

Minutes of the Advisory Board to the Comptroller

Meeting Date: Friday, May 31, 2024
Time: 12:30 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
Thomas G. Ambrosino, Court Administrator of Massachusetts Trial Court
Meredith Barrieau (Designee), First Deputy State Auditor, Office of the State Auditor
Kathleen McNamara (Designee), Internal Auditor, Office of the State Treasurer
M. Patrick Moore, Jr. (Designee), First Assistant Attorney General, Office of the Attorney General
Michael Esmond (Gubernatorial Appointment), Director of Municipal Finance, Town of Braintree
Natalie Monroe (Gubernatorial Appointment), Chief Magistrate, Massachusetts Division of Administrative Law Appeals

Members Absent

None

Office of the Comptroller Attendees

Tamia Buckingham, Deputy Financial Reporting Officer
Tryntje Bumgardner, Assistant Comptroller for Payroll and Payments
Jessica Cogswell, Statewide Payments and Tax Reporting Manager
David Godin, Single and Internal Audit Lead
Nana Law, Statewide Financial Reporting Auditor
Rosemary Navarro, Executive Assistant to the Comptroller
William McNamara, Comptroller
Howard Merkowitz, Senior Advisor
Amy Nable, Assistant Comptroller and General Counsel
Rosemary Navarro, Executive Assistant to the Comptroller
Darian Roberts, Assistant General Counsel/Records Access Officer
Michael Sangalang, Communications Manager
Thomas Smith-Vaughn, Chief Operating Officer
Andrea Wadsworth, Chief Financial Officer

Clifton Larson Allen (CLA) Attendees

Chris Rogers, Managing Principal of Industry, State and Local Government
Shana Doiron, Director
Mathew Goulet, Manager

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.

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 will be taken by roll call.

2. REVIEW AND APPROVAL OF FEBRUARY 15, 2024, ADVISORY BOARD MEETING MINUTES

On a motion by Mr. Esmond, seconded by Ms. Monroe, the Board approved by roll call vote the February 15, 2024, Advisory Board meeting minutes.

- Secretary Gorzkowicz – Yes
- Meredith Barrieau – Yes
- Thomas Ambrosino – Yes
- Kathleen McNamara – Yes
- Michael Esmond – Yes
- Natalie Monroe – Yes

Board Member M. Patrick Moore, Jr. joined the meeting shortly after the roll call vote was taken. A majority of the Board already approved the February 15, 2024, minutes, so a new vote was not taken.

3. REMARKS FROM THE CHAIR

The Chair welcomed participants and observers to the meeting. He stated that the purpose of this meeting is to review the Annual Comprehensive Financial Report (“ACFR”). He reminded the Board that this meeting is meant to provide members an opportunity to review and ask questions about the ACFR, but no votes by the Board are necessary to approve it.

The Chair turned the presentation over to the Comptroller.

4. REMARKS AND REPORTING PROCESS OVERVIEW FROM THE COMPTROLLER

The Comptroller addressed key takeaways regarding the ACFR. The Commonwealth ended Fiscal Year (“FY”) 2023 in sound financial condition, as previously reflected in the Statutory Basis Financial Report (“SBFR”). All required transactions and transfers for FY23 have been faithfully executed and accurately reported. Financial controls and anti-fraud measures were maintained throughout FY23. The timing of financial reports remains a concern with two distinct drivers: (1) late timing of the closeout supplemental budget to end the fiscal year; and (2) delayed reporting from component units.

The Comptroller reviewed the three major reporting requirements: SBFR; ACFR; and the Single Audit. The SBFR is a requirement under state law and was the subject of the previous

meeting. The ACFR is a federal requirement and must comply with accounting requirements promulgated by the Governmental Accounting Standards Board (“GASB”), which sets Generally Accepted Accounting Principles (“GAAP”). It includes “component units” and activities that are not reported in the SBFR and is audited by an independent CPA firm, which is CLA for the Commonwealth of Massachusetts. The Comptroller provided a simplified ideal timing outlook for the workflow and release of each major report.

The Comptroller provided observations and context on delayed component unit financials. For separately audited entities, CTR and CLA must rely on the financial staff of each unit and its respective independent CPA firm to complete their audit. Most units provide complete audited financial reports within the required time, but a single delay in reporting from a material component unit can delay the ACFR. There are three main drivers that delayed the ACFR. First, there is an issue with financial staffing at component units. Most units are relatively small, with a correspondingly small financial staff. Turnover, illness, and retirement have impacted several units. Replacing staff is not a quick process due to the limited supply of experienced, qualified applicants. Second, reliance on independent audit firms has caused delays due to turnover and industry consolidation that has impacted some CPA firms. Finally, implementation of new GASB requirements has made reporting more difficult for some units.

The Comptroller provided additional context on delays and prevention and management efforts to mitigate delays for FY24. First, the SBFR provides information on the core Commonwealth financials earlier in the cycle, which helps prevent an information void in the interim. The entities driving the final ACFR timing delay have been different each year, rather than repeats. CTR is making efforts to help mitigate and prevent further future delays. First, the Comptroller will have direct, individual communication with the CEO or CFO of each unit in July 2024 on expectations and deadlines. Second, CTR will have check-ins in August, September, and early October, in advance of the October 31 deadline. Finally, at the first sign of trouble, CTR will escalate to weekly meetings on status and problem resolution and enhance communications to both the Office of Administration and Finance and the Ways and Means Committees about entities that are failing to meet requirements.

