



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, 2013

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, 2013

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Exhibit I

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

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

Report on Compliance for Each Major Program

We have audited the City of Boston, Massachusetts' (the City) compliance with the types of compliance requirements described in the *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, 2013. 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.

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 of Boston, which received federal awards which are not included in the City's schedule of expenditures of federal awards for the year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.



Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 2013-004 through 2013-006 and 2013-008 through 2013-014. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of current year findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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 a 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. 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.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of current year findings and questioned costs as items 2013-004 and 2013-007 through 2013-015, that we consider to be significant deficiencies.



Exhibit I

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of current year findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 19, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

March 14, 2014

CITY OF BOSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>2013 Expenditures</u>
U.S. Department of Agriculture:		
Passed-through State Department of Education:		
Food Donation Program (note 2)	10.550	\$ 1,290,185
National School Lunch Program (notes 2 and 4)	10.555	29,582,573
Child and Adult Care Food Program	10.558	39,606
Summer Food Service Program for Children (note 4)	10.559	1,252,900
Farm to School Grant Program	10.575	27,283
Food and Nutrition	10.582	681,941
Total U.S. Department of Agriculture		<u>32,874,488</u>
U.S. Department of Commerce:		
Direct programs:		
ARRA – Broadband Technology Opportunities Program	11.557	1,041,926
Total U.S. Department of Commerce		<u>1,041,926</u>
U.S. Department of Defense:		
Direct programs:		
Mathematical Sciences Grant Program	12.901	123,429
Total U.S. Department of Defense		<u>123,429</u>
U.S. Department of Housing and Urban Development:		
Direct programs:		
Community Development Block Grants (note 4)	14.218	22,012,269
Emergency Shelter Grants Program	14.231	1,750,273
Supportive Housing Program	14.235	15,389,132
Shelter Plus Care	14.238	5,544,317
H.O.M.E. Investment Partnerships Program (note 3)	14.239	4,265,812
Housing Opportunities for Persons with AIDS	14.241	1,894,113
E.D.I.	14.246	864,485
Section 108 Loans	14.248	189,910
ARRA – Community Development Block Grants (note 4)	14.253	169,287
ARRA – Neighborhood Stabilization Program	14.256	2,130,177
ARRA – Homeless Prevention and Rapid Rehousing	14.257	261,786
HUD Continuum of Care	14.267	1,304,458
Fair Housing Assistance Program: Federal	14.401	17,520
Community Challenge Planning Grant	14.704	47,150
Regional Housing Opportunity	14.857	132,215
Choice Neighborhood Grant	14.889	2,522,296
Lead Hazard Reduction Demonstration Grant Program	14.905	1,709,862
Total direct programs		<u>60,205,062</u>
Passed-through Boston Housing Authority:		
Housing Choice Program	14.000	347
Passed-through Economic Development Industrial Corporation:		
Choice Neighborhood Grant	14.892	25,879
Total U.S. Department of Housing and Urban Development		<u>60,231,288</u>
U.S. Department of the Interior:		
Passed-through National Park Service:		
Rivers, Trails and Conservation Assistance	15.921	346,224
Total U.S. Department of the Interior		<u>346,224</u>

CITY OF BOSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

Federal grantor/pass-through grantor/program title	CFDA number	2013 Expenditures
U.S. Department of Justice:		
Direct programs:		
Community Based Violence Prevention	16.123	\$ 266,415
Services for Trafficking Victims	16.320	35,999
Part E – Developing, Testing and Demonstrating Promising New Programs	16.541	5,144
Missing Children’s Assistance	16.543	123,746
National Institute of Justice Research Evaluation and Demonstration	16.560	185,957
Violence Against Women Formula Grants	16.588	66,369
Grants to Encourage Arrest Policies	16.590	413,600
Public Safety Partnership and Community Policing Grants	16.710	534,061
ARRA – Public Safety Partnership and Community Policing Grants	16.710	1,433,689
Reduction and Prevention of Children’s Exposure to Violence	16.730	7,571
Edward Byrne Memorial Justice Assistance Grant	16.738	1,215,185
Forensic DNA Backlog Reduction Program	16.741	278,075
Paul Coverdell Forensic Sciences Improvement Grant	16.742	141,263
Criminal and Juvenile Mental Health Collaboration Program	16.745	9,078
Edward Byrne Memorial Competitive Grant	16.751	102,877
ARRA – Edward Byrne Memorial Competitive Grant	16.808	516,772
Second Chance Act Prisoner Reentry Initiative	16.812	390,685
Total U.S. Department of Justice		5,726,486
U.S. Department of Labor:		
Passed-through Economic Development and Industrial Corporation:		
Workforce Investment Act – Youth Activities	17.259	82,746
Total U.S. Department of Labor		82,746
U.S. Department of Transportation:		
Passed-through State Department of Transportation:		
Highway Safety Grant	20.205	2,502,048
State and Community Highway Safety	20.600	35,307
Total passed-through State Department of Transportation		2,537,355
Passed-through Massachusetts Bay Transportation Authority:		
Federal Transit Capital Investment Grants	20.500	490,885
Total U.S. Department of Transportation		3,028,240
National Science Foundation:		
Direct programs:		
Biological Sciences	47.074	149,766
Education and Human Resources	47.076	41,760
Total direct programs		191,526
Passed-through University of Massachusetts		
Biological Sciences	47.074	80,457
Education and Human Resources	47.076	4,095
Total passed-through University of Massachusetts		84,552
Total National Science Foundation		276,078
U.S. Environmental Protection Agency:		
Direct programs:		
Congressionally Mandated Award	66.202	31,085
Brownfields Assessment & Clean-up Cooperative	66.818	239,210
Total direct programs		270,295

CITY OF BOSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>2013 Expenditures</u>
Passed-through Environmental Protection Division:		
Historic Preservation Fund Grants-in-Aid	15.904	\$ 21,360
Total U.S. Environmental Protection Agency		<u>291,655</u>
U.S. Department of Energy:		
Direct programs:		
Energy Efficiency and Renewable Energy Information	81.117	56,000
ARRA – Electricity Delivery and Energy Reliability	81.122	13,947
ARRA – Energy Efficiency and Conservation Block Grant Program	81.128	870,919
Total U.S. Department of Energy		<u>940,866</u>
U.S. Department of Education:		
Direct programs:		
Civil Rights Training & Advisory Services	84.004	120,708
International Research & Studies	84.017	33,163
Foundation for Citizens Through Character Education	84.215	1,275,936
Foreign Language Assistance	84.293	130,164
Education Research, Development & Dissemination	84.305	137,578
Advanced Placement	84.330	261,895
Total direct programs		<u>1,959,444</u>
Passed-through State Department of Elementary and Secondary Education:		
Title I – Grants to Local Educational Agencies (note 4)	84.010	39,321,306
Special Education (note 4)	84.027	20,828,873
Vocational Education	84.048	1,451,783
Special Education – Preschool Grants (note 4)	84.173	570,815
Safe and Drug-Free Schools and Communities	84.186	12,031
Education for Homeless Children and Youth	84.196	49,235
Twenty-First Century Community Learning Centers	84.287	803,312
Technology Literacy Challenge Fund Grants (note 4)	84.318	101,802
Title III – Bilingual Language	84.365	3,226,816
Mathematics and Science Partnerships	84.366	582
Title II – Improving Teacher Quality	84.367	7,370,619
School Improvement Grants (note 4)	84.377	43,258
ARRA – Education Technology Grant (note 4)	84.386	10,590
ARRA – School Improvement Grants (note 4)	84.388	7,909,696
ARRA – Title I – Grants to Local Educational Agencies (note 4)	84.389	577,116
ARRA – Special Education	84.391	434,417
SFSF Race To The Top Early Learning Initiative	84.395	284,238
ARRA – SFSF Race To The Top Early Learning Initiative	84.395	10,460,462
Investing in Innovation (i3) Fund	84.411	1,090,472
Race to the Top – Early Learning Challenge	84.412	50,000
ARRA – Race to the Top – Early Learning Challenge	84.412	96,025
Innovation in School Planning	84.413	3,100
ARRA – Scaling Up Diplomas Now	84.413	346,427
Total passed-through State Department of Elementary and Secondary Education		<u>95,042,975</u>
Total U.S. Department of Education		<u>97,002,419</u>

