

Approved Minutes of the Advisory Board of the Comptroller

Meeting Date: Thursday, November 18, 2021
Time: 12:30 p.m.
Location: Virtually via ZOOM, due to COVID-19, consistent with the June 16, 2021 “Act Extending Certain COVID-19 Measures Adopted During the State of Emergency.”

MEMBERS AND COMPTROLLER ATTENDEES

Members Present

Michael Heffernan (Chair), Secretary for Administration and Finance
Meredith Barrieau (Designee), First Deputy 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
Michael McKay (Designee), Internal Operations Manager, Office of the Trial Court
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

David Godin, Single and Internal Audit Lead
Elizabeth Hemond, Assistant to the Comptroller
Kristine Hill-Jones, Assistant Comptroller
Katie Kendall, Chief Process and Innovation Officer
Parris Kyriakakis, Assistant General Counsel
Kristin Lacroix, Chief Accounting Officer
Pauline Lieu, Chief Financial Reporting Officer
William McNamara, Comptroller
Howard Merkowitz, Project Manager
Amy Nable, Assistant Comptroller and General Counsel
Tatiana Peralta, Chief Risk Officer
Michael Sangalang, Communications Manager
Peter Scavotto, Assistant Comptroller
Jeffrey Shapiro, First Deputy Comptroller

Other Attendees

Chris Rogers, Clifton Larson Allen (CLA)

Bill Early, Clifton Larson Allen (CLA)
Jennifer Cook, Clifton Larson Allen (CLA)
Jim Kreiser, Clifton Larson Allen (CLA)
Shana Doiron, Clifton Larson Allen (CLA)
Bill Early, Clifton Larson Allen (CLA)
Jim Piotrowski, Clifton Larson Allen (CLA)

AGENDA

1. CALL TO ORDER

The Chair confirmed there was a quorum present and called the meeting to order.

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”).

On June 16, 2021, the Governor signed into law “An Act Extending Certain COVID-19 Measures Adopted During the State of Emergency.” This Act included an extension, until April 1, 2022, of the remote meeting provisions of his March 12, 2020 Executive Order.

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 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 (CTR) 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.

2. REVIEW AND APPROVAL OF OCTOBER 25, 2021 ADVISORY BOARD MEETING MINUTES

On a motion by Michael Esmond, seconded by Michael McKay, the Board approved by roll call vote the October 25, 2021 Advisory Board meeting minutes.

- Secretary Heffernan – Yes
- Meredith Barrieau – Here
- Michael Esmond – Here/Yes
- Karen Guida – Here
- Michael McKay – Here
- Natalie Monroe – Yes
- Mary Strother – Yes

The Comptroller noted there was a mixture of “here” and “yes” responses, and noted that since this is a vote to approve the minutes we were looking for a “yes.” Michael McKay then clarified he meant, “yes.”

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

The Chair turned the discussion over to the Comptroller. The Comptroller introduced the three components of the “Review of the Draft of the Statutory Basis Financial Report” part of the agenda.

The Comptroller explained that at the October 25, 2021 Advisory Board Meeting, he shared an exhibit showing the delivery dates of the SBFR over the last decade. This exhibit showed that in most of those years, the SBFR delivery date was met, or the report was late by just a few weeks, however the outliers have been the most recent years, such as FY19 when the report was 67 days late and FY20 when it was 48 days late. The Comptroller explained that this year, CTR expects the report will be about 19 days late, depending on how quickly CTR can satisfy any questions that come from the Board. The Comptroller said he felt this timing represented an important improvement, and he thanked the legislature for moving the final supplemental budget forward in October. The Comptroller shared that his hope for FY22 is that

all involved in the process can initiate and conclude our work even earlier and meet the October 31 deadline for issuance of the SBFR.

