



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, 2011

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

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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, 2011. 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, 2011. 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.



Exhibit I

As described in items 2011-01 and 2011-02 in the accompanying schedule of current year findings and questioned costs, the City did not comply with the following requirements:

Program	CFDA #	Requirement
Education Jobs Fund	84.410	Allowable costs/cost principles
School Improvement Grants Cluster	84.377	Reporting
Title I, Part A Cluster	84.010 / 84.389	Reporting
Special Education Cluster	84.027 / 84.173	Reporting
Title I, Part A Cluster	84.010	Cash management

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, 2011. 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 2011-03 through 2011-07.

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 items 2011-01 and 2011-02 to be material weaknesses.



Exhibit I

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 2011-03 through 2011-07 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, 2011, and have issued our report thereon, dated December 21, 2011, which was modified to include a reference to other auditors and an explanatory paragraph regarding the City's implementation of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. 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 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

March 2, 2012 (except as to the paragraph relating to the schedule of expenditures of federal awards, which is as of December 21, 2011)

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2011

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2011	Unexpended balance July 1, 2010	2011 Grant revenue	2011 Expenditures	Unexpended balance June 30, 2011
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 Donation Program (note 2)	10.550	884,789	—	—	884,789	884,789	—
Summer Food Service Program for Children (note 4)	10.559	3,162,672	—	—	1,386,982	1,386,982	—
National School Lunch Program (notes 2 and 4)	10.555	72,600,889	—	1,393,268	25,377,730	25,377,730	1,393,268
Summer Food Service Program for Children	10.558	85,860	—	—	14,870	14,870	—
Food and Nutrition	10.582	602,920	—	15,309	419,706	435,015	—
Total passed-through Massachusetts Department of Education		77,337,130	—	1,408,577	28,084,077	28,099,386	1,393,268
Total U.S. Department of Agriculture		77,476,440	—	1,434,385	28,084,077	28,099,386	1,419,076
U.S. Department of Commerce:							
Direct program:							
TV Converter Box Coupon Program	11.556	47,560	—	22,439	—	—	22,439
ARRA - Broadband Technology Opportunities Program	11.557	6,218,915	—	—	2,114,025	2,114,025	—
Total U.S. Department of Commerce		6,266,475	—	22,439	2,114,025	2,114,025	22,439
U.S. Department of Defense:							
Direct program:							
National Guard Civil Youth Opportunities	12.404	3,314,205	—	—	877,183	877,183	—
Mathematical Sciences Grant Program	12.901	415,333	—	—	103,706	103,706	—
Total U.S. Department of Defense		3,729,538	—	—	980,889	980,889	—
U.S. Department of Housing and Urban Development:							
Direct programs:							
Community Development Block Grants (note 4)	14.218	248,234,412	5,738,198	6,401,465	21,495,107	21,014,410	6,882,162
Rental Rehab Program	14.230	1,287,776	—	209,275	—	—	209,275
Emergency Shelter Grants Program	14.231	2,634,684	508,571	174,923	733,766	733,766	174,923
Supportive Housing Program	14.235	58,899,657	10,500,907	1,721,117	11,423,161	11,916,117	1,228,161
Shelter Plus Care	14.238	13,460,328	5,696,870	680,428	5,356,163	5,696,870	339,721
H.O.M.E. Investment Partnerships Program (note 3)	14.239	54,409,700	3,107,637	516,792	7,125,615	7,125,615	516,792
Housing Opportunities for Persons with AIDS	14.241	7,323,971	1,279,565	393,457	1,535,554	1,535,554	393,457
E.D.I.	14.246	25,646,190	275,000	2,093,379	1,265,022	1,265,022	2,093,379
Section 108 Loans (note 3)	14.248	183,960,840	—	3,349,116	1,866,252	1,866,252	3,349,116
ARRA - Community Development Block Grants (note 4)	14.253	5,366,011	—	231,938	1,555,601	1,555,601	231,938
ARRA - Neighborhood Stabilization Program	14.256	14,060,989	1,636,792	—	5,115,086	5,115,086	—
ARRA - Homeless Prevention and Rapid Rehousing	14.257	8,209,151	3,512,989	7,651	3,862,165	3,862,165	7,651
Fair Housing Assistance Program: Federal	14.401	250,500	—	154,918	13,543	13,543	154,918
Regional Housing Opportunity	14.857	3,925,950	—	629,869	21,814	21,814	629,869
Lead-Based Paint Hazard Control in Privately Owned Housing	14.900	10,810,452	50,960	1,221,267	1,142,477	1,142,477	1,221,267
Total direct programs		638,480,611	32,307,489	17,785,595	62,511,326	62,864,292	17,432,629

