

Minutes of the Comptroller Advisory Board

Meeting Date: March 23, 2020
Time: 11:30 a.m.
Location: Virtually via ZOOM due to COVID19, consistent with Governor Baker's Executive Order

MEMBERS AND ATTENDEES

Members Present

Catharine Hornby, (Chair designee) Undersecretary for Administration and Finance (ANF)
Suzanne Bump, Auditor, Office of the State Auditor (SAO)
Karen Guida, (designee) Internal Auditor, Office of the State Treasurer (TRE)
Natalie Monroe, (Gubernatorial Appointment) Office of the Inspector General (IGO)
Mary Strother, (designee) First Assistant Attorney General, Office of the Attorney General (AGO)

Members Absent

Jonathan S. Williams, Court Administrator of Massachusetts Trial Court
Michael Esmond, (Gubernatorial Appointment), Chief Fiscal Officer of Massachusetts Convention Center Authority

Office of the Comptroller (CTR)

William McNamara, Comptroller
Jeffrey Shapiro, First Deputy Comptroller
Amy Nable, Assistant Comptroller and General Counsel
Howard Merkwowitz, Deputy Comptroller
Elizabeth Hemond, Assistant to the Comptroller
Katie Kendall, Chief Process and Innovation Officer
Stacy Hoag, Relationship Manager
Peter Scavotto, Assistant Comptroller
Tatiana Peralta, Chief Risk Officer
Michael Rodino, Statewide Financial Reporting Director
Pauline Lieu, Statewide Financial Reporting Deputy Director
Parris Kyriakakis, Assistant General Counsel
Michael Sangalang, Communications Manager

Other Attendees

Jerry Lherisson, Internal Communications Director, ANF
Scott Warnetski, KPMG
Blakeny Bell, KPMG
Sandra Malony, CGI
Mike Clair, CGI
Martin Benison, Accenture

AGENDA

1 CALL TO ORDER

The meeting was called to order with Catharine Hornby, Karen Guida, Natalie Monroe, and Mary Strother in attendance.

1.1 Statement on Remote Participation

The chair announced that on March 12, 2020, Governor Baker issued an Executive Order suspending certain provisions of the Open Meeting Law, in conjunction with the state of emergency declared on March 10, 2020 due to the outbreak of the 2019 novel Coronavirus (“COVID-19”).

Because of that state of emergency, and in accordance with the Governor’s Executive Order, 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 today will be taken by roll call.

1.2 Recording Announcement by Advisory Board Chair Heffernan

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.

She asked anyone making a recording to please identify themselves. Katie Kendall from the Office of the Comptroller stated she was recording for the purpose of keeping the minutes.

2 REVIEW AND APPROVAL OF JUNE 24, 2019 ADVISORY BOARD MEETING MINUTES

On a motion by Natalie Monroe, seconded by Mary Strother, the Board unanimously approved the January 13, 2020 Advisory Board meeting minutes.

- Karen Guida – Approve
- Mary Strother – Approve
- Natalie Monroe – Approve
- Catharine Hornby – Abstain

The topic was discussed at the start of the meeting, however the vote to approve the minutes was delayed until the end of the meeting so that Karen Guida could confirm that she attended the January 13, 2020 Advisory Board Meeting. She confirmed that she had, in fact, attended that meeting, and Natalie Monroe also notified the members that they could vote on minutes for meetings they did not attend based on representation by the other members that the minutes are accurate.

3 REVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

Deputy Comptroller Howard Merkowitz gave a presentation on the FY2019 CAFR.

Merkowitz first gave a recap of the FY2019 Statutory Basis Financial Report (SBFR), describing what that report included and determined.

Merkowitz then stated that the CAFR was issued on February 10, 2020 with an unmodified (clean) audit opinion, and was submitted to the Government Finance Officers' Association (GFOA) for review as part of the Certificate of Achievement for Excellence in Financial Reporting Program.

