



CITY OF BOSTON • MASSACHUSETTS
Audit Committee

February 4, 2010

The Honorable Mayor and Members of the Boston City Council:

We are writing to update you on our activities as members of the Audit Committee of the City of Boston ("City") for the year ended December 31, 2009. During this period, we had four meetings with the City's independent auditor, KPMG LLP ("KPMG"), and the City Auditor to discuss various aspects of the City's audit as follows:

January 8, 2009

KPMG presented an overview of the June 30, 2008 Federal Single Audit report. The report contained findings, none of which are considered significant deficiencies or material weaknesses in internal control relative to the City's federal awards. Further, no questioned costs were identified. KPMG's opinion on compliance with Federal requirements was unqualified.

The Committee also discussed establishing a formal charter. KPMG provided the Committee with the Audit Committee Toolkit relative to Governmental Organizations published by the American Institute of Certified Public Accountants (AICPA) as a tool to help establish a formal charter.

June 4, 2009

The meeting centered on a discussion of the fiscal year 2008 management letter issued by KPMG. KPMG noted that the significant deficiencies identified in 2007 had been addressed by management and were not repeated in the 2008 management letter. The 2008 management letter did not contain any significant deficiencies or material weaknesses.

KPMG also provided a status of the June 30, 2009 financial statement and Federal Single Audit.

The Committee further discussed establishing a formal charter. The Committee noted that they have no legal obligation to establish a charter; however, the Committee felt it to be prudent practice to have a formal charter.

September 17, 2009

The meeting first focused on the status of the City's financial statement audit and the audit of federal expenditures (the Federal Single Audit). Fieldwork was ongoing and no significant issues were noted as of that date.

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City management discussed the preliminary results of fiscal year 2009. The City Auditor pointed out that the General Fund Budgetary Statement would show a \$23 million short-fall in intergovernmental revenues and a \$23 million surplus in education expenditures. This is due to the accounting of ARRA funds outside of the General Fund as prescribed by the Massachusetts Department of Revenue.

The Committee, KPMG and City management also discussed the recent release of an audit performed by the US Department of Housing and Urban Development on the City's HOME funds. The City is working to address the issues noted and the Committee is satisfied that the City seems to be addressing the issue.

The Committee was presented with a draft charter entitled "Charter of the Audit Committee of the City of Boston" (the Charter). The Committee motioned, seconded and voted in the affirmative to approve the Charter. The Charter will be reviewed and voted upon annually at the September meeting. A copy of the Charter is attached to this letter.

December 3, 2009

The meeting began with a discussion of the status of the City's financial statement audit and the results of the year ended June 30, 2009. The City ended the year with an undesignated general fund balance of \$550 million, or 25% of general fund expenditures. Although the results of 2009 were generally positive, the City has been able to weather the current economic client due to financial discipline in the better times. Further, ARRA funding in 2009 helped the City financially, and the same will hold true for 2010 and 2011. However, since the ARRA funding is expected to expire, the City needs to ensure it makes decisions based on that anticipated decrease in funding.

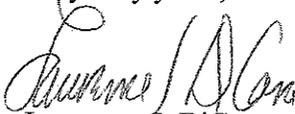
KPMG informed the Committee that there were no disagreements with the City's management and all audit issues relating to the financial statements were resolved to their satisfaction. KPMG has issued an unqualified opinion on the City's financial statements for the fiscal year ended June 30, 2009.

* * * * *

The City's audit reports discussed above are on file in the City Clerk's office.

During the past year, the Committee members received the full cooperation of the City Auditor in dealing with the issues presented to us. If any member of the City Council has further questions about our activities, please contact me at 617-345-1210.

Very truly yours,



Lawrence S. DiCara
Chairman

**CHARTER OF THE AUDIT COMMITTEE
OF THE CITY OF BOSTON**

Enacted September, 2009

I. Overview and Authority

The Audit Committee was created by Chapter 190, § 14 of the Acts of 1982. The Committee meets at least once each quarter and reports to the Mayor of Boston and the Boston City Council at least once per year.

This Committee shall conduct its business in accordance with this Charter and the applicable state law.

II. Statement of Purpose

The primary function of the Committee is to provide oversight of the City's external and internal audit activities. The Committee shall carry out this function by performance of the duties and responsibilities authorized by this Charter.

III. Independence of Members

The Committee shall consist of five members, one of whom shall serve as the Committee Chair. The members shall be appointed by the Mayor and confirmed by the City Council. The Chairperson shall serve at the discretion of the Committee.

Three members of the Committee constitute a quorum.

Members of the Committee:

1. must be free of any financial or personal relationship that would create an actual or perceived conflict of interest with regard to the duties and responsibilities of the Committee;
2. must be residents of the City of Boston;
3. are appointed for a term of five (5) years;
4. shall serve without compensation but may be reimbursed for expenses necessarily incurred; and
5. shall be deemed special municipal employees for the purposes of chapter 268A of the General Law.

IV. Meetings of the Committee

The Committee shall hold meetings as scheduled by the Committee Chair, after consultation with other members of the Committee. The Committee shall meet periodically with the City's internal and external auditors to perform the Committee's responsibilities and duties as defined in this Charter. All meetings of the Committee shall be conducted pursuant to all applicable provisions of the Massachusetts State Open Meeting Law, G.L. Chapter 30A, §§ 11A-11A ½.

V. Duties and Responsibilities

The Committee shall be directly responsible for the following oversight duties and responsibilities relating to the City's audit activities.

1. **External Audit Activities.**

- a. Meet with the external auditor at least four times per year to monitor the progress of the audit and receive and review reports from the external auditor.

2. **Internal Audit/Review Activities.**

- a. Review internal audit/review reports, when requested to do so.

3. **Other Activities.**

- a. The Committee shall present an annual assessment of the activities of the Committee to the Mayor and the City Council.
- b. The Committee shall review the adequacy of the Charter on an annual basis.

VI. Limitation on Committee's Duties and Responsibilities.

The Committee's activities are limited to undertaking these duties and responsibilities, unless additional activities are specifically and expressly authorized by amendment to the special Act or through a change in this Charter.

**Charter of the Audit Committee
Approved by the Members of the
Audit Committee
Date: September 17, 2009**