



CITY OF BOSTON, MASSACHUSETTS

Independent 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, 2012

CITY OF BOSTON, MASSACHUSETTS

Independent Auditors' Reports as Required by Office of
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Year ended June 30, 2012

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KPMG LLP
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Exhibit I

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program, on 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 City of Boston, Massachusetts' (the City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. 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. 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 the Boston Redevelopment Authority, Boston Public Health Commission, and the Economic Development and Industrial Corporation, which received federal awards which are not included in the City's schedule of expenditures of federal awards for the year ended June 30, 2012. Our audit, described below, did not include the operations of these entities because they 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 of the City's compliance with those requirements.

As described in item 2012-1 in the accompanying schedule of current year findings and questioned costs, the City did not comply with the following requirements:

<u>Program</u>	<u>CFDA #</u>	<u>Requirement</u>
School Improvement Grants Cluster	84.388	Cash management and Reporting
Title I, Part A Cluster	84.010 / 84.389	Cash management and Reporting
Special Education (IDEA) Cluster	84.027 / 84.391	Cash management and Reporting
Title II – Improving Teacher Quality	84.367	Cash management and Reporting
Title III, Bilingual Language	84.365	Cash management and Reporting
Race-to-the-Top	84.395	Cash management and Reporting



Exhibit I

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures also disclosed other 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 as items 2012-2 through 2012-9.

Internal Control over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of current year findings and questioned costs as item 2012-1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of current year findings and questioned costs as items 2012-2 through 2012-9 to be significant deficiencies.

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, 2012, and have issued our report thereon, dated December 18, 2012, which contained unqualified opinions on those financial statements with a



Exhibit I

modification to include a reference to other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to December 18, 2012. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

This report is intended solely for the information and use of the audit committee, elected officials and 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

January 31, 2013

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2012

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>2012 Expenditures</u>
U.S. Department of Agriculture:		
Passed-through State Department of Education:		
Food Donation Program (note 2)	10.550	\$ 1,495,497
National School Lunch Program (notes 2 and 4)	10.555	28,951,022
Summer Food Service Program for Children	10.558	(8,064)
Summer Food Service Program for Children (note 4)	10.559	1,456,119
ARRA – Nutrition Equipment	10.579	27,775
Food and Nutrition	10.582	<u>860,697</u>
Total passed-through Massachusetts Department of Education		<u>32,783,046</u>
Total U.S. Department of Agriculture		<u>32,783,046</u>
U.S. Department of Commerce:		
Direct programs:		
Technology Opportunity Grants	11.552	2,549,257
TV Converter Box Coupon Program	11.556	2,692
ARRA – Broadband Technology Opportunities Program	11.557	<u>2,069,147</u>
Total U.S. Department of Commerce		<u>4,621,096</u>
U.S. Department of Defense:		
Direct programs:		
National Guard Civil Youth Opportunities	12.404	911,264
Mathematical Sciences Grant Program	12.901	<u>54,734</u>
Total U.S. Department of Defense		<u>965,998</u>
U.S. Department of Housing and Urban Development:		
Direct programs:		
Community Development Block Grants (note 4)	14.218	19,934,145
Emergency Shelter Grants Program	14.231	884,863
Supportive Housing Program	14.235	13,630,780
Shelter Plus Care	14.238	7,860,799
H.O.M.E. Investment Partnerships Program (note 3)	14.239	9,175,829
Housing Opportunities for Persons with AIDS	14.241	1,743,699
E.D.I.	14.246	1,216,772
Section 108 Loans (note 3)	14.248	5,624,382
ARRA – Community Development Block Grants (note 4)	14.253	1,424,429
ARRA – Neighborhood Stabilization Program	14.256	5,019,121
ARRA – Homeless Prevention and Rapid Rehousing	14.257	1,636,103
Neighborhood Stabilization Program	14.264	680,801
Fair Housing Assistance Program: Federal	14.401	12,681
Community Challenge Planning Grant	14.704	1,348
Regional Housing Opportunity	14.857	13,465
Lead-Based Paint Hazard Control in Privately Owned Housing	14.900	<u>1,253,916</u>
Total direct programs		<u>70,113,133</u>
Passed-through Boston Housing Authority:		
Housing Choice Program	14.000	<u>106</u>
Total passed-through Boston Housing Authority		<u>106</u>
Total U.S. Department of Housing and Urban Development		<u>70,113,239</u>

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2012

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>2012 Expenditures</u>
U.S. Environmental Protection Agency:		
Passed-through Environmental Protection Division:		
Historic Preservation Fund Grants-in-Aid	15.904	\$ 36,660
Total U.S. Environmental Protection Agency		<u>36,660</u>
U.S. Department of Justice:		
Direct programs:		
Community Based Violence Prevention	16.123	17,963
Services for Trafficking Victims	16.320	38,012
Enhanced Training & Services to End Violence and Abuse	16.528	1,666
Missing Children’s Assistance	16.543	150,768
National Institute of Justice Research Evaluation and Demonstration	16.560	178,154
Edward Byrne Memorial State & Local Law Enforcement Discretionary Grant Program	16.580	2,380
Violence Against Women Formula Grants	16.588	20,818
Grants to Encourage Arrest Policies	16.590	407,109
Public Safety Partnership and Community Policing Grants	16.710	284,371
ARRA – Public Safety Partnership and Community Policing Grants	16.710	3,840,728
Reduction and Prevention of Children’s Exposure to Violence	16.730	152,424
Value-Based Collaborative	16.737	3,992
Edward Byrne Memorial Justice Assistance Grant	16.738	1,166,364
Forensic DNA Backlog Reduction Program	16.741	628,560
Paul Coverdell Forensic Sciences Improvement Grant	16.742	226,241
Criminal and Juvenile Mental Health Collaboration Program	16.745	22,671
Edward Byrne Memorial Competitive Grant	16.751	195,893
ARRA – Edward Byrne Memorial Competitive Grant	16.808	538,536
Second Chance Act Prisoner Reentry Initiative	16.812	547,859
Total U.S. Department of Justice		<u>8,424,509</u>
U.S. Department of Labor:		
Passed-through Economic Development and Industrial Corporation:		
Workforce Investment Act – Youth Activities	17.259	26,152
Total U.S. Department of Labor		<u>26,152</u>
U.S. Department of Transportation:		
Passed-through State Department of Transportation:		
Highway Safety Grant	20.205	560,097
State and Community Highway Safety	20.600	9,527
Total passed-through State Department of Transportation		<u>569,624</u>
Passed-through Massachusetts Bay Transportation Authority:		
Federal Transit Capital Investment Grants	20.500	2,952,019
Total U.S. Department of Transportation		<u>3,521,643</u>
National Science Foundation:		
Direct programs:		
Computer and Information Science and Engineering	47.070	22,108
Biological Sciences	47.074	348,672
Education and Human Resources	47.076	46,398
Total National Science Foundation		<u>417,178</u>

