

## **Minutes of the Advisory Board of the Comptroller**

**Meeting Date:** Wednesday, March 24, 2021  
**Time:** 3:00 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  
John Bello, Court Administrator, Office of the Trial Court  
Suzanne Bump, Auditor, Office of the State Auditor  
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**

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

## **AGENDA**

### **1 CALL TO ORDER**

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The meeting was called to order with Secretary Heffernan, Natalie Monroe, John Bello, 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. No attendees stated that they were recording the meeting.

## **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 December 16, 2020 Advisory Board meeting minutes.

- Secretary Heffernan – Yes
- Auditor Bump – Yes
- Mary Strother – Yes
- Karen Guida – Yes
- John Bello – Yes
- Michael Esmond – Yes
- Natalie Monroe – Yes

## **3 REVIEW OF THE COMPREHENSIVE ANNUAL REPORT**

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Comptroller McNamara commended Deputy Comptroller Howard Merkowitz and his team on their work during Fiscal Years 2020 and 2021, noting that Merkowitz and his team have played a critical role ensuring that both the expense and funding side transactions were executed and recorded appropriately and accurately.

Merkowitz then gave a presentation on the Fiscal Year 2020 Comprehensive Annual Report that was scheduled to be issued on March 25, 2021.

Merkowitz started his presentation by giving a brief background on the Fiscal Year 2020 Statutory Basis Financial Report, including its issue date, its review process, and what the report determines.

Merkowitz then gave background on the Fiscal Year 2020 Comprehensive Annual Financial Report. He explained that the Fiscal Year 2020 Comprehensive Annual Financial Report will be issued with an unmodified audit opinion and will be submitted to the Government Finance Officers’ Association as part of obtaining the Certificate of Achievement for Excellence in Financial Reporting. This would represent the thirtieth consecutive year that the Commonwealth’s Comprehensive Annual Financial Report was awarded the certificate. Merkowitz gave a review of

the Fund Perspective and the Comprehensive Annual Financial Report Government-Wide Perspective.

Merkowitz also noted that the name of the Comprehensive Annual Financial Report is being changed starting in Fiscal Year 2021 to the Annual Comprehensive Financial Report, as the pronunciation of the report's acronym (CAFR) sounds like a racial slur used in Africa.

Merkowitz then discussed changes implemented in response to GASB Statement Nos. 68 and 75 to the reporting of pensions and Other Post-Employment Benefits (OPEB) liabilities for government entities. Merkowitz explained that for Fiscal Year 2020, the Commonwealth's net pension liability on a government-wide basis was approximately \$35.747 billion and the net OPEB liability was approximately \$18.865 billion.

Merkowitz presented a table of the Fund Perspective Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds for Fiscal Year 2020. Merkowitz then presented a table of the Government Wide Perspective Changes in Net Position during Fiscal Years 2020 and 2019. Merkowitz explained that the biggest change is the operating grants and contributions.

Merkowitz then went on to explain why there is a large deficit for the Commonwealth, explaining that much of the capital spending for the Commonwealth goes for assets that are not owned by the Commonwealth. To illustrate this, Merkowitz presented a table that showed how assets owned by entities like MassDOT and Higher Education, but largely financed by the Commonwealth, offset the Commonwealth's net deficit for Fiscal Year 2020. Merkowitz also presented a list of major reasons for the \$73 billion Government-Wide net deficit in the Fiscal Year 2020 Comprehensive Annual Financial Report.

Merkowitz gave an update on new GASB Standards, specifically GASB Statements No. 84 and No. 87 that will be implemented in the following fiscal years. Statement No. 84, dealing with Fiduciary Activities, was implemented early by the Comptroller's Office in Fiscal Year 20. Statement No. 87, dealing with leases, is to be implemented in Fiscal Year 2022 and the Comptroller's Office is looking into how to best comply with this reporting requirement.

Merkowitz expressed his appreciation to the staff of the Comptroller's Office, the Executive Office for Administration and Finance, the Office of the Attorney General, the Office of the State Auditor, and the Commonwealth's external, independent audit firm, KPMG, for their assistance, during a difficult year, in producing the financial reports.

Secretary Heffernan expressed his appreciation to Merkowitz and his team for their work over the past year.

Auditor Bump asked Merkowitz to review the COVID relief money that was made available and how that is reflected in the Comprehensive Annual Financial Report.

Merkowitz explained that the Statutory Basis Financial Report showed the COVID relief money of \$1.5 billion, of which the Commonwealth spent \$761 million. Merkowitz further explained that for the GAAP report, the accounting is different. In the GAAP report the inflow and the outflow is \$761 million dollars because according to GAAP requirements we are required to recognize only the amount of the money that was spent, the rest is deferred because liabilities haven't been incurred yet.

Auditor Bump then asked if this money was in a trust fund.

Merkowitz explained that yes, the money is in a non-budgeted special revenue fund, it has a separate column in the report and, since it is considered a major fund, it is reported separately.

Auditor Bump then asked if the Coronavirus Relief Fund includes the money that went into the Unemployment Insurance (UI) Trust Fund.

Merkowitz answered no, that the UI Trust Fund would be separate. Merkowitz explained that there is \$8 or \$9 billion that went into the Trust Fund as an operating grant in the UI business type activities section of the Government-Wide financial statements.

Auditor Bump then asked if this is true even though the vehicle for this money was an Act.

Merkowitz explained that yes, the Act was the vehicle for the money, but the Coronavirus Relief Fund was a separate fund.

#### **4 KPMG Report to the Board**

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Comptroller McNamara commended KPMG on their professionalism.

