



CITY OF BOSTON, MASSACHUSETTS

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2009

CITY OF BOSTON, MASSACHUSETTS

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Table of Contents

	Page
Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance, and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133	Exhibit I
Schedule of Expenditures of Federal Awards	Exhibit II
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	Exhibit III
Schedule of Current Year Findings and Questioned Costs	Exhibit IV



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Exhibit I

**Report on Compliance with Requirements Applicable to
Each Major Program, Internal Control over Compliance,
and on the Schedule of Expenditures of Federal Awards in
Accordance with OMB Circular A-133**

The Honorable Mayor and City Council
City of Boston, Massachusetts:

Compliance

We have audited the compliance of the City of Boston, Massachusetts (the City) with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs (Exhibit IV). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of component units that received federal awards during the year ended June 30, 2009. Our audit, described below, did not include the activities of the component units because the component units engaged other auditors to perform audits in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of current year findings and questioned costs (Exhibit IV) as items 2009-1 through 2009-5.



Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2009, and have issued our report thereon, dated December 2, 2009. The City, in fiscal 2009, implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Our report was modified to include a reference to other auditors. The accompanying schedule of expenditures of federal awards (Exhibit II) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses, and accordingly, we express no opinion on them.



Exhibit I

This report is intended solely for the information and use of the audit committee, elected officials, management, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

March 12, 2010

(except for the schedule of expenditures
of federal awards, which is as of December 2, 2009)

CITY OF BOSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

June 30, 2009

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2009	Unexpended balance (deficit) July 1, 2008	2009 Grant revenue	2009 Expenditures	Unexpended balance (deficit) June 30, 2009
U.S. Department of Agriculture:							
Direct programs:							
Cooperative Forestry Assistance	10.664	\$ 139,310	—	25,808	—	—	25,808
Total direct programs		139,310	—	25,808	—	—	25,808
Passed-through Massachusetts Department of Education:							
Food Distribution Program	10.550	824,720	—	—	824,720	824,720	—
Summer Food Service Program for Children	10.559	4,527,795	—	103,035	1,278,705	1,381,740	—
National School Lunch Program	10.555	66,418,974	—	22,440	24,461,969	23,206,528	1,277,881
Summer Food Service Program for Children	10.558	400,812	—	—	(32,750)	(51,358)	18,608
Food and Nutrition	10.582	165,600	—	—	70,429	70,429	—
Total passed-through Massachusetts Department of Education		72,337,901	—	125,475	26,603,073	25,432,059	1,296,489
Total U.S. Department of Agriculture		72,477,211	—	151,283	26,603,073	25,432,059	1,322,297
U.S. Department of Defense:							
Direct program:							
National Guard Civil Youth Opportunities	12.404	798,526	—	—	798,526	798,526	—
Total U.S. Department of Defense		798,526	—	—	798,526	798,526	—
U.S. Department of Housing and Urban Development:							
Direct programs:							
Community Development Block Grants	14.218	361,819,768	10,692,777	4,837,753	23,742,198	24,033,149	4,546,802
Rental Rehab. Program	14.230	1,287,776	—	194,275	15,000	—	209,275
Emergency Shelter Grants Program	14.231	4,460,030	626,747	100,179	919,874	857,431	162,622
Shelter Plus Care	14.238	45,561,743	5,118,478	11,487	5,675,012	5,326,791	359,708
Supportive Housing Program	14.235	78,455,060	6,566,445	19,248	7,817,526	8,149,219	(312,445)
H.O.M.E. Investment Partnerships Program	14.239	94,942,366	2,543,407	—	6,618,834	6,529,008	89,826
Housing Opportunities for Persons with AIDS	14.241	15,378,243	1,424,718	389,132	1,608,135	1,626,454	370,813
E.D.I.	14.246	24,398,015	—	561,703	1,765,217	25,013	2,301,907
Section 108 Loans	14.248	141,169,296	—	5,209,521	3,362,570	4,863,006	3,709,085
Fair Housing Assistance Program: Federal	14.401	20,500	—	186,795	—	22,863	163,932
Regional Housing Opportunity	14.857	3,996,950	—	815,157	—	63,813	751,344
Lead-Based Paint Hazard Control in Privately Owned Housing	14.900	17,344,389	984,339	869,388	2,034,376	1,659,343	1,244,421
Total direct programs		788,834,136	27,956,911	13,194,638	53,558,742	53,156,090	13,597,290
Passed-through Boston Housing Authority:							
Housing Choice Program	14.000	67,350	—	25,396	—	194	25,202
Total passed-through Boston Housing Authority		67,350	—	25,396	—	194	25,202
Passed-through Trustees of Boston Public Library:							
Boston Public Library	14.000	428,552	—	428,552	571,445	999,997	—
Total passed-through Trustees of Boston Public Library		428,552	—	428,552	571,445	999,997	—
Total U.S. Department of Housing and Urban Development		789,330,038	27,956,911	13,648,586	54,130,187	54,156,281	13,622,492
U.S. Environmental Protection Agency:							
Passed-through Environmental Protection Division:							
Historic Preservation Fund Grants-in-Aid	15.904	350,800	—	35,111	30,000	40,225	24,886
Total U.S. Environmental Protection Agency		350,800	—	35,111	30,000	40,225	24,886