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2012

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>2012 Expenditures</u>
U.S. Environmental Protection Agency:		
Direct programs:		
Congressionally Mandated Award	66.202	\$ 74,350
Brownfields Assessment & Clean-up Cooperative	66.818	246,363
Total U.S. Environmental Protection Agency		<u>320,713</u>
U.S. Department of Energy:		
Direct programs:		
ARRA – Renewable Energy Research & Development	81.087	1,269,521
Energy Efficiency and Renewable Energy Information	81.117	29,417
ARRA – Electricity Delivery and Energy Reliability	81.122	224,551
ARRA – Energy Efficiency and Conservation Block Grant Program	81.128	4,398,334
Total U.S. Department of Energy		<u>5,921,823</u>
U.S. Department of Education:		
Direct programs:		
Civil Rights Training & Advisory Services	84.004	40,285
International Research & Studies	84.017	107,443
Foundation for Citizens through Character Education	84.215	1,405,566
Foreign Language Assistance	84.293	216,829
Education Research, Development & Dissemination	84.305	173,907
Advanced Placement	84.330	865,700
School Leadership Program	84.363	95,715
Total direct programs		<u>2,905,445</u>
Passed-through State Department of Elementary and Secondary Education:		
Title I – Grants to Local Educational Agencies (note 4)	84.010	43,080,761
Special Education (note 4)	84.027	20,064,944
Vocational Education	84.048	1,385,753
Special Education – Preschool Grants (note 4)	84.173	151,996
Safe and Drug-Free Schools and Communities	84.186	29,603
Education for Homeless Children and Youth (note 4)	84.196	62,802
Rehabilitation Training State Vocational	84.265	631,918
Office of Elementary and Secondary Education	84.282	692
Twenty-First Century Community Learning Centers	84.287	1,829,533
Technology Literacy Challenge Fund Grants (note 4)	84.318	165,386
Reading First Grant	84.357	796
Early Reading First	84.359	451
Title III – Bilingual Language	84.365	3,196,084
Mathematics and Science Partnerships	84.366	163,158
Title II – Improving Teacher Quality	84.367	6,870,089
School Improvement Grants (note 4)	84.377	47,230
ARRA – Education Technology Grant (note 4)	84.386	305,215
ARRA – Education for Homeless Children and Youth (note 4)	84.387	17,003
ARRA – School Improvement Grants (note 4)	84.388	8,673,620
ARRA – Title I – Grants to Local Educational Agencies (note 4)	84.389	11,069,443
ARRA – Special Education (note 4)	84.391	2,701,743
ARRA – Special Education – Preschool Grants (note 4)	84.392	43,168
ARRA – SFSF Race To The Top Early Learning Initiative	84.395	4,225,972
Investing in Innovation	84.396	310,533
Education Jobs Fund	84.410	10,378,806
Total passed-through State Department of Education		<u>115,406,699</u>
Total U.S. Department of Education		<u>118,312,144</u>

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2012

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>2012 Expenditures</u>
National Historical Publications and Records Commission:		
Direct program:		
Public Schools Desegregation – ERA Records Project	89.003	\$ 24,025
Total National Historical Publications and Records Commission		<u>24,025</u>
U.S. Department of Health and Human Services:		
Direct programs:		
Injury Prevention and Control Research	93.136	5,000
ARRA – Injury Prevention and Control Research and State and Community Based Programs	93.136	343
CDC Investigations and Technical Assistance	93.283	181,467
ARRA – Strengthening Communities	93.711	79,654
ARRA – Prevention & Wellness Community	93.724	1,352,440
Cooperative Agreements to Support Comprehensive Aids Education	93.938	38,958
Total direct programs		<u>1,657,862</u>
Passed-through State Executive Office of Elderly Affairs:		
Special Programs for the Aging:		
Title VII Long-Term Care Ombudsman	93.042	173,857
Title III, Part D	93.043	69,697
Title III, Part B (note 4)	93.044	872,250
Title III, Part C (note 4)	93.045	1,932,527
Title III, Part E	93.052	489,637
Nutritional Services Incentive Program (note 4)	93.053	505,742
Area Agency on Aging	93.633	289,557
Total passed-through State Executive Office of Elderly Affairs		<u>4,333,267</u>
Passed-through State Office of Family Services:		
Administration of Children and Families	93.556	756
Child Care and Development Block Grant (CCDBG)	93.575	(12,126)
Total passed-through State Office of Family Services		<u>(11,370)</u>
Passed-through State Department of Public Health:		
ARRA – National Bioterrorism Hospital Preparedness	93.889	25,527
National Bioterrorism Hospital Preparedness	93.889	8,701
Total passed-through State Department of Public Health		<u>34,228</u>
Total U.S. Department of Health and Human Services		<u>6,013,987</u>
Corporation for National and Community Services:		
Direct programs:		
Retired and Senior Volunteer Program	94.002	148,918
Learn and Serve School and Community Based Program	94.004	6,114
Senior Companions Programs	94.016	243,316
Total Corporation for National and Community Services		<u>398,348</u>
U.S. Department of Homeland Security:		
Direct programs:		
Port Security Grant Program	97.056	56,353
ARRA – Port Security Grant Program	97.116	6,857
Total direct programs		<u>63,210</u>

