

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

**Meeting Date:** Tuesday, April 5, 2022  
**Time:** 1:00 p.m.  
**Location:** Virtually via ZOOM, due to COVID-19, and consistent with Chapter 22 of the Acts of 2022.

### **MEMBERS AND OTHER ATTENDEES**

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#### **Members Present**

Catharine Hornby (Chair's Designee), Undersecretary 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  
Kate Cook (Designee), First Assistant Attorney General, Office of the Attorney General

#### **Members Absent**

None.

#### **Office of the Comptroller (CTR) 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  
Thomas Smith-Vaughan, Chief Financial Officer

#### **Other Attendees**

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

## **AGENDA**

### **1. CALL TO ORDER**

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#### **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 February 15, 2022, the Governor signed into law Chapter 22 of the Acts of 2022. This Act included an extension, until July 15, 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.

She 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 NOVEMBER 18, 2021 ADVISORY BOARD MEETING MINUTES**

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On a motion by Karen Guida, seconded by Michael McKay, the Board approved by roll call vote the November 18, 2021 Advisory Board meeting minutes.

- Undersecretary Hornby – Abstain
- Meredith Barrieau – Yes
- Kate Cook – Abstain
- Karen Guida – Yes
- Michael McKay – Yes
- Michael Esmond – Yes
- Natalie Monroe – Yes

The Chair announced that there have been some changes in the makeup of the Advisory Board. She welcomed First Assistant Attorney General Kate Cook, who will be serving as the designee from the Office of the Attorney General. The Chair explained that Internal Auditor Karen Guida, who serves as the designee from the Office of the State Treasurer, will be retiring. The Chair thanked Guida for her collaboration and participation on the Advisory Board and for her work more generally for the Commonwealth.

### **3. REVIEW OF THE DRAFT OF THE ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)**

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The Chair turned the discussion over to the Comptroller. The Comptroller explained that the majority of the work on the ACFR, by CTR and departments and agencies is complete, but there are important components on which work is continuing. He also explained that the independent review by Clifton Larson Allen (CLA) is a critical step that has to move on its own schedule. The Comptroller shared that the last several days have seen important progress on the remaining parts of the ACFR, but the delivery of the ACFR will be much later than its target date.

The Comptroller thanked CTR's Reporting Team under Pauline Lieu's leadership, the Accounting and Ledger team, and Risk Group that coordinated the audit process in addition to all

the work that is done by  
CLA.

The Comptroller turned the presentation over to Pauline Lieu and Howard Merkowitz.

Howard Merkowitz gave an overview of the Statutory Basis Financial Report. The SBFR was issued on November 19, 2021 and was reviewed by CLA.

Merkowitz explained that the ACFR is being finalized and it is expected to be issued within the next few weeks. Once the ACFR is finalized, it will be submitted to the Government Finance Officer's Association (GFOA) for review as part of the Certificate of Achievement for Excellence in Financial Reporting Program. Merkowitz added that the Fiscal Year 2020 ACFR represented the 31<sup>st</sup> consecutive year that the ACFR was awarded the certificate. Merkowitz explained that the ACFR presents the financial statements on the fund perspective and the government-wide perspective bases of accounting. Merkowitz explained that two of the largest liabilities on the Commonwealth's balance sheet were required by GASB statement Nos. 68 and 75. Merkowitz explained that these statements require the presentation of the net pension and net OPEB liability on the government-wide statement of net position. Merkowitz explained how these liabilities are presented and measured. Merkowitz stated that for Fiscal Year 2021, the Commonwealth's net pension liability on a government-wide basis was approximately \$38.708 billion and the net OPEB liability was approximately \$19.356 billion.

Merkowitz turned the presentation over to Pauline Lieu.

Lieu explained that the chart on the slide shows revenues, that the first four columns of the chart are presented as major funds, and that the budgeted, non-budgeted, and trust funds are reflected in the column labeled "Other Governmental Funds." Lieu added that the column labeled "FY2020" has been provided as a comparison.