Also, the Comptroller said he wanted to discuss the nature of FY21, stating that financial operations were much more normal in FY21 than in FY20 where we were discussing the extraordinary impact of the pandemic on the state's financial operations. The Comptroller explained that, under the emergency conditions, a tremendous amount of expenditure and inflow of funds occurred under unprecedented conditions and that ensuring control over those transactions in that type of environment and accounting for them accurately was a challenge. The Comptroller reported that this year financial operations have been normal in terms of financial processing, as state employees have adjusted to remote and hybrid work.

Further, the Comptroller shared that the outstanding item reflected in this year's SBFR, and in subsequent financial reports from CTR, is the scale of inflows from revenue to the Commonwealth over FY21. The Comptroller explained that both state tax revenues and the inflow of funds from the federal government were unusually high. The Comptroller prefaced that when Pauline Lieu and Howard Merkowitz highlight areas in the SBFR, they will talk about the positions where evidence of the extraordinary inflow of funds are visible and the disposition of those funds.

The Comptroller then noted that Howard Merkowitz recently retired as Deputy Comptroller, and said how fortunate CTR has been to have his continued services on a limited but critical basis in the time since his retirement. The Comptroller shared how CTR's Chief Reporting Officer Pauline Lieu and Head of Statewide Accounting Kristin Lacroix, and their respective teams, have carried on the legacy of accuracy, completeness, and professionalism that Merkowitz has provided. The Comptroller thanked Merkowitz for his service to the Commonwealth and congratulated him on his retirement.

The Comptroller turned the presentation of the FY21 SBFR to Lieu and Merkowitz.

Merkowitz gave an explanation of the SBFR. He explained that the SBFR determines whether the budget is balanced according to state finance law, the calculation of the "consolidated net surplus," and the end of the year transfer to the Stabilization Fund. Merkowitz also gave an explanation of "consolidated net surplus."

Merkowitz explained that FY21 ended with a “consolidated net surplus” of \$1.460 billion in the budgeted funds which was transferred to the Transitional Escrow Fund and explained the difference in the current year’s practice as compared to prior years. Merkowitz also explained that FY21 had an operating gain of \$7.804 billion as compared to the \$336 million operating gain in FY20 and explained that primarily the growth in tax revenue and the receipt of federal America Rescue Plan Act (ARPA) revenue were the main reasons for the operating gain. Merkowitz presented a breakdown of the budgeted fund ending balance of approximately \$12.099 billion. Merkowitz shared that the total budgeted fund revenue totaled \$56.882 billion, which was an increase of \$9.566 billion from FY20. Merkowitz also presented a breakdown of the budgeted fund tax revenue of \$31.772 billion, which was \$4.159 billion more than FY20, and provided an explanation of the increase.

Merkowitz shared that the budgeted fund federal reimbursement totaled \$18.339 billion, an increase of \$5.444 billion, which included the \$4.892 billion in new ARPA revenues and \$12.338 billion in federal reimbursements of the Commonwealth’s Medicaid program. Merkowitz also shared that Lottery profits were strong, totaling \$1.113 billion, which is a \$126 million increase from FY20.

Merkowitz then turned the presentation over to Lieu to discuss the budgeted fund expenditures and other uses. Lieu explained that the budgeted fund expenditures and other uses totaled \$49.078 billion, an increase of \$2.098 billion from FY20. Lieu gave a breakdown of the expenditures, highlighting Medicaid expenditures of \$18.122 billion, direct local aid spending of \$6.482 billion, transfers to the state pension fund of \$3.176 billion, budgeted debt service of \$2.289 billion, and spending on state employee health benefits paid through the Group Insurance Commission of \$1.736 billion.

Lieu also shared that other significant spending included \$46 million in new spending for economic recovery from COVID-19 and \$50 million for a homeless prevention program. Lieu also shared that transfers among the Budgeted Funds totaled \$3.100 billion, which is an increase of \$2.087 billion from FY20, and provided an explanation of what attributed to the increase.

Lieu then presented a table that showed a breakdown of FY21 stabilization fund activity that resulted in a balance of \$4.626 billion as of June 30, 2021. Lieu explained that the June 20, 2021, Commonwealth Stabilization Fund balance as a percentage of General Fund own source

expenditures was 13.3%, which is well above the projected national median of 8.7% as reported in the Spring 2021 survey of the National Association of State Budget Officers (NASBO), and is up 2.4 percentage points from FY20.