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2012

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>2012 Expenditures</u>
Passed-through State Executive Office of Public Safety:		
Assistance to Firefighters	97.044	\$ 146,294
Homeland Security Grant Program	97.067	7,464,553
Buffer Zone Protection Plan	97.078	169,932
Hurricane Katrina Case Management Program	97.084	47
Severe Repetitive Loss Program	97.110	419,588
Regional Catastrophic Preparedness Grant Program	97.111	1,056,985
Total passed-through State Executive Office of Public Safety		<u>9,257,399</u>
Total U.S. Department of Homeland Security		<u>9,320,609</u>
Total federal assistance		<u>\$ 261,221,170</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, 2012

(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 of expenditures of federal awards.

(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 2012.

(c) Food Donation Program (CFDA # 10.550)

Noncash contributions of commodities under the Food Donation 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. Investment Partnership Program Loans (CFDA #s 14.248 and 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 2012. On June 30, 2012, 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 \$26,242,001 and \$80,576,527, 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.

(4) Clustered Programs

OMB Circular A-133 defines a “cluster” as “a grouping of closely related programs that share common compliance requirements.” The table below details the federal programs included in the schedule of expenditures of federal awards that are required by OMB Circular A-133 to be “clustered” for purposes of testing federal compliance requirements and identifying Type A programs.

CITY OF BOSTON, MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

<u>CFDA #</u>	<u>Program title</u>	<u>Expenditures</u>
	Child Nutrition Cluster:	
10.555	National School Lunch Program	\$ 28,951,022
10.559	Summer Food Service Program for Children	1,456,119
	Child Nutrition Cluster Total	<u>\$ 30,407,141</u>
	CDBG Entitlement Grants Cluster:	
14.218	Community Development Block Grants	\$ 19,934,145
14.253	ARRA – Community Development Block Grants	1,424,429
	CDBG Entitlement Grants Cluster Total	<u>\$ 21,358,574</u>
	Title I, Part A Cluster:	
84.010	Title I – Grants to Local Educational Agencies	\$ 43,080,761
84.389	ARRA – Title I – Grants to Local Educational Agencies	11,069,443
	Title I, Part A Cluster total	<u>\$ 54,150,204</u>
	Special Education (IDEA) Cluster:	
84.027	Special Education	\$ 20,064,944
84.173	Special Education – Preschool Grants	151,996
84.391	ARRA – Special Education	2,701,743
84.392	ARRA – Special Education – Preschool Grants	43,168
	Special Education (IDEA) Cluster Total	<u>\$ 22,961,851</u>
	Education of Homeless Children and Youth Cluster:	
84.196	Education for Homeless Children and Youth	\$ 62,802
84.387	ARRA – Education for Homeless Children and Youth	
	Education of Homeless Children and Youth Cluster	<u>17,003</u>
	Total	<u>\$ 79,805</u>
	Educational Technology State Grants Cluster:	
84.318	Technology Literacy Challenge Fund Grants	\$ 165,386
84.386	ARRA – Education Technology Grant	305,215
	Educational Technology State Grants Cluster Total	<u>\$ 470,601</u>
	School Improvement Grants Cluster:	
84.377	School Improvement Grants	\$ 47,230
84.388	ARRA – School Improvement Grants	8,673,620
	School Improvement Grants Cluster Total	<u>\$ 8,720,850</u>
	Aging Cluster:	
93.044	Special Programs for the Aging, Title III, Part B	\$ 872,250
93.045	Special Programs for the Aging, Title III, Part C	1,932,527
93.053	Nutritional Services Incentive Program	505,742
	Aging Cluster Total	<u>\$ 3,310,519</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

(5) Subrecipients

Of the federal expenditures presented in the Schedule, The City of Boston, Massachusetts provided awards to subrecipients as follows:

CFDA #	Federal program	Amount provided to subrecipients
14.218	Community Development Block Grants	\$ 6,709,570
14.231	Emergency Shelter Grants Program	816,240
14.235	Supportive Housing Program	13,109,539
14.238	Shelter Plus Care	7,860,799
14.239	H.O.M.E. Investment Partnerships Program	3,180,599
14.241	Housing Opportunities for Persons with AIDS	1,612,608
14.264	Neighborhood Stabilization Program	259,894
14.857	Regional Housing Opportunity	500
14.900	Lead-Based Paint Hazard Control in Privately Owned Housing	71,686
15.904	Historic Preservation Fund Grants-in-Aid	31,740
16.543	Missing Children’s Assistance	23,537
16.560	National Institute of Justice Research Evaluation and Development	40,182
16.590	Grants to Encourage Arrest Policies	116,322
16.730	Reduction and Prevention of Children’s Exposure to Violence	152,424
16.738	Edward Byrne Memorial Justice Assistance Grant	354,578
16.745	Criminal and Juvenile Mental Health Collaboration Program	18,801
16.812	Second Chance Act Prisoner Reentry Initiative	482,457
20.205	Highway Safety Grant	78,164
47.070	Computer and Information Science and Engineering	21,617
47.076	Education and Human Resources	4,700
66.202	Congressionally Mandated Award	65,100
84.004	Civil Rights Training and Advisory Services	7,955
84.017	International Research & Studies	9,831
84.196	Education for Homeless Children and Youth	343
84.215	Foundation for Citizens Through Character Education	211,438
84.265	Rehabilitation Training State Vocational	249,400
84.287	Twenty-First Century Community Learning Centers	1,331,404
84.330	Advanced Placement	202,210
84.363	School Leadership Program	18,900
84.366	Mathematics and Science Partnerships	99,473
84.367	Title II Improving – Teacher Quality	1,056,620
84.412	ARRA – SFSF Race To The Top Early Learning Initiative	1,079,371

