

Comptroller Advisory Board

January 17, 2019, 1:00 p.m.
Office of the Comptroller
One Ashburton Place, Room 901
Boston, MA 02108

MINUTES

Michael Heffernan, (Chair), Secretary for Administration and Finance (ANF)
Suzanne Bump, Auditor, Office of the State Auditor (SAO)
James MacDonald, First Deputy Treasurer, Office of State Treasurer and Receiver General (TRE)
Jonathan Williams, Court Administrator, Executive Office of the Trial Court (TRC)
Jason Green (designee), CFO, Office of the Attorney General (AGO)
Natalie Monroe, Gubernatorial Appointment, First Assistant Inspector General, Office of the Inspector General (IGO)
Michael Esmond, Gubernatorial Appointment, Massachusetts Convention Authority CFO

Office of the Comptroller (CTR)

Thomas G. Shack III, Comptroller
Jeffrey Shapiro, First Deputy Comptroller
Howard Merkowitz, Deputy Comptroller (via conference call)
Kathy Sheppard, Deputy Comptroller
Jenny Hedderman, Deputy Comptroller and General Counsel
Christopher Guido, Deputy Comptroller
Peter Scavotto, Statewide Chief Risk Officer
Scott Olsen, Director of Strategic Communications
Michael Rodino, Statewide Financial Reporting Director
Pauline Lieu, Statewide Financial Reporting Deputy Director
Elizabeth Hemond, Assistant to the Comptroller

KPMG

Scott Warnetski, Partner, KPMG
Blakeney Bell, Audit Manager, KPMG

Other

Kenneth Woodland, First Deputy Auditor, SAO
Karen Guida, Internal Auditor, TRE
Colin Young, State House News
Julie Mehegan, Communications Director, ANF
Phil Donovan, Kearney, Donovan & McGee P.C.
Maggie Cohen, Kearney, Donovan & McGee P.C.

AGENDA

- I. Review and Approval of July 24, 2018 Advisory Board Meeting Minutes
- II. Review and Approval of October 12, 2018 Advisory Board Meeting Minutes
- III. Comptroller Update
- IV. Review of the Statutory Basis Financial Report (SBFR)

- V. Review of the Comprehensive Annual Financial Report (CAFR)
- VI. KPMG Report to the Committee
- VII. New Business or Issues
- VIII. Next Meeting

Secretary Heffernan called the meeting to order at 1:05 p.m.

I and II. Minutes and Attendees

The Board turned its attention to the first item of business - the review and approval of the minutes of the last two Board meetings. On a motion by Auditor Bump and seconded by Ms. Monroe, the Board approved the minutes of the July 24, 2018 meeting. On a motion by Auditor Bump and seconded by Ms. Monroe, the Board approved the minutes of the October 12, 2018 meeting.

III. Comptroller Update

New Comptroller Transition

In November, Comptroller Shack had indicated to the Administration he was willing to step down to allow the financial systems project to go forward. A new Comptroller has been appointed and will be starting on February 19th. Comptroller Shack is grateful for having the opportunity to serve and thanked the Board and his staff for their service and support. He indicated that he is committed to a smooth transition and pledged his support to the new Comptroller.

CHTRU Update

Through December, CTHRU had 3 million page views. Massachusetts remains a state leader in financial transparency. Just last week there were 150,000 hits, of which 130,000 were payroll related.

FY18 CAFR Timing

Michael Rodino will be presenting the auditing report on behalf of Deputy Comptroller Howard Merkwowitz, who on the phone and available for questions, but is at home recovering from recent surgery.

Despite the passage of a late supplemental budget, Howard and his team were able to pull the SBFR (Statutory Basis Financial Report) and Comprehensive Annual Financial Report (CAFR) together in a short period of time. The SBFR was filed on November 6th. The data was then incorporated into the CAFR. The CAFR was expected to be filed by December 31st, but there was a small issue with the Other Post-Employment Benefits (OPEB) valuation. There was a new Governmental Accounting Standards Board (GASB) reporting standard requirement pertaining to the valuation. A vendor prepared the valuation and there were errors in the calculation. Before the error was uncovered, those valuations were provided to the colleges and MassDOT for their financial statements. The vendor was asked to recalculate, which they did. The colleges may have to reissue their financial statements and most are evaluating the impact of doing or not doing so. Mr. Warnetski will address this issue later in his report.

Financial Systems Transformation Project (FSTP)

As indicated at the October Advisory Board meeting, CTR had issued a Request for Response (RFR) that was to expire on November 13th. The Comptroller's Office and the Administration were not able to reach agreement before the RFR expired. CTR has filed a request for a MMARS upgrade with the Capital IT Investment Board that will be needed until the systems are replaced. Secretary Heffernan indicated the Executive Office of Technology Services & Security will be opening a Project Management Office by the end of March for the FSTP.

IV. Review of the FY18 SBFR

Michael Rodino, the Statewide Financial Reporting Director then presented the annual reports to the Board. The SBFR is reported on a budgetary basis of cash receipts and expenditures, and includes accounts payable/receivables and excludes trust funds, and component units. The statutory basis determines if the budget is balanced according to state finance law. The SBFR determines the calculation of the consolidated net surplus and end of year transfer to the Stabilization Fund.

