



CITY OF BOSTON, MASSACHUSETTS

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

Year ended June 30, 2008

CITY OF BOSTON, MASSACHUSETTS

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

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Exhibit I

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

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

Compliance

We have audited the compliance of the City of Boston, Massachusetts (the City) with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs (Exhibit IV). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of component units that received federal awards during the year ended June 30, 2008. Our audit, described below, did not include the activities of the component units because the component units engaged other auditors to perform audits in accordance with OMB Circular A-133.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of current year findings and questioned costs (Exhibit IV) as items 2008-1 through 2008-3.



Internal Control over Compliance

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

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

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

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, 2008, and have issued our report thereon, dated December 15, 2008. The City, in fiscal 2008, implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions* and No. 50, *Pension Disclosures*. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Our report was modified to include a reference to other auditors. The accompanying schedule of expenditures of federal awards (Exhibit II) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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



Exhibit I

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

KPMG LLP

February 27, 2009
(except for the Schedule of Expenditures
of Federal Awards, which is as of December 15, 2008)

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Expenditures of Federal Awards
 June 30, 2008

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2008	Unexpended balance (deficit) July 1, 2007	2008 Grant revenue	Expenditures	Unexpended balance (deficit) June 30, 2008
U.S. Department of Agriculture:							
Direct programs:							
Cooperative Forestry Assistance	10.664	\$ 139,310	—	25,808	—	—	25,808
Total direct programs		139,310	—	25,808	—	—	25,808
Passed-through Massachusetts Department of Education:							
Food Distribution Program	10.550	904,097	—	—	904,097	904,097	—
Summer Food Service Program for Children	10.559	6,894,029	—	(360)	1,528,485	1,425,090	103,035
National School Lunch Program	10.555	67,047,508	—	—	22,724,324	22,701,883	22,441
Summer Food Service Program for Children	10.558	361,535	—	63,836	52,519	116,355	—
Total passed-through Massachusetts Department of Education		75,207,169	—	63,476	25,209,425	25,147,425	125,476
Total U.S. Department of Agriculture		75,346,479	—	89,284	25,209,425	25,147,425	151,284
U.S. Department of Defense:							
Direct program:							
National Guard Civil Youth Opportunities	12.404	784,582	—	—	784,582	784,582	—
Total U.S. Department of Defense		784,582	—	—	784,582	784,582	—
U.S. Department of Housing and Urban Development:							
Direct programs:							
Community Development Block Grants	14.218	324,489,055	12,574,995	2,210,090	26,939,759	24,312,096	4,837,753
Rental Rehab. Program	14.230	1,287,776	—	133,054	61,221	—	194,275
Emergency Shelter Grants Program	14.231	3,579,068	910,226	174,217	949,507	1,023,545	100,179
Shelter Plus Care	14.238	37,267,920	5,763,078	91,386	5,683,179	5,763,078	11,487
Supportive Housing Program	14.235	92,051,407	10,307,518	579,487	10,759,791	11,320,030	19,248
H.O.M.E. Investment Partnerships Program	14.239	92,100,968	6,360,533	—	9,652,625	9,652,625	—
Housing Opportunities for Persons with AIDS	14.241	11,852,000	1,017,489	136,168	2,360,549	2,107,585	389,132
E.D.I.	14.246	22,648,015	13,434	427,821	215,579	81,697	561,703
Section 108 Loans	14.248	162,046,576	—	5,747,079	9,379,514	9,917,072	5,209,521
Fair Housing Assistance Program: Federal	14.401	20,500	—	191,615	20,500	25,320	186,795
Regional Housing Opportunity	14.857	3,996,950	—	895,898	—	80,741	815,157
Lead-Based Paint Hazard Control in Privately Owned Housing	14.900	17,344,389	1,971,887	423,487	3,268,880	2,822,979	869,388
Total direct programs		768,684,624	38,919,160	11,010,302	69,291,104	67,106,768	13,194,638
Passed-through Boston Housing Authority:							
Housing Choice Program	14.000	67,350	—	25,941	—	545	25,396
Youth Services	14.243	400,000	—	—	—	—	—
Total passed-through Boston Housing Authority		467,350	—	25,941	—	545	25,396
Passed-through Trustees of Boston Public Library:							
Boston Public Library	14.000	—	—	428,552	—	—	428,552
Total passed-through Trustees of Boston Public Library		—	—	428,552	—	—	428,552
Total U.S. Department of Housing and Urban Development		769,151,974	38,919,160	11,464,795	69,291,104	67,107,313	13,648,586
U.S. Environmental Protection Agency:							
Passed-through Environmental Protection Division:							
Historic Preservation Fund Grants-in-Aid	15.904	325,800	—	35,861	24,000	24,750	35,111
Total U.S. Environmental Protection Agency		325,800	—	35,861	24,000	24,750	35,111

