

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

**Meeting Date:** Thursday, April 28, 2022  
**Time:** 10:00 a.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**

Michael Heffernan (Chair), Secretary for Administration and Finance  
Suzanne Bump, Auditor, Office of the State Auditor  
Michael Esmond (Gubernatorial Appointment), Chief Fiscal Officer, Massachusetts Convention Center Authority  
Minot Powers (Designee), Assistant Treasurer & Chief Financial Officer, Office of the State Treasurer  
Michael McKay (Designee), Internal Audit 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**

Kristine Hill-Jones, Assistant Comptroller  
Katie Kendall, Chief Process and Innovation Officer  
Parris Kyriakakis, Assistant General Counsel  
Pauline Lieu, Chief Financial Reporting Officer  
William McNamara, Comptroller  
Howard Merkowitz, Project Manager  
Amy Nable, Assistant Comptroller and General Counsel  
Michael Sangalang, Communications Manager  
Peter Scavotto, Assistant Comptroller  
Jeffrey Shapiro, First Deputy Comptroller

#### **Other Participating Attendees**

Chris Rogers, 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.

The Chair 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 APRIL 5, 2022, ADVISORY BOARD MEETING MINUTES**

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On a motion by Auditor Bump, seconded by Natalie Monroe, the Board approved by roll call vote the April 5, 2022, Advisory Board meeting minutes.

- Secretary Heffernan – Abstain
- Auditor Bump – Yes
- Kate Cook – Yes

- Minot Powers – Abstain
- Michael McKay – Yes
- Michael Esmond – Yes
- Natalie Monroe – Yes

### **3. REMARKS FROM THE COMPTROLLER**

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The Chair turned the discussion over to Comptroller William McNamara. The Comptroller explained that this is the second of two meetings that the Board has had focused on the Annual Comprehensive Financial Report (ACFR). The Board reviewed a draft of the ACFR, not in its final form, during the April 5 meeting. The most important and significant delay that prevented the completion of the report before now was information related to two specific functions that fall under the business activities category. The two functions are the Unemployment Insurance program, administered by the Department of Unemployment Assistance, and the Paid Family and Medical Leave activities, administered by the Department of Family and Medical Leave. Both organizations are part of the Executive Office of Labor and Workforce Development (EOLWD), and the responsible organizations have delivered information that allows for the Office of the Comptroller to move to the three-step final process to publish the ACFR. The first step is the completion of the report. The second step is submission to and review by the independent auditors, Clifton Larson Allen (CLA). The final step is review by the Advisory Board.

The Comptroller stated that today's meeting has two major components. First, Pauline Lieu, CTR's Chief Financial Reporting Officer, assisted by Howard Merkowitz, will provide a run through focused on the changes to the ACFR since the prior version was presented to the Board. Second, Chris Rogers, CLA Engagement Partner, and his team at CLA will report directly to the Board about their audit findings and conclusion.

The Comptroller then presented a visual that describes the content of the ACFR and CTR's two other major reporting requirements, the Statutory Basis Financial Report (SBFR) and the Single Audit. The Comptroller explained that CLA, the state's independent CPA firm, performs a different role on each of these reports. The independent CPA firm will review the SBFR, audit the ACFR, and conduct the Single Audit.

The Comptroller also explained that the SBFR has a statutory deadline of October 31. Historically, the report has been delivered within a week of this deadline, until about 3 years ago. The FY19 and FY 20 SBFRs were very late due to the timing of the final supplemental budget enactment. The FY 21 SBFR was delivered much closer to its due date. The Comptroller explained that it is CTR's goal to deliver the SBFR under the deadline in this coming cycle.

The Comptroller explained that the timing of the SBFR is driven overwhelmingly by the final closing supplemental budget for the previous year. The Comptroller will be urging both the administration and the legislature to act promptly this year.

The Comptroller then explained that the -filing date for the ACFR is mid-January, to meet the best practices set by the Government Financial Officers Association (GFOA). Massachusetts will be among the last states to complete and submit our ACFR. The Comptroller expressed that he was very disappointed in the late delivery of the ACFR this year but suggested that we defer further discussion of the delay and the timing until after the presentation by Lieu, Merkowitz, and CLA.

