

Minutes of the Advisory Board to the Comptroller

Meeting Date: Wednesday, May 31, 2023
Time: 12:00 p.m.
Location: Virtually via ZOOM, and consistent with Section 40 of Chapter 2 of the Acts of 2023.

MEMBERS AND OTHER ATTENDEES

Members Present

Matthew Gorzkowicz (Chair), Secretary for Administration and Finance
Meredith Barrieau (Designee), First Deputy Auditor, Office of the State Auditor
M. Patrick Moore, Jr. (Designee), First Assistant Attorney General, Office of the Attorney General
Thomas G. Ambrosino, Court Administrator of Massachusetts Trial Court
Kathleen McNamara (Designee), Internal Auditor, Office of the State Treasurer
Michael Esmond (Gubernatorial Appointment), Chief Financial Officer, Massachusetts Convention Center Authority

Members Absent

Natalie Monroe (Gubernatorial Appointment), First Assistant Inspector General, Office of the Inspector General

Office of the Comptroller Attendees

Tryntje Bumgardner, Assistant Comptroller for Payments and Payroll
David Godin, Single and Internal Audit Lead
Andrew Higginbottom, Communications Coordinator
Kristine Hill-Jones, Assistant Comptroller for Contracts, Vendors, and Non-Tax Revenue
Kristin Lacroix, Assistant Comptroller and Chief Accounting Officer
Nana Law, Financial Reporting Analyst
Pauline Lieu, Assistant Comptroller and Chief Financial Reporting Officer
William McNamara, Comptroller
Howard Merkwowitz, Senior Advisor
Amy Nable, Assistant Comptroller and General Counsel
Rosemary Navarro, Executive Assistant to the Comptroller
Darian Roberts, Records Access Officer/Legal Analyst
Michael Sangalang, Communications Manager
Peter Scavotto, Assistant Comptroller for Risk
Dara Valcour, Multimedia Producer

Katie Verma, Chief Process & Innovation Officer

Clifton Larson Allen (CLA) Attendees

Chris Rogers, Managing Principal of Industry

James Piotrowski, Principal

Mathew Goulet, Annual Comprehensive Financial Report Audit Manager

Shana Doiron, Single Audit Manager

Bill Early, Principal

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. No one else identified themselves as recording the meeting.

1.2 Statement on Remote Participation

The Chair announced that on March 29, 2023, Governor Healey signed into law a supplemental budget bill which, among other things, extends certain temporary provisions pertaining to the Open Meeting Law until March 31, 2025. Specifically, this further extension allows public bodies to continue holding meetings remotely without a quorum of the public body physically present at a meeting location, and to provide "adequate, alternative" access to remote meetings. 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 DECEMBER 21, 2022, ADVISORY BOARD MEETING MINUTES

On a motion by Mr. Esmond, seconded by Chair Gorzkowicz, the Board approved by roll call vote the December 21, 2022, Advisory Board meeting minutes.

- Secretary Gorzkowicz – Yes
- Meredith Barrieau – Yes
- Patrick Moore – Not present. (Mr. Moore joined the meeting shortly after the vote was taken.)
- Thomas Ambrosino – Yes
- Kathleen McNamara – Yes
- Michael Esmond – Yes
- Natalie Monroe – Not present.

3. REMARKS FROM THE CHAIR

The Chair welcomed the participants and observers to the meeting. He offered congratulations to the Comptroller for being reappointed to his position for another term. He turned the presentation over to the Comptroller for remarks.

4. COMPTROLLER'S REPORT TO THE BOARD

The Comptroller thanked the Chair for his remarks. He expressed his gratitude for his vision at the Executive Office of Administration and Finance and strong partnership with CTR.

The Comptroller provided background about the Annual Comprehensive Financial Report (“ACFR”). The ACFR is a financial statement of the Commonwealth that complies with accounting requirements promulgated by the Governmental Accounting Standards Board (“GASB”), which sets Generally Accepted Accounting Principles (“GAAP”). It provides residents, taxpayers, bondholders, the federal government, and any other interested parties, with a consistent way to look at the Commonwealth’s finances year-to-year. It is required in all fifty states, so it also provides state-to-state comparisons. The ACFR is audited by the independent certified public accounting firm CliftonLarsonAllen (“CLA”).