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Expenditures of Federal Awards
 June 30, 2008

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2008	Unexpended balance (deficit) July 1, 2007	2008 Grant revenue	Expenditures	Unexpended balance (deficit) June 30, 2008
U.S. Department of Justice:							
Direct programs:							
Violent Crime Force	16.000	\$ 101,714	—	1,608	—	—	1,608
Services for Trafficking Victims	16.320	443,082	—	6,810	113,854	120,664	—
Juvenile Accountability Incentive Block Grants	16.523	45,625	—	—	389	389	—
Title V Delinquency Prevention Program	16.548	609,492	—	—	26,194	26,194	—
National Institute of Justice Research Evaluation	16.560	110,891	—	30,682	(13,788)	16,894	—
Crime Laboratory	16.564	66,910	—	5,278	—	2,587	2,691
Byrne Formula Grant Program	16.579	278,191	—	(49,717)	181,331	146,512	(14,898)
Edward Byrne Memorial State & Local Law Enforcement Discretionary Grant Program	16.580	75,304	—	—	—	—	—
Grants to Encourage Arrest Policies	16.590	2,187,907	255,970	518,960	(14,143)	504,817	—
Local Law Enforcement Block Grants Program	16.592	681,938	—	13,182	4,380	—	17,562
Public Safety Partnership and Community Policing Grants	16.710	1,223,123	146,622	106,333	239,817	346,025	125
Enforcing Underage Drinking Laws Program	16.727	20,000	—	—	6,103	5,764	339
Value-Based Collaborative	16.737	500,000	—	80,427	92,919	173,346	—
Edward Byrne Memorial Justice Assistance	16.738	1,668,431	52,389	169,242	442,314	611,556	—
Forensic DNA Backlog Reduction Program	16.741	220,293	—	—	194,124	194,124	—
Paul Coverdell Forensic Sciences Improvement Grant	16.742	122,200	—	—	90,823	90,823	—
Total direct programs		8,355,101	454,981	882,805	1,364,317	2,239,695	7,427
Passed-through State Executive Office of Public Safety:							
National Institute of Justice	15.564	33,829	—	487	—	—	487
No-Suspect Case Work, DNA	16.542	125,000	—	5,098	—	—	5,098
Byrne Formula Grant Program	16.579	353,166	—	51,078	(32,220)	3,960	14,898
Weed and Seed	16.595	150,000	—	(185)	—	—	(185)
Gun Crime	16.609	436,963	—	—	17,152	17,152	—
Total passed-through State Executive Office of Public Safety		1,098,958	—	56,478	(15,068)	21,112	20,298
Total U.S. Department of Justice		9,454,059	454,981	939,283	1,349,249	2,260,807	27,725
U.S. Department of Labor:							
Passed-through State Executive Officer of Economic Affairs:							
Senior Community Service Employment Program	17.235	574,633	—	—	—	—	—
Total U.S. Department of Labor		574,633	—	—	—	—	—
U.S. Department of Transportation:							
Direct program:							
Port Security Grant Program	20.401	134,351	—	34	—	—	34
Total direct program		134,351	—	34	—	—	34
Passed-through State Department of Transportation:							
Highway Safety Grant	20.205	10,000	—	—	280	280	—
State and Community Highway Safety	20.600	309,600	—	108,320	49,210	84,368	73,162
Total passed-through programs		319,600	—	108,320	49,490	84,648	73,162
Total U.S. Department of Transportation		453,951	—	108,354	49,490	84,648	73,196