CITY OF BOSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>2013 Expenditures</u>
National Historical Publications and Records Commission:		
Direct program:		
Public Schools Desegregation – ERA Records Project	89.003	\$ 39,441
Total National Historical Publications and Records Commission		<u>39,441</u>
U.S. Department of Health and Human Services:		
Direct programs:		
Injury Prevention and Control Research	93.136	3,609
CDC Investigations and Technical Assistance	93.283	91,184
Affordable Care Act (ACA) State Health Care Workforce Development Grants	93.509	2,171,309
ARRA – Prevention & Wellness Community	93.724	329,929
Cooperative Agreements to Support Comprehensive Aids Education	93.938	24,615
Total direct programs		<u>2,620,646</u>
Passed-through State Executive Office of Elderly Affairs:		
Special Programs for the Aging:		
Title VII Long-Term Care Ombudsman	93.042	50,000
Title III, Part D	93.043	940,336
Title III, Part B (note 4)	93.044	991,563
Title III, Part C (note 4)	93.045	2,079,967
Nutritional Services Incentive Program (note 4)	93.053	771,246
Total passed-through State Executive Office of Elderly Affairs		<u>4,833,112</u>
Passed-through State Office of Family Services:		
Child Care and Development Block Grant (CCDBG)	93.575	76,298
Passed-through State Department of Public Health:		
National Bioterrorism Hospital Preparedness	93.889	29,514
Passed-through State Department of Education:		
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	132,031
Total U.S. Department of Health and Human Services		<u>7,691,601</u>
Corporation for National and Community Services:		
Direct programs:		
Retired and Senior Volunteer Program	94.002	121,527
Senior Companions Programs	94.016	229,897
Total Corporation for National and Community Services		<u>351,424</u>
U.S. Department of Homeland Security:		
Direct programs:		
Severe Repetitive Loss Program	97.011	2,297
Emergency Management Performance Grants	97.042	118,296
Port Security Grant Program	97.056	1,061,147
Rail and Transit Security Grant Program	97.075	1,836,722
ARRA – Port Security Grant Program	97.116	108,002
Total direct programs		<u>3,126,464</u>

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2013

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>2013 Expenditures</u>
Passed-through State Executive Office of Public Safety:		
Assistance to Firefighters	97.044	\$ 129,551
Homeland Security Grant Program	97.067	17,413,479
Buffer Zone Protection Plan	97.078	166,935
Regional Catastrophic Preparedness Grant Program	97.111	<u>1,140,783</u>
Total passed-through State Executive Office of Public Safety		<u>18,850,748</u>
Total U.S. Department of Homeland Security		<u>21,977,212</u>
Total expenditures of federal awards		<u>\$ 232,025,523</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF BOSTON, MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(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 2013.

(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) H.O.M.E. Investment Partnership Program Loans (CFDA # 14.239)

Total expenditures in the accompanying schedule of expenditures of federal awards for the H.O.M.E. Investment Partnership (H.O.M.E.) program include the total amount of new loans made during fiscal year 2013. On June 30, 2013, 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 H.O.M.E. program is \$94,143,279. This amount is not included in the total expenditures in the accompanying schedule of expenditures of federal awards but is considered as an expenditure of 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, 2013

(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
	Child Nutrition Cluster:	
10.555	National School Lunch Program	\$ 29,582,573
10.559	Summer Food Service Program for Children	1,252,900
	Child Nutrition Cluster Total	\$ <u>30,835,473</u>
	CDBG Entitlement Grants Cluster:	
14.218	Community Development Block Grants	\$ 22,012,269
14.253	ARRA – Community Development Block Grants	169,287
	CDBG Entitlement Grants Cluster Total	\$ <u>22,181,556</u>
	Title I, Part A Cluster:	
84.010	Title I – Grants to Local Educational Agencies	\$ 39,321,306
84.389	ARRA – Title I – Grants to Local Educational Agencies	577,116
	Title I, Part A Cluster total	\$ <u>39,898,422</u>
	Special Education (IDEA) Cluster:	
84.027	Special Education	\$ 20,828,873
84.173	Special Education – Preschool Grants	570,815
	Special Education (IDEA) Cluster Total	\$ <u>21,399,688</u>
	Educational Technology State Grants Cluster:	
84.318	Technology Literacy Challenge Fund Grants	\$ 101,802
84.386	ARRA – Education Technology Grant	10,590
	Educational Technology State Grants Cluster Total	\$ <u>112,392</u>
	School Improvement Grants Cluster:	
84.377	School Improvement Grants	\$ 43,258
84.388	ARRA – School Improvement Grants	7,909,696
	School Improvement Grants Cluster Total	\$ <u>7,952,954</u>
	Aging Cluster:	
93.044	Special Programs for the Aging, Title III, Part B	\$ 991,563
93.045	Special Programs for the Aging, Title III, Part C	2,079,967
93.053	Nutritional Services Incentive Program	771,246
	Aging Cluster Total	\$ <u>3,842,776</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(5) Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the City provided awards to subrecipients as follows:

CFDA #	Federal program	Amount provided to subrecipients
11.557	ARRA – Broadband Technology Opportunities Program	\$ 196,078
14.218	Community Development Block Grants	4,052,726
14.231	Emergency Shelter Grants Program	1,221,380
14.235	Supportive Housing Program	12,834,232
14.238	Shelter Plus Care	5,515,018
14.239	H.O.M.E. Investment Partnerships Program	370,162
14.241	Housing Opportunities for Persons with AIDS	1,606,467
14.256	ARRA – Neighborhood Stabilization Program	338,768
14.257	ARRA – Homeless Prevention and Rapid Rehousing	261,786
14.267	HUDS Continuum of Care	1,260,988
14.401	Fair Housing Assistance Program: Federal	5,599
14.889	Choice Neighborhood Grant	500,000
15.904	Historic Preservation Fund Grants-in-Aid	21,360
16.123	Community Based Violence Prevention	7,000
16.543	Missing Children’s Assistance	30,190
16.590	Grants to Encourage Arrest Policies	74,370
16.738	Edward Byrne Memorial Justice Assistance Grant	107,591
16.751	Edward Byrne Memorial Competitive Grant	95,214
16.812	Second Chance Act Prisoner Reentry Initiative	39,114
81.128	ARRA – Energy Efficiency and Conservation Block Grant Program	320,916
84.010	Title I – Grants to Local Educational Agencies	1,701,067
84.196	Education for Homeless Children and Youth	21,544
84.287	Twenty-First Century Community Learning Centers	63,500
84.330	Advanced Placement	121,049
84.367	Title II – Improving Teacher Quality	180,672
84.388	ARRA – School Improvement Grants	180,000
84.395	ARRA – SFSF Race To The Top Early Learning Initiative	2,000
84.411	Investing in Innovation (i3) Fund	262,500
93.042	Title VII Long-Term Care Ombudsman	50,000
93.043	Title III, Part D	285,861
93.044	Title III, Part B	285,997
93.045	Title III, Part C	795,307
93.053	Nutritional Services Incentive Program	618,089
97.067	Homeland Security Grant Program	903,771
	Total federal program expenditures to subrecipients	<u>\$ 34,330,316</u>



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Boston, MA 02111

Exhibit III

**Independent Auditors' 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, in accordance with the 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, the financial statements of the governmental 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 2013. Our report includes a reference to other auditors who audited the financial statements of the Dudley Square Realty Corporation, the Ferdinand Building Development Corporation, the City's Permanent Funds, the State-Boston Retirement System, the City's OPEB Trust Fund and Private-Purpose Trust Funds, the Trustees of the Public Library of the City of Boston, and the Economic Development and Industrial Corporation of Boston, as described in our report on the City's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of current year findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control 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, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of current year findings and questioned costs as items 2013-001 and 2013-002 related to the Boston Redevelopment Authority and the Boston



Exhibit III

Public Health Commission, respectively, which are discretely presented component units of the City, to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying current year schedule of findings and questioned costs as item 2013-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free from 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*.

Management's Responses to the Findings

Management's responses to the findings identified in our audit are described in the accompanying schedule of current year findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 19, 2013

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Current Year Findings and Questioned Costs
 Year ended June 30, 2013

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified for all opinion units		
Internal control over financial reporting:			
• Material weakness(es) identified?	<u> x </u>	yes	<u> </u> no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u> x </u>	yes	<u> </u> none reported
Noncompliance material to the financial statements noted?	<u> </u>	yes	<u> x </u> no

Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	<u> </u>	yes	<u> x </u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> x </u>	yes	<u> </u> none reported
Type of auditors' report issued on compliance for major programs:	Unmodified for all programs		
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	<u> </u> no

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Current Year Findings and Questioned Costs
 Year ended June 30, 2013

Identification of Major Programs

Name of federal program or cluster	CFDA #
CDBG Entitlement Grants Cluster:	
Community Development Block Grants	14.218
ARRA – Community Development Block Grants	14.253
Supportive Housing Program	14.235
Shelter Plus Care	14.238
H.O.M.E. Investment Partnerships Program	14.239
Title I, Part A Cluster:	
Title I – Grants to Local Educational Agencies	84.010
ARRA – Title I – Grants to Local Educational Agencies	84.389
Special Education (IDEA) Cluster:	
Special Education	84.027
Special Education – Preschool Grants	84.173
Title III – Bilingual Language	84.365
Title II – Improving Teacher Quality	84.367
School Improvement Grants Cluster:	
School Improvement Grants	84.377
ARRA – School Improvement Grants	84.388
ARRA-SFSF Race to the Top Early Learning Initiative	84.395
Aging Cluster:	
Special Programs for the Aging, Title III, Part B	93.044
Special Programs for the Aging, Title III, Part C	93.045
Nutritional Services Incentive Program	93.053
Homeland Security Grant Program	97.067
Child Nutrition Cluster:	
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559

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

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

CITY OF BOSTON, MASSACHUSETTS
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2013

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

Finding Number: 2013-001

Boston Redevelopment Authority – Timeliness of Bank Reconciliations

Background

It is the Boston Redevelopment Authority's (the Authority) policy that management perform bank reconciliations on a monthly basis to help ensure that all cash-based transactions are properly recorded. This internal control is a key component of the Authority's control environment as most transactions are cash-based.

Observation

During our audit of the Authority, we found management did not perform timely bank reconciliations for the last quarter of the fiscal year, March 2013 through June 2013. The lack of timely bank reconciliations was due to a general ledger conversion as of April 1, 2013. Further, through October 31, 2013, the Authority is not regularly reconciling their bank accounts.

Effect

Lack of timely bank reconciliations can lead to financial statement misstatements going undetected and/or uncorrected. Further, risk of misappropriation of assets rises when this type of control is not performed regularly.

Recommendation

While the Authority was able to manually recreate the June 2013 reconciliation, management should resolve the technical issues imbedded in this problem and implement a process to complete past reconciliations and perform them timely going forward.

Authority Management's Response

The software conversion process the Authority recently embarked upon presented numerous challenges throughout the year-end audit. While management agrees that the manual reconciliation used for the June 2013 reconciliation is less than ideal, it also recognizes that the intent is only a short term solution. Management continues to work closely with the Authority's systems consultant to resolve the technical issues and, upon completion, management will once again resume reconciliation of bank accounts on a timely basis to help ensure that all cash based transactions are properly recorded.

CITY OF BOSTON, MASSACHUSETTS
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2013

Finding Number: 2013-002

Boston Public Health Commission – Grant Receivables

Background

The Boston Public Health Commission (the Commission) reports a significant balance of accounts receivables within its financial statements. These receivables primarily relate to federal, state and city grants, and EMS patient receivables.

Observation

During our testing of grant receivables as part of our audit of the Commission's financial statements, we noted the following:

- multiple outstanding balances within these accounts related to prior years;
- significant issues with the application of cash obtained for contracts; and
- the lack of a detailed aging report resulting in management being unable to perform a sufficient review of aging balances within the accounts receivable and deferred revenue accounts.

Effect

The control deficiencies that caused these issues create a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

Recommendation

We recommend that Commission personnel receive additional training on the information systems to understand their available features in order to generate reports that will be useful to the Commission. With regard to aged receivables, it appears that the sub-ledger system can be used to produce an aging report that management could utilize to produce an accurate aging report, but that reporting feature was not being used. We also believe that the Commission needs to establish a procedure to ensure that grant receivable balances and aging reports are generated, reviewed and approved on a monthly basis by senior management.

Commission Management's Response

The Commission has worked with a financial systems implementation consultant to create a customized billing window, which will allow grant accountants to create billing entries that will be identical to the invoice sent to the grantors. This customization will allow the Commission to utilize the system aging reports and review prior applied cash applications for accuracy and to make adjustments if warranted. In the beginning of FY 2014, the Budget and Grant Administration department worked to reconcile prior outstanding fiscal year balances. This will allow aging reports to be run and reviewed in the third quarter of FY 2014 by Director of Administration and Finance.