CITY OF BOSTON, MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

<u>CFDA #</u>	<u>Federal program</u>	<u>Amount provided to subrecipients</u>
93.043	Title III, Part D	1,140,480
93.044	Title III, Part B	706,269
93.045	Title III, Part C	1,932,527
93.283	CDC Investigations and Technical Assistance	6,000
97.067	Homeland Security Grant Program	399,278
	Total federal program transfers to subrecipients	\$ <u>43,462,556</u>



KPMG LLP
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60 South Street
Boston, MA 02111

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, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 18, 2012. 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 the City's Permanent Funds, OPEB Trust Fund and Private-Purpose Trust Funds, and the financial statements of the Trustees of the Public Library of the City of Boston and the Economic Development and Industrial Corporation of Boston, as described in our report on the City's financial statements. 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. The financial statements of the City's Permanent Funds, OPEB Trust Fund and Private-Purpose Trust Funds, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*.

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

Management of the City is responsible for establishing and maintaining effective 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



Exhibit III

possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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 grants, 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 18, 2012.

This report is intended solely for the information and use of the City's audit committee, elected officials and 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 18, 2012

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified for all opinion units

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? x yes _____ 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:

Qualified – Title I, Part A Cluster
 Qualified – Title II – Improving Teacher Quality
 Qualified – Title III, Bilingual Language
 Qualified – Race-to-the-Top
 Qualified – Special Education (IDEA) Cluster
 Qualified – School Improvement Grants Cluster
 Unqualified – All Other Major Programs

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

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Identification of Major Programs

Name of federal program or cluster	CFDA #
CDBG Entitlement Grants Cluster:	
Community Development Block Grants	14.218
ARRA – Community Development Block Grants	14.253
Supportive Housing Program	14.235
Shelter Plus Care	14.238
H.O.M.E. Investment Partnerships Program	14.239
Section 108 Loans	14.248
ARRA – Neighborhood Stabilization Program	14.256
ARRA – Homeless Prevention and Rapid Rehousing	14.257
ARRA – Public Safety Partnership and Community Policing Grants	16.710
Federal Transit Capital Investment Grants	20.500
ARRA – Energy Efficiency and Conservation Block Grant Program	81.128
Title I, Part A Cluster:	
Title I – Grants to Local Educational Agencies	84.010
ARRA – Title I – Grants to Local Educational Agencies	84.389
Special Education (IDEA) Cluster:	
Special Education	84.027
Special Education – Preschool Grants	84.173
ARRA – Special Education	84.391
ARRA – Special Education – Preschool Grants	84.392
Title III – Bilingual Language	84.365
Title II – Improving Teacher Quality	84.367
School Improvement Grants Cluster:	
School Improvement Grants	84.377
ARRA – School Improvement Grants	84.388
ARRA – SFSF Race To The Top Early Learning Initiative	84.395
Education Jobs Fund	84.410
Homeland Security Grant Program	97.067

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

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

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

None reported.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

(3) Findings and Questioned Costs Relating to Federal Awards

Finding number: 2012-1

Federal agency: U.S. Department of Education

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

Programs: Title I – Part A Cluster
 Special Education (IDEA) Cluster
 School Improvement Grants Cluster
 Title II – Improving Teacher Quality
 Race-to-the-Top
 Title III, Bilingual Language

CFDA #s: See below

Award numbers: See below

Award years: See below

Finding: Management of Grant Funds

Criteria

The City of Boston Public Schools (BPS) receives funding from the Commonwealth of Massachusetts’ Department of Elementary and Secondary Education (DESE). DESE sets policy for the grants and required reports. DESE issues guidance in “Grants for Schools: Getting Them and Using Them, A Procedural Manual.”

According to the DESE’s procedure manual, “At the conclusion of grant activities, recipients must submit a final financial report to the Department, accounting for the expenditure of funds received. Grants Management has developed a standard form (FR1) for collecting this information. Grant recipients should file their reports after carefully reconciling all figures with their city auditor, town accountant, or agency business manager”.

Further, the manual states that draw down “requests should be based, as much as possible, on actual expenditures, rather than what is obligated”. The manual further states that “by submitting a request the grantee certifies that the request is in compliance with the “Cash Management Act” and EDGAR regulations, which allows for cash advances provided grantees maintain procedures to minimize the time elapsing between receipt and disbursement of grant funds”.

