

**Minutes of the Advisory Board to the Comptroller**

**Meeting Date:** Wednesday, December 16, 2020  
**Time:** 2:00 p.m.  
**Location:** Virtually via ZOOM, due to COVID-19, consistent with Governor Baker’s March 12, 2020 Executive Order

**MEMBERS AND COMPTROLLER ATTENDEES**

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**Members Present**

Michael Heffernan (Chair), Secretary for Administration and Finance  
Suzanne Bump, Auditor, Office of the State Auditor  
Eileen Connolly (Designee), Fiscal Affairs Manager, Office of the Trial Court  
Michael Esmond (Gubernatorial Appointment), Chief Fiscal Officer, Massachusetts Convention Center Authority  
Karen Guida (Designee), Internal Auditor, Office of the State Treasurer  
Natalie Monroe (Gubernatorial Appointment), First Assistant Inspector General, Office of the Inspector General  
Mary Strother (Designee), First Assistant Attorney General, Office of the Attorney General

**Members Absent**

None

**Office of the Comptroller Attendees**

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

## AGENDA

### 1 CALL TO ORDER

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The meeting was called to order with Secretary Heffernan, Natalie Monroe, Eileen Connolly, Auditor Bump, Michael Esmond, Mary Strother and Karen Guida 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 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.

He noted that the Office of the Comptroller was recording for the purpose of keeping the minutes, and asked anyone else making a recording to please identify themselves. Colin Young from State House News Service stated that he was recording.

### 2 REVIEW AND APPROVAL OF SEPTEMBER 9, 2020 ADVISORY BOARD MEETING MINUTES

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On a motion by Auditor Bump, seconded by Natalie Monroe, the Board unanimously approved the September 9, 2020 Advisory Board meeting minutes.

- Auditor Bump – Yes
- Mary Strother – Yes
- Karen Guida – Yes
- Eileen Connolly – Yes
- Michael Esmond – Yes
- Natalie Monroe – Yes
- Secretary Heffernan – Yes

Secretary Heffernan, before moving to the third item, stated that it has been a phenomenal pleasure to work with the Advisory Board and the Comptroller and Comptroller's staff throughout 2020, and he is looking ahead to 2021. He thanked the Comptroller and the Comptroller's staff for their efforts throughout the complex closing of Fiscal Year 20.

### **3 REVIEW OF THE DRAFT STATUTORY BASIS FINANCIAL REPORT (SBFR)**

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Comptroller McNamara discussed the timing of the SBFR. This is the first SBFR for Comptroller McNamara, but the second consecutive year that the SBFR is being delivered materially later than its statutory October 31 deadline. The 2019 SBFR was delivered on January 6, almost 10 weeks past its statutory deadline. The Office of the Comptroller (CTR) is looking to deliver this year's SBFR on Friday, which will be 7 weeks past its statutory deadline. The Comptroller explained that he is the state official who is charged by law with ensuring timely delivery, and it is something that he takes very seriously.

This year, the COVID-19 pandemic affected both the legislature's enactment of the final supplemental budget and the accounting close of the fiscal year. Decisions made by state leadership, such as the extension for tax payments to June, caused a delay in the state's ability to finalize and certify revenue.

The final supplemental budget was passed on November 10, which is already 10 days past the statutory deadline to have filed the SBFR, and still required significant work to complete the accounting closing and the subsequent review by the Commonwealth's independent auditors before the report could issue..

CTR took every step possible to prepare for the SBFR. Comptroller McNamara credited Howard Merkowitz and his team for a rapid completion without any sacrifice in quality of the report. Comptroller McNamara also thanked KPMG for their collaboration through the preparation and finalization.

Comptroller Mcnamara stated that all of us are hoping to begin our return to normalcy within the coming year, and he believes that the state's fiscal affairs can be managed so that FY21 has a timely close, allowing a timely delivery of the next SBFR.

**Deputy Comptroller** Howard Merkowitz then gave a presentation on the FY20 SBFR. He expressed that it has been an extraordinary year.

Merkowitz offered an overview of what the SBFR includes and excludes. He explained how COVID-19 has affected the SBFR. Changes include the decision by the Department of Revenue to delay the personal income tax due dates for tax year 2019, which led the legislature to enact two changes to the statutory accounts receivable definition for FY20: that delayed income tax revenues received in July/August 2020 are required to be recorded as FY20 revenues, and that estimated federal reimbursements from the Federal Emergency Management Agency (FEMA) are required to be recorded as FY20 revenues. Further, Merkowitz explained that the statutory

requirement to transfer capital gains tax revenues above a certain threshold to the Stabilization Fund was suspended for FY20.