CITY OF BOSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

June 30, 2008

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2008	Unexpended balance (deficit) July 1, 2007	2008 Grant revenue	Expenditures	Unexpended balance (deficit) June 30, 2008
National Science Foundation:							
Passed-through Programs:							
Engineering Grants	47.041	\$ 112,913	—	48,335	—	48,335	—
Education and Human Resources	47.076	5,522,118	135,727	170,725	1,053,892	1,222,058	2,559
Total National Science Foundation		5,635,031	135,727	219,060	1,053,892	1,270,393	2,559
U.S. Environmental Protection Agency:							
Direct program:							
Brownfield Pilots Cooperative Agreements	66.811	200,000	—	—	(5,230)	—	(5,230)
Total direct program		200,000	—	—	(5,230)	—	(5,230)
Passed-through Program:							
Congressionally Mandated Award	66.202	199,992	—	162,288	37,704	2,400	197,592
Brownfields Assessment & Clean-up Cooperative	66.818	937,000	—	13,286	207,766	215,821	5,231
Total passed-through program		1,136,992	—	175,574	245,470	218,221	202,823
Total U.S. Environmental Protection Agency		1,336,992	—	175,574	240,240	218,221	197,593
U.S. Department of Energy:							
Direct program:							
Energy Efficiency and Renewable Energy Information	81.117	150,000	—	—	42,732	42,732	—
Total U.S. Department of Energy		150,000	—	—	42,732	42,732	—
U.S. Federal Emergency Management Agency:							
Direct programs:							
Civil Defense	83.503	46,499	—	3,270	—	3,270	—
Assistance to Fire Fighters	83.554	24,214	—	855	—	—	855
Total U.S. Federal Emergency Management Agency		70,713	—	4,125	—	3,270	855
U.S. Department of Education:							
Direct programs:							
Implementation – Wise	84.083	337,760	—	2,511	—	2,511	—
Safe and Drug-Free Schools and Communities	84.184	5,978,616	1,363,240	—	3,152,986	2,912,780	240,206
Teaching American History	84.215	876,562	—	24,434	—	19,221	5,213
Projects with Industry	84.234	724,380	336,333	—	431,888	419,827	12,061
Twenty-First Century Community Learning Centers	84.287	5,736,188	793,313	1,701,615	352,281	1,729,011	324,885
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	4,255,611	—	373	—	373	—
Transition to Teaching Program	84.350	372,889	62,661	—	98,717	95,795	2,922
Media Literacy Program	84.351	330,090	—	1,307	79,827	77,754	3,380
Early Reading First	84.359	1,215,457	162,381	—	332,695	323,513	9,182
School Leadership Program	84.363	337,384	4,000	—	68,122	68,122	—
Katrina Emergency Impact Fund	84.938	301,988	—	10,914	—	10,914	—
Total direct programs		20,466,925	2,721,928	1,741,154	4,516,516	5,659,821	597,849

