

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

**Meeting Date:** Wednesday, December 21, 2022  
**Time:** 12:00 p.m.  
**Location:** Virtually via ZOOM, and consistent with Chapter 107 of the Acts of 2022.

### **MEMBERS AND OTHER ATTENDEES**

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#### **Members Present**

**Michael Heffernan** (Chair), Secretary for Administration and Finance  
**Meredith Barrieau** (Designee), First Deputy Auditor, Office of the State Auditor  
**Bill Green** (Designee), First Assistant Attorney General, Office of the Attorney General  
**Michael McKay** (Designee), Internal Audit Manager, Office of the Trial Court  
**Kathleen McNamara** (Designee), Internal Auditor, Office of the State Treasurer  
**Michael Esmond** (Gubernatorial Appointment), Chief Fiscal Officer, Massachusetts Convention Center Authority  
**Natalie Monroe** (Gubernatorial Appointment), First Assistant Inspector General, Office of the Inspector General

#### **Members Absent**

None.

#### **Office of the Comptroller (“CTR”) Attendees**

Tamia Buckingham, Deputy Financial Reporting Officer  
Tryntje Bumgardner, Assistant Comptroller for Payments and Payroll  
David Godin, Single and Internal Audit Lead  
Kristine Hill-Jones, Assistant Comptroller for Contracts, Vendors, and Non-Tax Revenue  
Brian Johnson, Statewide Financial Reporting  
Katie Kendall, Chief Process & Innovation Officer  
Parris Kyriakakis, Assistant General Counsel  
Kristin Lacroix, Assistant Comptroller and Chief Accounting Officer  
Pauline Lieu, Assistant Comptroller and Chief Financial Reporting Officer  
William McNamara, Comptroller  
Howard Merkowitz, Project Manager  
Amy Nable, Assistant Comptroller and General Counsel  
Darian Roberts, Records Access Officer/Legal Analyst  
Michael Sangalang, Communications Manager  
Peter Scavotto, Assistant Comptroller for Risk  
Thomas Smith-Vaughn, Chief Operating Officer  
Dara Valcour, Multimedia Producer

**Other Participating Attendees**

Jim Piotrowski, Clifton Larson Allen (CLA), Principal  
Mathew Goulet, Clifton Larson Allen (CLA)  
Shana Doiron, Clifton Larson Allen (CLA)

**AGENDA**

**1. CALL TO ORDER**

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**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. Colin Young, 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**

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On a motion by Natalie Monroe, seconded by Michael McKay, the Board approved by roll call vote the September 8, 2022, Advisory Board meeting minutes.

- Secretary Heffernan – Yes
- Meredith Barrieau – Yes
- Bill Green – Yes
- Michael McKay – Yes
- Kathleen McNamara – Yes
- Michael Esmond – Yes
- Natalie Monroe – Yes

The Chair turned the meeting over to Comptroller McNamara for remarks.

### **3. REMARKS AND REPORTING PROCESS OVERVIEW**

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The Comptroller began his remarks by thanking the Advisory Board members, particularly Secretary Heffernan and Auditor Bump, whose memberships on the Advisory Board will soon end.

The Comptroller then provided an organizational update for the Office of the Comptroller. There have been several retirements recently, which opened new spots for other able team members to fill. One key move was Deputy Comptroller Jeff Shapiro, who is now the state Inspector General. The Comptroller announced that that Thomas Smith-Vaughn has filled this position as Chief Operating Officer.

The Comptroller provided an update on the Business Enterprise System Transformation (“BEST”) Project. The BEST Project has gone through an extremely robust procurement process during 2022. The focus of this work has been the financial processing, accounting, and reporting system, as a component of an integrated Enterprise Performance Reporting System. He announced that, in a few of weeks, the Project will announce an apparent successful bidder. The identification of an apparent successful bidder is not the award of a contract. This will occur after successful negotiations. He believes the outlook is good and the timing worked out so that the

Project can engage with incoming leaders in the executive branch and other key members of government.

