pension liability on a government-wide basis was approximately \$37.140 billion net of deferrals and the net OPEB liability was approximately \$16.721 billion net of deferrals.

Ms. Lieu reviewed specific findings of the FY24 ACFR. From a fund perspective basis, there were \$35.540 billion in total assets, \$11.992 billion in total liabilities and deferred inflows, \$104.985 billion in total revenues and other financing sources, \$100.449 billion in total expenditures and other financing uses, and a fund balance of \$23.547 billion at the end of the fiscal year. From a government-wide perspective, the primary government currently has a \$60.208 billion net position deficit due to a few factors: (1) unfunded pension liability of \$37.140 billion; (2) unfunded retiree health benefits (OPEB) of \$16.721 billion; (3) School Building Authority debt and grants payable of \$5.991 billion; and (4) Commonwealth debt for road and bridge assets owed by MassDOT and for capital grants and expenditures for state authorities and cities and towns.

Ms. Lieu informed the Board about new GASB standards. First is Statement No. 100, Accounting Changes and Error Corrections. This standard amends GASB Statement No. 62 and will take effect for financial statements starting with the fiscal year that ends June 30, 2024. Second are Statement Nos. 101, Compensated Absences, and 102, Certain Risk Disclosures. These will take effect for financial statements starting with the fiscal year that ends June 30, 2025. The Commonwealth is currently evaluating the impact of these new standards.

Ms. Lieu turned the presentation over to the Chair. The Chair asked the Board to hold questions regarding the ACFR until after CLA's presentation. He then turned the presentation over to Chris Rogers, Managing Principal of State and Local Government practice at CLA.

6. CLIFTONLARSONALLEN (CLA) REPORT TO THE BOARD

Mr. Rogers introduced himself and his colleagues Bill Early, CLA Principal; Matthew Goulet, CLA Manager for the ACFR; and Shana Doiron, CLA Director for the Single Audit. Mr. Rogers first provided an overview of CLA's presentation, including audit objectives, scope and process, significant risks and GASB implementations, procedures performed, audit opinions and required communications, and engagement finalization.

Mr. Rogers provided an overview of CLA's ACFR audit objectives. First, they will express their opinion on the financial statements by obtaining reasonable assurance about whether the financial statements are free from material misstatement and presented fairly in

accordance with GAAP. CLA does not perform a forensic audit, they only look to obtain reasonable assurances. CLA does not provide an opinion or assurance on required supplementary information. Second, they will communicate significant audit matters required per Generally Accepted Auditing Standards/Governance Communication and communicate other matters to management through a management letter.

Mr. Rogers discussed the scope of CLA's ACFR audit. First, it covers governmental funds and activities. This includes the General Fund, Federal COVID-19 Response Fund, and other governmental funds. Second, it covers proprietary funds and business-type activities. This includes the Unemployment Compensation Trust Fund, the Family Employment Security Trust Fund, and for this fiscal year, Roxbury Community College. Finally, it covers fiduciary funds. This includes pension and OPEB trust funds, private purpose trust funds, and custodial funds. There are several entities that are included in the ACFR but are audited by other auditors. These include the Massachusetts School Building Authority, Lottery, state universities, community colleges, external investment trust funds, and discretely presented component units. CLA places reliance on the opinions of these other auditors for these activities while maintaining communication with them.

Mr. Rogers discussed significant risks and GASB implementations. Significant risks include management override of controls (there were no findings in this category), improper revenue recognition, decentralized operation, financial close and reporting, and valuations of net pension and OPEB liabilities. He explained that GASB Statement No. 99 did not affect financial reporting, while implementation of GASB Statement No. 100 did note changes to prior years' calculation of net investment in capital assets, though there were no changes to the Commonwealth's net position..

Mr. Goulet outlined the procedures performed by CLA during their audit. These include risk assessment and internal controls, including analytical procedures, inquiries of management, document inspection, and process observation. Risk assessment helps CLA identify significant transaction classes that the Commonwealth is involved with test controls. Procedures also include substantive testing, including tracing and vouching information presented, recalculation, confirmation, analytical procedures, and third-party specialist actuary testing.

This year there will again be an unmodified opinion of the ACFR, with two “Emphasis of Matter” paragraphs addressing: (1) reclassification error due to GASB Statement No. 100; and (2) modification of MassDOT’s opinion.

Mr. Rogers discussed governance communications. Overall, there are significant accounting policies discussed in Note 1. CLA did not identify any transaction that lacked authoritative guidance. All significant transactions are included in the financial statements in the proper period and financial statements are neutral, consistent, and clear. Difficulties encountered during the audit included:

- Final supplemental budget not signed until December 4, 2024;
- Financial reporting package for Unemployment Insurance, administered by the Executive Office of Labor and Workforce Development, was late and provided piecemeal between January and March 2025, and required several iterations between the Comptroller’s Office and EOLWD;
- Massachusetts State College Building Authority’s audited financial statements were not received until March 2025; and
- Roxbury Community College and its related Foundation’s audited financial statements were not received prior to the Commonwealth’s ACFR issuance.