CITY OF BOSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2011	Unexpended balance July 1, 2010	2011 Grant revenue	2011 Expenditures	Unexpended balance June 30, 2011
Passed-through Boston Housing Authority:							
Housing Choice Program	14.000	\$ 707,350	—	301,095	10,427	10,428	301,094
Total passed-through Boston Housing Authority		707,350	—	301,095	10,427	10,428	301,094
Total U.S. Department of Housing and Urban Development		639,187,961	32,307,489	18,086,690	62,521,753	62,874,720	17,733,723
U.S. Environmental Protection Agency:							
Passed-through Environmental Protection Division:							
Historic Preservation Fund Grants-in-Aid	15.904	260,300	—	88,504	20,303	20,303	88,504
Total U.S. Environmental Protection Agency		260,300	—	88,504	20,303	20,303	88,504
U.S. Department of Justice:							
Direct programs:							
Violent Crime Force	16.000	97,274	—	1,610	—	—	1,610
Enhanced Training & Services to end Violence and Abuse	16.528	52,838	—	—	10,702	10,702	—
Missing Children's Assistance	16.543	300,000	—	—	23,943	23,943	—
Title V Delinquency Prevention Program	16.548	609,492	40,450	—	73,256	73,256	—
National Institute of Justice Research Evaluation and Demonstration	16.560	1,182,530	89,325	2,534	317,372	317,372	2,534
Crime Laboratory	16.564	61,019	—	2,691	—	—	2,691
Edward Byrne Memorial State & Local Law Enforcement Discretionary Grant Program	16.580	89,435	—	—	(2,380)	(2,380)	—
Violence Against Women Formula Grants	16.588	79,373	—	—	38,673	38,673	—
Grants to Encourage Arrest Policies	16.590	8,418,915	130,314	126,145	399,327	399,327	126,145
Local Law Enforcement Block Grants Program	16.592	7,387,372	—	585,100	—	—	585,100
Public Safety Partnership and Community Policing Grants	16.710	915,465	—	43,331	36,012	36,012	43,331
ARRA – Public Safety Partnership and Community Policing Grants	16.710	11,843,200	—	—	3,534,239	3,534,239	—
Enforcing Underage Drinking Laws Program	16.727	27,500	—	—	7,196	7,196	—
Value-Based Collaborative	16.737	150,000	—	—	(3,992)	(3,992)	—
Edward Byrne Memorial Justice Assistance (note 4)	16.738	3,003,520	—	—	901,464	901,464	—
Forensic DNA Backlog Reduction Program	16.741	1,728,381	—	12,119	311,679	311,678	12,120
Paul Coverdell Forensic Sciences Improvement Grant	16.742	621,527	—	16,847	134,375	134,375	16,847
Criminal and Juvenile Mental Health Collaboration Pro	16.745	175,000	16,085	—	22,077	22,077	—
Edward Byrne Memorial Competitive Grant	16.751	500,000	45,436	3,218	182,433	185,651	—
ARRA – Edward Byrne Memorial Justice Assistance Hiring Grant (note 4)	16.804	4,427,221	—	4,734	967,172	971,906	—
Second Chance Act Prisoner Reentry Initiative	16.812	749,828	48,301	—	134,733	134,733	—
ARRA – Edward Byrne Memorial Competitive Grant	16.808	1,895,484	—	—	637,732	637,732	—
Total direct programs		44,315,374	369,911	798,329	7,726,013	7,733,964	790,378
Passed-through State Executive Office of Public Safety:							
No-Suspect Case Work, DNA	16.542	66,460	—	5,098	—	—	5,098
National Institute of Justice	16.564	33,829	—	487	—	—	487
Byrne Formula Grant Program	16.579	147,939	—	105,983	—	—	105,983
Weed and Seed	16.595	120,710	—	24,816	20,710	20,710	24,816
Total passed-through State Executive Office of Public Safety		368,938	—	136,384	20,710	20,710	136,384
Total U.S. Department of Justice		44,684,312	369,911	934,713	7,746,723	7,754,674	926,762
U.S. Department of Labor:							
Passed-through Economic Development Industrial Corporation:							
Workforce Investment Act – Youth Activities	17.259	137,812	—	—	95,372	95,372	—
Total U.S. Department of Labor		137,812	—	—	95,372	95,372	—