Lieu then turned the presentation back over to Merkowitz to present the “Budgeted Funds - Operations” table. Merkowitz explained that this table appears in the Commonwealth’s disclosure and bond documents. Merkowitz gave a brief explanation of what the table details and highlighted where there were major changes from FY20.

Merkowitz turned the presentation back over to Lieu. Lieu went over the non-budgeted special revenue fund revenue and expenditures. Lieu explained that FY21 total revenues were \$18.339 billion, down \$263 million from FY20, and that FY21 total expenditures were \$18.596 billion, a \$2.044 billion from FY20. Lieu provided an explanation for the increase in expenditures. Lieu also shared that the Commonwealth received a total of \$5.286 billion in federal ARPA funds and explained how these funds were distributed.

Lieu and the Comptroller asked if there were any questions.

Michael McKay asked if Lieu or Merkowitz could further explain what happens to the funds that are not put into the Stabilization Fund? Will the funds in the transitional category just get put into the FY22 budget? Is that basically “budgeting ahead”?

The Chair explained that what is getting allocated in the current legislation that is in conference within the House and Senate is part of the ARPA legislation, and they are contemplating spending all of the escrow money alongside the ARPA money for a total of about \$4 billion.

Merkowitz explained that, most likely, what would have happened if there was no Transitional Escrow Fund is that there would have been appropriations that were then continued to FY22. Merkowitz then explained that the Transitional Escrow Fund is like an unallocated PAC, and that otherwise the funds would have gone to the Stabilization Fund or would have been appropriated for individual items. Merkowitz also explained that the Transitional Escrow Fund expires at the end of FY22, therefore if it is not appropriated then the funds will become part of the surplus.

There were no further questions, so the Comptroller turned the presentation over to Chris Rogers at Clifton Larson Allen (CLA).

Rogers introduced himself as the Managing Principal of CLA's State and Local Government Practice and the principal who is responsible for the SBFR and the Annual Comprehensive Financial Report (ACFR). Rogers then identified Bill Early, Jim Kreiser, Jim Piotrowski, Jennifer Cook, Shana Doiron, and Aires Coleman as his team members and explained their respective roles.

Rogers concurred with the Comptroller that we are in line to issue the SBFR this week, and said he would also give an update on the status of the ACFR and the Single Audit.

Rogers gave an explanation of CLA's role when reviewing the SBFR. He explained that there are sections of the SBFR that are not part of CLA's review procedures. Rogers explained that a review is significantly less in scope than an audit, noting it does not assess fraud risk, there is not testing of accounting records through inspection, observation, confirmation or examination of source documents, and they are not obtaining an understanding of internal controls.

Rogers presented a graphic that explained the difference in responsibilities between management (the Commonwealth) and the independent accountant (CLA). Rogers shared that, as of today, all of CLA's substantial procedures are complete and they will have an unmodified report, meaning that CLA is not aware of any material modifications that need to be made to the SBFR to comply with the Statutory Basis of Accounting. Rogers anticipates that CLA will receive the representation letter from CTR tomorrow and then CLA will be ready to issue a review report. Rogers shared that the SBFR will be issued after the October 31 deadline due to the timing of the supplemental budget. Rogers stated that CLA had no difficulties with management, uncorrected misstatements, or disagreements with management through their review process.

Rogers then turned the presentation over to Jim Piotrowski to give a status update on the ACFR. Piotrowski explained that CLA's role with respect to the ACFR is an audit. Their first work is in the risk assessment process, and CLA has analyzed the significant balances that CLA needs to look at the department level and the transactions at the statewide level. Piotrowski explained that the testing for this has been designed and is well underway and they have noted one observation so far. This observation is on the information technology audit side, which

related to the lack of disaster recovery plans surrounding systems at EHS and GIC. Piotrowski asked Jim Kreiser if he had anything to add. Kreiser said that there was nothing that violates the guidance or the supplement, they just saw things where there is a directive for the agencies to have it in place.