Condition

During our audit of cash management for the programs and grant awards detailed below, we found that the City drew down the entire amount of the 2011 grant award for the following programs by August 31, 2011, which reflects an advance of federal funds as the City did not incur expenditures prior to the final draw to make it a request for reimbursement. Despite returning a portion of these advanced funds to DESE for

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

certain awards during fiscal year 2012, certain amounts of these advances remained unspent as of June 30, 2012. Therefore, it does not appear that the City minimized the amount of time between draw down and expenditure for these advances. The following tables represent the grants affected as well as a summarization of our results:

ID	Grant	CFDA	City grant number	DESE award number	Grant period
A	Title I, Part A	84.010	BPS11150	305-372-1-0035-L	9/27/10 to 8/31/11
B	Title I, Part A	84.010	BPS11409	305-372-1-0035-L	5/15/11 to 8/31/11
C	ARRA – Title I, Part A	84.389	BPS11356R	770-242-1-0035-L	10/4/10 to 6/30/11
D	Title II – Improving Teacher Quality	84.367	BPS11176	140-333-1-0035-L	1/5/11 to 8/31/11
E	Title II – Improving Teacher Quality	84.367	BPS12417	140-001-2-0035-M	7/1/11 to 9/30/11
F	Special Education (IDEA) Cluster	84.027	BPS11145	240-251-1-0035-L	9/1/10 to 8/31/11
G	ARRA – Special Education (IDEA) Cluster	84.391	BPS11354R	760-253-1-0035-L	7/1/10 to 9/30/11
H	ARRA – School Improvement Grants Cluster	84.388	BPS11395R	767-001-1-0035-L	9/20/10 to 8/31/11
I	Race-to-the-Top	84.395	BPS11403	201-327-1-0035-L	11/22/10 to 8/31/11
J	Title III, Bilingual Language	84.365	BPS11272	180-052-1-0035-L	12/21/10 to 8/31/11

Grant	Cash drawn at August 31, 2011	Expenditures recorded for grant at August 31, 2011	Over drawn at August 31, 2011	Amount returned to DESE in December 2011	Expenditures recorded for grant at June 30, 2012	Over drawn at June 30, 2012
A	42,962,004	33,161,680	9,800,324	4,371,401	36,720,410	1,870,193
B	2,840,295	1,217,031	1,623,264	—	2,839,131	1,164
C	27,692,650	17,394,468	10,298,182	—	27,455,423	237,227
D	4,536,873	3,899,174	637,699	625,086	3,816,385	95,402
E	1,080,343	80,082	1,000,261	—	408,363	671,980
F	19,115,384	12,057,504	7,057,880	3,517,403	15,285,024	312,957
G	13,138,159	10,366,707	2,771,452	—	12,840,124	298,035
H	7,594,156	3,986,142	3,608,014	1,934,267	5,600,434	59,455
I	2,315,283	296,893	2,018,390	878,238	1,341,020	96,025
J	2,422,841	1,048,082	1,374,759	—	2,417,862	4,979

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

In testing the final financial reports (FR1) for awards received from DESE for the state grant year ending August 31, 2011 for the grants detailed above, we noted that the amount included in the FR1 on the line titled "B. Funds expended" did not reconcile to the expenditure amounts for the awards as recorded in the City's general ledger through the FR1 filing date of October 31, 2011 as follows:

ID	Amount per FR-1	Amount per general ledger	Difference
A	38,590,603	35,364,157	3,226,446
B	2,840,295	1,864,194	976,101
C	27,692,650	21,493,229	6,199,421
D	3,911,787	3,944,204	(32,417)
F	15,597,981	14,893,917	704,064
G	13,138,159	12,645,939	492,220
H	5,659,889	4,690,018	969,871
I	1,437,045	737,016	700,029
J	2,422,841	2,323,463	99,378

Cause

Under DESE requirements, the City is required to make its final draw on a grant award in the month prior to the end of the award. At that point, BPS estimates its expected ultimate expenditures based on current and expected obligations of funds and executes the final draw based on that amount. In some cases, the time required to liquidate current and expected obligations may take several months causing delays between the amounts drawn and amounts disbursed. The amount of expenditures estimated may also be overstated in which case the City will return funds to DESE upon the filing of the FR1 report. This revised estimate of ultimate award expenditures is the amount reported on the FR1.

Effect

The City drew cash in advance of expenditure and did not minimize the time between draw downs and expenditures. The City also did not file accurate financial reports with the pass-through entity.

Questioned Costs: None

Recommendation:

We recommend that the City implement policies and procedures to ensure that the time between drawdown of award funds and expenditure for its BPS programs is minimized and to ensure that accurate award expenditure amounts are reported to the Commonwealth annually on the FR1 reports.

Auditee Corrective Action Plan

Contact Person: Mary Raysor

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Management's Response:

Boston Public Schools concurs with the finding and the recommendation.

The required reporting mechanism developed by the state for school districts, which includes a short window of availability for quarterly reporting, the joining of data to state employee identification numbers that are not maintained in BPS or City of Boston systems, the requirement for cumulative reporting necessitating the addition of quarterly expenditures to previously reported expenditures, construction of data from multiple systems that are then linked in a format conducive to reporting on this system, and no functionality to electronically import data resulting in requirements for manual entry are burdensome and effect the timeliness and accuracy when working to meet reporting requirements.

Boston Public Schools will continue its practice monitoring spending rates during the grant period, and bringing critical variances to the attention of senior leadership and grant program managers.

Boston Public Schools has reestablished its network of grant managers that now meet on a periodic basis. This allows for regular and consistent communication, data review, sharing of best practice, and mutual accountability for financial results.

Boston Public Schools is working closely with Massachusetts Department of Elementary and Secondary Education to review our practice and their requirements in order to minimize the occurrence of instances described here and maximize full use of awarded funding for the benefit of the school district.