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2011

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2011	Unexpended balance July 1, 2010	2011 Grant revenue	2011 Expenditures	Unexpended balance June 30, 2011
U.S. Department of Transportation:							
Direct program:							
Port Security Grant Program	20.401	\$ 142,752	—	34	—	—	34
Total direct program		142,752	—	34	—	—	34
Passed-through State Department of Transportation:							
Highway Safety Grant	20.205	5,600,001	—	—	930,643	930,643	—
Federal Transit Capital Investment Grants	20.500	3,328,051	—	—	114,284	114,284	—
State and Community Highway Safety	20.600	348,983	—	73,194	37,740	37,740	73,194
Total passed-through programs		9,277,035	—	73,194	1,082,667	1,082,667	73,194
Total U.S. Department of Transportation		9,419,787	—	73,228	1,082,667	1,082,667	73,228
National Science Foundation:							
Direct programs:							
Biological Sciences	47.074	592,838	—	—	288,842	288,842	—
Education and Human Resources	47.076	1,924,486	135,156	55,634	303,337	303,489	55,482
Total National Science Foundation		2,517,324	135,156	55,634	592,179	592,331	55,482
U.S. Environmental Protection Agency:							
Direct programs:							
Congressionally Mandated Award	66.202	199,992	—	197,592	—	—	197,592
Brownfields Assessment & Clean-up Cooperative	66.818	1,188,180	—	—	214,170	190,171	23,999
Total U.S. Environmental Protection Agency		1,388,172	—	197,592	214,170	190,171	221,591
U.S. Department of Energy:							
Direct program:							
ARRA- Renewable Energy Research & Development	81.087	1,343,020	183,000	—	73,499	73,499	—
Renewable Energy Research & Development	81.087	300,000	183,000	—	297,795	297,795	—
Energy Efficiency and Renewable Energy Information	81.117	150,000	—	24,786	15,283	15,283	24,786
ARRA – Energy Efficiency and Conservation Block Grant Program	81.128	6,506,200	—	—	1,203,057	1,203,057	—
Total U.S. Department of Energy		8,299,220	366,000	24,786	1,589,634	1,589,634	24,786
U.S. Department of Education:							
Direct programs:							
Civil Rights Training & Advisory Services	84.004	241,680	—	3,973	39,949	39,949	3,973
International Research & Studies	84.017	442,607	26,122	13,171	185,454	185,454	13,171
Teaching American History	84.215	876,562	—	5,213	—	—	5,213
Foundation for Citizens through Character Education	84.215	3,609,845	57,507	56,520	1,154,170	1,154,170	56,520
Foreign Language Assistance	84.293	567,216	9,999	—	217,990	217,990	—
Education Research, Development & Dissemination	84.305	141,592	—	—	97,363	97,363	—
Advanced Placement	84.330	1,535,609	135,358	44,677	774,758	774,758	44,677
Total direct programs		7,415,111	228,986	123,554	2,469,684	2,469,684	123,554
Passed-through State Department of Elementary and Secondary Education:							
Title I – Grants to Local Educational Agencies (note 4)	84.010	177,499,398	—	16,553,590	42,632,634	42,632,634	16,553,590
Special Education (note 4)	84.027	57,165,950	—	6,631,126	17,305,913	17,305,913	6,631,126