The Comptroller discussed the timing of the Fiscal Year (“FY”) 2022 ACFR. He discussed how the report is built to provide context for why the report is being released late.

First, there are state entities reflected in the ACFR that are fully integrated on MMARS, the state accounting system. For these entities, all vendor and payroll records are reflected in MMARS and provide full accounting records. This applies to the majority of state entities. Second, there are state entities reflected in the ACFR that are “off-MMARS” because they do not use the state accounting system. These entities include:

- Blended component units – Legally separate, but so closely related that their net results and financial position are presented as part of the Commonwealth’s operations;
- Discretely presented component units that are separately audited, such as the MBTA;
- Fiduciary Component Units, such as the State Employee Retirement System;
- Departments audited separately but not legally separate, such as the Lottery Commission; and
- Departments with delegated financial systems – Not legally separate, but authorized to conduct financial operations off-MMARS, such as Unemployment Insurance.

Each entity is responsible for their individual accounting and reporting. CTR is responsible for integrating the information into an accurate and timely ACFR.

The Comptroller discussed how the timing of the FY22 ACFR was significantly impacted in two areas: (1) the Massachusetts State College Building Authority (“MSCBA”), and (2) the Department of Unemployment Assistance/Unemployment Insurance (“UI”).

MSCBA is an independently audited blended unit. Their FY22 reporting was significantly delayed for various reasons, including financial staffing issues, new GASB lease reporting requirements, and the ongoing impact of COVID-19 during FY22. This was a first-time occurrence for MSCBA and CTR is working closely with them to ensure that it does not happen again. The Comptroller expressed his confidence that they will not have another delay for future ACFRs.

UI operates a delegated financial system. MMARS reflects summary entries only. The FY21 Single Audit identified weaknesses in financial controls at UI. Intensive efforts to improve were made throughout the FY22 cycle and final results were produced in May 2023. Immediate fixes for FY23-24 and structural fixes for later are required, and currently in-process through a partnership with many state entities.

The Comptroller explained that the vast majority of reporting was processed in its normal time, with the significant delay caused by these two specific areas. CTR chose to continue working with these two entities so that it could produce an ACFR that is complete in all its parts, rather than release a partial report closer to the deadline. The Comptroller expressed his confidence that the FY23 ACFR will be produced in a more timely manner.

The Comptroller turned the presentation over to CTR Senior Advisor Howard Merkowitz to review the results of the FY22 ACFR.

5. REVIEW OF THE FISCAL YEAR 2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)

Mr. Merkowitz provided background about the Statutory Basis Financial Report (“SBFR”) before discussing the ACFR. The SBFR determines whether the budget is balanced according to state finance law and includes the calculation of the “consolidated net surplus” and the end of year transfer to the Stabilization Fund if there is one. FY22 ended with a budgetary fund balance of \$18.200 billion and a budget surplus of \$4.812 billion. The surplus was deposited into the Transitional Escrow Fund, to be appropriated in FY23. During the fiscal year, the Stabilization Fund increased by \$2.311 billion to \$6.938 billion.

Mr. Merkowitz explained that the ACFR’s basic financial statements are presented on two bases of accounting: (1) a fund perspective, and (2) a government-wide perspective. The fund perspective is similar in focus to the SBFR in terms of the funds that it covers, but it also covers trust funds not covered in the SBFR and the MSBA as a blended component unit. The purpose of the fund perspective is to measure the government’s ability to meet obligations from short term currently available resources, that is revenues that are to be received within a year after the fiscal year closes.

The government-wide perspective treats government according to accounting rules, similar to private business. It includes business-type activities, such as unemployment insurance, Paid Family and Medical Leave, and the institutions of higher education, within the Commonwealth’s net position. It provides full accrual accounting for long-term assets and liabilities, including long-term debt, pensions, OPEB, capital assets, and compensated absences.

It includes “component units,” such as MassDOT, MBTA, Health Connector, the Massachusetts Clean Water Trust, all of which have a close relationship to the Commonwealth.

Mr. Merkowitz explained that recently implemented GASB standards changed the requirements for reporting pension and OPEB liabilities for governmental entities. They require the presentation of the net pension and net OPEB liability on the government-wide Statement of Net Position. These liabilities are presented using the year prior to the fiscal year end date, so FY22 was measured as of June 30, 2021. For FY22, the Commonwealth’s net pension liability on a government-wide basis was approximately \$37.598 billion (net of deferrals) and the net OPEB liability was approximately \$18.822 billion (net of deferrals).