Anticipated Completion Date:

June 30, 2013

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Finding number: 2012-2
Federal agency: U.S. Department of Education
Pass-through agency: Massachusetts Department of Elementary and Secondary Education
Program: ARRA – Title I – Grants to Local Educational Agencies
CFDA #: 84.389
Award number: 770-242-2-0035-M
Award year: September 1, 2011 to August 31, 2012
Finding: Inaccurate Reporting

Criteria

The American Recovery and Reinvestment Act (ARRA) requires that non-Federal entities that are the prime recipient of ARRA awards complete a quarterly financial report in accordance with Section 1512 of ARRA. The City’s pass-through entity, Massachusetts Department of Elementary and Secondary Education (DESE), requires that their subrecipients perform quarterly reporting in order to facilitate DESE’s completion the Section 1512 report.

Condition

We reviewed the City’s reporting to DESE for the Title I ARRA award for the quarters ended March 31, 2012 and June 30, 2012. When reviewing the expenditures by vendor reported to DESE, we selected a sample of 36 vendors for each quarter and agreed the cumulative expenditures reported to the City’s general ledger. For the quarter ended March 31, 2012, we noted 4 of 36 vendors the amounts reported for which did not agree to the general ledger and 1 vendor that had expenditures in that quarter but that was not included on the report. The differences ranged from \$11,188 under-reported to \$6,312 over-reported.

The City did correct these errors in the subsequent report filed for the quarter ended June 30, 2012.

Cause

These errors appear to the result of an oversight in the preparation of this report.

Effect

The City filed an inaccurate ARRA financial report with DESE.

Questioned Costs: None

Recommendation:

We recommend that the City implement policies and procedures to ensure that all ARRA reports filed with MADESE are complete and accurate.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Auditee Corrective Action Plan

Contact Person: Mary Raysor

Management's Response:

Boston Public Schools concurs with the finding.

The required reporting mechanism developed by the state for school districts, which includes a short window of availability for quarterly reporting, the joining of data to state employee identification numbers that are not maintained in BPS or City of Boston systems, the requirement for cumulative reporting necessitating the addition of quarterly expenditures to previously reported expenditures, construction of data from multiple systems that are then linked in a format conducive to reporting on this system, and no functionality to electronically import data resulting in requirements for manual entry are burdensome and effect the timeliness and accuracy when working to meet reporting requirements.

Please also note that BPS has hired a full-time employee whose primary responsibility is to ensure reconciliation of ARRA reporting to the general ledger, and to reflect any adjusting entries within the next available quarterly reporting period.

Anticipated Completion Date:

June 30, 2013

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Finding number: 2012-3

Federal agency: U.S. Department of Energy

Pass-through agency: N/A – Direct Funding

Program: ARRA – Energy Efficiency and Conservation Block Grant Program

CFDA #: 81.128

Award number: EE0000736

Award year: September 14, 2009 to September 13, 2012

Finding: Inaccurate Reporting

Criteria

Non-Federal entities receiving federal awards are required to submit periodic financial reports to the federal government. For the Energy Efficiency and Conservation Block Grant Program, these financial reports include the Federal Financial Report (SF-425) and American Recovery and Reinvestment Act (ARRA) Section 1512 report, both of which are filed quarterly. The amounts reports are required to be based on information contained in the non-Federal entity's financial records.

Condition

During our audit, we reviewed two SF-425 reports and three Section 1512 reports. We found that the amount of expenditures reported did not agree to the expenditures incurred according to the City's general ledger in the following instances:

Report	Quarter ended	Amount per report	Amount per general ledger	Difference
SF-425	12/31/11	2,374,034	2,785,285	(411,251)
SF-425	6/30/12	3,909,164	5,614,328	(1,705,164)
Section 1512	12/31/11	1,783,251	2,785,285	(1,002,034)
Section 1512	3/31/12	3,374,894	3,679,468	(304,574)

The Section 1512 reports detail cumulative expenditures for the grant. We reviewed the report filed for the quarter ended June 30, 2012 and noted the cumulative expenditures reported agreed to the City's general ledger.

Further, the City has a policy in place requiring management review of financial reports prior to their issuance. However, we noted that management review of the financial reports prior to submission was not documented.

CITY OF BOSTON, MASSACHUSETTS
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2012

Cause

Turnover in staff responsible for the grant award appears to be the cause for inaccurate reporting.

Effect

The City filed inaccurate reports with the Department of Energy.

Questioned Costs: None

Recommendation:

We recommend that the City implement policies and procedures to ensure that all financial reports filed are complete and accurate.

Auditee Corrective Action Plan

Contact Person: Mary Raysor

Management's Response:

Due to staff turnover and some miscommunication, these reports do not all agree with one another. In the future, we will endeavor to increase communication between the two departments that file these reports.

Anticipated Completion Date:

June 30, 2013

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Finding number: 2012-4

Federal agency: U.S. Department of Homeland Security

Pass-through agency: Massachusetts Executive Office of Public Safety

Program: Homeland Security Grant Program

CFDA #: 97.067

Award number: Boston FFY09 UASI

Award year: July 1, 2011 to June 30, 2012

Finding: Monitoring of Subrecipient A-133 Reports

Criteria

The Single Audit Act Amendments of 1996 establish criteria for pass-through entities to follow when awarding federal funds to subrecipients. The pass-through entity is responsible for ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period.

Condition

During our audit, we found that the City notified subrecipients for the Homeland Security Grant Program that they are required to follow the audit requirements of OMB Circular A-133 and are required to submit the required reporting within 9 months of the subrecipient's fiscal year-end. We also noted that the City obtained the OMB Circular A-133 audit reports for each of these subrecipients. However, we found that none of the subrecipients' A-133 reports included expenditures for the Homeland Security Grant Program on the schedule of expenditures of federal awards, although the City's records indicate passing either funds or equipment through to the subrecipients. The City did not follow up with any of these subrecipients regarding the omission of these expenditures from the OMB Circular A-133 audits.