The Comptroller discussed the timing for issuance of the Statutory Basis Financial Report (“SBFR”). The FY21 SBFR was released on November 19, 2021. This was well past the October 31st deadline, but an improvement over 2019 and 2020. The date has slipped again for the FY22 SBFR. On October 14, 2022, the Comptroller communicated with the administration and the legislative committees on Ways and Means that the October 31 deadline would not be met. Even with the passage of a close out supplemental budget, a mid-November delivery was a best case scenario. The administration’s proposed final 2022 supplemental appropriations act was filed on September 1. Elements of that proposal and an earlier economic development bill were included in the supplemental appropriation bill that was enacted by the legislature on November 1. That bill went to Governor Baker’s desk on November 9th and was signed by him on November 10. Every year, there are financial transactions that must be executed as a result of the final appropriation bill. Those were performed during the following week or so after November 10th. Final work on the SBFR was then able to commence around mid-November. In the five weeks since, CTR has closed the books on fiscal year 2022, generated the SBFR, and provided time for independent review by Clifton Larson Allen (“CLA”). The Comptroller thanked CLA for the collaborative approach they took this review.

The Comptroller respectfully stated that the SBFR’s October 31 statutory deadline is not achievable when the process extends well into the autumn. For example, in the early 2000s, following the June 30 fiscal year end date, each of the key steps in the process had a record of starting and ending earlier than recent years. This includes submission of the budget proposal by the governor, timing of legislative debate and enactment, and signature by the governor. There are truly exceptional circumstances in which timing is difficult, such as the first year of the pandemic, but otherwise earlier timing can be achieved if it is made a priority.

The SBFR is the first of several critical financial reports, and that which delays the SBFR will also delay the subsequent reports and potential consequences continue to accrue. The Comptroller provided a high-level overview of the three major financial reports that CTR is responsible for: the SBFR, the Annual Comprehensive Financial Report (“ACFR”), and the

Single Audit. He made the point that they build upon each other, and one depends on and follows from the other. The Comptroller explained the different roles CLA takes for each of the three reports. For the SBFR, CLA provides an audit opinion of the report.

The Comptroller then passed the presentation over to CTR Senior Advisor Howard Merkowitz and Assistant Comptroller and Chief Financial Reporting Officer Pauline Lieu to review the FY22 SBFR.

#### **4. REVIEW OF THE STATUTORY FINANCIAL REPORT (SBFR)**

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Mr. Merkowitz gave an explanation of the SBFR generally, and provided a high-level summary of the results of the FY22 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. Mr. Merkowitz also gave an explanation of “consolidated net surplus.” In FY22, per the final supplemental budget, the entire surplus was transferred to the Transitional Escrow Fund for spending in FY23, rather than being deposited in the Stabilization Fund.

FY22 ended with a consolidated net surplus of \$4.812 billion in the budgeted funds. There was a FY22 operating gain of \$6.101 billion in the budgeted funds, compared to \$7.804 billion operating gain in FY21. FY21 was inflated due to American Rescue Plan Act (ARPA) funds received from the federal government. The FY22 operating gain is due primarily to strong growth in tax revenue of \$6.815 billion. The budgeted fund ending balance is approximately \$18.200 billion, of which \$6.938 billion is held in the Stabilization Fund, \$5.654 billion is in the Transitional Escrow Fund, and \$6.076 billion is designated for FY23 appropriations. \$2.311 billion of the amount currently in the Stabilization Fund was deposited in FY22. Mr. Merkowitz handed the presentation over to Ms. Lieu.

Ms. Lieu provided a more detailed review of the FY22 SBFR. The total budgeted fund revenue totaled \$62.084 billion, an increase of \$5.202 billion, or 9.1%, from FY21. \$1.629 billion of the growth was due to the net impact of the implementation of a “pass-through entity excise tax,” which partially offset the impact of the cap on deductibility of state income taxes on federal returns. Budgeted fund tax revenue totaled \$38.587 billion, up \$6.815 billion, or 21.5%.

This is \$6.383 billion above the original FY22 tax estimate and \$5.925 billion above the final FY22 estimate, showing that Massachusetts experienced a strong economic recovery from the COVID-19 pandemic. Total personal income tax collections were \$24.336 billion, up \$4.718 billion, or 24.1%. Personal income tax withholding was up \$1.196 billion, or 8.1%. Non-withheld personal income tax (excluding the pass-through entity tax) increased by \$1.144 billion, or 24.7%, driven entirely by growth in the capital gains tax revenue, which totaled \$3.877 billion, an increase of 50.1%. Sales and use tax (excluding cannabis sales tax) increased by \$741 million, or 13.7%. Corporate and business taxes totaled \$5.110 billion, an increase of \$957 million, or 23.0%. There was also an 18.9% increase in deeds excise, 40.7% increase in cannabis sales and excise tax, 10.2% increase in estate taxes, and a 0.7% decrease in lottery profits.