CITY OF BOSTON, MASSACHUSETTS
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2013

Finding Number: 2013-003

Information Technology General Controls over the City's PeopleSoft Programs and Data

Background

The City of Boston (the City) information technology infrastructure and business applications are operated and maintained by the City's Department of Innovation and Technology (DoIT). DoIT's primary data center is located on the ground floor at City Hall. City Hall is also the location of the DoIT organization.

The City uses PeopleSoft business applications for Human Capital Management (HCM) and Financial Management (FN). Both applications are hosted at the City's data center. The HCM application is used by the City's Human Resources department to manage the employee base and payroll processing. The PeopleSoft FN solution, which is used to administer all key City financial processes and reporting, underwent a major upgrade starting in 2011 with the new system going live in July of 2012. As part of the upgrade, the City undertook to re-engineer business processes and re-train City employees in addition to upgrading the application environment.

Observation

During our audit of the City's financial statements for the fiscal year ended June 30, 2013, we identified certain weaknesses pertaining to the administration of access to financially significant programs and data and certain weaknesses pertaining to financial program software change management that directly impact the PeopleSoft general information technology control environment and, accordingly, related information technology application controls.

We noted the following related to the controls tested over the various aspects of system access:

- *Provision of Access Rights* – Documented approvals for access granted to seven HCM roles and five FN roles could not be provided from a sample of 40 user roles tested.
- *Modification of Access Rights* – One FN user and five HCM users from a sample of 25 users retained their same PeopleSoft access after changing business roles.
- *Termination of Access Rights* – Three users from a sample of 40 users terminated from City employment retained HCM access and one user terminated from City employment retained FN access. Additionally, seven terminated persons remained enabled in Active Directory.

We noted the following related to the controls tested over the various aspects of program change management:

- *Approving Application Changes* – Eight FN changes from a sample of 15 FN changes were migrated to production without documented approval. Additionally, six of the FN changes were migrated into production outside the use of DoIT's Phire change management tool, which is an integral part of the City's change management process.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2013

- *Migrating Software Changes* – Sixty-five users have the ability to migrate application and system software changes to production. Of the 65 users, 56 of them (35 HCM and 21 FN) were inadvertently provided the capability following a system upgrade conducted by DoIT.
- *System Software Changes* – System software is the software processing layer which separates and interfaces the system hardware with the computer application used by the business users. In addition to the 56 users inadvertently provided with software change capability noted above, one migration account belonging to a terminated DoIT user also remained active.

Effect

Inadequate controls over the provision, modification and termination of access to key applications, system software/utilities and/or data increases the risk that persons may gain access to unauthorized processing capability and/or data.

Inadequate controls over the approval, management, and migration to production of changes to application code increases the risk that unauthorized and inappropriate changes may be made to key financial systems leading to unauthorized or inaccurate processing, and the misuse or misappropriation of assets. Inadequate controls over the capability to introduce system software changes into production can also jeopardize the well-being of the application environment, and the integrity of application processing and data.

Recommendations

Relating to system access, we recommend that the City's DoIT:

- Review current policies over the provision, maintenance and termination of user access to systems and applications to ensure that all new access, change of access, and termination of access requests receive approval by the appropriate level of authority.
- Reinforce with staff adherence to City policies regarding the management of access to systems.
- Periodically review the current number of persons with privileged systems and/or database administrator rights and ensure that these rights are assigned to the fewest number of authorized persons necessary to adequately manage the systems' environments.
- Require retention of documentation evidencing provision of access, change of access and termination of access approvals for audit or investigative purposes.

It is further recommended that using reports generated from appropriate applications and systems, City functional management (both business and IT) conduct periodic reviews of access to the City network and key financial applications and take steps to remove unauthorized access and any inappropriate privileges.

Related to program change management, we recommend that DoIT:

- Review current policies over the approval, maintenance, migration and documentation of application and system software changes into production to ensure that access, change and approval to migrate software receives appropriate authority and oversight.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2013

- Reinforce with staff adherence to DoIT's program change management policies regarding the management of access to systems and the ability to migrate software changes.
- Ensure that all changes to software are appropriately authorized, tested, approved and documented before migration into production.
- Review staffing and process used to migrate software into production and ensure that an appropriate segregation of duties exists between developers' roles and responsibilities and those migrating software into production.

City Management's Response

The Department of Innovation and Technology (DoIT) Management strongly disagrees with KPMG's summary conclusion that the exceptions noted in this finding reflect a significant deficiency in our internal control environment. Management believes the root cause of the majority of the findings noted is the result of documentation issues. Further, no malfeasance, irregularities, or inappropriate action was identified by KPMG or by Management. Moreover, it is our belief that the exceptions noted do not illustrate a systemic breakdown of controls and that reliance should be able to be placed on our systems. It is noteworthy that this was the first year that KPMG has performed detailed testing of these systems and it was a learning process for all involved and that future audits will benefit from the learning garnered by all parties.

In response to specific recommendations made by KPMG, the DoIT is taking the following action:

System Access:

- Management is reviewing and enhancing procedures associated with the documentation of approval for access to applications. Specifically, access approval for BAIS Support Staff will be documented as will approval for access requests made by business owners.
- The BAIS HCM Team started reviewing position changes on a regular basis as of September 30, 2013, and works with department and business line owners to determine if BAIS HCM core access needs to be modified or discontinued. A review of all position changes will be performed for the period July 1, 2013 through September 30, 2013, and updates made by February 28, 2014. The Identity Management Application manages inactivating BAIS FN core access upon job transfer.
- Several users were identified as having inappropriate system access and updates were made while KPMG was in the field performing their audit.
- Since January 2013, the Active Directory Team has been receiving weekly reports of terminated employees so that access can be disabled. As reviewed during the audit, at the time an employee terminates employment their user ID to Active Directory is changed and the account remains active (although the users can't access) for 90 days to facilitate the migration of data to the Enterprise Vault for archival and eDiscovery purposes. Four of the seven exceptions relate to employees in the 90-day archival period.
- Data Base Administrator and PeopleSoft Administrator access will be reviewed and approved by the Chief Information Officer on a periodic basis. A practice has been implemented that requires Developers who serve as Security Administrators to request written authorization from the Senior

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2013

Manager of the associated Application Team if a business need arises that requires the assignment of this role.

- DoIT will continue to use “TrackIT” to document requests for application access outside of the application access provisioned through the Identify Management Application.

Program Access:

- The BAIS Team uses the Phire tool to manage the migration of all development work. Development work is migrated to Production by our Technical Application Management Team. Developers do not migrate work to Production and no evidence of this happening has been identified.
- The BAIS FN exceptions noted were approved verbally by the BAIS Program Director and migrated to Production by a member of the Technical Application Management Team. The Technical Application Management Team has been instructed not to take any verbal authorizations to migrate development projects to Production in the future. The exceptions noted occurred in the first three months following a major BAIS FN application upgrade and is not typical of existing business practice.
- Sixty-five users were noted as having access to migrate changes to production; 56 of these users had inappropriate access as the result of an error which was made in establishing Mainframe User profiles for BAIS Staff. This error has been corrected and procedures have been implemented for a periodic documented review of all Mainframe Access privileges. The remaining nine users out of 65 noted reflect two senior developers already included in the 56 above. These developers have higher mainframe security privileges because they maintain the JCL libraries used by the applications. No update changes to this access are going to be made since these specific developers are the ones with the skill set in the organization to maintain these libraries. Four accounts represent “Super user” ID’s that are distributed to Senior Managers daily and managed and controlled by the Application Managers. Lastly, the remaining three exceptions noted represent Mainframe profiles and are not user accounts.