Cause

This appears to be due to the lack of thorough review of the subrecipients A-133 audit reports.

Effect

The omission of Homeland Security Grant Program expenditures from the OMB Circular A-133 reports of subrecipients means that the federal funds passed through by the City may not be subject to audit as required under OMB Circular A-133 and their agreements with the subrecipients.

Questioned Costs: None

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Recommendation:

We recommend that the City initiate communication with the subrecipient and ensure that the appropriate personnel are aware of the grant so that the funds will be included on the subrecipients' Schedule of Expenditures of Federal Awards.

Auditee Corrective Action Plan

Contact Person: Mary Raysor

Management's Response:

OEM will expand its current annual request of sub-recipients to submit the prior year's A-133 reporting. In addition to reminding each jurisdiction of their obligation to submit their report to OEM within 9 months of the subrecipient's year end, the letter will also note that the subrecipient must include expenditures for the Homeland Security Grant Program in the schedule of expenditures of federal awards in their A-133 audit. OEM will request the subrecipient's contact information so that OEM can supply the year-end financial data that should be represented in the next fiscal year's report.

Anticipated Completion Date:

June 30, 2013

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Finding number:	2012-5
Federal agency:	U.S. Department of Housing and Urban Development
Pass-through agency:	N/A – Direct Funding
Program:	CDBG Entitlement Grants Cluster
CFDA #s:	14.218; 14.253 (ARRA)
Award numbers:	B-09-MC25-0002; B-09-MY25-0002
Award year:	July 1, 2010 to June 30, 2011
Finding:	Support for Earmarking Requirements

Criteria

Federal law requires 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 follows:

- Not less than 70% 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% of the total grant, plus 20% 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% of the grant amount received for that year plus 15% 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 detailed 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, 2012

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 reconciliation would ensure that DND has the necessary detail to prove that funds have been spent on the required activities.

Auditee Corrective Action Plan

Contact Person: John Carbone

Management's Response:

We are currently working with a consultant, along with the Auditing Department, to review our current policies and procedures and help revise and develop additional procedures to address DND's needs concerning audit findings.

Anticipated Completion Date:

June 30, 2013

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Finding number: 2012-6

Federal agency: U.S. Department of Housing and Urban Development

Pass-through agency: N/A – Direct Funding

Programs: Community Development Block Grants
Supportive Housing Program
Shelter Plus Care
H.O.M.E. Investment Partnerships Program

CFDA #s: 14.218, 14.235, 14.238, 14.239

Award numbers: B-11-MC25-0002; B-09-MY25-0002;
Multiple
Multiple
M-11-MC-25-0200

Award year: July 1, 2011 to June 30, 2012

Finding: Noncompliance with the Federal Funding Accountability and Transparency Act (FFATA)

Criteria

The Federal Funding Accountability and Transparency Act (FFATA–P.L. 109-282, as amended by Section 6202 (a) of P.L. 110-252) requires the Office of Management and Budget (OMB) to maintain a single, searchable website that contains information on all Federal spending awards. FFATA prescribes specific pieces of information to be reported by grantees. For grants and cooperative agreements, the effective date is October 1, 2010 for all discretionary and mandatory awards equal to or exceeding \$25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date.

Once the requirement applies, the recipient must report, for any subaward under that award with a value of \$25,000 or more, each obligating action of \$25,000 or more in Federal funds. Recipients are not required to report on subawards made on or after October 1, 2010 that use funds awarded prior to that date.

For contracts, implementation was phased in based on their total dollar value. Based on the FAR interim final rule, FFATA reporting is required for:

- Until September 30, 2010, any newly awarded subcontract of \$25,000 or more must be reported if the value of the Federal prime contract award under which that subcontract was awarded was \$20,000,000 or more.
- From October 1, 2010, until February 28, 2011, any newly awarded subcontract of \$25,000 or more must be reported if the value of the Federal prime contract award under which that subcontract was awarded was \$550,000 or more.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

- Starting March 1, 2011, any newly awarded subcontract of \$25,000 or more must be reported if the value of the Federal prime contract award under which that subcontract was awarded was \$25,000 or more.

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Subaward Reporting System (FSRS) and report subaward data through FSRS. To do so, they will first be required to register in Central Contractor Registration (CCR) (if they have not done so previously for another purpose, e.g., submission of applications through Grants.gov) and actively maintain that registration. Prime contractors have previously been required to register in CCR.

Grant and cooperative agreement recipients and contractors must report information related to a subaward by the end of the month following the month in which the subaward or obligation of \$25,000 or greater was made and, for contracts, the month in which a modification was issued that changed previously reported information.

Condition

During the audit, we noted that the City of Boston did not demonstrate a “good faith effort” to comply with the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements for the aforementioned programs. The City did not attempt to report such awards subject to FFATA and lacks controls to determine when the FFATA reporting requirements are applicable.

Cause

The City was unaware of the FFATA requirements for fiscal year 2012.

Effect

The City was not in compliance with the FFATA regulations and reporting for fiscal year 2012.

Questioned Costs: None

Recommendation:

The City should institute processes to identify and track contracts and sub-awards subject to the FFATA regulations, and ensure that all registration and reporting requirements are being adhered to and reports are filed timely.

Auditee Corrective Action Plan

Contact Person: Mary Raysor

Management’s Response:

The Auditing Department is putting together procedures to identify and track contracts and sub awards subject to FFATA regulations and ensure that all reporting requirements are being adhered to and reports are being filed timely.