CITY OF BOSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

June 30, 2009

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2009	Unexpended balance (deficit) July 1, 2008	2009 Grant revenue	2009 Expenditures	Unexpended balance (deficit) June 30, 2009
U.S. Department of Justice:							
Direct programs:							
Violent Crime Force	16.000	\$ 50,000	—	1,608	—	—	1,608
Services for Trafficking Victims	16.320	443,082	—	—	108,051	108,051	—
Title V Delinquency Prevention Program	16.548	609,492	176,484	—	224,936	224,936	—
Crime Laboratory	16.564	63,710	—	2,691	—	—	2,691
Byrne Formula Grant Program	16.579	305,500	—	(14,898)	124,169	98,371	10,900
Edward Byrne Memorial State & Local Law Enforcement Discretionary Grant Program	16.580	164,739	—	—	75,406	75,406	—
Violence Against Women Formula Grants	16.588	35,663	—	—	22,708	22,708	—
Grants to Encourage Arrest Policies	16.590	3,256,613	256,066	—	481,977	350,599	131,378
Local Law Enforcement Block Grants Program	16.592	1,733,883	—	17,562	—	(324)	17,886
Public Safety Partnership and Community Policing Grants	16.710	648,165	—	125	80,791	58,966	21,950
Enforcing Underage Drinking Laws Program	16.727	29,840	—	339	9,666	9,834	171
Value-Based Collaborative	16.737	300,000	7,245	—	156,688	156,688	—
Edward Byrne Memorial Justice Assistance	16.738	2,717,420	—	—	657,280	649,861	7,419
Forensic DNA Backlog Reduction Program	16.741	545,293	—	—	81,326	81,326	—
Paul Coverdell Forensic Sciences Improvement Grant	16.742	180,591	1,485	—	52,158	51,873	285
Total direct programs		11,083,991	441,280	7,427	2,075,156	1,888,295	194,288
Passed-through State Executive Office of Public Safety:							
National Institute of Justice	16.564	33,829	—	487	—	—	487
No-Suspect Case Work, DNA	16.542	66,460	—	5,098	—	—	5,098
Byrne Formula Grant Program	16.579	353,166	—	14,898	—	—	14,898
Weed and Seed	16.595	175,000	—	(185)	25,000	25,000	(185)
Total passed-through State Executive Office of Public Safety		628,455	—	20,298	25,000	25,000	20,298
Total U.S. Department of Justice		11,712,446	441,280	27,725	2,100,156	1,913,295	214,586
U.S. Department of Labor:							
Passed-through State Executive Officer of Economic Affairs:							
Senior Community Service Employment Program	17.235	369,786	—	—	—	—	—
Total U.S. Department of Labor		369,786	—	—	—	—	—
U.S. Department of Transportation:							
Direct program:							
Port Security Grant Program	20.401	134,351	—	34	—	—	34
Total direct program		134,351	—	34	—	—	34
Passed-through State Department of Transportation:							
State and Community Highway Safety	20.600	375,600	—	73,162	62,627	62,762	73,027
Traffic Enforcement Grant	20.613	9,996	—	—	9,367	9,367	—
Total passed-through programs		385,596	—	73,162	71,994	72,129	73,027
Total U.S. Department of Transportation		519,947	—	73,196	71,994	72,129	73,061