The Comptroller asked if any members of the Board had questions or comments. Mr. Esmond thanked the Comptroller for his plans to prevent delays in the future. He asked about the Comptroller's perspective on the value of new GASB standards and whether there have been discussions about them in meetings with members of the National Association of State Auditors, Comptrollers, and Treasurers ("NASACT"). He expressed his view that the new standards add work and are of limited value. The Comptroller said that NASACT does a very effective job gathering information, lobbying, providing input, and pushing back on new standards when they come out. He believes it has done some good for timing expectations and regarding thresholds for materiality, although it has not stopped some recent GASB standards from coming out with relatively short deadlines for approval.

The Comptroller handed the presentation over to CTR Senior Advisor Howard Merkowitz.

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

Mr. Merkowitz provided an overview of the ACFR. He first provided a brief review of the SBFR findings. On a statutory basis, FY23 ended with a budgetary fund balance of \$15.338 billion and a balanced budget (a "consolidated net surplus" of exactly \$0). During the fiscal year, the balance of the Commonwealth Stabilization Fund (or "rainy day fund") increased by \$1.098 billion, to \$8.036 billion. The ACFR will be issued within the next few days and will be submitted to the Government Finance Officers' Association for review as part of the Certificate of Achievement for Excellence in Financial Reporting Program. The FY22 ACFR represented the 33rd consecutive year that the Commonwealth was awarded the certificate.

The basic financial statements are presented on two bases of accounting under GAAP: (1) fund perspective; and (2) government-wide perspective. The purpose of the fund perspective is to measure a government's ability to meet obligations from "currently available" resources (i.e., revenues including those to be received soon after the close of the fiscal year). It uses a "modified accrual" basis of accounting, in accordance with GAAP, and takes into account short-term accruals. It does not include long-term accruals, such as debt for capital assets, depreciation, or pension and OPEB liabilities. The government-wide perspective treats government according to accounting rules similar to private businesses. It includes business-type activities such as

Unemployment Insurance, PFML, 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 compensation absences. It includes component units, such as MassDOT, the MBTA, the Health Insurance Connector, and the Massachusetts Clean Water Trust, all of which have a close relationship to the Commonwealth, but are not part of the "primary government," as defined by GASB.

Mr. Merkowitz provided information regarding GASB requirements. GASB Statement Nos. 68 and 75 changed the requirements for reporting pension and OPEB liabilities for government entities. They require the presentation of the net pension and net OPEB liability on the government-wide Statement of Net Position. For reporting purposes, GASB allows these liabilities to be presented using a measurement date that is a year prior to the fiscal year end date. For FY23, they are measured as of June 30, 2022. In FY23, the Commonwealth's net pension liability on a government-wide basis was approximately \$37.158 billion net of deferrals and the net OPEB liability was approximately \$17.624 billion net of deferrals.

In FY23, on a fund perspective basis, there was \$93.889 billion in total revenues and other financing sources, \$92.804 billion in total expenditures and other financing uses, and a fund balance of \$19.010 billion at the end of the fiscal year. Mr. Merkowitz summarized government-wide changes in net position as reflected in the ACFR. The Commonwealth currently has a \$63.645 billion net position deficit due to a few factors: (1) unfunded pension liability of \$37.158 billion; (2) unfunded retiree health benefits of \$17.624 billion; (3) School Building Authority debt and grants payable of \$6.125 billion; and (4) Commonwealth debt for road and bridge assets owed by MassDOT and for capital grants and expenditures for state authorities and cities and towns.

Mr. Merkowitz informed the Board about new GASB standards that have been implemented for FY23. First, Statement No. 87 changes accounting and financial reporting requirements for leases. Second, Statement No. 94, deals with Public-Private and Public-Public Partnerships and Availability Payment Arrangements. Finally, Statement No. 96, deals with subscription-based information technology arrangements. They did not have a significant effect on the Commonwealth's net position. There are also three new GASB standards that will take

effect in FY24 and FY25: (1) Statement No. 100, Accounting Changes and Error Corrections; (2) Statement No. 101, Compensated Absences; and (3) Statement No. 102, Certain Risk Disclosures. The Commonwealth is evaluating the impact of the pronouncements.

Mr. Merkowitz then turned the presentation over to CLA Principal Chris Rogers.

6. CLIFTONLARSONALLEN (CLA) REPORT TO THE BAORD

Mr. Rogers introduced himself and Mathew Goulet and Shana Doiron. He turned the presentation over to Mr. Goulet to speak about the ACFR audit. He discussed CLA's role in the audit and the responsibilities of CLA and CTR.

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, Employment Security Trust Fund, and for this fiscal year, Berkshire Community College.. 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, compliance 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 other 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.

This year there will again be an unmodified opinion of the ACFR, with four "Emphasis of Matter" paragraphs addressing: (1) correction of errors related to the Massachusetts School Building Authority and the Aggregate Discretely Presented Component Units; and (2) MassDOT, the Massachusetts Life Sciences Center, and the Massachusetts Development Finance Agency modified opinions.

Shana Doiron provided a brief update on the Single Audit. Twenty-three programs were selected for testing this year, spanning thirteen departments. CLA is currently partnering with the

departments to finalize their results and will partner with CTR to determine a timeline for completing the Single Audit report.

Mr. Rogers then handed the presentation over to Secretary Gorzkowicz.

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 raised.

8. TIMING OUTLOOK FOR NEXT MEETING

The Chair stated that the next meeting will focus on the Single Audit. The work is almost completed, and the next Advisory Board meeting should be soon. The Comptroller stated that board members should be getting communication next week to set up a day for the next meeting. He asked Board members to send any follow-up questions regarding the ACFR by next Monday, June 3rd. The report will be published no sooner than the end of the business day on that Monday.

9. MEETING ADJOURNMENT

The Chair adjourned the meeting.