FY22 tax revenues exceeded the allowable fiscal year tax limit by \$2.941 billion, resulting in refunds paid out to Massachusetts taxpayers in FY23. Federal reimbursements totaled \$15.779 billion, a decrease of \$2.560 billion, or 14%. This decrease is due to the non-recurring ARPA revenue of \$4.892 billion received in FY21. Federal Medicaid reimbursements totaled \$13.895 billion, an increase of \$1.557 billion, or 12.6%.

Ms. Lieu further discussed total budgeted fund expenditures and other uses totaled \$55.983 billion, an increase of \$6.905 billion, or 14.1%. Medicaid expenditures totaled \$19.846 billion, up by \$1.723 billion, or 9.5%, due to caseload increases, and the extension of the Federal Public Health emergency, during which disenrollment of beneficiaries was suspended. Direct local aid spending was \$6.743 billion, up \$260 million, or 4.0%. Transfers to the state pension of \$3.415 billion in accordance with the actuarially determined pension funding schedule, an increase of \$300 million, and additional pension contributions funded by \$250 million appropriation from general revenues and a \$126 million transfer of capital gain taxes. Budgeted debt services increased \$133 million, or 5.8%. \$600 million in ARPA revenue transfers to the Unemployment Insurance Compensation Trust Fund, including \$500 million for repayment of loans taken out from the federal government to pay unemployment insurance benefits during the pandemic.

Ms. Lieu discussed FY22 fund transfers. Overall, transfers among the budgeted funds totaled \$8.230 billion, an increase of \$5.130 billion, or 165.5% from FY21. This is primarily due to an increase in capital gains tax revenue deposited in the Stabilization Fund and an increase in transfers of consolidated net surplus to the Transitional Escrow Fund. Ms. Lieu highlighted the biggest transfers during FY22. These included \$460 million in transfers of ARPA revenues to fund a COVID-related program providing assistance to front line workers; \$246 million in transfers to the Medical Assistance Trust Fund for payments to hospitals that treat large populations of lower income patients; \$255 million in new funding for a COVID-related program providing relief to fiscally strained hospitals; \$350 million to create a Student Opportunity Investment Fund; and \$100 million for targeted funding to help municipalities repair roads from winter damage. Ms. Lieu also highlighted activity in the Stabilization Fund discussed throughout her presentation.

Ms. Lieu then discussed non-budgeted special revenue fund revenue and expenditures. FY22 revenues and other sources totaled \$21.026 billion, up \$2.687 billion, or 14.7% from FY21. This was largely due to an increase of \$731 million in federal revenues and \$246 million increase in transfers to the Medical Assistance Trust Fund. Much of the other increases in revenue were the result of transfers from the budgeted to non-budgeted funds for programs financed by the FY21 surplus and/or ARPA revenues. FY22 expenditures and other uses totaled \$20.754 billion, up \$2.158 billion, or 11.6% from FY21. Ms. Lieu finished her presentation and handed the meeting back over to the Comptroller.

The Comptroller paused the presentation to ask if any members had questions. Mr. McKay asked about the tax refunds people are receiving and if they are being paid from the Transitional Escrow Fund. Mr. Merkowitz responded that they are being paid right now through the General Fund. Eventually, they could be funded by a transfer from the Transitional Escrow Fund, but it will depend on the overall budget situation. Mr. McKay asked about the COVID funds received from the federal government in FY22 and if there is an expectation that Massachusetts will receive a similar amount of funds in FY23? Mr. Merkowitz responded by deferring to the Executive Office of Administration and Finance representative. The Chair asked Mr. McKay to follow up a later, because it is a broad budget question.

The Comptroller stated that these questions point out headlines from the FY22 SBFR, particularly that it shows an extraordinary amount of revenue, both state generated tax revenue and federal funds, as well as unusual transfers made due to the large influx of funds.

The Comptroller handed the presentation over to CLA Principal Jim Piotrowski to discuss that office's report on the SBFR.