CITY OF BOSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

June 30, 2009

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2009	Unexpended balance (deficit) July 1, 2008	2009 Grant revenue	2009 Expenditures	Unexpended balance (deficit) June 30, 2009
National Science Foundation:							
Passed-through Programs:							
Education and Human Resources	47.076	\$ 3,564,610	174,905	2,559	1,094,851	1,094,012	3,398
Total National Science Foundation		3,564,610	174,905	2,559	1,094,851	1,094,012	3,398
U.S. Environmental Protection Agency:							
Direct program:							
Brownfield Pilots Cooperative Agreements	66.811	200,000	—	(5,230)	(1,352)	—	(6,582)
Total direct program		200,000	—	(5,230)	(1,352)	—	(6,582)
Passed-through Program:							
Congressionally Mandated Award	66.202	199,992	—	197,592	—	—	197,592
Brownfields Assessment & Clean-up Cooperative	66.818	1,040,500	2,160	5,231	107,605	103,841	8,995
Total passed-through program		1,240,492	2,160	202,823	107,605	103,841	206,587
Total U.S. Environmental Protection Agency		1,440,492	2,160	197,593	106,253	103,841	200,005
U.S. Department of Energy:							
Direct program:							
Energy Efficiency and Renewable Energy Information	81.117	150,000	—	—	107,268	36,466	70,802
Total U.S. Department of Energy		150,000	—	—	107,268	36,466	70,802
U.S. Federal Emergency Management Agency:							
Direct programs:							
Civil Defense	83.503	46,499	—	—	—	—	—
Assistance to Fire Fighters	83.554	71,713	—	855	—	—	855
Total U.S. Federal Emergency Management Agency		118,212	—	855	—	—	855
U.S. Department of Education:							
Direct programs:							
Safe and Drug-Free Schools and Communities	84.184	5,808,028	78,009	240,206	452,160	692,366	—
Jacob K. Gifted and Talented Students Education Grant	84.206	30,000	—	30,000	—	30,000	—
Teaching American History	84.215	876,562	—	5,213	—	—	5,213
Foundation for Citizens through Character Education	84.215	1,739,170	61,444	(1,861)	592,240	586,712	3,667
Projects with Industry	84.234	364,707	89,316	12,061	127,754	139,815	—
Transition to Teaching Program	84.350	372,889	27,436	2,922	54,703	57,625	—
Media Literacy Program	84.351	330,090	—	3,380	—	3,380	—
Early Reading First	84.359	1,215,457	42,297	9,182	166,139	175,321	—
School Leadership Program	84.363	1,529,981	101,819	58,150	601,113	500,384	158,879
Total direct programs		12,266,884	400,321	359,253	1,994,109	2,185,603	167,759