None of these difficulties were caused by management and CLA had no disagreements with management during the process. There were no uncorrected misstatements and only one corrected misstatement not material to the financial statements.

CLA is in its final stages of the ACFR. Final inquiries with management were completed today and the signed management representation letter should be signed later today. Issuance is imminent, likely on Friday, May 2, 2025.

Mr. Rogers turned the presentation back over to the Chair.

7. BOARD DISCUSSION OF THE ACFR

The Chair asked Board members if there were any questions related to CTR and CLA’s presentations or the ACFR itself. None were raised.

The Chair turned the presentation over to the Comptroller.

The Comptroller said that some questions were raised last year about the ACFR that he wanted to address now. First, he explained that, when looking at the net position of the Commonwealth, contractual obligations by Commonwealth departments appear as negatives on the balance sheet. On the other side, future revenues are not recognized on the balance sheet. This may make it look like there is more of an imbalance than actually exists. Second, while the Massachusetts State College Building Authority's audited financial statements were late this year, they have taken steps to ensure it will not happen again. Third, CTR continues to work with Roxbury Community College to improve their process. Finally, Unemployment is in a better situation than it was but is still an ongoing process.

Mr. Merkowitz added to the Comptroller's first point, saying that the reason for the net negative position is largely due to debt issuance for assets that the Commonwealth does not own. The Commonwealth also takes on debt that counties in other states typically take on.

Mr. Ambrosino asked why the pension liability is higher than the OPEB liability? The Chair said it is largely because of the aggressive approach to paying down the liability, as well as interest earnings. The Comptroller agreed with the Chair.

8. STEPS TO ISSUANCE OF THE ACFR

The Comptroller explained the steps for issuing the ACFR. First, CTR will finish the proofing process. Second, CLA will finalize their process and opinion letter. Third, CTR will provide two days for the Advisory Board to fully review. Finally, if there are any material changes or concerns raised in the proofing and audit process, they will be reported to the Advisory Board. Once this process plays out, the ACFR will be issued sometime between the end of day Thursday or on Friday.

The Chair asked if there were any questions about the issuance process? None were raised.

The Comptroller absented himself from the meeting for the next agenda item. The Chair turned the presentation over to CTR Chief Operation Officer Thomas Smith-Vaughan.

9. REVIEW OF COMPTROLLER COMPENSATION

Mr. Smith-Vaughan spoke to the Board about raising the compensation for the Comptroller. Per M.G.L. c. 7A, § 1, the Advisory Board sets compensation for the Comptroller. The Board last reviewed Comptroller compensation in October 2021, when it was set at an annual rate of \$184,700.

Mr. Smith-Vaughan said that, according to the U.S. Bureau of Labor Statistics, inflation has reduced the value of \$100 in October 2021 to \$86.49 as of March 2025. The current compensation level also presents a collision problem, because there are competitive salaries for senior leadership roles in CTR that are now at or near the level of the Comptroller. Comptroller compensation has also fallen materially behind that of comparable positions in state government, who have otherwise generally received increases since 2021. CTR will suggest compensation as an annual discussion item for the Board in the future, whether they plan to increase it or not, so that it does not fall behind again.

Mr. Smith-Vaughan proposed for the Board's consideration an increase in Comptroller compensation of 9.3% (\$17,200), for a total annual salary of \$201,800.

The Chair stated that he supports the proposal and asked for any questions or comments from Board members. Mr. Esmond said that he supported making this discussion an annual agenda item, and the proposed increase in compensation for the Comptroller. He asked Mr. Smith-Vaughan if there are any concerns with CTR's budget if there is an increase, and when the increase would take place? Mr. Smith-Vaughan said that there are no budget concerns and the increase, if approved, would take place on today's date, April 29, 2025. Mr. Ambrosino asked if the Board can approve the raise in Comptroller compensation to be retroactive to January 1, 2025? Mr. Smith-Vaughan said that he did not anticipate any budget concerns as a result of making the raise retroactive, and asked CTR Chief Financial Officer Andrea Wadsworth to comment. Ms. Wadsworth confirmed there are no concerns with making the raise retroactive.

On a motion by Mr. Ambrosino, seconded by Mr. Esmond, the Board approved by roll call vote a raise in Comptroller compensation to \$201,800 per year, retroactive to January 1, 2025.

- Secretary Gorzkowicz – Yes

- Meredith Barrieau – Yes
- Kathleen McNamara – Yes
- Paula McManus – Yes
- Thomas Ambrosino – Yes
- Michael Esmond – Yes

10. TIMING OUTLOOK FOR NEXT MEETING

The Chair said that the next meeting date will be determined on publishing the ACFR and finishing the Single Audit. Mr. Smith-Vaughan said that CTR expects a completion date by mid-June.

11. ITEMS NOT REASONABLY ANTICIPATED BY THE CHAIR

The Chair asked if there were any other items not reasonably anticipated by the Board to be discussed? None were raised.

12. MEETING ADJOURNMENT

The Chair adjourned the meeting.