Merkowitz described what the FY2019 CAFR included and determined, highlighting the following points:

- The change in reporting of Net Pension and Other Post-Employment (OPEB) liability due to GASB Statement Nos. 68 and 75.
 - For FY19 the Commonwealth's net pension liability on a government wide basis was approximately \$38.783 billion and the net OPEB liability was approximately \$14.243 billion
- The Statement of Revenues, Expenditures and Changes in Fund Balances on a Fund Perspective basis for Governmental Funds for FY19
- Changes in Net Position between June 30, 2019 and June 30, 2018 on a Government Wide Full Accrual Basis
- Assets owned by MassDOT and Higher Education, largely financed by the Commonwealth, offset the Commonwealth's net deficit
- Major reason for the Government-Wide Net Deficit in the FY19 CAFR
 - Unfunded pension liability
 - Underfunded retiree health benefits (OPEB)
 - School Building Authority debt and grants payable
 - Road and bridge assets owned by MassDOT and for capital grants and expenditures for state authorities and cities and towns

Merkowitz also gave an update on Significant GASB Standards that have been issued:

- Statement No. 84, Fiduciary Activities – Effective FY20
- Statement No. 87, Leases – Effective FY21

Questions and Comments:

Auditor Bump asked Merkowitz to explain the implications of GASB 87. He explained that there will be changes in the way that we account for leases, which requires that the Commonwealth examine every lease that is undertaken by the Commonwealth. There are a number of companies that have been trying to sell the Commonwealth their services to help us analyze these leases. This will take a lot of work, particularly at the Comptroller's Office. Though this standard does not take effect until FY21, we have begun planning.

Mike Rodino, Chief Financial Reporting Officer, from the Office of the Comptroller commented that in the past, all operating leases were a footnote disclosure. Starting in FY 21, since operating leases will no longer exist, they will all be capital-financing agreements that the lease liability will go up as well as the offset in capital asset.

Scott Warnetski, Engagement Partner, of KPMG added that last year KPMG provided a management letter to the Commonwealth that advised starting the process of implementing the GASB 87 Lease Standard as soon as they are able, because the information gathering is difficult. Within this year's draft management letter they also include the recommendation regarding the information gathering for GASB 87. KPMG is happy to see that CTR has started this process.

Merkowitz added that part of the difficulty is that MMARS doesn't contain all of the information necessary to implement this standard. There are ways to find out how many lease payments there are, but that information is only the start of what CTR needs to collect. CTR is going to need to reach out to departments directly to survey them about their leases.

Natalie Monroe asked Merkowitz how "pension liability" is defined. He replied that, if she meant the unfunded pension liability, which is the present value of the unfunded benefits, essentially if the Commonwealth had to pay it all off today.

Jeff Shapiro of CTR had a question about the reasoning behind GASB 84 and 87, 87 in particular.

Warnetski explained that it mirrors the FASB standard, and that GASB wanted to move in a direction where the rest of the world is moving. Merkowitz asked Warnetski if there was a FASB cloud-based standard. Warnetski replied that there is.

Warnetski also added that the \$38 billion pension liability figure is a net number, which is offset by the assets set in trust.

4 KPMG REPORT TO THE BOARD

KPMG's Scott Warnetski, the KPMG partner on the Commonwealth engagement, and Blakeny Bell, Audit Manager, presented the results of KPMG's review of the FY19 CAFR.

They explained what their scope, object of review, and responsibilities are when reviewing the CAFR. Warnetski explained that they perform their audit under two sets of standards: the audit standards set forth by the American Institute of Certified Public Accountants ("AICPA") and government auditing standards.

KPMG did not note any unusual transactions, any disagreements with management while KPMG was conducting their procedures, or if management consulted with other accountants.

KPMG did note some management judgments and accounting estimates, which includes the unemployment compensation contribution receivable allowance for doubtful accounts, allowance for doubtful accounts related to tax receivables, the pension and post-employment benefits (OPEB), Medicaid liability. When performing their audit, KPMG evaluates management's inputs and assumptions regarding these accounts. KPMG found the inputs and assumptions reasonable. KPMG noted that there was one that required an audit adjustment for unemployment.

There were no uncorrected audit differences, however there were a number of corrected audit misstatements. None of the corrected misstatements were items that KPMG would consider material to the financial statement.

