Commonwealth of Massachusetts
OFFICE OF THE COMPTROLLER
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WILLIAM MCNAMARA
COMPTROLLER

November 21, 2023

Senator Bruce E. Tarr
Senate Minority Leader
24 Beacon St., Room 308
Boston, MA 02133

Representative Bradley H. Jones, Jr.
House Minority Leader
24 Beacon St., Room 124
Boston, MA 02133

Dear Sirs,

Thank you for your letter of November 20, 2023 regarding the closeout supplemental appropriations bill for Fiscal Year 2023. I appreciate your outreach and focus on this issue very much, given its importance and urgency, and welcome the opportunity to provide information.

As a starting point, I have attached to this correspondence a letter that I sent on November 3, 2023, a few days after the due date for the Statutory Basis Financial Report (SBFR) had passed. Because nearly three weeks have passed since that letter, the urgency and the concerns expressed therein are graver now.

I addressed the letter to the six parties with whom, by statute, I must file the SBFR: Her Excellency Governor Maura Healey; Secretary Matthew Gorzkowicz of the Executive Office for Administration & Finance; the Honorable Aaron Michlewitz, Chair of the House Ways and Means Committee; the Honorable Michael J. Rodrigues, Chair of the Senate Ways and Means Committee; and the Clerks of the House and of the Senate, Mr. James and Mr. Hurley, respectively.

I believe this language from that letter directly addresses some of the topics you raised:

"The SBFR is one of two major annual reports; the second is the Annual Comprehensive Financial Report (ACFR), which incorporates both more financial data and more state-related entities and activities than the SBFR. These reports are the only independently reviewed and audited sources of comprehensive information on state finance for the citizens, taxpayers, and residents of the Commonwealth. In addition, there are other important audiences for these reports. Among these are bond buyers and debt ratings agencies, as well as the federal

government. The federal single audit process, which takes the ACFR as a starting point, is required to support and retain the flow of federal dollars into vital Commonwealth programs, including several of these that support the social safety net for residents. The late issuance of the SBFR has a knock-on effect on these other processes which, despite our intensive efforts to make up for lost time, will cause delay.

Regarding a potential impact on the perception of bond buyers and ratings agencies, there is another section that is important to share:

"Fortunately, although report timing has become a recurring problem, the financial condition of the Commonwealth reflected in the reports has been consistently sound. Two of the more visible signs are the dramatic increase in the balance of the Stabilization Fund and the growing payments toward pension obligations, both of which are attributable to the fiscal prudence of elected officials in the Legislature and in successive Administrations…Timely issuance of the SBFR and ACFR in future years will help the Commonwealth to receive full credit for its positive fiscal condition."

You inquired about other potential negative consequences. I would highlight three:

First, expanding on the reference above to the federal Single Audit process: As you know, the federal government provides funding for programs and government services delivered by the Commonwealth. Among the most visible are a varied array of social safety net programs on which many of our residents rely, and support for housing and transportation in the Commonwealth. The United States government places clear and strict requirements not only the use of such funds, but on the need to report on compliance through the annual Single Audit process. Failure to comply in a timely manner with the Single Audit requirements, either in submission or in addressing findings, could theoretically result in disruption of the flow of funds to one or more programs.

Both my office and the many state agencies that rely on federal funds are careful to build responsive and responsible relationships with the federal offices that have oversight on the Commonwealth. In part for that reason, and because there is still considerable time for the Single Audit process, I am not yet concerned about the Single Audit. However, if the problem is not resolved soon, and results in a delayed filing, that has the potential to harm the Commonwealth's goodwill and reputation with our federal counterparts. If the problem reached an extreme level, the flow of federal funds would be in question.

Second, another reputational impact could result from my office's failure to earn the Certificate of Achievement for Excellence in Financial Reporting for Fiscal Year 2023, which is presented by the Government Finance Officers Association. This certificate reflects the completeness, accuracy, and timeliness of reporting in the ACFR. The Commonwealth has built a superb record of achieving this award each year for decades. I readily admit that on its own, the award is a bit of "inside baseball" for financial professionals. With that said, the Commonwealth's overall financial reputation is the net result of many different factors, audiences, and perceptions, including this one. A wall that was built over decades can weaken one brick at a time.

Third, delayed issuance of the annual financial reports will have a meaningful impact on the productivity of financial professionals that serve the Commonwealth – across all departments, not only in my office. Massachusetts is very fortunate to have exceptionally dedicated financial professionals, committed to the missions of their departments, at all levels and across the state. Overall financial staffing is not high and, in comparison to their private sector counterparts, the Commonwealth's financial professionals are often required to do more, with less. As the annual reporting cycle drags on, I can assure you that all of our financial professionals do their best to advance other key deliverables. But there is no doubt that the state's financial professionals could achieve more for their agencies and the Commonwealth if the annual reporting cycle did not stretch from the expected several weeks to several months.