Lieu then presented a chart, under the government-wide perspective, that showed the changes in net position during the Fiscal Years June 30, 2021 and June 30, 2020. Lieu explained that this chart is not only governmental funds, but also has business types which includes Higher Education, Unemployment Compensation, and the Family Paid Leave fund. Total revenues & other financing sources was approximately \$84.716 billion and offset by total expenditures & other financing uses \$80.811 billion.

Lieu presented another chart that showed the government-wide changes in net position during the fiscal years ended June 30, 2021 and 2020 with ending net position deficit \$73.819 billion. Further breakdown of net position was presented in the next chart - Assets owned by MassDOT and Higher Education but largely financed by the Commonwealth.

Lieu then listed reasons for the \$73.819 billion government-wide net deficit in the Fiscal Year 2021 ACFR. Lieu explained that the unfunded pension liability is \$38.708 billion, net of deferrals, that will be recognized in future years. There are underfunded retiree health benefits (OPEB), of \$19.356 billion, net of deferrals. Lieu also explained that there is \$6.641 billion in School Building Authority debt and grants payable, and that most of the remaining deficit is Commonwealth debt for road and bridge assets owned by MassDOT, and for capital grants and expenditures for state authorities and cities and towns.

Lieu presented a list of GASB standards that will be implemented in the following fiscal years.

Lieu then opened up the presentation to questions.

The Comptroller, referencing slide 14, brought attention to the government-wide net deficit of approximately \$74 billion and explained that the largest proportion of that deficit represents the two underfunded pension and retiree programs. Merkowitz added that a lot of Commonwealth debt has been issued to fund assets that are not owned by the Commonwealth. Merkowitz further explained that if MassDOT was included in the net position, it would reflect a much lower net deficit. Also, Merkowitz explained that within the pension liability number, there are deferrals and that there have been profits in the returns that have yet to be recognized, which is because a profit in the investment accounts for the pensions is recognized over a period of five years.

Lieu then referenced the component units presented in slide 13, stating that the \$35 billion net position deficit under component units is majorly MassDOT and that MassDOT is now reporting assets of \$39 billion.

Merkowitz explained that there is more detail on where the Commonwealth has purchased assets and borrowed for things that are not on the Commonwealth's books within the Management's Discussion and Analysis section of the FY2021 ACFR.

The Comptroller added that the Advisory Board is not being asked to approve this report because the report is not yet audited and ready for the board's final endorsement.

Before turning the presentation over to CLA, Undersecretary Hornby shared appreciation for the work of Merkowitz and Lieu, and the rest of the Financial Reporting staff of the Comptroller's Office.

The Comptroller explained that CLA is the Commonwealth's new external auditor. The Comptroller explained that the selection of CLA was done under a rigorous statewide procurement process with participation, not just from CTR, but also from key financial partners from across the Commonwealth. The Comptroller also explained that within the first year of a new auditor, especially after several years of a long-term partnership like CTR had with KPMG, there are new methods and new approaches that come in from a new auditor, which makes the first year a very rigorous one for everyone involved. The Comptroller added that the rigorous first year is a very healthy process because the point of the audit is to challenge, to make sure that the representations are accurate, and to ensure that there are correct financial controls and reporting in place. The Comptroller stated that CTR has found, to date, CLA to be of the independent, active, stringent, and collaborative spirit.

#### **4. CLA REPORT TO THE ADVISORY BOARD**

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The Comptroller turned the presentation over to Chris Rogers, Managing Principal, State and Local Government, at CLA.

Rogers concurred with the Comptroller, stating that the first year of an audit is always a challenge, especially with an entity with the size and complexity of the Commonwealth. Rogers also agreed with the Comptroller that this has been a collaborative process.