Warnetski noted the following audit differences:

There was an audit difference based on the split of retiree health care expenses between the General Fund and the OPEB Trust Fund.

There were some corrections of prior year amounts that were reflected in the current year which includes an unemployment adjustment that was not made correctly in the prior year.

There were also some corrections of reporting of component units.

There was also a correction that was made related to the unemployment allowance.

Bell then presented KPMG's findings relating to material weaknesses and significant deficiencies. She explained what constitutes a material weakness or significant deficiency. She then noted that:

There are findings related to internal controls over Financial Reporting that will appear in the Single Audit Report.

There are no IT findings that rise to the level of a significant deficiency.

There are three yellow book findings this year; two are repeats from the prior year and are classified as material weaknesses.

There is a finding that is shared between CTR and Executive Office of Labor and Workforce Development ("EOLWD") that highlights the need for stronger reconciliation controls between MMARS and Unemployment Insurance ("UI") online.

Another finding involves the EOLWD allowance, though strides have been made have been made since last year's finding. KPMG suggests a review procedure. This finding was due to a formula error.

There was a finding related to the GIC and the need for strengthened controls over the preparation of the year end OPEB trust benefit expense. There was a coding error that was found through KPMG's audit.

Warneski added regarding the EOLWD finding, that last year KPMG provided EOLWD with a comment recommending that EOLWD be more scientific in their approach to estimate allowances. EOLWD took the suggestion to heart and developed a model. Though they did make strides since last year's findings, there was an error that was large and led to an audit finding.

Questions and Comments:

Jeffrey Shapiro, First Deputy Comptroller, announced that Auditor Bump joined the meeting during Merkowitz's presentation.

5 COMPTROLLER UPDATE

Comptroller McNamara presented an update on the Office of the Comptroller. He shared his excitement to work with the Advisory Board, and explained that he had assumed the role of Comptroller four weeks before this meeting date. He stressed that his transition into the role of Comptroller will be a continuity transition, not a disruption transition. He explained that CTR is already known for its commitment to its mission and has a great team in place and that this is not a time to stop work or change priorities

5.1 WESTFIELD STATE

Comptroller McNamara provided a summary of an incident of cyber theft that occurred recently involving Westfield State University. Though CTR did not yet have a detailed incident report, Comptroller McNamara explained that the Office of the Treasurer & Receiver General was able to retrieve the vast majority of the \$1.7 million that was sent to a fraudulent account.

CTR reached out to all the state universities, colleges, and community colleges after learning of this incident, to put them on high alert, offer resources, and re-emphasized the support and training CTR provides related to breaches. Natalie Monroe offered help from the Office of the Inspector General to CTR with this training initiative.

5.2 CORONAVIRUS IMPACT

Comptroller McNamara expressed that he has great confidence in the continuity of CTR operations and in the office's ability to work remotely during the coronavirus pandemic.

For the past two weeks, CTR's primary goal was to expand the group of people who have the ability to work from home. 84 of the 129 comptroller staff are fully operational remotely using computers with secure VPN connections.

A majority of the 84 are on computers provided by CTR and dedicated solely to comptroller work. Very few people are using VPN on personal computers. 17 PCs are ready to be delivered to CTR staff either today or tomorrow, which will bring the office to a total of 101 fully operational remote staff.

CTR's systems and payroll teams are fully operational remotely. CTR is still assessing the contracts team's remote capabilities. CTR continues to be in contact with all of its employees, and has emphasized security during this period of remote work.

6 ITEMS NOT REASONABLY ANTICIPATED BY THE CHAIR

No items presented.

7 ADJOURNMENT

On a motion by Mary Strother, seconded by Natalie Monroe, the Board unanimously voted to adjourn at 1:40 p.m.

- Karen Guida – Approve
- Mary Strother – Approve
- Natalie Monroe – Approve
- Suzanne Bump – Approve

Catharine Hornby did not vote.

8 DOCUMENTS USED AT THE MEETING

January 13, 2020 Comptroller Advisory Board Meeting Minutes

[2019 Comprehensive Annual Financial Report](#)

[Office of the Comptroller presentation on the FY19 Comprehensive Annual Financial Report \(CAFR\)](#)