CITY OF BOSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

June 30, 2009

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2009	Unexpended balance (deficit) July 1, 2008	2009 Grant revenue	2009 Expenditures	Unexpended balance (deficit) June 30, 2009
Passed-through State Department of Education:							
Adult Education – State Grant Program	84.000	\$ 75,843	—	—	67,761	67,761	—
Title I – Grants to Local Educational Agencies	84.010	217,065,599	—	7,397,624	44,519,156	36,463,376	15,453,404
Special Education	84.027	56,038,821	—	4,908,570	18,756,918	17,857,754	5,807,734
Vocational Education	84.048	4,603,343	4,868	356,025	1,604,785	1,693,976	266,834
E.C.I.A./Chapter 11	84.151	374,658	—	55,000	—	53,836	1,164
Magnet School Assist	84.165	511,715	—	4,601	—	—	4,601
Special Education – Preschool Grants	84.173	1,000,871	—	312,229	498,102	588,218	222,113
Safe and Drug-Free Schools and Communities	84.186	1,445,464	10,700	146,492	750,925	711,573	185,844
Education for Homeless Children and Youth	84.196	140,000	48,938	57,386	60,000	68,554	48,832
Goals 2000: State and Local Education Systems Improvement Grants	84.276	25,000	—	13,549	—	—	13,549
Twenty-First Century Community Learning Centers	84.287	5,092,938	658,557	324,885	1,548,750	1,460,679	412,956
Technology Literacy Challenge Fund Grants	84.318	1,211,319	—	287,738	474,572	648,974	113,336
Reading First Grant	84.357	7,916,400	—	346,139	1,200,115	1,245,062	301,192
Title III Bilingual Language	84.365	4,161,278	193,784	690,277	2,155,487	1,759,968	1,085,796
Mathematics and Science Partnerships	84.366	162,570	—	—	157,975	76,929	81,046
Title II Improving Teacher Quality	84.367	28,416,589	—	605,378	7,166,624	6,654,723	1,117,279
ARRA – State Fiscal Stabilization Funds – Government Services	84.397	23,285,769	—	—	23,285,769	23,285,769	—
Total passed-through State Department of Education		351,528,177	916,847	15,505,893	102,246,939	92,637,152	25,115,680
Total U.S. Department of Education		363,795,061	1,317,168	15,865,146	104,241,048	94,822,755	25,283,439
National Historical Publications and Records Commission:							
Direct program:							
Public Schools Desegregation – ERA Records Project	89.003	232,025	—	—	45,853	45,353	500
Total National Historical Publications and Records Commission		232,025	—	—	45,853	45,353	500
U.S. Department of Health and Human Services:							
Direct programs:							
Injury Prevention and Control Research	93.136	22,237	—	—	4,991	4,991	—
CDC Investigations and Technical Assistance	93.283	432,380	—	—	163,436	162,327	1,109
Assistance for Chronic Disease Prevention and Control	93.945	40,077	—	—	500	500	—
Council on Aging	93.999	2,085,071	—	195,861	(195,861)	—	—
Total direct programs		2,579,765	—	195,861	(26,934)	167,818	1,109
Passed-through State Executive Office of Elderly Affairs:							
MDU Fire Deployment	93.003	105,530	—	1,014	—	175	839
Special Programs for the Aging:							
Title VII Long-Term Care Ombudsman	93.042	835,225	64,518	11,698	174,032	182,026	3,704
Title III, Part D	93.043	402,538	151,499	115,878	(27,506)	64,964	23,408
Title III, Part B	93.044	4,004,024	558,655	108,836	694,336	796,195	6,977
Title III, Part C	93.045	11,250,864	815,774	(36,612)	2,063,407	1,994,633	32,162
Title III, Part E	93.052	3,894,255	115,995	(111,395)	608,832	492,710	4,727
Nutritional Services Incentive Program	93.053	1,298,127	279,580	18,557	377,462	396,019	—
Area Agency on Aging	93.633	1,530,075	—	536,875	(263,855)	247,020	26,000
Total passed-through State Executive Office of Elderly Affairs		23,320,638	1,986,021	644,851	3,626,708	4,173,742	97,817