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(3) Findings and Questioned Costs Relating to Federal Awards

Finding number:	2013-004
Federal agency:	U.S. Department of Education
Pass-through agencies:	Massachusetts Department of Elementary and Secondary Education
Programs:	ARRA – SFSF Race to the Top Early Learning Initiative Title III – Bilingual Language Special Education (IDEA) Cluster School Improvement Grants Cluster Title I, Part A Cluster
CFDA #s:	See below
Award numbers:	See below
Award years:	See below
Finding:	Management of Grant Funds

Criteria

The City of Boston Public Schools (BPS) receives funding from the Commonwealth of Massachusetts’ Department of Elementary and Secondary (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 drawdown “requests should be based, as much as possible, on actual expenditures, rather than what is obligated”. The manual further states that “by submitting a request the grantee certifies that the request is in compliance with the “Cash Management Act” and EDGAR regulations, which allows for cash advances provided grantees maintain procedures to minimize the time elapsing between receipt and disbursement of grant funds”.

Condition

During our audit of cash management for the programs and grant awards detailed below, we found that the City drew down the entire amount of the grant award by August 31, 2012, which reflected an advance of federal funds as the City did not incur expenditures prior to the final draw to make it a request for reimbursement. Despite returning a portion of these advanced funds to DESE for certain awards during fiscal year 2013, certain amounts of these advances remained unspent subsequent to such return of funds.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2013

Therefore, it does not appear that the City minimized the amount of time between drawdown and expenditure for these advances.

Additionally, in testing the final financial reports (FR-1) for awards received from DESE for the state grant year ending August 31, 2012, we noted that the amount included in the FR-1 on the line titled "B. Funds expended" for certain awards did not reconcile to the expenditure amounts for the awards as recorded in the City's general ledger through the filing of the FR-1.

The following tables represent the awards included in this finding, as well as a summarization of our specific cash management and reporting results:

ID	Grant	CFDA	City grant number	DESE award number	Grant period
A	Race to the Top	84.395	BPS12403	201-057-2-0035-M	9/1/11 to 6/30/12
B	Race to the Top	84.395	BPS12410	202-013-2-0035-M	2/10/12 to 8/31/12
C	Race to the Top	84.395	BPS12421	203-002-2-0035-M	9/1/11 to 8/31/12
D	Title III	84.365	BPS12272	180-004-2-0035-L	9/1/11 to 8/31/12
E	Special Education Cluster	84.027	BPS12147	274-349-2-0035-M	2/14/12 to 8/31/12
F	School Improvement Grants	84.388	BPS12418R	767-004-2-0035-M	7/1/11 to 6/30/12
G	School Improvement Grants	84.388	BPS12395R	767-002-2-0035-M	9/1/11 to 8/31/12
H	Title I	84.010	BPS12385	316-011-2-0035-M	4/6/12 to 8/31/12

Cash Management Results:

Grant	Cash drawn at August 31, 2012	Expenditures recorded for award at filing of FR-1 Report	Overdrawn at filing of FR-1 Report	Amount returned to DESE with FR-1 Report	Overdrawn subsequent to return of funds
A	\$ 4,738,638	3,581,872	1,156,766	919,592	237,174
D	2,993,514	2,680,817	312,697	264,587	48,110
E	408,000	234,813	173,187	112,633	60,554
F	1,256,173	986,221	269,952	—	269,952
G	7,538,828	6,496,370	1,042,458	—	1,042,458

CITY OF BOSTON, MASSACHUSETTS
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Reporting Results:

<u>ID</u>		<u>Expenditure amount per FR-1</u>	<u>Expenditure amount per general ledger</u>	<u>Difference</u>
A	\$	3,819,046	3,581,872	237,174
B		39,976	25,045	14,931
C		50,000	47,730	2,270
D		2,728,927	2,680,817	48,110
E		295,367	234,813	60,554
F		1,256,173	986,221	269,952
G		7,538,828	6,496,370	1,042,458
H		212,500	129,796	82,704

Cause

Under DESE requirements, the City is required to make its final draw on a grant award in the month prior to the end of the award. At that point, BPS estimates its expected ultimate expenditures based on current and expected obligations of funds and executes the final draw based on that amount. In some cases, the time required to liquidate current and expected obligations may take several months causing delays between the amounts drawn and amounts disbursed. The amount of expenditures estimated may also be overstated in which case the City will return funds to DESE upon the filing of the FR-1 report. This revised estimate of ultimate award expenditures is the amount reported on the FR-1.

Effect

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

Questioned Costs: None

Recommendation:

We recommend that the City implement policies and procedures to ensure that the time between drawdown of award funds and expenditure for its BPS programs is minimized and to ensure that accurate award expenditure amounts are reported to the Commonwealth annually on the FR-1 reports.

Auditee Corrective Action Plan

Contact Person: Prema Andrew

Management's Response:

Boston Public Schools concurs with the finding and the recommendation. The required reporting mechanism developed by the state for school districts, which includes a short window of availability for quarterly reporting, the joining of data to state employee identification numbers that are not maintained in BPS or City of Boston systems, the requirement for cumulative reporting necessitating the addition of quarterly expenditures to previously reported expenditures, construction of data from multiple systems that

CITY OF BOSTON, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2013

are then linked in a format conducive to reporting on this system, and no functionality to electronically import data resulting in requirements for manual entry are burdensome and effect the timeliness and accuracy when working to meet reporting requirements. BPS will continue its practice of monitoring spending rates during the grant period, and bringing critical variances to the attention of senior leadership and grant program managers. BPS has reestablished its network of grant managers that now meet on a periodic basis. This allows for regular and consistent communication, data review, sharing of best practice, and mutual accountability for financial results. BPS is working closely with Massachusetts Department of Elementary and Secondary Education to review our practice and their requirements in order to minimize the occurrence of instances described here and maximize full use of awarded funding for the benefit of the school district.

Anticipated Completion Date:

June 30, 2014

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Finding number: 2013-005
Federal agency: U.S. Department of Education
Pass-through agency: Massachusetts Department of Elementary and Secondary Education
Program: Special Education (IDEA) Cluster
CFDA #: 84.027
Award number: 240-346-3-0035-N
Award year: September 1, 2012 to August 31, 2013
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

During our testwork, we noted that certified documentation supporting one out of 41 payroll expenditures selected for testwork could not be located by the City.

Cause

The cause appears to be the misfiling of the certified documentation.

Effect

The City is not in compliance with the documentation standards of A-87 for the item noted.

Questioned Costs: \$1,605

Recommendation:

We recommend that the City reiterate the importance of maintaining documentation of time records supporting charges made to Federal awards to responsible staff.

