

Minutes of the Advisory Board to the Comptroller

Meeting Date: Thursday, September 8, 2022
Time: 12:00 p.m.
Location: Virtually via ZOOM, due to COVID-19, and consistent with Chapter 22 of the Acts of 2022.

MEMBERS AND OTHER ATTENDEES

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

Parris Kyriakakis, Assistant General Counsel
Kristin Lacroix, Chief Accounting Officer
Pauline Lieu, Chief Financial Reporting Officer
William McNamara, Comptroller
Amy Nable, Assistant Comptroller and General Counsel
Darian Roberts, Records Access Officer/Legal Analyst
Michael Sangalang, Communications Manager
Peter Scavotto, Assistant Comptroller
Jeffrey Shapiro, First Deputy Comptroller

Other Participating Attendees

Shana Doiron, Clifton Larson Allen (CLA)
Bill Early, Clifton Larson Allen (CLA)
Jim Piotrowski, Clifton Larson Allen (CLA)
Chris Rogers, Clifton Larson Allen (CLA)
Migdalia Diaz, Chief Operating Officer (EOLWD)

AGENDA

1. CALL TO ORDER

1.1 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. Chris Lisinski, reporter with the State House News Service, confirmed that he was recording the meeting for news-gathering purposes.

1.2 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 July 18, 2022, the Governor signed into law Chapter 107 of the Acts of 2022. This Act included an extension, until March 31, 2023, 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.

2. REVIEW AND APPROVAL OF APRIL 5, 2022, ADVISORY BOARD MEETING MINUTES

On a motion by Auditor Bump, seconded by Michael McKay, the Board approved by roll call vote the April 28, 2022, Advisory Board meeting minutes.

- Secretary Heffernan – Yes

- Auditor Bump – Yes
- Kate Cook – Yes
- Minot Powers – Yes
- Michael McKay – Yes
- Michael Esmond – Yes
- Natalie Monroe – Yes

3. REVIEW OF THE SINGLE AUDIT

The Chair turned the discussion over to the Comptroller. The Comptroller explained that among the CTR's most critical functions is producing three major reports regarding statewide financial conditions: the Statutory Basis Financial Report ("SBFR"), the Annual Comprehensive Financial Report ("ACFR"), and the Single Audit. Per statutory requirements, the SBFR is produced at the close of the fiscal year and should be issued by October 31, but the issuance date varies based on when the closing supplemental budget for the fiscal year is completed. The ACFR is a 50-state requirement that CTR completes for the Commonwealth of Massachusetts regarding financial statements of state, municipal or other governmental entities, to ensure compliance with accounting requirements set by the Governmental Accounting Standards Board. The role of the independent audit firm is to review or provide a full audit opinion on the SBFR and ACFR.

The Comptroller explained that today's meeting concerns the Single Audit. The Single Audit concerns a broad set of requirements set by the federal government for entities that receive federal funding. It reports to the federal government how the Commonwealth made use of federal funds and whether controls and reporting are in place. This audit is done primarily by the independent CPA firm, while CTR helps facilitate the process and does the filings. This audit concerns FY21 and closes out the set of work from that year. The audit is being issued far past FY21 due to delays related to COVID-19.

The Comptroller turned the presentation over to Assistant Comptroller Peter Scavotto. Mr. Scavotto provided more detail concerning the delays for this Single Audit, stating that the

Commonwealth received a lot more federal funding due to COVID-19 in FY 20, but most of the spending occurred in FY21. The influx of federal funding provided many departments with more federal funding than they have had in the past or provided them with federal funding for the first time. Departments were also under a lot of pressure to get funding out as soon as possible, but new requirements related to getting the money out and documenting how the money was spent came after the money was already spent. Departments were also challenged because there were more reporting requirements for this federal funding than in the past. Departments were further delayed by staff turnover, which led to many individuals helping with the Single Audit for the first time. Mr. Scavotto noted that having the new outside auditor, Clifton Larson Allen (“CLA”), was a positive change. CTR worked very well with CLA to get the Single Audit done. Mr. Scavotto provided a brief overview of the Single Audit, which had a total of twenty-eight findings. Six findings were financial and twenty-two were related to federal awards. In FY20, there were sixteen total findings, six financial and ten related to federal awards. Finally, he noted that the FY21 IT and financial statement audits should be completed by next week.