CITY OF BOSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

June 30, 2008

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2008	Unexpended balance (deficit) July 1, 2007	2008 Grant revenue	Expenditures	Unexpended balance (deficit) June 30, 2008
Passed-through State Department of Education:							
Adult Education – State Grant Program	84.002	\$ 76,089	—	—	76,089	76,089	—
Title I – Grants to Local Educational Agencies	84.010	174,824,627	2,679,612	26,092,710	21,962,886	40,657,972	7,397,624
Special Education	84.027	75,138,764	143,946	15,542,784	9,218,070	19,852,284	4,908,570
Vocational Education	84.048	4,305,559	4,923	574,432	1,195,668	1,414,075	356,025
E.C.I.A./Chapter 11	84.151	374,658	50,138	65,925	136,341	147,266	55,000
Magnet School Assist	84.165	511,715	—	4,601	—	—	4,601
Special Education – Preschool Grants	84.173	1,515,895	—	57,316	502,769	247,856	312,229
Safe and Drug-Free Schools and Communities	84.186	2,809,241	53,517	268,682	552,684	674,874	146,492
Education for Homeless Children and Youth	84.196	244,000	46,368	93,925	20,000	56,539	57,386
Jacob K. Gifted and Talented Students Education Grant	84.206	85,000	—	65,617	(11,250)	24,367	30,000
Foundation for Citizens through Character Education	84.215	1,686,885	169,164	7,663	461,109	470,633	(1,861)
Goals 2000: State and Local Education Systems Improvement Grants	84.276	25,000	—	13,549	—	—	13,549
Technology Literacy Challenge Fund Grants	84.318	2,163,911	5,000	400,285	542,902	655,449	287,738
Project Achieve	84.323	1,529,981	170,053	—	473,884	415,734	58,150
Reading First Grant	84.357	9,393,194	—	934,251	1,564,982	2,153,094	346,139
Title III Bilingual Language	84.365	3,825,672	1,066,834	1,906,488	1,095,850	2,312,061	690,277
Title II Improving Teacher Quality	84.367	28,484,868	380	3,996,455	3,446,451	6,837,528	605,378
Total passed-through State Department of Education		306,995,059	4,389,935	50,024,683	41,238,435	75,995,821	15,267,297
Total U.S. Department of Education		327,461,984	7,111,863	51,765,837	45,754,951	81,655,642	15,865,146
National Historical Publications and Records Commission:							
Direct program:							
Public Schools Desegregation – ERA Records Project	89.003	232,025	—	500	31,932	32,432	—
Total National Historical Publications and Records Commission		232,025	—	500	31,932	32,432	—
U.S. Department of Health and Human Services:							
Direct programs:							
Injury Prevention and Control Research	93.136	22,280	—	—	2,983	2,983	—
CDC Investigations and Technical Assistance	93.283	620,879	34,530	5,610	285,671	291,281	—
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	56,950	—	150	28,475	28,625	—
Assistance for Chronic Disease Prevention and Control	93.945	50,000	—	4,885	(3,563)	1,322	—
Council on Aging	93.999	2,203,682	10,599	106,574	517,557	428,270	195,861
Total direct programs		2,953,791	45,129	117,219	831,123	752,481	195,861
Passed-through State Executive Office of Elderly Affairs:							
MDU Fire Deployment	93.003	105,530	—	2,983	—	1,969	1,014
Special Programs for the Aging:							
Title VII Long-Term Care Ombudsman	93.042	685,178	165,224	15,699	161,366	165,367	11,698
Title III, Part D	93.043	341,606	59,307	122,240	83,758	90,120	115,878
Title III, Part B	93.044	3,240,738	835,542	108,915	848,585	848,664	108,836
Title III, Part C	93.045	8,970,739	2,342,246	25,623	2,585,012	2,647,247	(36,612)
Title III, Part E	93.052	2,935,284	80,693	(14,692)	489,360	590,021	(115,353)
Nutritional Services Incentive Program	93.053	1,354,329	452,514	22,418	480,411	484,272	18,557
Area Agency on Aging	93.633	1,242,961	—	129,958	680,822	273,905	536,875
Children's Justice Grants to States	93.643	78,310	—	—	38,308	38,308	—
Total passed-through State Executive Office of Elderly Affairs		18,954,675	3,935,526	413,144	5,367,622	5,139,873	640,893

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Expenditures of Federal Awards
 June 30, 2008

Federal grantor/pass-through grantor/program title	CFDA number	Program or award amount	Expenditures made to subrecipients for the year ended June 30, 2008	Unexpended balance (deficit) July 1, 2007	2008 Grant revenue	Expenditures	Unexpended balance (deficit) June 30, 2008
Passed-through State Department of O.F.C.:							
Child Care and Development Block Grant (CCDBG)	93.575	\$ 4,271,835	—	(51,281)	615,048	336,834	226,933
Total passed-through State Department of O.F.C.		4,271,835	—	(51,281)	615,048	336,834	226,933
Passed-through State Department of Public Health:							
Training in Primary Care Medicine and Dentistry	93.884	70,000	—	—	64,615	40,385	24,230
Total passed-through State Department of Public Health		70,000	—	—	64,615	40,385	24,230
Total U.S. Department of Health and Human Services		26,250,301	3,980,655	479,082	6,878,408	6,269,573	1,087,917
Corporation for National and Community Services:							
Direct programs:							
Retired and Senior Volunteer Program	94.002	492,374	—	—	126,899	126,899	—
Senior Companions Programs	94.016	1,185,803	—	11,613	217,674	229,287	—
Total Corporation for National and Community Services		1,678,177	—	11,613	344,573	356,186	—
U.S. Department of Homeland Security:							
Direct program:							
Urban Area Security Initiative	97.008	31,850,201	613,025	1,062,345	2,298,849	1,745,305	1,615,889
Total direct program		31,850,201	613,025	1,062,345	2,298,849	1,745,305	1,615,889
Passed-through State Executive Office of Public Safety:							
Assistance to Firefighters	97.044	1,698,328	—	—	296,273	252,610	43,663
Homeland Security Grant Program	97.067	45,384,140	3,602,179	—	8,120,082	8,084,174	35,908
Hurricane Katrina Case Management Program	97.084	9,878	—	47	—	—	47
Total passed-through State Executive Office of Public Safety		47,092,346	3,602,179	47	8,416,355	8,336,784	79,618
Total U.S. Department of Homeland Security		78,942,547	4,215,204	1,062,392	10,715,204	10,082,089	1,695,507
Total federal assistance		\$ 1,297,849,248	54,817,590	66,355,760	161,769,782	195,340,063	32,785,479