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Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2013

Auditee Corrective Action Plan

Contact Person: Prema Andrew

Management's Response:

Boston Public Schools (BPS) concurs with the finding and the recommendation. The BPS Accounting Unit has sent notification to the Special Education Department of document requirements and the district policy that all employees are required to sign-in daily. The Office of Business Services, Accounting Unit will conduct periodic random audits to ensure compliance.

Anticipated Completion Date:

June 30, 2014

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Finding number: 2013-006
Federal agency: U.S. Department of Agriculture
Pass-through agencies: Massachusetts Department of Elementary and Secondary Education
Programs: Child Nutrition Cluster
CFDA #: 10.555
Award numbers: 4MA300303
Award years: September 1, 2012 through June 30, 2013
Finding: Reporting of Meal Counts for Reimbursement

Criteria

To receive reimbursement payments for meals, a school food agency (SFA) must submit claims for reimbursement to its administering agency (7 CFR sections 210.8(b), 225.9(d), and 225.15(c)(2)). At a minimum, a claim must include the number of reimbursable meals served by category and type during the period covered by the claim. All meals claimed for reimbursement must (a) be of types authorized by the SFA’s administering agency; (b) be served to eligible children; and (c) be supported by accurate meal counts and records indicating the number of meals served by category and type (7 CFR Sections 201.7(c), 210.8(c) and 225.9(d)).

Condition

Three monthly reimbursement claims submitted by the City during the fiscal year were selected for testwork. For one of the months selected, it was noted that the number of meals reported for one out of 10 schools sampled from the Supplement to Claim for Reimbursement supporting the monthly claim did not agree to the City’s WINSNAP system which tracks meal counts. The meal count reported in WINSNAP was in excess of the count included for reimbursement, and the variance between WINSNAP and the Supplement to Claim for Reimbursement was approximately 1% of the total meals tested for the monthly claim.

Cause

The reporting difference appears to be due to an adjustment of the meal count for the school made in WINSNAP subsequent to the filing of the reimbursement claim.

Effect

Inaccurate reporting of meal counts may result in inaccurate reimbursement.

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Questioned Costs: None

Recommendation:

The City should review its policies and procedures regarding the processing of adjustments made to meal counts in its WINSNAP system and the submission of revised reimbursement claims in cases where such adjustments are made subsequent to the original filing of the claim.

Auditee Corrective Action Plan

Contact Person: Prema Andrew

Management's Response:

Food and Nutrition Services (FNS) has enacted a rule of locking the accounting period three days prior to the submission of claim. As a result, what is submitted to the State cannot be altered in any way and reimbursements remain accurate with projections and meals counts synonymous in WINSNAP and DESE.

Anticipated Completion Date:

June 30, 2014

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Finding number:	2013-007
Federal agency:	U.S. Department of Education
Pass-through agencies:	Massachusetts Department of Elementary and Secondary Education
Programs:	ARRA – SFSF Race to the Top Early Learning Initiative Title III – Bilingual Language Special Education (IDEA) Cluster School Improvement Grants Cluster Title I, Part A Cluster Title II – Improving Teacher Quality
CFDA #s:	84.395 84.365 84.027, 84.173 84.377, 84.388 84.010, 84.389 84.367
Award numbers:	Various
Award years:	Various
Finding:	Internal Control over Allowability of Non-Payroll Expenditures

Criteria

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure that costs are allowable under the grant award.

Condition

As described in finding 2013-003, the City's PeopleSoft Financial Management (FN) system, which is used to administer all key City financial processes and reporting, underwent a major upgrade starting in 2011 with the new system going live in July of 2012. With this upgrade, many of the City's business processes and related internal controls became automated instead of being evidenced through manual means. This automation of internal controls included the authorization of nonpayroll expenditures, which is considered a key control over the allowability of federal expenditures for the Boston Public Schools (BPS). With this automation, BPS phased out its policy for nonpayroll expenditures to be manually authorized, resulting in the authorization of a number of federal nonpayroll expenditures tested during our audit being evidenced solely through automated means. However, as described in finding 2013-003, certain deficiencies in the general information technology controls over the FN system were identified, causing us to be unable to rely upon such automated authorization controls.

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Cause

The observations noted in finding 2013-003 appear to be largely due to the effect of the upgrade impacting documentation of certain approvals regarding program access and change management.

Effect

Refer to finding 2013-003 for the effects of these observations.

Questioned Costs: None

Recommendation:

Refer to finding 2013-003 for specific recommendations for the observations associated with this finding.

Auditee Corrective Action Plan

Contact Person: Prema Andrew

Management's Response:

Refer to finding 2013-003 for management's response to the observations associated with this finding.

Anticipated Completion Date:

June 30, 2014

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Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2013

Finding number:	2013-008
Federal agency:	U.S. Department of Education
Pass-through agencies:	Massachusetts Department of Elementary and Secondary Education
Programs:	Title III – Bilingual Language
CFDA #:	84.365
Award numbers:	180-008-3-0035-N
Award years:	September 1, 2012 through June 30, 2013
Finding:	Private School Participation

Criteria

An SEA, LEA, or other eligible entity (or consortium of such entities) receiving financial assistance under the Title III –Bilingual Language program must provide eligible private school children and their teachers or other educational personnel with equitable services or other benefits under the program. Before an agency or consortium makes any decision that affects the opportunity of eligible private school children, teachers, and other educational personnel to participate, the agency or consortium must engage in timely and meaningful consultation with private school officials. Expenditures for services and benefits to eligible private school children and their teachers and other educational personnel must be equal on a per-pupil basis to the expenditures for participating public school children and their teachers and other educational personnel, taking into account the number and educational needs of the children, teachers and other educational personnel to be served (Sections 5142 and 9501 of ESEA (20 USC 7217a and 7881); 34 CFR sections 299.6 through 299.9).

The control of funds used to provide equitable services to eligible private school students, teachers and other educational personnel, and families, and title to materials, equipment, and property purchased with those funds must be in a public agency and the public agency must administer the funds, materials, equipment, and property. The provision of equitable services must be by employees of a public agency or through a contract by the public agency with an individual, association, agency, or organization that is independent of any private school or religious organization. The contract must be under the control of the public agency (Sections 1120(d), 5142(c), and 9501(d) of ESEA (20 USC 6320(d), 7217a(c) and 7881(d); 34 CFR sections 200.67 and 299.9).

Condition

Upon review of the consultations of local area private schools made by the Boston Public Schools (BPS) regarding Title III participation, it was noted that BPS only consulted with officials from the Boston Catholic Schools due to lack of response from other area private schools in prior years. Further, the Title III per pupil spending for participating private school pupils was calculated to be \$32 while per pupil spending for participating public school children was calculated to be \$194.

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Cause

The lack of comparability between private school and public school per pupil spending appears to be due to limited participation in the program from local area private schools.

Effect

Lack of comparable spending allocations for private and public school Title III program participants.

Questioned Costs: None

Recommendation:

The City should make a broader effort to consult with private schools and encourage their participation in the Title III program and more closely monitor the spending on bilingual education for those private school pupils that are participating in the program.