CITY OF BOSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

June 30, 2009

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2009	Unexpended balance (deficit) July 1, 2008	2009 Grant revenue	2009 Expenditures	Unexpended balance (deficit) June 30, 2009
Passed-through State Department of O.F.C.:							
Child Care and Development Block Grant (CCDBG)	93.575	\$ 3,858,382	34,312	226,933	606,243	766,739	66,437
Total passed-through State Department of O.F.C.		<u>3,858,382</u>	<u>34,312</u>	<u>226,933</u>	<u>606,243</u>	<u>766,739</u>	<u>66,437</u>
Passed-through State Department of Public Health:							
Training in Primary Care Medicine and Dentistry	93.884	100,000	—	24,230	4,423	26,590	2,063
Total passed-through State Department of Public Health		<u>100,000</u>	<u>—</u>	<u>24,230</u>	<u>4,423</u>	<u>26,590</u>	<u>2,063</u>
Total U.S. Department of Health and Human Services		<u>29,858,785</u>	<u>2,020,333</u>	<u>1,091,875</u>	<u>4,210,440</u>	<u>5,134,889</u>	<u>167,426</u>
Corporation for National and Community Services:							
Direct programs:							
Retired and Senior Volunteer Program	94.002	607,507	—	—	112,603	109,248	3,355
Senior Companions Programs	94.016	1,408,331	—	—	230,250	229,501	749
Total Corporation for National and Community Services		<u>2,015,838</u>	<u>—</u>	<u>—</u>	<u>342,853</u>	<u>338,749</u>	<u>4,104</u>
U.S. Department of Homeland Security:							
Passed-through State Executive Office of Public Safety:							
Assistance to Firefighters	97.044	1,698,328	—	43,663	79,803	9,873	113,593
Homeland Security Grant Program	97.067	67,543,840	992,916	35,908	11,927,926	11,587,063	376,771
Buffer Zone Protection Plan	97.078	63,850	—	—	57,749	57,749	—
Hurricane Katrina Case Management Program	97.084	9,878	—	47	—	—	47
Total passed-through State Executive Office of Public Safety		<u>69,315,896</u>	<u>992,916</u>	<u>79,618</u>	<u>12,065,478</u>	<u>11,654,685</u>	<u>490,411</u>
Total U.S. Department of Homeland Security		<u>69,315,896</u>	<u>992,916</u>	<u>79,618</u>	<u>12,065,478</u>	<u>11,654,685</u>	<u>490,411</u>
Total federal assistance		<u>\$ 1,346,049,673</u>	<u>32,905,673</u>	<u>31,173,547</u>	<u>205,947,980</u>	<u>195,643,265</u>	<u>41,478,262</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF BOSTON, MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

(1) Definition of Reporting Entity

The basic financial statements of the City of Boston, Massachusetts (the City) include various component units that have separate single audits conducted in accordance with OMB Circular A-133. The accompanying schedule of expenditures of federal awards presents the activity of federal financial assistance programs of the City, exclusive of component units.

All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies, are included on the schedule.

(2) Summary of Significant Accounting Policies

The accounting and reporting policies of the City are set forth below:

(a) Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting.

(b) National School Lunch and School Breakfast Programs (CFDA # 10.555)

The City accounts for local, state, and federal expenditures of the National School Lunch and School Breakfast programs in a combined program. Program expenditures in the accompanying schedule of expenditures of federal awards represent total expenditures for meals provided during 2009.

(c) Food Distribution Program (CFDA # 10.550)

Noncash contributions of commodities under the Food Distribution program are received under a State distribution formula and are valued at federally published wholesale prices for purposes of this schedule. Such commodities are not recorded in the financial records, although memorandum records are maintained.

(3) Section #108 and H.O.M.E. Loans (CFDA #'s 14.248 & 14.239)

Total expenditures in the accompanying schedule of expenditures of federal awards for the Section #108 and H.O.M.E. programs include the total amount of new loans made during fiscal year 2009. On June 30, 2009, the unpaid principal balance from loans originated in previous years that are subject to continuing compliance requirements, as defined by OMB Circular A-133, for the Section #108 and H.O.M.E. programs is \$21,799,894 and \$68,386,618, respectively. These amounts are not included in the total expenditures in the accompanying schedule of expenditures of federal awards but are considered federal awards for purposes of determining Type A and Type B programs.



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Exhibit III

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Honorable Mayor and City Council
City of Boston, Massachusetts:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts (the City) as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 2, 2009. The City, in fiscal 2009, implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of certain entities, as described in our report on the City's financial statements. The financial statements of the permanent funds and private-purpose trust funds were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, grants, and other matters did not include the Boston Redevelopment Authority, the Boston Public Health Commission, and the State-Boston Retirement System. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, grants, and other matters for these entities. The findings, if any, included in those reports are not included herein.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



Exhibit III

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the City in a separate letter dated December 2, 2009.