Rogers explained that he will be walking through CLA's objectives as part of the audit, discuss the scope and responsibilities that lie on both management and CLA's side, and give a high-level overview of the types of procedure that CLA performs. Rogers also explained that he will go over where CLA is from a conclusion and communications standpoint.

Rogers explained that the objective of CLA's audit is to express opinions on whether or not the ACFR is fairly presented in accordance with Accounting Principles Generally Accepted

in the United States of America (U.S. GAAP). Rogers explained that CLA's audit provides reasonable, not certain, assurance that there is no material misstatement.

Rogers noted that there are portions of the ACFR that are considered required supplementary information on which CLA provides no opinion of assurance, and that the introductory and statistical sections of the ACFR are not subject to CLA's audit procedures.

Rogers explained that CLA will provide a report on Internal Control over Financial Reporting and Compliance with Laws, Regulations and Grant Agreements that may impact the ACFR. Rogers stated that CLA will have a Governance Communication that will communicate significant audit matters under Generally Accepted Auditing Standards (GAAS) and communicate other matters to management with a management letter if a finding rises to the level of a significant deficiency or a material weakness.

Rogers then presented the scope of CLA's audit, breaking down the government funds and governmental activities, proprietary funds and business type activities and fiduciary funds that are subject to audit. Rogers then reviewed the primary activities and entities included in the ACFR that are audited by other entities. Rogers explained that CLA as the group auditor, as part of the audit process, communicates with the auditors of these entities identifying whether substantive events have occurred since the issuance of their reports, and will place reliance on the separate audits.

Rogers then reviewed and explained the responsibilities of the management as compared to the independent auditor.

Rogers explained that CLA has several different phases of an engagement, including planning and risk assessment. Rogers emphasized that the risk assessment is a huge part of an audit that is performed with accordance with GAAS. Rogers also explained that when CLA gets into substantive testing portion of the audit, it is tracing and vouching transactions, confirming amounts with third parties, recalculating various calculations, and then performs the final analytical procedures.

Rogers stated that CLA anticipates issuing an "unmodified" opinion. Rogers explained that an "unmodified" opinion is the best opinion available and that this indicates that the ACFR is fairly presented in accordance with GAAP. Rogers further explained that this is dependent on

the results of testing related to the Unemployment Compensation and Family and Employment Security Trust funds.

Rogers then reviewed other required communications, including Significant Accounting Policies, Note Disclosures, Difficulties Encountered, Uncorrected and Corrected Misstatements, Disagreements with Management, Management Representations, Management Consultations with Other Independent Accountants, and Significant Issues Discussed with Management Prior to Engagement.

Rogers then turned the presentation over to Jim Piotrowski, Principal, State and Local Government, to give a high-level update on CLA's ACFR procedures. Piotrowski explained that the two main component units that CLA has left to test as part of the ACFR are the Unemployment Compensation Trust Fund and the Family and Employment Security Trust. CLA is still working through the procedures and is communicating with the Executive Office of Labor and Workforce Development (EOLWD) and CTR about CLA's procedures on a daily basis. Piotrowski anticipates that CLA will be completing their procedures soon and that the report will be issued by the required timeline. Piotrowski explained that once those procedures are complete and those component balances are determined there will need to be a review of the updated draft, because there are significant components that roll into the business type activities. Piotrowski explained that, as CLA completes their procedure, their engagement is reviewed by an independent quality control reviewer at CLA, and CLA will address any comments that the independent quality control reviewer may have.

Piotrowski then turned the presentation over to Shana Doiron, Engagement director, State and Local Government, for an update on the Single Audit. Doiron explained that, based on the Schedule of Expenditures of Federal Awards (SEFA) that CLA received from CTR, CLA has selected 17 programs that are across 11 different Commonwealth agencies. Doiron explained that there are a few programs, such as the Education Stabilization fund and the Coronavirus Relief Fund, that involve spending by many additional agencies as well, thus CLA has had interaction with a very significant number of state agencies. Doiron further explained that CLA is planning on wrapping up their testing on a majority of the programs by the end of April and they plan to schedule exit conferences by the end of April or early May. Doiron explained that an exception to the audit wrap up process, as noted previously, are the programs administered by the



Executive Office of Labor and Workforce Development, because the work with this Secretariat to date has focused on completing the ACFR, the work to review client materials from EOLWD and its programs is a little further behind. Doiron added that there are a few potential findings that have been identified, and that they are currently being vetted with the departments. Doiron stated that at the next meeting, CLA will have much more information on the Single Audit.

