



Commonwealth of Massachusetts

OFFICE OF THE COMPTROLLER

ONE ASHBURTON PLACE, 9TH FLOOR
BOSTON, MASSACHUSETTS 02108
TELEPHONE (617) 727-5000
WWW.MACOMPTROLLER.ORG

THOMAS G. SHACK III, ESQ.
COMPTROLLER

October 31, 2018

His Excellency Charles D. Baker
Governor
Commonwealth of Massachusetts
State House, Room 360
Boston, MA 02133

Secretary Michael Heffernan
Executive Office for Administration and Finance
State House, Room 373
Boston, MA 02133

Chairman Jeffrey Sánchez
House Ways and Means Committee
State House, Room 243
Boston, MA 02133

Vice Chair Joan Lovely
Senate Ways and Means Committee
State House, Room 212
Boston, MA 02133

Mr. William Welch
Senate Clerk
State House, Room 335
Boston, MA 02133

Mr. Steve James
House Clerk
State House, Room 145
Boston, MA 02133

Re: FY18 Statutory Basis Financial Report Filing

Dear Governor Baker, Secretary Heffernan, Chair Sánchez, Vice Chair Lovely, Mr. Welch and Mr. James:

I am filing this status report in light of the late enactment of the final FY18 supplemental appropriation and associated technical corrections bills, which were signed into law on October 23rd and October 29th, respectively.

As Comptroller of the Commonwealth, pursuant to M.G.L. c.7A, my primary obligation is to protect the integrity of Commonwealth financial administration and reporting. I am also obligated under c. 7A, s. 12 to file the Statutory Basis Financial Report (SBFR) by October 31st annually. Additionally, under M.G.L. c. 29, s. 5C, I am required to certify and report the Consolidated Net Surplus (CNS) at the same time as the SBFR is issued. As you know, the CNS determines if the budget is balanced and if there is any amount transferred to the Stabilization Fund at the close of FY18.

In order to meet these deadlines, my Office must first close the FY 2018 books, which requires that the final supplemental actions be loaded into the state accounting system and verified prior

to the SBFR being prepared and checked by the Comptroller's Office. The SBFR must then be reviewed by the Commonwealth's independent auditor, KPMG; such auditor review can take up to two weeks. The delayed enactment of the final FY18 Supplemental Appropriation Act has created an inherent dilemma. To the extent that the late filing and enactment of the FY18 supplemental conflicts with filing deadlines, I am compelled to choose completeness over filing expediency; therefore, the issuance of the SBFR by October 31, 2018 will be delayed. As of today, my Office has implemented the requisite transactions in the state accounting system, recorded those transactions in a draft of the Commonwealth's Statutory Basis Financial Report (SBFR), and submitted that draft SBFR to our independent auditors, who are in the process of reviewing the report. As soon as that review is complete, I will file the SBFR pursuant to M.G.L. c.7A. We will also certify and report the CNS pursuant to c. 29, s. 5C at that time.

As I noted in similar status reports with the enactment of the final supplemental appropriations bills in FY15 and FY17, the October 31st SBFR filing deadline contemplates that all activity in a fiscal year will be completed at the end of the Accounts Payable (AP) and Accounts Receivable (AR) periods on August 31¹ and will be recorded in the Commonwealth's financial system at that time, with any necessary adjustments made soon afterwards. The two months between August 31 and October 31 are then needed for preparation of financial statements and the SBFR document, noting that this 60 day period is necessary for completion of reporting, reconciliation and independent auditor review of the statements, including the CNS. The issued SBRF then serves as the basis for the Comprehensive Annual Financial Report (CAFR) required pursuant to M.G.L. c. 7A, s.12, and it is difficult to complete the CAFR in a timely manner if the SBRF deadline is not met.

Final fiscal year-end supplemental appropriations bill enactment has trended late in recent years. In the past thirteen years alone, enactment has been late eleven times.² This is a troubling pattern and puts the accuracy and integrity of the Commonwealth's accounting and audit responsibilities at risk when compressed against strict statutory filing deadlines.

Late fiscal year enactment also has potential downstream effects, with the likelihood and severity of those effects increasing the later final supplemental legislation is enacted. Not only does it prevent the Comptroller's Office from meeting the SBFR statutory filing deadlines, but as noted above, also delays the preparation, external auditor review, and issuance of the Commonwealth's GAAP-based CAFR. This delay may prevent the Commonwealth from meeting the December 31, 2018 CAFR filing deadline to qualify for the Governmental Finance Officers Association (GFOA) Certificate of Excellence in Financial Reporting and the CAFR statutory filing deadline of the second Wednesday in January - both of which are of known interest to rating agencies and the investment community.

While I appreciate that legislative development is challenging, I strongly recommend that in

¹ Despite the fact that the fiscal year for the Commonwealth ends annually on June 30, the AP and AR periods provide for the final reconciliation of outstanding invoices for goods and services provided to the Commonwealth and certain reimbursements received for payments made within the ended fiscal year, in this case FY18.

² See attached listing of historical fiscal year-end supplemental enactment dates.

future years the necessary actions be taken to enact the final supplemental appropriation bills by August 31st at the latest (and preferably much sooner) to enable timely completion of the required SBFR and CNS and in turn, the CAFR.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Th Shack', with a stylized flourish at the end.

Thomas G. Shack III, Esq.
Comptroller of the Commonwealth

Commonwealth of Massachusetts
Year-end Supplemental Appropriations Bill Enactment Dates

FY	Chapter	Enacted
1995	Ch 120	August 24, 1995
1996	Ch 365	August 10, 1996
1997	Ch 88	August 29, 1997
1998	Ch 319	September 03, 1998
1999	Ch 68	September 02, 1999
2000	Ch 236	August 11, 2000
2001	Ch 88	September 21, 2001
2002	Ch 300	August 30, 2002
2003	Ch 55	August 21, 2003
2004	Ch 352	September 17, 2004
2005	Ch 106	September 30, 2005
2006	Ch 310	October 06, 2006
2007	Ch 140	October 18, 2007
2008	Ch 302	August 08, 2008
2009	Ch 120	October 29, 2009
2010	Ch 359	October 15, 2010
2011	Ch 142	October 27, 2011
2012	Ch 239	August 07, 2012
2013	Ch 118	October 24, 2013
2014	Ch 359	October 31, 2014
2015	Ch 119	November 2, 2015
2016	Ch 283	October 6, 2016
2017	Ch 110	November 3, 2017
2018	Ch 273 Ch 277	October 23, 2018, October 29, 2018