## **5. CLIFTON LARSON ALLEN (CLA) REPORT TO THE ADVISORY BOARD**

Mr. Piotrowski thanked everyone at CTR for their work and help with their SBFR report. He stated that CLA's objective with this report is to obtain limited assurance as a basis for reporting whether or not material modifications should be made to the financial statements and supplemental information for the SBFR to comply with the Commonwealth's Statutory Basis of Accounting. It is substantially less in scope than an audit. It does not assess fraud risk or test accounting records. The scope of the report is the budgeted funds (General Fund, Commonwealth Transportation Fund, Stabilization Fund, Federal COVID-19 Response Fund, Transitional Escrow Fund, and 15 other nonmajor budgeted funds); non-budgeted special revenue funds (such as federal grants and lottery and gaming); and capital project funds.

Mr. Piotrowski explained the different responsibilities that the Commonwealth has with the SBFR compared to CLA's responsibilities. CLA must conclude whether material modifications should be made to the combined financial statements, the combining and individual fund statements, and supplemental information. They must conduct the engagement in accordance with SSARS and comply with AICPA's Code of Professional Conduct. They perform analytical procedures where they look at balances reported in the SBFR to see if there are any relationships contrary to expectations. As those relationships are identified, inquiries of management are performed to determine why those relationships occurred, if the explanation is reasonable, and if the balances appear to be proper. They will release an unmodified report at the conclusion of their inquiry. During the course of the FY22 report, there were no difficulties or disagreements with CTR management, and no uncorrected misstatements were made in the report. There were two new budgeted funds that fell under the scope of their review, the Student Opportunity Act Investment Fund, the Broadband Innovation Fund and Behavioral Health Trust Fund.

Mr. Piotrowski provided a status update on the report. There are just a few small analytical issues being addressed and inquiries with management to complete. The representation letter will be the concluding step, and they will need to obtain the final signed letter to issue the report. This should be wrapped up in the next few days. He turned the presentation over to Mathew Goulet from CLA to provide an update on the ACFR.

Mr. Goulet explained that leading up to and in the development of the SBFR, the audit ACFR team has been involved in other areas of test work that are part of the responsibility of issuing the audit report of the ACFR. In terms of current findings, it is a repeat finding of FY21 regarding a lack of disaster recovery plan for Medicaid. Mr. Piotrowski clarified that this finding is not a major financial reporting issue that needs to be flagged for an internal control report. It is just an observation to note for management. Mr. Piotrowski turned the presentation over to CLA's Shana Doiron to discuss progress on the Single Audit.

Ms. Doiron explained that her team has selected eighteen programs for testing this year and do not expect any significant changes to the draft SEFA. Testing is currently underway for all of these programs and they are working with the various departments to make sample selections and review testing support.

Mr. Piotrowski turned the presentation back over to the Comptroller. The Comptroller clarified that CTR has not actually issued the SBFR, because they cannot do so until the Advisory Board has this meeting and reviews it. He asked the members to come back to CTR with any questions, thoughts, or concerns over the next 48 hours so that they can issue the SBFR on Friday, December 23, 2022.

The Comptroller asked if the Chair or any members had questions. The Chair reminded the members that they do not vote on the SBFR, they just provide any feedback they may have. Ms. Monroe thanked the Comptroller and his team for all of their hard work.

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

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The Chair asked if there are any other items that were not reasonably anticipated.

Mr. Esmond thanked the Comptroller and his team for their service and hard work. He also congratulated the Auditor for her years of service. The Chair also thanked the Auditor and wished

her well in retirement. He also thanked the Comptroller for his partnership and service. He further highlighted some of the achievements discussed in this meeting. He wished everyone happy holidays and a happy new year.

#### **7. NEXT MEETING DATE**

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The Comptroller noted that the Office is not in a spot yet to discuss when the ACFR will be ready for review. The Office will reach out in January about this and setting up the next meeting date. He asked that the next meeting date remain undetermined for now, and the Chair agreed.

#### **8. ADJOURNMENT**

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The Chair asked for a motion to adjourn the meeting. Ms. Monroe motioned for adjournment, and it was seconded by Mr. McKay. Ms. Nable then noted that a vote is not necessary to adjourn a meeting, the Chair may do so on his own. The Chair then adjourned the meeting.