Rogers then turned the presentation over to the Comptroller. The Comptroller thanked Rogers and the CLA team for their work. The Comptroller added that the Single Audit and the SEFA relate mainly to the federal requirements that will follow after the ACFR is complete. The Comptroller stated his belief that Rogers and the team at CLA have stated fairly and accurately the track that we have been on.

Merkowitz added that this is a team effort both internally and externally, and that many of the Constitutional Offices and the Secretariates that are at this meeting have been key partners with CTR. Merkowitz stated that Pauline Lieu has gone above and beyond to get this report out. Merkowitz also recognized Karen Guida as a key partner for CTR at the Treasury, given how much CTR relies on Treasury information to complete these reports.

Guida thanked Merkowitz and added that whenever there is a new independent auditor she always cringes but stated that with CLA the transition has been relatively painless and that working with CLA professionals has been streamlined and straight forward.

Guida asked CLA to comment on unemployment fraud as part of their audit procedures.

Rogers responded, stating that CLA recently received a sample where they can start pulling, sampling, and testing. Rogers asked Piotrowski to share where CLA is with this process.

Piotrowski shared that CLA has pulled their samples of transactions and that CLA is looking into the detailed transactions. Piotrowski added that CLA's concern is that they have to look at the transactions and make sure that the controls are properly implemented over the benefits, ensure that any calculations related to those benefits were proper and, if CLA does identify anything improper, that it is communicated. If CLA were to come across any overpaid or fraudulent claims during testing, CLA's concern would be that such claims are accurately

reported in the financial statements. Piotrowski added that so far as they have looked into their activities, CLA has not come across anything improperly reported in the financial statements.

The Comptroller added that unemployment fraud is a concern nationwide, arising from the unprecedented amount and speed of payments made during the pandemic. The Comptroller added that he and his peers in other states were focused on ensuring accurate financial statements, which were achievable even when fraud concerns are elevated.

#### **4. ITEMS NOT REASONABLY ANTICIPATED BY THE CHAIR**

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Undersecretary Hornby asked if there were any items not reasonably anticipated by the Chair?

Karen Guida shared that it is her understanding that the Business Enterprise Systems Transformation (BEST) program has been put on hold. Guida asked for an update on the BEST program and if CTR can share what has happened and what is being changed going forward.

The Comptroller said that he would be pleased to address the question but noted that the authority of the Advisory Board is oversight of the financial statements, and by extension the state's ability to produce accurate financial statements, not CTR operations or systems per se. The Comptroller said that the BEST program is not on hold; it remains in procurement mode. Speaking as one of the Sponsors, the Comptroller noted that he believes that the BEST Program will issue an RFR ("request for response") in the coming weeks. Further, the Comptroller stated that the current accounting system, MMARS, is strong, up to all the tasks that are before it, and the office has no problem issuing accurate financial reports and maintaining controls. The Comptroller added that the Sponsors look forward to continuing to move to a more updated technology platform through a careful procurement and implementation process.

#### **5. NEXT MEETING**

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The Comptroller stated that he anticipates reconvening the board within a two to four week time frame, when the ACFR and the CLA review is complete.

#### **6. ADJOURNMENT**

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

- Undersecretary Hornby – Yes
- Meredith Barrieau – Yes
- Kate Cook – Yes
- Karen Guida – Yes
- Michael McKay – Yes
- Michael Esmond – Yes
- Natalie Monroe – Yes