CITY OF BOSTON, MASSACHUSETTS
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2012

Anticipated Completion Date:

June 30, 2013

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Finding number: 2012-7
Federal agency: U.S. Department of Housing and Urban Development
Pass-through agency: N/A – Direct Funding
Program: H.O.M.E. Investment Partnerships Program
CFDA #: 14.239
Award number: M-11-MC-25-0200
Award year: July 1, 2011 to June 30, 2012
Finding: Housing Quality Standards

Criteria

The City’s Department of Neighborhood Development (DND) receives federal awards from the United States Department of Housing and Urban Development (HUD) for the H.O.M.E. Investment Partnerships Program. 24 CFR Sections 92.551, 92.252, and 92.504 (b) require that DND perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners. Based on the number of units in a property, on-site inspection must be made according to a schedule that ranges from every year for projects with more than 26 units to every three years for projects with less than 5 units.

Condition

During our testing of DND’s monitoring of housing quality standards, we noted that for 2 of the 9 projects selected, insufficient documentation was provided to ensure that project inspections were fully completed. We noted that a checklist of what is inspected for each property was maintained, however the checklists did not appear to be completed to address all required inspection areas.

Cause

This appears to be due to a lack of sufficient policies and procedures to ensure documentation maintained for monitoring of housing quality standards is complete.

Effect

The City is not performing complete housing quality standard reviews.

Questioned Costs: None

Recommendation:

We recommend that DND implement policies and procedures to strengthen the review process to ensure that documentation maintained to evidence monitoring of projects for housing quality standards is complete.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Auditee Corrective Action Plan

Contact Person: John Carbone

Management's Response:

We are currently working with a consultant, along with the Auditing Department, to review our current policies and procedures and help revise and develop additional procedures to address DND's needs concerning audit findings.

Anticipated Completion Date:

June 30, 2013

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Finding number: 2012-8
Federal agency: U.S. Department of Housing and Urban Development
Pass-through agency: N/A – Direct Funding
Program: H.O.M.E. Investment Partnerships Program
CFDA #: 14.239
Award number: M-11-MC-25-0200
Award year: July 1, 2011 to June 30, 2012
Finding: Income Monitoring

Criteria

24 CFR 92.216 (a) requires that units be occupied only by households that are eligible as low-income families and that only certain levels of rent may be charged for the units. The Compliance Unit of the City’s Department of Neighborhood Development (DND) Administration and Finance maintains a monitoring database for H.O.M.E. units. There is a requirement that an annual verification be done to determine that a low-income family occupies the unit and that the rent level is appropriate.

Condition

During our testing of income monitoring, we noted that for all of the 15 projects selected for testwork; documentation related to the verification of low income status and rental amounts was not maintained at DND. We noted that DND verifies low income status and rental amounts through certified statements from the developer/owner. The developer/owner maintains the documentation to verify low income status and rental amounts.

Cause

This appears to be due to a lack of policies and procedures to ensure sufficient documentation is maintained on site for income eligibility, and rental amounts.

Effect

The City is not properly documenting income eligibility.

Questioned Costs: None

Recommendation:

We recommend that DND implement policies and procedures to strengthen the review process to ensure that all projects are properly monitored for low income status, and that low income status and rental amounts are verified against documentation maintained by the developer/owner.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Auditee Corrective Action Plan

Contact Person: Mary Raysor

Management's Response:

We are currently working with a consultant, along with the Auditing Department, to review our current policies and procedures and help revise and develop additional procedures to address DND's needs concerning audit findings.

Anticipated Completion Date:

June 30, 2013

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Finding number: 2012-9
Federal agency: U.S. Department of Transportation
Pass-through agency: Massachusetts Bay Transportation Authority (MBTA)
Program: Federal Transit Capital Investment Grants
CFDA #: 20.500
Award number: MA-04-0056-00
Award year: April 30, 2010 to June 30, 2013
Finding: Noncompliance with Federal Equipment Management Guidelines

Criteria:

Per the underlying award agreement with the MBTA, the City is required to follow FTA regulations for equipment management. Per 2 CFR section 215.34 (f) related to equipment, a federal award recipient's property management records for equipment acquired with Federal funds and federally-owned equipment shall include all of the following:

- (i) A description of the equipment.
- (ii) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number.
- (iii) Source of the equipment, including the award number.
- (iv) Whether title vests in the recipient or the Federal Government.
- (v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost.
- (vi) Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government).
- (vii) Location and condition of the equipment and the date the information was reported.
- (viii) Unit acquisition cost.
- (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2012

Condition:

The City is using this award to fund its Boston Bikes program. The City has contracted with a third-party vendor to administer the Boston Bikes program. This vendor is responsible for maintaining, repairing, and tracking the equipment of the Boston Bikes program, including equipment purchased with Federal awards, and for maintaining inventory records. We noted that the City obtains records of equipment received by the third party vendor (invoices and receiving documents); however, the City did not obtain equipment records from the third party to verify that federal requirements noted above were being met.

In addition, we noted that the equipment records maintained by the third party do not include all of the required information noted within the federal guidelines, including equipment acquisition date, acquisition cost, description, serial number, whether the equipment was purchased with federal funds and location. We did note that some of the required information is tracked for some equipment, but not for all equipment.

Cause:

Insufficient policies and procedures surrounding equipment management under the program.

Effect:

The City was not in compliance with the federal regulations related to equipment recordkeeping.

Questioned Costs: None

Recommendation:

The City should obtain the equipment inventory records maintained by their third-party vendor and work with the vendor to ensure those records include all information required under federal guidelines.

Auditee Corrective Action Plan:

Contact Person: Mary Raysor

Management's Response:

The Boston Bikes Program concurs with this recommendation and will work with the contractor, Alta Bicycle Share, to furnish the required information as soon as possible. The contractor will be informed that the equipment inventory is required to be kept as noted above and reported to the Boston Bikes Program.

Anticipated Completion Date:

June 30, 2013