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, 2008

(1) Definition of Reporting Entity

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

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

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

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

The City accounts for local, state, and federal expenditures of the National School Lunch and School Breakfast programs in a combined program. Program expenditures in the accompanying schedule of expenditures of federal awards represent total expenditures for meals provided during 2008.

(c) Food Distribution Program (CFDA # 10.550)

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

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

Total expenditures in the accompanying schedule of expenditures of federal awards for the Section #108 and H.O.M.E. programs include the total amount of new loans made during fiscal year 2008. On June 30, 2008, 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 \$18,425,532 and \$60,562,967, respectively. These amounts are not included in the total expenditures in the accompanying Schedule of Expenditures of Federal Awards but are considered federal awards for purposes of determining Type A and Type B programs.



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Exhibit III

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 15, 2008. The City, in fiscal 2008, implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and No. 50, *Pension Disclosures*. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of certain entities, as described in our report on the City's financial statements. The financial statements of the permanent funds and private-purpose trust funds were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data



Exhibit III

reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 15, 2008.

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

KPMG LLP

December 15, 2008

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2008

(1) Summary of Auditors' Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to the financial statements noted? yes no

Federal Awards:

Internal control over major programs:

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

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

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

Identification of major programs:

Name of federal program or cluster	CFDA #
Section 108 Loans	14.248
Supportive Housing	14.235
Special Education Cluster:	
Special Education	84.027
Special Education – Preschool Grants	84.173
Special Programs for the Aging Cluster:	
Title III, Part B	93.044
Title III, Part C	93.045
Nutritional Services Incentive Program	93.053
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

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2008

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

None Reported

(3) Findings and Questioned Costs Relating to Federal Awards

Finding number: 2008-1

Federal agency: U.S. Department of Homeland Security

Pass-through agency: Massachusetts Executive Office of Public Safety and Homeland Security

Program: State Homeland Security Grant Program

CFDA #: 97.067

Award numbers: 2005-TU-GE-T5-0060
2006-TU-GE-T6-0070

Award year: October 1, 2004 to September 30, 2006

Finding: Suspension and Debarment Verifications

Criteria

Non-Federal entities are prohibited from contracting or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Requirements for suspension and debarment are contained in the Federal agencies codification of the government-wide nonprocurement debarment and suspension common rule, codified in 2 CFR part 180.

Condition

We noted that, for 8 of 12 (66%) of contracts tested, the City did not document whether entities are suspended or debarred prior to entering into a contract with the vendor.

Cause

We noted that the City performed the checks on contracts initiated by the Mayor’s Office of Emergency Preparedness while they did not for contracts procured by the City’s Purchasing Department. This appears to be a systematic issue with contracts procured by the City’s Purchasing Department.

Effect

We noted that none of the entities tested were either suspended or debarred.

A similar finding was noted in the FY 2006 audit.

Questioned Costs: None

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2008

Recommendation

We recommend that the City establish policies and procedures to document that all entities included in federally funded contracts are not suspended or debarred prior to executing the contract. The most efficient way to comply may be in the form of a suspension and debarment certification as part of the City's standard contract.

Auditee Corrective Action Plan

Contact Person: Mary Raysor

Management's Response

Currently, the Mayor's Office of Emergency Preparedness (MOEP) verifies that a vendor or sub-recipient is not suspended or debarred by checking their status with EPLS – Excluded Parties List System. This search is done by the Regional/Project coordinator prior to submitting contract set-up documentation. A print screen is included in the MOEP contract folder. In the instance of procurements coordinated by the purchasing department, the MOEP will now run the search as soon as the regional/project coordinator is notified by the purchasing agent of the awarded vendor.