The Comptroller asked if there were any questions or comments from the Board and there were none. He then turned the presentation over to Lieu.

#### **4. FY2021 ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)**

Lieu stated that there will be no changes to the governmental activities and business-type activities, including higher education, sections of the report. The area that was impacted was the EOLWD business type activities, specifically the Unemployment Compensation Trust Fund and the Family and Employment Security Trust Fund. Lieu presented the highlights from these two funds for this year. Lieu also noted that there was a recent summary report issued by KPMG on behalf of the EOLWD which engaged the firm to assist with the Unemployment Insurance Trust Fund Reconciliation Project.

Lieu then presented the key changes from the draft presented at the April 5, 2022, Advisory Board Meeting, referencing changes in EOLWD's financial numbers. Lieu then presented a chart that showed the changes in proprietary funds for the Unemployment Compensation Trust Fund and the Family and Employment Security Trust Fund from the earlier draft. Lieu then provided an explanation of changes in the Unemployment Compensation Trust

Fund and the Family and Employment Trust Fund that caused the delay on the issuance of the ACFR.

Lieu then presented a chart showing the cash flow of the Unemployment Compensation Trust Fund and the Family and Employment Trust Fund. She explained that this chart is a GASB requirement, and asked if there were any questions?

Auditor Bump said she appreciates that there was an unusual amount of activity for the mentioned funds, specifically for the Unemployment Compensation Trust Fund, and would like to know what accounts for the initial incorrect classification of some of this money in MMARS? Why did this happen to this extent?

Lieu explained that, from meeting with EOLWD and CLA, it was discovered that EOLWD does not have a very solid reconciliation process in place. Merkowitz added that EOLWD has a delegated system, meaning that a lot of these transactions are not going through MMARS. EOLWD does not have solid internal controls and reconciliation procedures which Chris Rogers of CLA will discuss in the next segment of this meeting.

Auditor Bump then asked if the Board should prepare for findings in the Single Audit relative to the management of these funds? Merkowitz directed the question to Chris Rogers.

Comptroller McNamara said that, through this process, the Board will see that this was not a matter of prioritization in the organizations, but instead reflected their ability to produce accurate closing financials. Any organization can get behind in creating final statements, but if the proper accounting and steps have not happened throughout the year, it will present another level of issues in the accuracy and the ability to reconstruct or accurately state what went on. The Comptroller also stated that the senior leadership of the secretariat are aware of those issues and committed to a fix, and that CTR is doing all that they can, structurally and internally, in terms of capability and understanding, to make sure that this situation doesn't arise again.

Merkowitz added that, as we are approaching the end of Fiscal Year 2022, instructions will be issued to EOLWD on a much more detailed basis as one of the closing packages, and that CTR will also be providing EOLWD training as well.

Auditor Bump then asked if this accounts for the confusion that has been part of the public discussion about what the deficit is in the Unemployment Compensation Trust Fund?

Merkowitz stated that it does, and that this is part of the KPMG report that was mentioned previously by Lieu. Lieu added that CTR has already scheduled a meeting with EOLWD and is planning to have continued meetings to provide them with additional guidance on these points.

Comptroller McNamara added that EOLWD operates under a delegated system. The vast majority of state entities, both in and out of the executive branch, do all of their transactions within the MMARS system, and therefore are within the financial controls of the system and the most critical accounting transactions are being captured. There are a very small number of entities that operate on a delegated basis, and these entities have the responsibility to recognize and execute the responsibilities that come with managing their own general ledger and doing the accounting that lets them create reports and enter accurate summary entries into MMARS, that can then be backed up.

Auditor Bump then asked if it is necessary for them to be on a delegated system, and stated that she does not remember this from when she was Labor Secretary? Comptroller McNamara explained that these programs and their delegated systems are very complicated client service systems, and that it does make sense for them to have customized systems that allow them to perform their financial business effectively. Additionally, the Comptroller explained that Unemployment Insurance is funded by employer contributions and by federal funds, therefore the amount of state revenue moving through those systems is minor. The Comptroller said that, though these are good reasons to have a delegated system, they also need to adhere and meet the standards that the state needs for reporting.