Mr. Merkowitz provided a brief overview of the ACFR balance sheet. The total fund balance at the end of FY22 was \$18.133 billion. \$13.932 billion is located in the General Fund, \$1.913 billion in the MSBCA, \$1.566 billion in other government funds, and \$616 million in the Lottery Fund, and \$106 million in Federal Grants Fund. There is also \$3.496 billion in the Federal COVID-19 Response Fund, however the full amount shows as liability because the money is transferred to other funds and will be recorded as spending in those funds.

Mr. Merkowitz then turned the presentation over to Pauline Lieu, Assistant Comptroller and Chief Financial Reporting Officer, to discuss government-wide activities in the ACFR.

Ms. Lieu presented the Net Position as of June 30, 2022. The total assets increased from \$51.649 billion to \$60.765 billion. Total liabilities decreased from \$134.269 billion to \$119.941 billion. The total Net Position decreased from \$75.797 billion to \$67.424 billion. Total revenues decreased by 0.7% from \$92.423 billion to \$91.732 billion. Total expenses decreased by 12.4% from \$95.210 billion to \$83.358 billion. This is due mostly to the winding down of the federal pandemic unemployment compensation program.

Ms. Lieu explained the major reasons for the government-wide net position deficit of \$67.424 billion. First, there was the unfunded pension liability of \$37.598 billion, net of deferrals, or amounts to be recognized in future years. Second, there are underfunded retiree health benefits (OPEB) of \$18.822 billion, net of deferrals. Third, there are School Building Authority debt and grants payable of \$6.439 billion. Finally, there is Commonwealth debt for

road and bridge assets owned by MassDOT and capital grants and expenditures for state authorities and cities and towns.

Ms. Lieu then discussed GASB Standards Nos. 87, 93, 97, 96, and 97, which have been or will be implemented for Fiscal Years 2022 through 2023.

Ms. Lieu then turned the presentation over to the Comptroller, who recommended that the Chair open the floor for Board members to ask any questions about the presentation so far. The Chair opened up the floor for questions.

Ms. Barrieau asked if the Chapter 62F refunds that were issued in FY23 are reflected in the FY22 ACFR, or if they will be in FY23? Mr. Merkowitz responded that they are reflected in the FY22 ACFR as a liability in the Statement of Net Position.

Ms. Barrieau stated that the Auditor's office is about to start the next 62F audit, and Auditor DiZoglio asked her to check in with the Advisory Board to see if there is any information that they should be aware of due to last year's surprise? Mr. Merkowitz responded that there is a process that CTR has established to review tax revenues, in partnership with the Auditor's office and the Department of Revenue. The 62F report should be issued sometime in August or September 2023. He does not believe that there is anything new that needs to be noted.

Mr. Ambrosino stated that in municipal financial reports that he has reviewed previously, the OPEB liability is multiple times higher than net pension liability. He asked why it is the opposite at the state level? Mr. Merkowitz responded that the state pension liability covers teachers, which accounts for the discrepancy.

The Comptroller handed the presentation over to CLA Principal Chris Rogers.

6. CLIFTON LARSON ALLEN (CLA) REPORT TO THE ADVISORY BOARD

Mr. Rogers introduced Bill Early, the principal over the Single Audit; Matt Goulet, the manager over the ACFR audit; Jim Piotrowski, CLA Principal; and Shana Doiron, Director of the Single Audit.

Mr. Rogers provided an overview of CLA's presentation. For the ACFR audit, they will cover objectives, scope, responsibilities, procedures performed, anticipated conclusion, and

communications required by GASB Standards. They will also provide status updates on the ACFR and Single Audit. Mr. Rogers turned the presentation over to Matt Goulet.

Mr. Goulet spoke about CLA's objectives for the ACFR. First, they will express their opinions on the ACFR and its fair presentation in accordance with GAAP. They want to provide an opinion that is reasonable, but not absolute assurance. Second, they will provide a report on internal controls over financial reporting and compliance laws, regulations, and grant agreements that may impact the ACFR. Finally, they will communicate significant audit matters required per Generally Accepted Auditing Standards ("GAAS"), as well as other matters, to management through a management letter.