CITY OF BOSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2011	Unexpended balance July 1, 2010	2011 Grant revenue	2011 Expenditures	Unexpended balance June 30, 2011
Vocational Education	84.048	\$ 5,147,748	—	509,307	1,511,332	1,511,332	509,307
Magnet School Assist	84.165	511,715	—	4,601	—	—	4,601
Special Education – Preschool Grants (note 4)	84.173	973,773	—	247,705	508,552	508,552	247,705
Safe and Drug-Free Schools and Communities	84.186	1,709,671	—	159,060	228,275	228,275	159,060
Rehabilitation Training	84.265	2,422,841	95,000	—	718,058	718,058	—
Education for Homeless Children and Youth (note 4)	84.196	120,000	426	45,628	57,507	57,507	45,628
Goals 2000: State and Local Education Systems Improvement Grants	84.276	25,000	—	13,549	—	—	13,549
Office of Elementary and Secondary Education	84.282	20,000	—	20,000	19,308	19,308	20,000
Twenty-First Century Community Learning Centers	84.287	3,153,750	215,436	500,367	1,824,304	1,824,304	500,367
Technology Literacy Challenge Fund Grants (note 4)	84.318	760,299	—	244,411	242,741	242,741	244,411
Project Achieve	84.323	1,529,981	26,093	24,318	222,559	222,559	24,318
Reading First Grant	84.357	1,200,115	—	4,093	—	3,297	796
Early Reading First	84.359	131,437	—	96,554	96,104	96,104	96,554
Title III Bilingual Language	84.365	2,249,623	—	1,035,948	404,030	404,030	1,035,948
Mathematics and Science Partnerships	84.366	624,733	81,566	235,110	291,356	290,356	236,110
Title II Improving Teacher Quality	84.367	13,019,896	379,548	1,082,531	4,426,024	4,426,024	1,082,531
School Improvement (note 4)	84.377	1,668,936	—	1,642,942	—	1,552,451	90,491
ARRA – Education Technology Grant (note 4)	84.386	849,785	—	300,087	288,515	288,515	300,087
ARRA – Education for Homeless Children & Youth (note 4)	84.387	115,000	12,704	31,537	55,908	55,908	31,537
ARRA – School Improvement Grants (note 4)	84.388	7,594,156	—	—	3,609,168	3,609,168	—
ARRA – Title I – Grants to Local Educational Agencies (note 4)	84.389	43,890,283	—	7,535,068	20,041,233	20,019,233	7,557,068
ARRA – Special Education (note 4)	84.391	20,489,124	—	572,849	10,372,387	10,372,387	572,849
ARRA – Special Education – Preschool Grants (note 4)	84.392	796,343	—	163,844	372,228	372,228	163,844
ARRA – State Fiscal Stabilization Funds – Government Services	84.397	2,466,211	—	—	2,140,787	2,140,787	—
Education Jobs Fund	84.410	2,900,154	—	—	2,900,154	2,900,154	—
Race to the Top Early Learning Initiative	84.412	2,315,283	—	—	92,739	92,739	—
Total passed-through State Department of Education		351,351,205	810,773	37,654,225	110,361,816	111,894,564	36,121,477
Total U.S. Department of Education		358,766,316	1,039,759	37,777,779	112,831,500	114,364,248	36,245,031
National Historical Publications and Records Commission:							
Direct program:							
Public Schools Desegregation – ERA Records Project	89.003	118,525	—	5,562	5,062	5,062	5,562
Total National Historical Publications and Records Commission		118,525	—	5,562	5,062	5,062	5,562
U.S. Department of Health and Human Services:							
Direct programs:							
Injury Prevention and Control Research	93.136	5,000	—	—	4,064	4,064	—
CDC Investigations and Technical Assistance	93.283	396,634	44,700	1,110	159,559	159,559	1,110
ARRA - Geography Violence	93.701	20,000	—	—	5,818	5,818	—
ARRA – Strengthening Communities	93.711	529,960	—	—	167,390	167,390	—
ARRA- Prevention & Wellness Community	93.724	2,302,776	6,760	—	718,935	718,935	—
Cooperative Agreements to Support Comprehensive Aids Education	93.938	29,139	—	—	21,819	21,819	—
Total direct programs		3,283,509	51,460	1,110	1,077,585	1,077,585	1,110
Passed-through State Executive Office of Elderly Affairs:							
MDU Fire Deployment	93.003	105,530	—	839	839	839	839
Special Programs for the Aging:							
Title VII Long-Term Care Ombudsman	93.042	703,927	43,731	93,681	165,776	165,776	93,681
Title III, Part D	93.043	356,327	41,878	51,798	36,145	63,884	24,059