Auditee Corrective Action Plan

Contact Person: Prema Andrew

Management's Response:

Boston Public Schools concurs with the finding and the recommendation.

The BPS Grants Management Department will follow up with the ELL Department to ensure that there is a broader effort to consult with private schools and encourage their participation in the Title III program. BPS will also monitor the spending on bilingual education for private school pupils to ensure that there are comparable spending allocations for both private and public school students.

Anticipated Completion Date:

June 30, 2014

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 Year ended June 30, 2013

Finding number: 2013-009
Federal agency: U.S. Department of Education
Pass-through agencies: Massachusetts Department of Elementary and Secondary Education
Programs: Title II – Improving Teacher Quality
CFDA #: 84.367
Award numbers: 0140-006303-2013-0035
Award years: September 1, 2012 through June 30, 2013
Finding: Maintenance of Effort – Equitable Services

Criteria

Under the Title II – Improving Teacher Quality program, a local education agency (LEA) must provide services to teachers and other appropriate staff in private schools that are equitable to the level of services provided to teachers and appropriate staff in the public schools the LEA administers. In calculating the amount of Title II funds that an LEA must reserve for equitable services to teachers and other staff in private schools, an LEA must consider the relative numbers and needs of public and private school students. In doing so, an LEA may calculate the amount of Title II funds to be made available on a per-pupil basis, considering only the relative enrollment of public and private school students, on the assumption that these numbers also accurately reflect the relative needs of students and teachers in public and private schools. An LEA also may use other factors relating to need and not base equal expenditures only on relative enrollments, although it may not use relative poverty of the students alone as a factor.

In addition, an LEA's calculation of the amount of Title II funds it must reserve for equitable services takes into consideration only the amount of the award that is used to provide professional development for public school teachers and staff. However, the amount that an LEA reserves for professional development of private school teachers and other staff under Title II must not be less than the aggregate amount of FY 2001 funds that the LEA used for professional development under the former Eisenhower Professional Development program and Class-Size Reduction program (Section 9501(a) and (b)(3)(B) of ESEA (20 USC 7881(a) and (b)(3)); 34 CFR section 299.7).

Condition

The City of Boston Public Schools (BPS) was unable to determine amounts provided to private schools for equitable services related to professional development under the Title II program during fiscal year 2013.

Cause

The condition appears to be caused by a lack of monitoring of amounts for equitable services provided to private schools under the Title II program.

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Effect

Potential lack of equitable services related to professional development provided to Boston area private schools.

Questioned Costs: None

Recommendation:

BPS management should refamiliarize staff with the equitable services requirements of the Title II program and establish policies and procedures to monitor the provision of such services to ensure compliance with these equitable services requirements.

Auditee Corrective Action Plan

Contact Person: Prema Andrew

Management's Response:

Boston Public Schools concurs with the finding and the recommendation.

The BPS Grants Management Department will follow up with department heads and grant managers to ensure compliance with the equitable services requirements of the Title II program and establish policies and procedures to ensure that such professional development services are provided to Boston area private schools.

Anticipated Completion Date:

June 30, 2014

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Year ended June 30, 2013

Finding number: 2013-010
Federal agency: U.S. Department of Homeland Security
Pass-through agency: Massachusetts Executive Office of Public Safety
Program: Homeland Security Grant Program
CFDA #: 97.067
Award number: Boston FFY 08 UASI
Award year: March 1, 2009 to December 31, 2012
Finding: Inaccurate Reporting

Criteria

The Commonwealth of Massachusetts Executive Office of Public Safety and Security (EOPSS) requires its subrecipients of Homeland Security Grant Program awards to file a Quarterly Financial Report for each contract that the subrecipient has with EOPSS. These reports include amounts expended for the quarter and expended to date, and are required to be based on information contained in the subrecipient's financial records.

Condition

Of the five Quarterly Financial Reports we reviewed during our audit, we noted that the amount expended for the quarter included on one of the Quarterly Financial Reports appeared understated by \$224,034 when compared to the City's financial records (\$72,537 was reported in the Quarterly Financial Report with the financial records indicating \$296,571 in expenditures).

Cause

This appears to be the result of an inadvertent omission of one drawdown request made during the quarter in the amount of the aforementioned difference.

Effect

The City filed inaccurate reports with EOPSS.

Questioned Costs: None

Recommendation:

We recommend that the City re-emphasize its reporting policies and procedures related to the Homeland Security Grant Program to ensure that all financial reports filed are complete and accurate.

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Auditee Corrective Action Plan

Contact Person: Rene Fielding

Management's Response:

The Mayor's Office of Emergency Management (OEM) will save a PDF copy of all the financial reports used to account for the Quarterly Reports so that should dates of submission change there will be backup for how the costs were derived on the day the reports were calculated. All reporting going forward will also include any logs or reports providing a crosswalk to documented details. Further, OEM will reconcile the quarterly financial reports to the Project Grant summary prior to submission to EOPSS.

Anticipated Completion Date:

Done. Financial reports and the invoice tracking spreadsheet were saved for the past quarterly report submission and amounts were highlighted for ease of figuring out submission amounts.

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Finding number: 2013-011
Federal agency: U.S. Department of Homeland Security
Pass-through agency: Massachusetts Executive Office of Public Safety
Program: Homeland Security Grant Program
CFDA #: 97.067
Award number: Boston FFY 10 UASI
Award year: February 12, 2012 to June 30, 2013
Finding: Monitoring of Subrecipient A-133 Reports

Criteria

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

Condition

During our audit, we found that the City notified subrecipients for the Homeland Security Grant Program that they are required to follow the audit requirements of OMB Circular A-133 and are required to submit the required reporting within nine months of the subrecipient's fiscal year-end. We noted that the City obtained the OMB Circular A-133 audit reports for each of these subrecipients, however, we noted that the audit reports for two of the City's eight subrecipients were received in excess of five months after the issuance of the report. Additionally, we also found that six of the eight subrecipients' A-133 reports did not include any expenditures for the Homeland Security Grant Program passed through the City on the schedule of expenditures of federal awards, and the remaining two subrecipients reported an amount less than the amount recorded in the City's accounting records.

Cause

The untimely receipt of the subrecipient audit reports appears to be due to the lack of substantive follow-up on the part of the City. The City did send a communication to its subrecipients regarding the omission of expenditures from the Homeland Security Grant Program passed through the City from the subrecipients' schedules of expenditures of federal awards, however, this communication was sent after completion of the fiscal year 2012 audits which were received during the period under audit.

Effect

Untimely receipt and review of subrecipient audit reports could result in findings related to the Homeland Security Grant Program not being addressed by the City and corrected by the subrecipient in a timely manner.

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

Questioned Costs: None

Recommendation:

We recommend that the City incorporate more stringent efforts to ensure that they are provided with subrecipient audit reports on a timely basis and that those reports include the Homeland Security Grant Program expenditures passed through the City on the respective schedules of expenditures of federal awards.