Piotrowski explained that CLA's focus now will be on looking at year-end reporting accruals and will be examining prior year findings as it relates to Generally Accepted Accounting Principles (GAAP) accruals. Piotrowski explained that CLA communicates with CTR on a weekly basis.

CLA then turned their presentation to Shana Doiron. Doiron explained that the draft Schedule of Expenditures of Federal Awards (SEFA) was received by CLA from CTR earlier this week, and that CLA does not expect any significant changes to the draft. Doiron stated that CLA did an initial analysis on the period 9 Schedule of Expenditures of Federal Awards where they selected 10 programs and testing is currently underway. CLA is also completing their final analysis on the most recent draft of the SEFA received, and they will be determining the additional programs they will be selecting for the FY21 audit.

The Comptroller thanked Rogers and the CLA team for their report. The Comptroller explained, as was shared with the Advisory Board before, that this is CLA's first year on the engagement and CTR had a very long and very successful engagement with KPMG previously. The Comptroller explained that both CLA and KPMG are both high quality firms and that both have exacting and professional standards. The Comptroller stated that he believes that there is a benefit in having a new independent outside auditor because, while both have very high standards, methods, approaches, and areas of focus can vary between the two.

The Comptroller asked for questions from members of the Advisory Board; there were none. The Comptroller then discussed next steps with the SBFR. He explained that there is three-way communication between CTR, CLA, and the Advisory Board over the next couple of days. The Comptroller explained that first, if anything were to be discovered that would cause a material change or any change of any meaningful scale at all in the financials, it would be instantly communicated to the Advisory Board. The Comptroller emphasized that the report will not be issued until the Advisory Board is firmly supportive and any questions have been answered. The Comptroller said that he and the rest of CTR will be on the alert for any

communications from Advisory Board members, including questions or requests for more time with the report before it is issued. If CTR does not receive any such communication by 3 pm tomorrow, CTR will operate under the assumption that the Board is okay with the report as it is and go forward with issuance.

The Comptroller asked the Board if they have any questions about this plan?

General Counsel Amy Nable clarified that if a board member is requesting more time with the report, CTR will respect that, but if there is anything that requires discussion amongst the Board that comes up outside of the meeting we will want to convene another meeting to discuss that.

The Chair asked the Board if there is any member who already knows that they will need additional time with the report?

Seeing no response, the Chair assumed that all board members are okay with proposed plan and that if any member has questions or comments between now and 3 p.m. tomorrow the member will reach out to the Comptroller.

4. ITEMS NOT REASONABLY ANTICIPATED BY THE CHAIR

Secretary Heffernan asked if there were any items not reasonably anticipated by the Chair? Parris Kyriakakis asked that the Board re-take the vote to approve the October 25, 2021 meeting minutes because the responses to the earlier vote were not clear.

On a motion by Karen Guida, seconded by Natalie Monroe, the Board approved by roll call vote the October 25, 2021 Advisory Board meeting minutes.

- Secretary Heffernan – Yes
- Meredith Barrieau – Here
- Michael Esmond – Yes
- Karen Guida – Yes
- Michael McKay – Yes
- Natalie Monroe – Yes
- Mary Strother – Yes

5. NEXT MEETING

The Chair asked the Comptroller if he wanted to comment on timing of the next meeting?

The Comptroller stated that he expects the next meeting to be held when the ACFR is prepared. Merkowitz confirmed that this is correct and stated that the statutory requirement for the ACFR is the second Wednesday in January, so sometime in January. Lieu confirmed that this meeting will likely take place in early January.

6. ADJOURNMENT

On a motion by Monroe, seconded by Guida, the Board unanimously voted by roll call to adjourn the meeting:

- Secretary Heffernan – Yes
- Meredith Barrieau – Yes
- Michael Esmond – Yes
- Karen Guida – Yes
- Michael McKay – Yes
- Natalie Monroe – Yes
- Mary Strother – Yes