CITY OF BOSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2011	Unexpended balance July 1, 2010	2011 Grant revenue	2011 Expenditures	Unexpended balance June 30, 2011
Title III, Part B (note 4)	93.044	\$ 3,351,482	488,840	185,637	775,593	775,593	185,637
Title III, Part C (note 4)	93.045	9,136,882	721,043	1,244,416	2,590,214	2,590,214	1,244,416
Title III, Part E	93.052	2,009,952	75,423	9,778	401,745	401,745	9,778
Nutritional Services Incentive Program (note 4)	93.053	1,575,806	260,899	204,128	654,350	654,350	204,128
Area Agency on Aging	93.633	1,457,005	2,091	161,337	359,188	359,188	161,337
Total passed-through State Executive Office of Elderly Affairs		18,696,911	1,633,905	1,951,614	4,983,850	5,011,589	1,923,875
Passed-through State Office of Family Services:							
Child Care and Development Block Grant (CCDBG)	93.575	1,848,745	—	50,615	168,084	168,084	50,615
Total passed-through State Office of Family Services		1,848,745	—	50,615	168,084	168,084	50,615
Passed-through State Department of Public Health:							
Training in Primary Care Medicine and Dentistry	93.884	100,000	—	2,062	2,068	2,068	2,062
ARRA - National Bioterrorism Hospital Preparedness	93.889	57,441	—	—	11,203	11,203	—
Total passed-through State Department of Public Health		157,441	—	2,062	13,271	13,271	2,062
Total U.S. Department of Health and Human Services		23,986,606	1,685,365	2,005,401	6,242,790	6,270,529	1,977,662
Corporation for National and Community Services:							
Direct programs:							
Retired and Senior Volunteer Program	94.002	447,719	—	3,356	122,423	122,423	3,356
Senior Companions Programs	94.016	916,823	—	829	222,595	222,595	829
Total direct		1,364,542	—	4,185	345,018	345,018	4,185
Passed-through State Department of Elementary and Secondary Education:							
Learn and Serve America: School and Community Based Program	94.004	7,500	990	—	1,386	1,386	—
Total Corporation for National and Community Services		1,372,042	990	4,185	346,404	346,404	4,185
U.S. Department of Homeland Security:							
Direct:							
Port Security Grant Program	97.056	2,025,920	—	—	1,960,149	1,960,149	—
ARRA – Port Security Grant Program	97.116	1,259,820	—	—	447,898	447,898	—
Total direct		3,285,740	—	—	2,408,047	2,408,047	—
Passed-through State Executive Office of Public Safety:							
Disaster Grants Public Assistance	97.036	2,157,638	—	—	2,157,638	2,157,638	—
Assistance to Firefighters	97.044	2,954,341	—	114,449	87,329	87,329	114,449
Homeland Security Grant Program	97.067	44,086,356	452,610	278,815	5,984,422	5,984,422	278,815
Buffer Zone Protection Plan	97.078	796,706	—	—	126,924	126,924	—
Hurricane Katrina Case Management Program	97.084	9,878	—	47	—	—	47
Severe Repetitive Loss Program	97.110	924,626	—	—	311,539	311,539	—
Regional Catastrophic Preparedness Grant Program	97.111	3,073,882	—	—	1,318,907	1,318,907	—
Total passed-through State Executive Office of Public Safety		54,003,427	452,610	393,311	9,986,759	9,986,759	393,311
Total U.S. Department of Homeland Security		57,289,167	452,610	393,311	12,394,806	12,394,806	393,311
Total federal assistance		\$ 1,234,899,997	36,357,280	61,104,209	236,862,354	238,775,221	59,191,342

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, 2011

(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 2011.

(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. 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 2011. On June 30, 2011, 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 \$28,680,837 and \$72,301,056, 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.

CITY OF BOSTON, MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

(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.

CFDA #	Program title	Expenditures
	Aging Cluster:	
93.044	Special Programs for the Aging, Title III, Part B	\$ 775,593
93.045	Special Programs for the Aging, Title III, Part C	2,590,214
93.053	Nutritional Services Incentive Program	654,350
	Aging Cluster Total	\$ <u>4,020,157</u>
	CDBG Entitlement Grants Cluster:	
14.218	Community Development Block Grant	\$ 21,014,410
14.253	ARRA – Community Development Block Grant	1,555,601
	CDBG Entitlement Grants Cluster Total	\$ <u>22,570,011</u>
	Child Nutrition Cluster:	
10.555	National School Lunch Program	\$ 25,377,730
10.559	Summer Food Service Program for Children	1,386,982
	Child Nutrition Cluster Total	\$ <u>26,764,712</u>
	Education of Homeless Children and Youth Cluster:	
84.196	Education for Homeless Children & Youth	\$ 57,507
84.387	ARRA – Education for Homeless Children & Youth	55,908
	Education of Homeless Children and Youth Cluster Total	\$ <u>113,415</u>
	Educational Technology State Grants Cluster:	
84.318	Technology Literacy Challenge Fund Grants	\$ 242,741
84.386	ARRA – Education Technology State Grants	288,515
	Educational Technology State Grants Cluster Total	\$ <u>531,256</u>
	Justice Assistance Grant Cluster:	
16.738	Edward Byrne Memorial Justice Assistance Grant	\$ 901,464
16.804	ARRA – Edward Bryne Memorial Justice Assistance Hiring Grant	971,906
	Justice Assistance Grant Cluster Total	\$ <u>1,873,370</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

<u>CFDA #</u>	<u>Program title</u>	<u>Expenditures</u>
	School Improvement Grants Cluster:	
84.377	School Improvement Grant	\$ 1,552,451
84.388	ARRA – School Improvement Grant	<u>3,609,168</u>
	School Improvement Grant Cluster Total	<u>\$ 5,161,619</u>
	Special Education (IDEA) Cluster:	
84.027	Special Education	\$ 17,305,913
84.173	Special Education – Preschool Grants	508,552
84.391	ARRA – Special Education	10,372,387
84.392	ARRA – Special Education – Preschool Grants	<u>372,228</u>
	Special Education (IDEA) Cluster Total	<u>\$ 28,559,080</u>
	Title I, Part A Cluster:	
84.010	Title I Grants to Local Educational Agencies	\$ 42,632,634
84.389	ARRA – Title I Grants to Local Educational Agencies	<u>20,019,233</u>
	Title I, Part A Cluster total	<u>\$ 62,651,867</u>



