



The Commonwealth of Massachusetts
Office of the Comptroller

Fiscal Year 2015 Comprehensive Annual Financial Report -- Interim Filing

January 13, 2016

Pursuant to M.G.L. c. 7A s. 12 (c), I am obligated to prepare and file the Commonwealth's Comprehensive Annual Financial Report annually and not later than the second Wednesday in January. The Comprehensive Annual Financial Report must include audited financial statements for the various component units of the Commonwealth and is prepared in conformity with generally-accepted accounting principles (GAAP).

Under GAAP, the Massachusetts Department of Transportation (MassDOT) is a "discretely (or separately) presented" component unit of the Commonwealth. The Massachusetts Bay Transportation Authority (MBTA) is a "blended" component unit of MassDOT (that is, a component unit that is incorporated in the basic financial statements of MassDOT), and the MBTA Retirement Fund (MRF) is a uniquely private trust whose assets and liabilities must be accounted for by the MBTA in its own financial statements.

In June 2015, issues were raised by an external investigative group relative to the accuracy of certain MRF pension-related assets and liabilities, and thus the MRF's financial position as presented in its financial statements. In December of 2015, the MRF board engaged an independent firm to investigate these allegations, and that investigation is currently underway.

As a result, the MRF is unable at this time to provide finalized and audited financial statements to the MBTA for fiscal year 2015. In turn, the MBTA is unable to finalize its audited financial statements, MassDOT is unable to finalize its audited financial statements with respect to the MBTA, and the Commonwealth is unable to finalize its audited financial statements with respect to MassDOT without the risk of a "modified (or qualified) audit opinion" being issued by the auditors for each of the public entities involved. A modified opinion is substantial negative treatment in the auditing vernacular. This risk exists solely because of the reporting relationships described above.

I have reviewed the situation with my senior audit and legal staff, and our external auditors. Under the circumstances, I believe that it is not in the best interest of the Commonwealth to file the Commonwealth's FY 2015 Comprehensive Annual Financial Report at this time. I intend to delay filing the Comprehensive Annual Financial Report until the firm hired by the MRF completes its investigation, the independent auditors of the MRF complete the audit of MRF's financial statements, and the Commonwealth receives audited financial statements from its component units (the MBTA and MassDOT).

To clarify, the Comptroller's fiscal oversight authority under c. 7A does not extend to the MRF because it is a private legal entity. Thus, all of the involved public entities (the Commonwealth, MassDOT, and the MBTA) have limited insight into the status of the MRF's investigation and independent audit or when the process described above will be completed.

In anticipation of a final resolution to the MRF's investigation, the Commonwealth expects to issue unaudited financial statements by mid-February. I will also provide additional status updates when I am able to ascertain a more definitive timeline for completion of the FY 2015 Comprehensive Annual Financial Report.

I welcome any questions you may have regarding this issue.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Shack', written in a cursive style.

Thomas G. Shack, III, Esq.
Comptroller of the Commonwealth