This report is intended for the information and use of the audit committee, elected officials, management, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

December 2, 2009

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2009

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported

Noncompliance material to the financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? x yes _____ none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? x yes _____ no

Identification of Major Programs

Name of federal program or cluster	CFDA #
Community Development Block Grants	14.218
Shelter Plus Care	14.238
Title I – Grants to Local Educational Agencies	84.010
Title II – Improving Teacher Quality	84.367
State Fiscal Stabilization Funds - Government Services	84.397

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee? x yes _____ no

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2009

(2) Relating to Financial Statement Findings Reported in Accordance with *Government Auditing Standards*

None Reported

(3) Findings and Questioned Costs Relating to Federal Awards

Finding number: 2009-1
Federal agency: U.S. Department of Housing and Urban Development
Pass-through agency: N/A – Direct Funding
Program: Community Development Block Grants (CDBG)
CFDA #: 14.218
Award number: B-08-MC-25-0002
Award year: July 1, 2008 to June 30, 2009
Finding: Allowable Costs - Payroll

Criteria

OMB Circular A-87 (A-87) establishes principles and standards for determining allowable direct and indirect costs for Federal awards.

To be allowable under Federal awards, costs must meet general criteria (A-87, Attachment A, paragraph C.1), including that it be allocable to Federal awards under the provisions of A-87 (A-87, Attachment A, paragraph C.3). A cost is allocable to a particular cost objective if the services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Condition

During 2009, the U.S. Department of Housing and Urban Development (HUD) conducted an audit of a HUD funded program. The audit found that the City did not have a reliable system/method to record the actual time spent on various HUD funded programs, including, but not limited to, CDBG. The City did not maintain a cost allocation plan and used an allocation method based, for the most part, on estimates or past experiences.

The audit report noted that employees with two or more funding sources were completing and certifying timesheets with pre-printed allocation percentages. However, when interviewed, the employees noted that they did not actually spend their budgeted percentage of time on each program.

The HUD audit covered expenditures from the 2007 and 2008 grant years; however, we found that the condition described in HUD’s audit report also existed for the 2009 grant year.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2009

Cause

The percentages used for allocation of payroll costs were valid at one point. However, the number and scope of Department of Neighborhood Development (DND) programs regularly change, and it appears that the City has not been verifying that the percentages they continue to use reflect actual time and effort for individual programs.

Effect

The salaries and benefits of personnel charged to the CDBG program may not be indicative of the actual effort incurred on the program. Likewise, there may be personnel spending more effort on the CDBG program than charged to the program.

Questioned Costs: Not Determinable

Recommendation

In its response to the HUD audit report, DND performed an allocation of payroll costs using an allocation base that is unique for each department for another HUD funded program. This study validated the costs charged to another HUD funded program that was questioned in the audit report.

Should HUD accept the City's response to the finding, and thus the allocation performed, we recommend that the City apply this methodology to other HUD funding sources, including, but not limited to, CDBG.

Auditee Corrective Action Plan

Contact Person Mary Raysor

Management's Response

HUD has verbally approved DND's response to the HUD audit report. The written approval is in process of being drafted by HUD. DND is going forth with preparing the department's personnel allocations based on the verbal approval by HUD.

Expected Completion Date

June 30, 2010

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2009

Finding number: 2009-2

Federal agency: U.S. Department of Education

Pass-through agency: Massachusetts Department of Elementary and Secondary Education

Programs: Title I – Grants to Local Educational Authorities
Title II – Improving Teacher Quality

CFDA #'s: 84.010
84.367

Award numbers: 305-344-9-0035-J
140-104-9-0035-J

Award year: September 1, 2008 to August 31, 2009

Finding: Allowable Costs

Criteria

OMB Circular A-87 (A-87) establishes principles and standards for determining allowable direct and indirect costs for Federal awards.

To be allowable under Federal awards, costs must meet general criteria (A-87, Attachment A, paragraph C.1), including that it (1) be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit and (2) be adequately documented.

Condition

The City considers the timesheets completed by its employees and approved by the supervisors as necessary documentation of the employees attendance for that pay period. This policy is applied uniformly across grant and nongrant funded employees.