Auditee Corrective Action Plan

Contact Person: Rene Fielding

Management's Response:

The Mayor's Office of Emergency Management will send the subrecipients' Jurisdictional Point of Contact, or assigned designee, all pertinent financial details necessary for their annual reporting. The reporting will be sent no later than October 1st of the next fiscal year as long as all transactions are complete.

The following March, the reporting will be sent again with the annual letter requesting their prior year A-133 report. As soon as the report is received, verification that the City or Town reported like numbers from the prior year's reporting will be corroborated, or corrective action will be taken.

Anticipated Completion Date:

June 30, 2014

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Finding number: 2013-012

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

Pass-through agencies: N/A – Direct Funding

Programs: CDBG Entitlement Grants Cluster
 Supportive Housing Program
 Shelter Plus Care
 H.O.M.E. Investment Partnerships Program

CFDA #s: 14.218; 14.235, 14.238, 14.239

Award numbers: Various

Award years: Various

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

Criteria

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

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

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

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

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

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

Condition

During the audit, we noted that the City made progress toward gathering the information necessary to comply with the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements during the fiscal year ended June 30, 2013. However, they were unable to submit any required FFATA reports until subsequent to June 30, 2013.

Cause

Although the City made progress in gathering the necessary FFATA information, there was no standard process in place during the year to gather all of the information required for FFATA reporting.

Effect

The City was not in compliance with the FFATA regulations and reporting for fiscal year 2013.

Recommendation:

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

CITY OF BOSTON, MASSACHUSETTS
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Questioned Costs: None

Auditee Corrective Action Plan

Contact Person: Prema Andrew

Management's Response:

The Auditing Department is working to institute processes to identify and track contracts and sub-awards subject to FFATA regulations and to gather the information necessary to ensure that all registration and reporting requirements are being adhered to. Progress has been made with this in fiscal year 2013; however work needs to continue to ensure that all reports are filed timely. The Auditing Department will continue to work through the regulations and reporting requirements to be able to comply with FFATA in fiscal year 2014.

Anticipated Completion Date:

June 30, 2014

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Finding number: 2013-013
Federal agency: U.S. Department of Housing and Urban Development
Pass-through agency: N/A – Direct Funding
Program: CDBG Entitlement Grants Cluster
CFDA #s: 14.218; 14.253 (ARRA)
Award numbers: B-09-MC25-0002; B-09-MY25-0002
Award year: July 1, 2010 to June 30, 2011
Finding: Reporting/Earmarking Requirements

Criteria

Federal law requires entities that receive Community Development Block Grant (CDBG) funds to file a Comprehensive Annual Performance and Evaluation Report (CAPER) 90 days after the end of the grantee’s program year. Included within the CAPER is a CDBG Financial Summary Report (C04PR26) generated from the U.S. Department of Housing and Urban Development’s Integrated Disbursement and Information System (IDIS)

Federal law also requires entities that receive CDBG funds to 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

Upon our testing of the expenditure amounts reported in the CDBG Financial Summary Report, it was determined that the Department of Neighborhood Development (DND) could not reconcile the amounts reported in the CDBG Financial Summary Report to CDBG expenditures recorded in the City’s underlying accounting records.

Additionally, DND uses the CDBG Financial Summary Report in the CAPER to evidence compliance with the earmarking requirements described above. Such report indicated that the City was in compliance with the aforementioned earmarking requirements, and we found no exceptions in our testing of the

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classification of expenditures included in the CDBG Financial Summary Report for purposes of determining compliance with the earmarking requirements. However, as noted above, the City could not reconcile the expenditures reported in the CDBG Financial Summary Report to the underlying accounting records.

Cause

This appears to result from a lack of policies and procedures requiring reconciliation between CDBG expenditures in the City's general ledger detail to amounts claimed in HUD's IDIS, and ultimately reported in the CAPER.

Effect

Based on the amounts 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 because the expenditure amounts cannot be reconciled to the City's accounting records.

Questioned Costs: Not Determinable

Recommendation:

We recommend that DND implement policies and procedures to reconcile the City's general ledger to the amounts claimed in IDIS, and ultimately reported in the CAPER at the end of the program year, on a routine periodic basis throughout the year. Such reconciliations would enable DND to ensure that expenditure amounts reported on the CAPER are consistent with the City's accounting records.

Auditee Corrective Action Plan

Contact Person: John Carbone

Management's Response:

We are currently working with the Auditing Department to revise and develop additional reconciliation procedures. In addition, DND is working with HUD to account for a more efficient manner in which to draw funds for payroll allocations.

Anticipated Completion Date:

June 30, 2014

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Finding number: 2013-014
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, 2012 to June 30, 2013
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 annually for projects with more than 26 units to every three years for projects with less than five units.

Condition

During our testing of DND's monitoring of housing quality standards through a sample selection of 12 projects, we noted the following:

- Eight of the 12 projects selected did not have housing quality inspections performed within an appropriate timeframe based on the number of units in the respective project.
- The DND was unable to locate the housing quality standards (HQS) inspection report for one of the projects selected for testwork.
- One project was required to have two units inspected, yet only one unit was inspected per the HQS inspection report.
- One HQS report was missing the inspector's signature.

Cause

This appears to be due to a lack of execution of policies and procedures to ensure that inspections are performed as required and that documentation of such inspections is complete and is maintained on file.

Effect

The City is not performing and retaining documentation of housing quality standards inspections as required.

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Questioned Costs: None

Recommendation:

We recommend that DND reiterate its policies and procedures to strengthen the review process to ensure that housing quality standards inspections are performed as required and that documentation maintained to evidence monitoring of projects for housing quality standards is complete.

Auditee Corrective Action Plan

Contact Person: John Carbone

Management's Response:

DND is in the process of implementing policies and procedures to improve efficiency and mitigate problems caused by management/owners' failure to provide access to the property for scheduled inspections. As DND fully implements its Salesforce project management database, inspection reports will be uploaded and available for review, and controls will be implemented to ensure that inspections are complete and properly documented.

Anticipated Completion Date:

June 30, 2014

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Finding number: 2013-015
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, 2012 to June 30, 2013
Finding: Internal Control over 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.

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition

During our testing of income monitoring, we noted that for all 10 projects selected for testwork, documentation related to the verification of low-income status and rental amounts was not maintained at the DND. We noted that the DND verifies low-income status and rental amounts through certified statements from the developer/owner and the developer/owner maintains the related documentation. However, the DND does not perform any additional verification of the information certified by the developer/owner. In our testing of the 10 projects selected, based on review of information maintained by the developer/owner, no instances of noncompliance related to income eligibility or rental amounts were noted.

Cause

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

Effect

The City is not adequately monitoring income eligibility and rental amounts.

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Year ended June 30, 2013

Questioned Costs: None

Recommendation:

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

Auditee Corrective Action Plan

Contact Person: John Carbone

Management's Response:

DND has implemented a policy in which all properties in its portfolio requiring inspection of income source documentation in accordance with HOME regulations will be verified by Compliance Unit staff. This process is under way for the current fiscal year. Upon inspection of these records for compliance, electronic copies of these documents will be uploaded and maintained in DND's Salesforce project management database and will be available for review by HUD representatives and auditors.

Anticipated Completion Date:

June 30, 2014