FY18 ended with a consolidated net surplus of \$209 million in the budgeted funds. There was an operating gain of \$939 million in the budgeted funds, compared to a \$34 million loss in FY17. The Stabilization Fund had a deposit of \$701 million in FY18, including transfers during the year resulting from capital gains tax collections above a statutorily defined threshold and from the consolidated net surplus. Budgeted revenue increased by 6.4% and budgeted fund tax revenue increased 8.7% primarily due to changes in tax withholding and increases in capital gains, sales, corporate, and estate tax revenues.

Expenditures and other financing uses totaled \$42.9 billion, an increase of 4.1%. There was a \$99 million deposit (\$73 million from the tobacco master settlement proceeds and \$26 million from capital gains tax revenues) to the State Retiree Benefits Trust Fund to fund Other Post Employment Benefits (OPEB).

V. Review of the FY18 CAFR

The CAFR is in draft, but will be filed today. The CAFR is presented on two basis of accounting. The fund basis is similar to the SBFR, but includes trust funds not included in the SBFR, and the Massachusetts School Building Authority (MSBA) incorporated into the statements as a blended component unit. It uses a modified accrual basis of accounting and takes into account short-term accruals.

The second basis is the government-wide perspective which is similar to private business and includes business-type activities and is a full accrual accounting for long term-assets and liabilities. It also includes the component units. There have been changes in accounting standards regarding the discount rate for the calculation of the discount rate and the requirement that the entire unfunded OPEB liability be on the balance sheet. The government-wide net position was a negative \$69.136 billion, which includes \$31.332 billion in unfunded pension liability net of deferrals, \$18.081 billion in unfunded OPEB liabilities net of deferrals, \$7.085 billion in MSBA debt and most of the remainder is Commonwealth debt for road and bridge assets owned by MassDOT. The report will be submitted to the Government Finance Officers Association (GFOA) for review. CTR has been awarded GFOA's Certificate of Achievement for Excellence in Financial Reporting for the last 28 years in a row and hopes to be awarded the Certificate again this year.

VI. KPMG Report to the Committee

Scott Warnetski, the KPMG partner on the Commonwealth engagement began the presentation indicating this is his first full year on the engagement. Ms. Blakeney Bell, the engagement's audit manager, will also co-present the KPMG Report.

Mr. Warnetski outlined the professional responsibilities of both KPMG and management. Managements' responsibility is to prepare the reports, and maintain internal controls to support accurate

numbers. KPMG's responsibility includes planning and performing an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and conducting the audit in accordance with professional and Governmental Auditing Standards. They express an opinion about whether the financial statements prepared by management are presented fairly and in conformity with generally accepted accounting principles. KPMG relies on certain entities being audited by other auditors. KPMG does not audit the introduction (the Letter of Transmittal or Management's Discussion and Analysis, or MD&A) or statistical sections.

It is expected that KPMG will issue its signed audit report today. Work continues on the Uniform Guidance audit, which is the audit of Commonwealth compliance with requirements of federal awards, and the reports on pension and OPEB schedules. KPMG expects to issue an unmodified/clean opinion.

Mr. Warnetski then elaborated on the OPEB issue referred to earlier that caused the delay in the CAFR issuance. The auditors rely on the work of others. In this case, the information was passed down to colleges and universities. Some colleges have already issued their financial statements and may be required to reissue them. There were two options: One would be to wait for all colleges/universities to reissue their financial statements, which would delay the CAFR issuance, and the other option would be to make a summary adjustment across the top. KPMG and the Commonwealth have decided to take the second option and make a summary adjustment. As such there will be a reconciliation adjustment in Note 14.

Work continues on the Uniform Guidance audit. At this time, it is expected that the report will include a material weakness in internal controls over financial reporting related to the Executive Office of Labor and Workforce Development's Unemployment Insurance (UI) program. The severity of the finding has been increased as the issue has gotten a little worse from the prior year in terms of amount of dollars involved. Their detailed transactions are recorded separately from MMARS. The detail in the UI system (UI Online) did not reconcile to MMARS and CAFR presentation in several cases and reconciliations to MMARS are not conducted throughout the year.

Mr. Warnetski then turned the Board's attention to an emerging issue with the GASB standards. In FY2020 GASB 84 will require going through all the trust and agency funds activities to identify fiduciary activities. This will be a significant undertaking.

In closing, Mr. Warnetski thanked the Comptroller's Office for their expertise and assistance working to have departments comply in a timely manner with requests from KPMG audit staff. It is expected the Uniform Guidance Report will be issued before March 31st, as the 31st falls on a Sunday

VII. Other Issues

The Board members thanked Comptroller Shack for his service and commended him for his collaboration, assistance and leadership.

VIII. Adjournment

The Board voted to adjourn at 2:05 p.m.

Attachments Distributed for the January 17, 2019 meeting

- #1: Agenda
- #2: July 24, 2018 Advisory Board Meeting Minutes
- #3: October 12, 2018 Advisory Board Meeting Minutes
- #4. Comptroller Update

- #5. Comprehensive Annual Financial Report (CAFR)
- #6. KPMG Report to the Committee