4. SINGLE AUDIT CLA REPORT TO THE ADVISORY BOARD

Mr. Scavotto introduced Chris Rogers, Managing Principal, State and Local Government Practice, at CLA. Mr. Rogers is also the engagement principal responsible for the Commonwealth’s services. Mr. Rogers signed the ACFR and SBFR reports, but not the Single Audit, which was signed by his CLA colleague Bill Early.

Mr. Rogers turned the presentation over to his CLA colleague, Bill Early. Mr. Early went over the reports that were issued. First was the report on internal controls over financial reporting and compliance with matters based on the audit of financial statements performed in accordance with the government standards. This report was issued with the ACFR but does go with the Single Audit as well and will be reissued. Next are reports on each major federal program and compliance with those programs. Within that opinion is the report on the schedule of federal awards, or SEFA, which is the only schedule that CTR is responsible for within this report; the rest is largely CLA’s responsibility. Next are the notes on the expenditures, most importantly the schedule of findings and questioned costs. CLA will be issuing the reports. They are combined with the ACFR and called the “Single Audit Reporting Package Data Collection Form.” The

filing is required to be done by September 30, 2022. Mr. Early anticipates that they will be issued well before this date.

Mr. Early next went over major programs that were audited this year. The audited programs are decided in several ways. Certain programs must be audited every three years or if there was a material weakness in the prior year. Additionally, certain programs are deemed higher risk by the federal government, such as Medicaid. CLA further designated certain programs higher risk because they received substantially more federal funding than in the past.

Mr. Early went over CLA's findings. There were two material weaknesses: (1) unemployment insurance and (2) presidential declared disaster assistance to individuals and households and other needs. CLA determined that they had material weaknesses based on the level of findings that were reported. CLA was required to qualify the opinion, meaning that, regarding special tests and reporting for each applicable programs, they were unable to say that the Commonwealth is in compliance with the requirements.

Mr. Early next went over programs with significant deficiencies. Material weaknesses are at a much higher level than significant deficiencies. There were twenty total significant deficiencies across the audited programs. Unemployment insurance contained two significant deficiencies along with the one material weakness. The Workforce Innovation and Opportunity Act cluster had seven significant deficiencies. Medicaid had three significant deficiencies. Disaster Grants had two significant deficiencies. The Coronavirus Relief Fund, Emergency Rental Assistance program, Education Stabilization program each had one significant deficiency. Mr. Early explained that the federal government, at one point, did not require Federal Funding Accountability and Transparency Act ("FFATA") reporting, and many states stops complying with the requirements. The FFATA requirements were added back in last year and this caused many programs across the Commonwealth and other states to experience findings.

Mr. Early next explained that many audited programs were "clean," meaning that there were no findings. He specifically called out that he is impressed that the Pandemic EBT program came out of the audit process clean.

Mr. Early next went over the status of completing the audit. The report will be dated September 8, 2022. CLA is just waiting to receive the required management representation

letters, which each audited department head must send. Because the departments are responsible for a lot of the work that is performed, CLA requires the departments to send a letter that states: (1) that the department has told CLA of any issues that the federal government may have brought up; (2) any audits and reports that the federal government has done; and (3) that they have provided all of the information requested by CLA and that information is complete and accurate to the best of their knowledge.

Mr. Early asked if anyone has questions related to the Single Audit.

Auditor Bump inquired about a section of the report concerning lottery funds because it did not come up in Mr. Early's presentation. Mr. Early responded that lottery funds are covered in the Report on Government Auditing Standards in the ACFR. Those findings do get included with the Single Audit reporting package, but they didn't get any federal funding that CLA tested and thus did not need to be addressed in this presentation.

No other questions were asked. The Comptroller thanked CLA for their great partnership during their first year together.

5. REVIEW OF EOLWD FINANCIAL CONTROLS & REPORTING

The Comptroller wanted to follow up on items brought up in the previous Advisory Board meeting concerning the delayed release of the ACFR. This delay was due in large part to continued work with the Executive Office of Labor and Workforce Development ("EOLWD") to get information on unemployment and some other programs. The Comptroller wanted to use this opportunity to update the Advisory Board on progress made in this area.

First, the Comptroller explained how CTR is addressing the issues related to EOLWD financial controls and reporting. FY21 revealed structural and situational concerns in EOLWD's financial controls and reporting, particularly since they operate in a delegated financial system. By "structural" concerns, the Comptroller meant information external to EOLWD. He looked across the Commonwealth and found that all other major entities using a delegated financial system issue annual financial statements on a formal basis that are available for review. EOLWD is an exception to this general standard, at least concerning accounting information. Releasing such a report is not a statutory requirement, but they will begin issuing an annual financial

statement beginning in FY22 to get in line with the other departments using delegated financial systems.