Merkowitz then continued to give a review of the FY20 SBFR results including: ending with a consolidated net surplus of \$0 in budgeted funds; an operating gain of \$336 million in budgeted funds, compared to a \$1.573 billion operating gain in FY19; a budgeted fund ending balance of approximately \$4.295 billion, of which \$3.501 billion is in the Stabilization Fund; \$77 million deposited in the Stabilization Fund in FY20. He also explained that the total budgeted fund revenue increased by \$934 million, or 2.0%, to \$47.316 billion, including \$546 million in additional Medicaid revenue from an increased federal reimbursement rate intended to provide states with COVID-19 relief funds

Merkowitz then reviewed the tax revenue portion of the report. Budgeted fund tax revenue decreased by \$156 million, 0.6%, from FY19, as the COVID-19 pandemic resulted in lower revenues in the fourth quarter of FY20, offsetting healthy growth in the first three quarters of FY20. He gave a further detailed breakdown of the tax revenues.

Merkowitz then explained that budgeted fund expenditures and other uses totaled \$46.980 billion, up \$2.170 billion, or 4.8%. He then gave a breakdown of the COVID-19 budgeted fund expenditures.

Merkowitz continued with an overview of the FY20 Stabilization Fund activity. Merkowitz noted that as of June 30, 2020, the FY20 Commonwealth's Stabilization Fund balance as a percentage of General Fund own source expenditures was 10.9%, well above the projected national median of 7.8% as reported in the Spring 2020 survey of the National Association of State Budget Officers (NASBO), and down only 0.1% from FY19.

Lastly, though there normally is not a focus on the non-budgeted funds, Merkowitz gave a review of the non-budgeted special revenue fund revenue and expenditures because the activity in those funds concerned COVID relief from the federal government.

Merkowitz added that producing the SBFR was a group effort on behalf of not only CTR, but also the Executive Office for Administration and Finance (ANF), the Treasurer's Office, and all other state agencies that filed information with CTR. Particularly, he wanted to praise Michael Rodino, Pauline Lieu, and Kristin Lacroix for their work.

Secretary Heffernan added that completing the SBFR so well and so quickly was a "herculean effort" and that ANF appreciates CTR's hard work.

Merkowitz then asked the CTR Advisory Board Members if there were any questions

Auditor Bump stated that she shared the sentiments that have been expressed about the outstanding work of CTR and ANF. She then asked if Merkowitz could clarify that the money outside of budgeted fund, because it came directly from the federal government and has gone to the Coronavirus Relief Fund, from that the large amount \$2.46 billion, \$761 million was allocated in FY20, although those expenditures are not actually part of the FY20 budget.

Merkowitz explained that the \$761 million from the Relief Fund is outside of the annual budget, as is the \$115 million in federal grants – that is in a federal grant fund which is part of the normal federal grants process and it was allocated to coronavirus relief, most of which Merkowitz believes is under pre-CARES Act legislation addressing the pandemic.

Auditor Bump asked Merkowitz to clarify if those were the direct injection of funds, for instance into higher education?

Merkowitz confirmed that yes, some of this was into education, but Higher Ed got their own money separately

Secretary Heffernan interjected that the ESR funds were separate from the funds Auditor Bump is inquiring about and that there was money that was received from the CARES Act that went to Higher Education.

Merkowitz then further explained that the increase from \$4 million to \$340 million for MEMA was in the General Fund and that's part of the \$350 million that we expect to be reimbursed by the FEMA after June 30, 2020.

Auditor Bump asked if this was budgeted?

Merkowitz explained that yes, this was budgeted and that there was a billion dollar appropriation for COVID relief. Some of that money carried forward to FY21 as a prior appropriation continued. Merkowitz believed that a lot of this was the \$340 million increase for MEMA.

Auditor Bump then asked Merkowitz if the \$350 million is what is already accounted for, or if that includes projections of other eligible expenses that will add to a current total that will be in the neighborhood of \$350 million?

Merkowitz explained that the \$350 million was actually expended in FY20, which is ANF's estimate of what we will recover from FEMA eventually.

Auditor Bump asked if there could be more money that could be recovered from FEMA in FY21?

Merkowitz answered that yes, he believes that there is more. He explained that as there were a billion dollars appropriated, some of that money carried forward to FY21 and that is in the General Fund, which presumably will all be reimbursed by FEMA at 75%. Merkowitz deferred to ANF on the plans, but said that what they usually did in FY20 is, of the 25% that wasn't reimbursed, that was allocated to the Coronavirus Relief Fund because it was eligible to be paid from that fund.

Auditor Bump asked if FEMA was "quick to pay"?

Merkowitz deferred to ANF, because they would have a better sense than he does, but he believed that once a claim is put in it does not take too long, so long as they have the spending authority.

Auditor Bump asked if that money will go to the bottom line of FY21?

Merkowitz explained that it will go to the General Fund in FY21 as a revenue. In addition, there was an increase in the federal Medicaid reimbursement, which he believes is 6.2%, which was over \$500 million dollars that went right to the General Fund.

Merkowitz further explained that CTR is working on posting related COVID spending information on the Commonwealth's transparency website.

Auditor Bump asked if she saw correctly that Merkowitz's slide indicated that the Stabilization Fund still stands at nearly 11% of the budget?

Merkowitz said that, yes, she is correct and that no money was taken from the Stabilization Fund in FY20, and about \$77 million was added.