While performing payroll testwork for the Title I and Title II grants, the Boston Public School Department (BPS) was unable to locate the timesheets for one of our selections. It was later determined that the fiscal year 2009 timesheets did not exist for all employees at a particular middle school.

Cause

It appears that the middle school in question was closed at the end of the 2008-2009 school year and the records, including timesheets, were unable to be located after the close.

Effect

The City does not appear to have the documentation necessary to demonstrate they are in compliance with the cost principles of OMB Circular A-87. The fiscal year 2009 payroll costs for that particular middle school totaled \$96,285 for Title I and \$85,541 for Title II. We will question those costs.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2009

Questioned Costs:	Title I	\$ 96,285
	Title II	<u>85,541</u>
	Total	\$181,826

Recommendation

We recommend the City and BPS implement a strategy to ensure that all pertinent records at the schools are maintained after a school closing in accordance with the City's document retention policy.

Auditee Corrective Action Plan

Contact Person Mary Raysor

Management's Response

Boston Public Schools concurs with the finding.

Boston Public Schools will reinforce the requirements for records retention policy for all schools and will develop specific protocols for schools that are in the process of closing.

Expected Completion Date

June 30, 2010

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2009

Finding number: 2009-3
Federal agency: U.S. Department of Housing and Urban Development
Pass-through agency: N/A – Direct Funding
Program: Community Development Block Grants
CFDA #: 14.218
Award number: B-08-MC-25-0002
Award year: July 1, 2008 to June 30, 2009
Finding: Period of Availability

Criteria

Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged for obligations of a subsequent funding period. Obligations means that amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-Federal entity during the same or a future period.

Condition

During our testwork of 25 transactions, we noted one instance (4%) where the City reimbursed expenses to a subrecipient who incurred those expenses prior to the funding period listed on the contract.

Cause

This appears to be the result of a less than adequate review of subrecipient invoices prior to payment.

Effect

The expenditure is unallowable as it was obligated prior to the period of availability. Therefore, we will question all costs associated with the transaction in question.

Questioned Costs: \$13,571

Recommendation

We recommend that the City enhance its control activities to ensure that expenditures charged to the grant are incurred within the period of availability as defined in the grant award.

Auditee Corrective Action Plan

Contact Person Mary Raysor

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2009

Management's Response

This was a loan made to a business for soft costs, equipment, furniture and fixtures. An old version of the terms and conditions of the loan were inadvertently sent to DND Administration & Finance (A&F) along with the corrected Terms. The expenditures are allowable under the correct terms and conditions of the loan. Although this was a rare instance where two sets of documents were submitted to A&F, in the future, DND will better track start and end dates of grants and loans.

Expected Completion Date

March 1, 2010

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2009

Finding number: 2009-4
Federal agency: U.S. Department of Housing and Urban Development
Pass-through agency: N/A – Direct Funding
Program: Community Development Block Grants
CFDA #: 14.218
Award number: B-08-MC-25-0002
Award year: July 1, 2008 to June 30, 2009
Finding: Support for Earmarking Requirements

Criteria

Federal law stipulates that entities who receive Community Development Block Grants (CDBG) funds earmark those funds to be used for specific purposes. Specifically, the earmarking requirements are as follow:

- Not less than 70 percent of the funds must be used over a period of up to three years, as specified by the grantee in its certification, for activities that benefit low- and moderate-income persons. In determining low- and moderate-income benefits, the criteria set forth in 24 CFR sections 570.200(a)(3) and 570.208(a) are used.
- Not more than 20 percent of the total grant, plus 20 percent of program income received during a program year, may be obligated during that year for activities that qualify as planning and administration pursuant to 24 CFR sections 570.205 and 570.206 (24 CFR section 570.200 (g)).
- The amount of CDBG funds obligated during the program year for public services must not exceed 15 percent of the grant amount received for that year plus 15 percent of the program income it received during the preceding program year. (24 CFR section 570.201(e)).

Condition

The City of Boston Department of Neighborhood Development (DND) uses the Consolidated Annual Performance and Evaluation Report (CAPER) to annually demonstrate to the U.S. Department of Housing and Urban Development (HUD) that it has met the earmarking requirements described above.