Expected Completion Date

March 31, 2009

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2008

Finding number: 2008-2
Federal agency: U.S. Department of Education
Pass-through agency: N/A – Direct Funding
Program: 21st Century Community Learning Centers
CFDA #: 84.287
Award number: 647-052-8-0035-I
Award year: October 1, 2007 to September 30, 2008
Finding: Reporting – Inadequate monitoring of subrecipient submissions

Criteria

In accordance with OMB Circular A-133, Nonfederal entities are required to maintain proper internal control systems to ensure compliance with federal rules and regulations.

The City is responsible for monitoring the entities to which Federal awards are passed for adherence to Federal rules. The City has a system in place to monitor nonprofit subrecipients via review of the independent audit reports, site visits, and review of documentation to support monthly billings.

Condition

During our audit, we made site visits to six subrecipients. Each subrecipient is required to report daily attendance to the City, who, in turn, reports those figures to the Federal government. Each subrecipient is required to maintain records to support the figures reported to the City. Upon review of one subrecipient, we noted that the counts reported to the City for one of their sites could not be substantiated.

Cause

This error is the result of a turnover in personnel at the subrecipient which resulted in the misplacement of the supporting documentation.

Effect

We can not determine whether the counts reported to the City by this subrecipient are accurate and complete.

Questioned Costs: None

Recommendation

We recommend that the City reinforce the policies regarding maintenance of proper documentation to the subrecipients.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2008

Auditee Corrective Action Plan

Contact Person: Mary Raysor

Management's Response

The Department of Extended Learning Time, Afterschool, and Services (DELTAS) is in the process of rolling out a new Management Information System (MIS) to all of our sites, including the Boston Community Learning Centers (BCLCs). This system accurately records daily attendance in addition to other functions. DELTAS will be able to monitor attendance, as well as, ensure sites are keeping their information up to date. The first training for the MIS was held on January 27, 2009, and DELTAS expects all sites to be trained and using the system before the February break. Unsubstantiated attendance data will no longer be an issue for the BCLCs.

Expected Completion Date

March 31, 2009

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2008

Finding number: 2008-3
Federal agency: U.S. Department of Housing and Urban Development
Program: Supportive Housing
CFDA#: 14.235
Award number: MA01B500019
Award year: July 1, 2007 to June 30, 2008
Finding: Period of Availability

Criteria

Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged for obligations of the subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-Federal entity during the same or a future period (A-102 Common Rule, §__.23; OMB Circular A-110, §__.28).

Condition

We noted that in one of the thirty transactions selected for review the expenditures submitted for federal reimbursement contained purchases/services that occurred outside the funding period specified by the Federal awarding agency.

Cause

Expenditures are presented in large groups and it appears that several aged items were mixed in with current expenditures.

Effect

Expenditures for purchases/services incurred outside of the period of availability are unallowable costs. Therefore, these costs are questioned. Due to the insignificant amount of the unallowable costs they will not appear on the schedule of questioned costs.

Questioned Costs

No significant questioned costs.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2008

Recommendation

When subrecipients are awarded federal funding and time period specified by the Federal awarding agency should be highlighted to the subrecipients. In addition, during the reviews that are performed by grant managers to ensure allowability of costs the review should also be aware of the time period that has been specified by the Federal awarding agency.

Auditee Corrective Action Plan

Contact Person: Mary Raysor

Management's Response

The Supportive Housing Program (SHP) staff review payments prior to authorizing them for payment. As part of this review process, staff check to ensure that the costs incurred are eligible and within the scope of the contract. It was noted that one of the disbursements selected for review contained expenditures that occurred outside the funding period specified for the subrecipient, Little Sisters of the Assumption (aka Project Hope). This award had an operating period of 5/1/06 – 4/30/07 and, they had billed for two items totaling \$28.00 that had actually incurred on 4/26/06, several days prior to the start date of the grant. SHP staff and A&F Accounts Payable acknowledges this oversight and assures that this was an isolated incident that will not be repeated. The subrecipient had mistakenly thought that this was a “roll-over” grant from the previous operating period, and as such, believed they could bill for charges that had preceded the start of the new operating period. SHP staff had informed the subrecipient that was not the case and reiterated the policy guidelines regarding billing for this grant.

Expected Completion Date

March 31, 2009