Auditor Bump then asked that once money is taken from the Stabilization Fund for this fiscal year, then the fund represents what percentage of budgeted funds?

Merkowitz said it depends how much is taken. He believes that there is authority to take \$1.35 billion, and if that much is taken out it will reduce the balance by 39% which would bring it to 6 or 7 % of expenditures

Auditor Bump said that still places the Commonwealth in a favorable position relative to the Commonwealth's peers across the country, if the average has been in the upwards of 7%.

Merkowitz said she was correct, and that the average was based on a spring survey, so that average could be lower at this time.

#### **4 KPMG REPORT TO THE BOARD**

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Scott Warnetski, Engagement Partner, of KPMG started his presentation by echoing earlier sentiments, stating that he was always impressed with the professionalism and due care of CTR leadership and staff when pulling together the SBFR, Comprehensive Annual Financial Report (CAFR), and other reports. During the pandemic and the remote work environment, he was happy to see that nothing changed as far of the quality of the work and, from what he can see, from CTR's staff, as far as assistance and helping KPMG complete their goal of issuing a report on the SBFR and issuing a report of the CAFR.

Warnetski then explained that a review is not an audit, and that a review is substantially less in scope than an audit. He then turned the presentation over to Blakeney Bell, Audit Manager, of KPMG.

Bell explained that KPMG's review is performed in accordance with the American Institute of Certified Public Accountants (AICPA) standards. KPMG does not preform review procedures on the introductory or statistical sections, but they do check them for internal consistency with the statements and math accuracy.

As part of KPMG's communications to the Advisory Board, she said, they are required to highlight manager responsibilities related to financial reporting, internal controls, and oversight. Bell emphasized that KPMG's procedures focus on whether they are aware of any material modifications that should be made to the SBFR, and it does not provide assurances on whether KPMG will become aware of all significant matters that would be normally identified in an audit. She added that review is not designed to provide assurances on internal controls or identify significant deficiencies, however KPMG identifies any material weaknesses or significant deficiencies and will communicate this through management and the Advisory Board.

KPMG expects to deliver a report on Friday, December 18, as they are still in the process of wrapping up their procedures and, if there are any changes to their communications, they will notify the Advisory Board. To date, no material modifications have been identified and they expect to issue a clean report.

Bell also noted that there are no significant items of concern to raise with the Advisory Board, and no matters to date for KPMG to report.

She stated that KPMG is looking forward to their future deliverables and gave a timeline for those outstanding matters.

Warnetski added that one of KPMG's goals in this review is to ensure proper disclosures around changes to the statutory basis of accounting, as well as an explanation as to why things look different from prior years, ensuring that readers have a clear view as to why those look different from prior years and what affected those balances in the current year.

## **5 UPDATE ON OFFICE OF THE COMPTROLLER**

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Comptroller Mcnamara gave a quick update on the Office of the Comptroller.

Comptroller McNamara stated that CTR has been functioning really well in a remote environment and he does not see it presenting any problems.

He explained said that CTR's IT has held up well, and that the Office's core systems, including MMARS, have continued to function well.

Comptroller McNamara gave an update on BEST. Comptroller McNamara explained that both MMARS and HR/CMS have aged and that it is a serious effort and undertaking to replace these systems, but also has potentially serious benefits. The BEST Team, in just the past few weeks, issued a request for information (RFI) that reflects our best knowledge of the Commonwealth's needs in this space.

## **6 ITEMS NOT REASONABLY ANTICIPATED BY THE CHAIR**

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Comptroller McNamara thanked Eileen Connolly, Fiscal Affairs Manager, from the Executive Office of the Trial Court for attending the Advisory Board meeting as the designee for the Office of the Trial Court. Comptroller McNamara asked Connolly to convey his and the Advisory Board's appreciation to Jonathan Williams, Administrator of the Trial Court and member of the Advisory Board, for his service on the Board and his work as a partner in government, as Williams prepares to depart state government in a few days.

Auditor Bump stated that Secretary Wood issued a very reassuring statement relative to the foreign nation hack which made its way through Solar Wind, and was wondering whether MMARS and HR/CMS were making use of the same Orion platform within Solar Wind that is at issue?

Comptroller McNamara stated that he had great confidence in Secretary Wood's statement and turned the question over to Peter Scavotto, head of CTR's Risk Team.

Scavotto stated that CTR's technical team did look into this and the software that the office uses was not on the list of software that was impacted by the hack.

## **7 ADJOURNMENT**

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On a motion by Auditor Bump and seconded by Michael Esmond, the Board unanimously voted to adjourn at 3:10 p.m.

- Auditor Bump – Yes
- Mary Strother – Yes
- Karen Guida – Yes
- Eileen Connolly – Yes
- Mike Esmond – Yes
- Natalie Monroe – Yes
- Secretary Heffernan – Yes

## **8 DOCUMENTS USED AT THE MEETING**

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September 9, 2020 Comptroller Advisory Board Meeting Minutes