Scott Warnetski, Engagement Partner of KPMG, gave a summary of the audit results, required communications, and items that are unique to this year.

Blakeney Bell, Audit Manager of KPMG, presented one uncorrected financial report misstatement identified in the audit. The uncorrected misstatement is related to the Coronavirus Relief Fund liability that was not accrued by June 30, 2020. The Financial Reporting Team at the Office of the Comptroller deemed the impact to be immaterial to the Fund and to governmental activities. KPMG concurs with the Office of the Comptroller, and noted that there is a \$0 impact on net position.

Bell presented six corrected misstatements identified in the audit. Bell explained that these misstatements are related to audit areas that KPMG has seen as past issues which remain open and a few are new circumstances identified this year.

Bell explained that three control deficiencies rose to the level of a material weakness in internal controls over financial reporting. Bell presented a table detailing the three weaknesses, their potential effects and the status. The three weaknesses are the controls around measurement of the OPEB liability, financial reporting of the Unemployment Compensation Trust Fund, and the financial reporting of the Family and Employment Security Trust Fund.

Bell then presented three significant deficiencies in internal controls. Bell presented a table detailing the three significant deficiencies, their potential effects and the status. The three weaknesses are the controls around assignment of retiree healthcare costs to the OPEB Trust Fund, the recording of drug rebate receivables at the related allowance for doubtful accounts, and the conversion of statutory basis federal grant revenues to GAAP basis grant revenues.

Bell thanked everyone for their help in supporting the audit and confirmed that KPMG's report will be unmodified or "clean." Bell gave a quick overview of emphasis of matter and other matter paragraphs that will be in the report. Bell then reviewed a description of significant accounting estimates, audit findings, and KPMG's conclusion. Bell also reviewed KPMG's reading and results of the introductory and statistical sections.

Warnetski noted that one of the more significant items KPMG dealt with this year was an immaterial correction of prior period error, and explained how KPMG addressed this. Warnetski also discussed new major funds and the implementation of GASB 84.

Secretary Heffernan thanked Warnetski and Bell for their work.

Auditor Bump asked for an update on the Commonwealth Single Audit.

Warnetski explained that KPMG has fourteen major programs this year that they are looking at. Four of the fourteen are close to completion and the Coronavirus Relief Fund is the furthest from completion. Warnetski explained that like any year, they will have some findings to report to the Board when it comes time to do reporting on the Single Audit. Warnetski stated that the Uniform Guidance filing is typically due with the federal clearinghouse by March 31<sup>st</sup> following each fiscal year end, and that both last year and this year the deadline has been extended due to Coronavirus. He anticipates issuing sometime in April. Warnetski explained that the reason for the extension was due to some of the late guidance that came out from the federal government regarding the audit of all the CARES Act monies. Warnetski also explained that KPMG uses a document called the Compliance Supplement that is issued by the White House Office of Management and Budget, and how the Compliance Supplement has been issued later and later each year. An addendum for this year's Compliance Supplement was published around Christmas for the CARES Act monies, which includes the Coronavirus Relief Fund. Because this guidance was issued so late, OMB granted an automatic extension to all entities who have CARES Act monies on their scheduled expenditures of federal awards for 2020.

Auditor Bump thanked Warnetski for the work KPMG has done for the Commonwealth in all the years past.

Comptroller McNamara reminded the Board that it is CTR's intent to issue the Comprehensive Annual Financial Report tomorrow. Comptroller McNamara explained that CTR takes the review and oversight very seriously, urged the Board to let CTR know if they have any questions.

Michael Esmond commended the team on their work.

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

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Comptroller McNamara gave an overview of CTR's remote work over the past year. Comptroller McNamara stated the CTR's productivity and security have been strong throughout the remote work period, and that remote work will continue to be a large part of CTR's future.

Comptroller McNamara then gave a quick update on CTR's information systems and the BEST project. Comptroller McNamara stated that both HR/CMS and MMARS have performed well throughout the pandemic period, and that both systems have stayed stable, reliable, accessible, and secure. Comptroller McNamara reported that the BEST project has gained a level of momentum over the past four to five months and that the recently completed Request for Information (RFI) process greatly enhanced both CTR's and the BEST team's understanding of the state of the art software that is currently available. The RFI received responses from five major software providers.

Comptroller McNamara emphasized that CTR has a large and important team working through MMARS as a system IT item and as a business process. Comptroller McNamara stated that he has made no changes to the senior management team at CTR, with the exception of adding a very good HR director. Comptroller McNamara explained that CTR can always do better, but highlighted how strong the team at CTR is.

## **6 OUTLOOK FOR THE FY2021 PROCESS AND BOARD MEETINGS**

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Comptroller McNamara explained that today's meeting is one of the final steps for closing out Fiscal Year 2020, which occurs in Fiscal Year 2021. Looking forward to Fiscal Year 2022, Comptroller McNamara stated that it is his hope that the ability to close Fiscal Year 2021, earlier in Fiscal Year 2022, will look more like a traditional year, and that CTR's ability to create an accounting and reporting close to the year-end deadlines will not be as challenging this year and therefore the timing for activities and future meetings will revert back closer to what it was three or four years ago.

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

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Secretary Heffernan asked for items not reasonably anticipated by the Chair. None were presented.

## **8 ADJOURNMENT**

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On a motion by Auditor Bump, seconded by Michael Esmond, the Board unanimously moved to adjourn the meeting.

- Secretary Heffernan – Yes
- Auditor Bump – Yes
- Mary Strother – Yes
- Karen Guida – Yes
- John Bello – Yes
- Michael Esmond – Yes
- Natalie Monroe – Yes