KPMG LLP
Two Financial Center
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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 21, 2011. Our report was modified to include a reference to other auditors and an explanatory paragraph regarding the City's implementation of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 funds and component units included in the City's financial statements, as described in our report on the City's financial statements. The financial statements of the permanent funds, private-purpose trust funds and OPEB trust fund, which were audited by other auditors, 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

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 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 21, 2011.

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 21, 2011

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Current Year Findings and Questioned Costs
 Year ended June 30, 2011

(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	<u> x </u> no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____	yes	<u> x </u> none reported
Noncompliance material to the financial statements noted?	_____	yes	<u> x </u> no

Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	<u> x </u>	yes	_____ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> x </u>	yes	_____ none reported

Type of auditors' report issued on compliance for major programs:	Qualified – Education Jobs Fund Qualified – Title I, Part A Cluster Qualified – Special Education Cluster Qualified – School Improvement Grants Cluster Unqualified – All Other Major Programs
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<u> x </u>	yes	_____ no
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CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2011

Identification of Major Programs

Name of federal program or cluster	CFDA #
CDBG Entitlement Grants Cluster:	
Community Development Block Grants	14.218
Community Development Block Grants – ARRA	14.253
Supportive Housing Program	14.235
H.O.M.E. Investment Partnerships Program	14.239
Community Development Block Grants – Section 108 Loans	14.248
Neighborhood Stabilization Program – ARRA	14.256
Homeless Prevention and Rapid Rehousing – ARRA	14.257
Public Safety Partnership and Community Policing Grants	16.710
Justice Assistance Grant Cluster:	
Edward Byrne Memorial Justice Assistance Grant	16.738
Edward Byrne Memorial Justice Assistance Hiring Grant – ARRA	16.804
Energy Efficiency and Conservation Block Grant Program	81.128
Title I, Part A Cluster:	
Title I – Grants to Local Educational Agencies	84.010
Title I – Grants to Local Educational Agencies – ARRA	84.389
Special Education (IDEA) Cluster:	
Special Education	84.027
Special Education – Preschool Grants	84.173
Special Education – ARRA	84.391
Special Education – Preschool Grants, ARRA	84.392
School Improvement Grants Cluster:	
School Improvement Grant	84.377
School Improvement Grant – ARRA	84.388
State Fiscal Stabilization Funds – Government Services – ARRA	84.397
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 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, 2011

(3) Findings and Questioned Costs Relating to Federal Awards

Finding number: 2011-01

Federal agency: U.S. Department of Education

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

Program: Education Jobs Fund

CFDA #: 84.410

Award numbers: 206-126-1-0035-L

Award year: August 10, 2010 to June 30, 2011

Finding: Documentation of Time and Effort

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) and be adequately documented. 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

The City chose to fund custodial salaries with this Federal grant, which is considered to be an allowable activity. During our audit, however, we noted that the City could not locate some or all timesheets for 11 of 40 (28%) salary costs charged to the grant that were selected for testing. Further, we found that six (6) timesheets of the 40 (15%) salary costs selected for testing were incomplete for one or more days during the time period, meaning that the employee did not sign-in.

Cause

Historically, custodial salaries have not been funded by grant awards. With the addition of federal funding, the City was not prepared for the documentation needed to demonstrate compliance with A-87.

Effect

The City is not in compliance with the documentation standards of A-87 for 17 of 40 (43%) payroll charges tested.

Questioned Costs: \$15,124

CITY OF BOSTON, MASSACHUSETTS
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2011

Recommendation

We recommend that the City develop policies and procedures to ensure that all time and effort documentation is maintained and reviewed regularly.

Auditee Corrective Action Plan

Contact Person: Mary Raysor

Management's Response

Boston Public Schools concurs with the finding.

The Department of Facilities Management has sent notifications of documentation requirements to all custodians within the Boston Public Schools.

The Office of Business Services, Payroll Department will conduct periodic random audits to ensure compliance.