However, DND is unable to provide detail expenditures supporting the CAPER line items used to prove compliance with the earmarking requirements. Therefore, DND, currently cannot demonstrate that the funds being reported for a particular purpose, such as public services, were actually used for that purpose.

Cause

This appears to result from a lack of reconciliation procedures that ties general ledger expenditure detail into HUD’s Integrated Disbursement and Information System, and, ultimately, the CAPER.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2009

Effect

Based on the figures reported in the CAPER, it appears that DND is in compliance with the earmarking requirements. However, we are unable to determine whether the data on the CAPER is complete and accurate.

Questioned Costs: Not Determinable

Recommendation

We recommend that DND implement procedures to reconcile the City's general ledger to the CAPER. Such a reconciliation would ensure that DND has the necessary detail to prove that funds were spent on the required activities.

Auditee Corrective Action Plan

Contact Person Mary Raysor

Management's Response

DND will implement procedures to reconcile the CAPER to the City's general ledger. As part of the process in preparing the FY 2010 CAPER, DND will prepare a reconciliation of the FY 2009 CAPER, which was submitted in September of 2009 along with a reconciliation of the FY 2010 CAPER.

Expected Completion Date

September 30, 2010

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2009

Finding number: 2009-5

Federal agency: U.S. Department of Education

Pass-through agency: Massachusetts Department of Elementary and Secondary Education

Programs: Title I – Grants to Local Educational Authorities
Title II – Improving Teacher Quality

CFDA #'s: 84.010
84.367

Award numbers: 305-344-9-0035-J
140-104-9-0035-J

Award year: September 1, 2008 to August 31, 2009

Finding: Schoolwide Plans

Criteria

A school participating under Title I, Part A or Title II, may, in consultation with its LEA, use its Title I, Part A and Title II funds, to upgrade the school’s entire educational program in a schoolwide program. At least 40 percent of the children enrolled in the school or residing in the school attendance area for the initial year of the schoolwide program must be from low-income families. The LEA is required to maintain records to demonstrate compliance with this requirement.

To operate a schoolwide program, a school must include the following three core elements:

- Comprehensive needs assessment of the entire school (34 CFR section 200.26(a)).
- Comprehensive plan based on data from the needs assessment (34 CFR section 200.26(b)).
- Annual evaluation of the results achieved by the schoolwide program and revision of the schoolwide plan based on that evaluation (34 CFR section 200.26(c)).

Condition

Schoolwide plans were not completed for any schools participating in a schoolwide program during the 2008-2009 school year. The schoolwide programs followed the 2007-2008 schoolwide plans.

Since the 2009 schoolwide plans were not completed, we reviewed the 2010 schoolwide plans and noted that one of 25 (4%) did not contain the eight specific elements required by program regulations.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2009

Cause

BPS explained that it was in the process of reconstructing the schoolwide plan format in response to a programmatic review by the pass-through entity. No schoolwide plans were completed in 2009 due to schools anticipating the arrival of a new format.

Effect

The BPS was not in compliance with the federal requirement to update and complete a schoolwide plan annually.

Questioned Costs: None

Recommendation

We recommend that BPS ensure that all schoolwide plans are completed annually as required.

Auditee Corrective Action Plan

Contact Person Mary Raysor

Management's Response

Boston Public Schools concurs with the finding. The district has completed the new Whole School Improvement Plan template and process (WSIP). All schools, including pilot schools, will be required to submit a plan that address all components of the WSIP, including Title I school-wide program requirements. Schools that do not meet this requirement will have their Title I allocation withheld until a complete plan is submitted. Pilot schools will be required to update their plans on the same schedule as all other district schools. WSIPs will be submitted in October of each year, after the release of MCAS data, and will be approved on a rolling basis by their supervising Academic Superintendents. The Chief Accountability Officer will ensure that the Academic Superintendents are aware of the WSIP and Title I components and that the Academic Superintendents hold schools accountable for developing a complete plan.

Expected Completion Date

June 30, 2010