Secretary Heffernan added that the systems have been delegated for a long time.

The Comptroller said that it will take focused work and resources, but he is confident that EOLWD can get to where it needs to be.

## **5. 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 said that he anticipated the questions that have been asked. Rogers explained that there were almost a billion dollars of adjustments that impacted every financial statement element. As the members of CTR who were on phone calls with CLA for the past four months

have seen, and as the KPMG report mentioned earlier by Lieu also shows, it's very clear that this issue was not just caused by the pandemic and the enormous amount of money that had to flow through their systems. Rogers stated that it became very apparent very early on that there were no controls in place, and that EOLWD processed transactions but there were no reconciliations on the back end. CTR, for the past four month, has assisted EOLWD in this reconciliation process, but there is still a lot of work to do from a systemic standpoint. There is a financial accountability piece missing, and that is why there are significant adjustments.

Rogers explained that the findings that he is currently presenting are related just to the financial statements, and that the Single Audit findings will be address at the future Single Audit meeting, when CLA is close to issuance of that report. Rogers stated that the Unemployment Insurance situation will be reported as a material weakness and it will address what has been discussed at this meeting. Additionally, the restatement of the Lottery beginning balance of approximately \$855 million, due to the movement of annuity funds from a custodial fund to a governmental fund, will be reported as a material weakness. Rogers then stated that there were three significant deficiencies. (1) One was related to unearned revenue in the federal grants fund, specifically Emergency Rental Assistance Program, at the Executive Office of Housing and Community Development (EOHCD) funds that should have been recorded as unearned revenue until the eligibility requirements were met. (2) The second, which is a repeat finding from last year, is related to a drug rebate to the Commonwealth through the Executive Office of Health and Human Services (EOHHS) where no methodology has been developed and/or defined to a written procedure to record that allowance on the accounts receivable and there was an adjustment of approximately \$50 million. (3) The third is related to PFML, where CLA found a material error in accounts payable and there is no allowance methodology as it relates to accounts receivable or from a control standpoint. Rogers stated that he believes that Department of Family and Medical Leave will need assistance getting the right controls in place, similar to CTR's approach with Unemployment Insurance.

Rogers said that CLA is on track to issue the ACFR by Monday, May 2, at the latest, so that the Comptroller can file it with the GFOA for the certificate. Rogers added that CLA has some minor outstanding items, including the representation letter, that Rogers will communicate to Lieu, the Comptroller, Merkowitz, and Jeffrey Shapiro. Rogers turned the presentation back over to Comptroller McNamara.

Comptroller Mcnamara stated that this is the first year with CLA as the independent firm auditing the Commonwealth's books after a very long and very good relationship with KPMG. The Comptroller stated that he philosophically believes that changing the independent look at any organization's financials is a benefit, because over time even independent firms and the organizations that they look at can fall into a pattern of how things are done, what is looked at, and the approaches. The Comptroller believes that there is a benefit to turning over the independent audit periodically, and the benefit of this can be seen through CLA's different approach, sensitivities, and views that have challenged the Commonwealth in different ways. The Comptroller added that this can make the first round with an independent firm more difficult, but there are big benefits. CLA has been an appropriately demanding and constructive partner, and the way that they approached the major problems that have been discussed today in finalizing the financials reflect the highest standard of their independence and engagement with CTR to get it done. The Comptroller thanked Rogers and his team for their work.

The Comptroller then asked if issuing the report on Friday, April 29 would provide the Advisory Board members with adequate time to review the report? Auditor Bump, Kate Cook, Michael McKay, and Natalie Monroe stated that they had no problems with the Comptroller's proposed plan for issuance of the report. Secretary Heffernan stated that the board members affirmative response to the Comptroller's question shows an informal move of confidence.

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

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Secretary Heffernan asked if there were any items not reasonably anticipated by the Chair? None were raised.

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

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The Comptroller stated that he anticipates reconvening the board for a discussion about the Single Audit.

#### **6. ADJOURNMENT**

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Secretary Heffernan adjourned the meeting.