Anticipated Completion Date:

June 30, 2012

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2011

Finding number:	2011-02
Federal agency:	U.S. Department of Education
Pass-through agencies:	Massachusetts Department of Elementary and Secondary Education Massachusetts Department of Early Education and Care
Programs:	Title I, Part A Cluster Special Education Cluster School Improvement Grants
CFDA #s:	84.010; 84.389 (ARRA); 84.027; 84.173; 84.377
Award numbers:	305-347-0-0035-K (84.010); 771-008-0-0035-K (84.389); 240-330-0-0035-K (84.027); 26210BOSTONPUBLICSCH (84.173); 510-026-0-0035-K (84.377)
Award years:	9/21/09 – 8/31/10 (84.010); 4/15/10 – 8/31/10 (84.389); 9/30/09 – 8/31/10 (84.027); 9/1/09 – 8/31/10 (84.173); 5/5/10 – 8/31/10 (84.377)
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 (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, we found that the City drew down the entire grant award by August 31, 2010, 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. In most cases, it took the City an additional eleven months to spend that advance and in some cases a large amount of the advance remained unspent as

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2011

of June 30, 2011. It does not appear that the City minimized the amount of time between draw down and expense for these advances. The following table summarizes our results:

	Cash drawn at August 31, 2010	Expenditures recorded for grant at June 30, 2011	Difference
Title I – 84.010	\$ 43,601,760	38,361,758	5,240,002
Title I – 84.389	1,989,191	1,988,000	1,191
Special Education – 84.027	19,343,648	19,121,858	221,790
Special Education – 84.173	487,838	486,468	1,370
School Improvement Grants – 84.377	1,392,219	1,352,365	39,854

In testing the final financial reports (FR1) for awards received from DESE for the state grant year ending August 31, 2010 for the programs 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 reporting date of August 31, 2010. The following table summarizes our results:

	Amount per FR-1	Amount per general ledger	Difference
Title I – 84.010	\$ 43,601,760	31,505,064	12,096,696
Title I – 84.389	1,989,191	1,495,187	494,004
Special Education – 84.027	19,343,648	14,408,288	4,935,360
Special Education – 84.173	487,838	322,945	164,893
School Improvement Grants – 84.377	1,392,219	91,519	1,300,700

Cause

Throughout the year the City charges expenses to its grant funds, however, often those expenses alone are not sufficient to cover the entire grant award. It has been the City’s practice to draw the entire award and report the budgeted expenditures as actual expenditures at the end of the grant year. Subsequent to this the City typically has transferred allowable expenses into the grant fund such that the expenses recorded in the grant support the amounts reported and cash drawn. However, in 2011, it appears that the City did not follow this process.

Effect

The City drew cash in advance and did not minimize the time between this cash draw and expenditures. The City also did not file an accurate report with the pass-through entity.

Questioned Costs: None

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2011

Recommendation

We recommend that the City implement policies and procedures to ensure that accurate amounts are reported to the Commonwealth annually.

Auditee Corrective Action Plan

Contact Person: Mary Raysor

Management's Response

Boston Public Schools concurs with the finding.

Grants Management within the Boston Public Schools has gone through significant changes in organizational structure over the past several years. A Director of Grants Management – Financial, has been appointed, a stronger collaborative relationship with DESE has been established. Specific procedures will be developed in order to address this finding

Anticipated Completion Date

August 31, 2012

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2011

Finding number: 2011-03
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: 2008-TU-GE-T8-0090
Award year: June 30, 2011
Finding: Equipment Inventory Not Performed

Criteria

A-102 Common Rule requires that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Condition

During our audit, we found that the City has not performed a physical inventory of the equipment acquired with Federal funds in the past two years.

Cause

This appears to be a management oversight.

Effect

The City is not in compliance with the requirement to perform a physical inventory of equipment at least once every two years.

Questioned Costs: None

Recommendation

We recommend that the City implement policies and procedures to ensure that a proper physical inventory of equipment acquired by this grant is performed at least once every two years and properly documented.

Auditee Corrective Action Plan

Contact Person: Mary Raysor

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2011

Management's Response

The Mayor's Office of Emergency Management will schedule regular inventory site visits with program staff and regional partners on a regular basis, as stated in all MOAs: Section III. C.2. Inventory results will be captured and maintained in inventory computer database.

Anticipated Completion Date

June 30, 2012

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2011

Finding number:	2011-04
Federal agency:	U.S. Department of Housing and Urban Development
Pass-through agency:	N/A – Direct Funding
Program:	Community Development Block Grants (CDBG) Entitlement Cluster
CFDA #s:	14.218; 14.253 (ARRA)
Award numbers:	B-09-MC25-0002; B-09-MY25-0002
Award year:	July 1, 2009 to June 30, 2010
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, 2011

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

Procedures are being put into place to reconcile financial activity on a weekly basis. In addition, a consultant will be hired to review our procedures and help create department policies.