Mr. Goulet discussed the scope of CLA's ACFR audit. First, it covers governmental funds and activities. This includes the General Fund, Federal COVID-19 Response Fund, and other governmental funds. Second, it covers proprietary funds and business-type activities. This includes the Unemployment Compensation Trust Fund and the Family and Employment Security Trust Fund. Finally, it covers fiduciary funds. This includes pension and OPEB trust funds, private purpose trust funds, and custodial funds. There are several entities that are included in the ACFR but are audited by other auditors. These include the Massachusetts School Building Authority, Lottery, state universities, community colleges, external investment trust funds, and discretely presented component units. CLA places reliance on the opinions of these other auditors for these activities while maintaining communication with them.

Mr. Goulet discussed the different responsibilities of the Commonwealth and CLA. The Commonwealth is responsible for:

- Preparation and fair presentation of the ACFR in accordance with GAAP;
- Design, implementation, and maintenance of internal control relevant to preparation and fair presentation of the ACFR that are free from material misstatement;
- Providing unrestricted access to information and personnel requested by CLA; and
- The representation letter at the conclusion of the audit.

CLA is responsible for:

- Opining on whether or not the ACFR is fairly presented, in all material aspects, in accordance with GAAP;
- Providing a report on internal control over financial reporting, compliances with law, regulations, contracts and grants that communicates any material adjustments that need to be made to the ACFR;
- Conducting the engagement in accordance with GAAS and Government Accounting Standards; and
- Complying with AICPA's Code of Professional Conduct, including ethical principals of integrity, objectivity, professional competence and due care.

Mr. Goulet outlined the procedures performed by CLA during their audit. These include risk assessment and internal controls, including analytical procedures, inquiries of management, document inspection, and process observation. Risk assessment helps CLA identify significant transaction classes that the Commonwealth is involved with to test controls. Procedures also include substantive testing, including tracing and vouching information presented, recalculation, confirmation, and analytical procedures. He then handed the presentation back to Mr. Rogers.

Mr. Rogers provided a status update on the FY22 ACFR. They anticipate issuing and unmodified opinion with three "Emphasis of Matter" paragraphs. The first will discuss implementation of GASB 87 on leases. The second discusses correction of errors related to the Unemployment Insurance Trust Fund, state universities, community colleges, business-type activities, Massachusetts Clean Water Trust, and aggregate discretely presented component units. The third discusses MassDOT's modified opinion.

Mr. Rogers discussed other required communications related to the ACFR. First, significant accounting policies are discussed in Note 1 of the ACFR and no transaction lacked authoritative guidance. Second, note disclosures were neutral, consistent, and clear. Third, difficulties encountered were significant delays related to the Unemployment Insurance Trust Fund and MSCBA. Third, uncorrected misstatements included unemployment expenses and corrected misstatements included unemployment beginning net position and federal revenue, as well as leases receivable. Finally, there were no disagreements with management and no consultations

with other independent accountants. CLA did request certain representations from management that are included in the management representation letter.

Mr. Rogers asked Mr. Goulet and Ms. Doiron to provide brief updates on the timing status of the ACFR and Single Audit. Mr. Goulet stated that the FY22 ACFR is undergoing a detailed secondary review and they do not expect anything significant to be identified. It should be completed and issued in the coming days. Ms. Doiron stated that CLA has received a final schedule of expenditures and federal rewards from CTR. They have tested eighteen single audit programs and their testing is complete. They are currently in the final review stage. The findings are being provided to the various departments and they anticipate the Single Audit will be released around June 30, 2023.

Mr. Rogers turned the presentation over to the Comptroller. He informed the board that CTR will issue representation letters assuring CLA that nothing has changed in the interim. The Advisory Board should review the ACFR and ask questions today or in the coming days. There is no vote necessary to approve the ACFR. If there are no substantive issues, CTR will issue the ACFR as soon as possible.

7. ITEMS NOT REASONABLY ANTICIPATED BY THE CHAIR

The Chair asked if there were any other items not reasonably anticipated by the Board to be discussed. None were brought forward.

8. NEXT MEETING DATE

The Chair stated that the next Advisory Board meeting is anticipated to occur in the next two to three weeks, depending on the timing of the Single Audit.

9. ADJOURNMENT

The Chair moved to adjourn the meeting. Amy Nable informed the Chair that a vote is not required to adjourn a meeting. The Chair then adjourned the meeting.