Second, there has been substantial staff turnover in many departments across the state, including EOLWD. During FY21, this staff turnover occurred when the Unemployment Assistance programs was receiving unprecedented dollars and pressure. To address the issues with EOLWD's operation of the Unemployment Assistance program, beginning with FY22, they will begin issuing annual financial statements for Unemployment and for the Paid Family and Medical Leave program. Beginning in FY23, they will also provide quarterly interim statements, enabling reconciliation to balances on the MMARS system and to cash positions. These quarterly statements will help prevent EOLWD and CTR from falling behind and getting to the end of the year with open questions. All reports will be based on auditable sources and documentation.

The Comptroller explained the meaning of "delegated financial system." The vast majority of state agencies do all of their business, financial transactions, purchases, payroll, etc. on systems that CTR manages and provides to them. This allows CTR to know the accounting information for these agencies on a real-time basis. However, there are some state entities that operate on a delegated basis, meaning that they have their own system and ledger and do not use the one provided by CTR. Using a delegated financial system comes with a requirement for the agency to reflect their overall financial position at a summary-level on the main state system, making the information available for CTR to review.

The Comptroller said that EOLWD is truly embracing the new requirements and it has been set as a priority project for management. The requirements are being integrated into a major effort that is transforming and upgrading EOLWD's finance group. Management set up an Executive Steering Committee that includes Chair Heffernan in his role as Secretary of the Executive Office for Administration and Finance, as well as Comptroller McNamara and representatives from the Office of the Governor. The committee ensures that everything is well-defined and that EOLWD has the resources they need. The committee is meeting weekly and producing detailed reports against the action plan. There has been a lot of progress made particularly over the past few months, including work done by EOLWD, a team retained from KPMG, and new professional hires, including a highly qualified CPA working as interim CFO.

The Comptroller laid out three phases for the work at EOLWD. First, FY22 reports will be drafted by the end of September 2022, with the final report due by October 15th. Second, quarterly reports for FY23 will commence by the second quarter of FY23, which is the period ending on December 31, 2022. Third, the long-term plan is to operate through an integrated, real-time ledger approach by FY24.

The Comptroller asked if anyone had any questions regarding this update. Auditor Bump thanked the Comptroller for the progress made to address the issues at EOLWD and for the accountability piece of the requirements. The Comptroller praised EOLWD for embracing the requirements and their continued work addressing the issues. Auditor Bump asked if these measures require a financial investment commitment or if EOLWD has used existing resources. Chair Heffernan stated that they have just procured a new UI system and the BEST procurement is working to update the financial system across the Commonwealth. They have also filed for supplemental funding for EOLWD to ensure they are properly resourced to meet the requirements. No other questions were asked.

6. ITEMS NOT REASONABLY ANTICIPATED BY THE CHAIR

Secretary Heffernan asked if there were any items not reasonably anticipated by the Chair?

Auditor Bump asked for an update on the BEST project. The Comptroller noted that four vendors responded to the RFR and they are currently going through the review process. Each vendor demo requires a three-day, on-screen interaction process to the BEST Evaluation Committee, which is comprised of individuals from departments across the Commonwealth. These individuals include experts from both a business perspective and a technology perspective. This RFR includes procurement of both the software and implementation plan. The Comptroller expects that a vendor will be chosen by the end of this calendar year.

Auditor Bump asked the Comptroller if he expects a contract to be signed before the new gubernatorial administration is in place in January 2023? The Comptroller answered that he expects to be engaged and with the new administration and will look for an endorsement from them on the choice that is made. The focus will remain on the true financial processing aspect and narrowing what needs to be understood and bought into, because they are looking strongly into the

general ledger portion first. The Comptroller asked Chair Heffernan if he had anything to add as a sponsor of the BEST project. Chair Heffernan cautioned that BEST is still an ongoing procurement, and they are focused on ensuring a smooth transition with the new administration on the BEST program.

7. NEXT MEETING DATE

The Comptroller stated that he anticipates reconvening the board sometime at the end of October through early November, assuming that action on the final supplemental budget is completed by the end of September.

8. ADJOURNMENT

Secretary Heffernan adjourned the meeting.