Anticipated Completion Date

June 30, 2012

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Current Year Findings and Questioned Costs
 Year ended June 30, 2011

Finding number: 2011-05
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: B-10-MC-25-0200
Award year: July 1, 2010 to June 30, 2011
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 15 of 30 (50%) projects selected were not monitored properly within the required guidelines. Housing Quality Standards testing resulted in the following:

- 5 of 30 tested projects were not inspected within the applicable time period, and it was disclosed that when inspections were performed on 1 of the 5 properties, the incorrect units (owner-occupied units) were being inspected instead of rental units.
- For 6 of 30 tested projects, the Boston Housing Authority (BHA) has been contracted to perform the inspections for DND; however, BHA did not provide documentation of these inspections to DND. DND is in a legal process with BHA to obtain this documentation.
- For 3 of 30 tested projects, tenants refused to allow DND to perform the inspection, which has been referred to DND legal department.
- For 1 of 30 tested projects, an inspection was not performed due to the property being categorized as owner-occupied. However, the owner no longer resides on the property.

Cause

This appears to be due to a lack of policies and procedures on monitoring of housing quality standards.

CITY OF BOSTON, MASSACHUSETTS
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2011

Effect

The City is not monitoring housing quality standards within the required timeframe.

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 quality standards.

Auditee Corrective Action Plan

Contact Person: Mary Raysor

Management's Response

Procedures have been put in place to ensure that projects are properly monitored. In addition, a consultant will be hired to review our procedures and help create department policies.

Anticipated Completion Date

June 30, 2012

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2011

Finding number: 2011-06
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: B-10-MC-25-0200
Award year: July 1, 2010 to June 30, 2011
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 9 of 30 (30%) projects selected were not properly monitored. Low Income Eligibility testing resulted in the following:

- Documentation was not provided to verify correct rental amounts being charged for 7 of 30 properties tested for low income eligibility.
- 2 of 30 properties refused to provide documentation to DND to verify correct rental amounts being charged, which has been referred to DND’s legal department.

We also noted that 11 of 30 (37%) projects with loans selected did not have documentation to verify correct rental amounts being charged for low income eligibility.

Cause

This appears to be due to a lack of policies and procedures on monitoring of income eligibility.

Effect

The City is not properly monitoring income eligibility.

Questioned Costs: None

CITY OF BOSTON, MASSACHUSETTS
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2011

Recommendation

We recommend that DND implement policies and procedures to strengthen the review process to ensure that all projects are properly monitored for income status.

Auditee Corrective Action Plan

Contact Person: Mary Raysor

Management's Response

Procedures have been put in place to ensure that projects are properly monitored. In addition, a consultant will be hired to review our procedures and help create department policies.

Anticipated Completion Date

June 30, 2012

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2011

Finding number: 2011-07
Federal agency: U.S. Department of Education
Pass-through agency: Massachusetts Department of Elementary and Secondary Education
Program: Title I, Part A
CFDA #s: 84.010
Award numbers: 305-344-0-0035-J
Award year: September 1, 2009 to August 31, 2010
Finding: Overcharge of Retirement Costs

Criteria

OMB Circular A-87 Cost Principles for State, Local, and Indian Tribal Government states: “To be allowable under Federal awards....costs must...be allocable to Federal awards under the provisions of this Circular...(and)...be adequately documented.”

Condition

When auditing retirement costs assigned to the aforementioned award number under the Title I grant, it was noted that the costs assigned were based on the available amount budgeted for pension expense under the assumption that the City would expend the full salary amount budgeted for the grant. Retirement costs charged typically represent 9% of salaries charged to the award. Retirement costs charged were not based on a listing of employees whose salaries are charged to the grant. Because the actual salaries charged to the award were less than the amount budgeted, the City overcharged the award for retirement costs by \$56,895. Total retirement costs charged to this award were \$389,542.

Cause

In 2010 the City did not expend the budgeted salary amount of the award and thus charged retirement costs in excess of 9% of the actual salary costs.

Effect

Based on an analysis performed by the City, the City overcharged retirement costs by \$56,895.

Questioned Costs: \$56,895

Recommendation

We recommend that the City establish policies and procedures to ensure that retirement costs are allocated to federal grants based on actual individuals whose salaries are charged to the grant, and to ensure that costs charged are not in excess of actual costs incurred for these individuals.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2011

Auditee Corrective Action Plan

Contact Person: Mary Raysor

Management's Response

Boston Public Schools concurs with the finding.

Prior to filing final financial reports, a calculation will be made to ensure that no more than 9% of eligible salary expenditures have been charged to the grant. Any amount above 9% will be charged to the general fund budget.

Anticipated Completion Date

March 1, 2012