As a last thought, subordinate to the larger issues above, I note my personal stake in the timing of these reports. Through a long career in finance and management, I have always taken my duties and deadlines seriously. In my role as Comptroller, my responsibility for these major financial reports is not only a matter of professional responsibility; it is a matter of law. My failure to file the SBFR by October 31 is a violation of M.G.L c. 7A, § 12. Similar requirements exist for other components of the reporting cycle. The laws make no provision for circumstances outside my control, such as the timing of budgets.

Given my sincere respect for prerogatives of elected officials to consider and debate the complex matters of budgeting, I have not emphasized this individual concern in years when the SBFR was delivered within several days of the due date. However, in the present instance, even if there were favorable movement at this point, the total delay will now be several weeks. If the delay were to continue, so that I am at risk of being in violation of state law for more than two months and into the coming calendar year, I would view that as an untenable position.

Thank you again for your interest and the opportunity to discuss the consequences of delay. I hope this has been helpful and I am ready to provide any additional information you may need.

Sincerely,

DocuSigned by:

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Attachment: Letter of November 3, 2023

Cc: Secretary Matthew Gorzkowicz, Executive Office for Administration & Finance
Amy Nable, General Counsel and Assistant Comptroller, Office of the Comptroller

Attachment:
Letter of November 3, 2023
(two pages)

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WILLIAM MCNAMARA
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November 3, 2023

Her Excellency Maura Healey, Governor
Commonwealth of Massachusetts
State House, Room 360
Boston, MA 02133

Secretary Matthew Gorzkowicz
Executive Office for Administration & Finance
State House, Room 373
Boston, MA 02133

Honorable Aaron Michlewitz, Chair
House Ways and Means Committee
State House, Room 243
Boston, MA 02133

Honorable Michael J. Rodrigues, Chair
Senate Ways and Means Committee
State House, Room 212
Boston, MA 02133

Mr. Steven T. James
Clerk of the House of Representatives
State House, Room 145
Boston, MA 02133

Mr. Michael D. Hurley
Clerk of the Senate
State House, Room 335
Boston, MA 02133

RE: Timing of the Fiscal Year 2023 Statutory Basis Financial Report

Pursuant to M.G.L c. 7A, § 12, the Comptroller is required to file the Statutory Basis Financial Report ("SBFR") with the Governor, the Secretary of Administration and Finance, the House and Senate Committees on Ways and Means, and the Clerks of the House and Senate, by October 31 of each year. The SBFR meets state finance law requirements to present fairly the results of fiscal year activity in the Commonwealth's funds; to compute and certify the budgetary fund balance; to make any resulting transfer to the Stabilization Fund and determine its final balance; and to disclose and report certain aspects of financial performance.

We did not meet that deadline this year. The timing of the report will depend mainly on the enactment and passage into law of a final supplementary budget.

The Office of the Comptroller, with the cooperation of financial professionals statewide and our external audit firm, has taken every preparatory step possible. Given the complexity of state finance, including the need to execute transactions that may be included in the final budget, as well as the time required for the external audit firm's review, approximately three weeks will be required for issuance after the enactment of the final supplementary budget. Therefore, even given an optimistic timeline for enactment by the Legislature, and for consideration and signing or return by the Administration, the report is unlikely to be issued before December.

The SBFR is one of two major annual reports; the second is the Annual Comprehensive Financial Report (ACFR), which incorporates both more financial data and more state-related entities and activities than the SBFR. These reports are the only independently reviewed and audited sources of comprehensive information on state finance for the citizens, taxpayers, and residents of the Commonwealth. In addition, there are other important audiences for these reports. Among these are bond buyers and debt ratings agencies, as well as the federal government. The federal single audit process, which takes the ACFR as a starting point, is required to support and retain the flow of federal dollars into vital Commonwealth programs, including several of these that support the social safety net for residents. The late issuance of the SBFR has a knock-on effect on these other processes which, despite our intensive efforts to make up for lost time, will cause delay.

There are other potential causes of delay, unrelated to the final budget, which include the ability of certain entities affiliated with the state to produce timely reports. We are focused on addressing those issues as well.

Fortunately, although report timing has become a recurring problem, the financial condition of the Commonwealth reflected in the reports has been consistently sound. Two of the more visible signs are the dramatic increase in the balance of the Stabilization Fund and the growing payments toward pension obligations, both of which are attributable to the fiscal prudence of elected officials in the Legislature and in successive Administrations.

Timely issuance of the SBFR and ACFR in future years will help the Commonwealth to receive full credit for its positive fiscal condition. I am sincerely respectful of the prerogatives of elected officials in both branches, to address the complex issues of budgeting with care, but I believe earlier completion of every fiscal year is an achievable goal.

For this year, I respectfully ask that you please move each remaining step in the process to its earliest achievable conclusion.

Please let me know if I can provide any additional information or be of help.

Sincerely,

DocuSigned by:

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