



CITY OF BOSTON, MASSACHUSETTS

Independent Auditors' Reports as Required by Title 2 U.S. Code of
Federal Regulations Part 200, *Uniform Administrative Requirements,
Cost Principles, and Audit Requirements for Federal Awards* and
Government Auditing Standards and Related Information

Year Ended June 30, 2016

CITY OF BOSTON, MASSACHUSETTS

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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 Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the City of Boston, Massachusetts' (the City) compliance with the types of compliance requirements described in the *OMB 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, 2016. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Boston Planning and Development Agency, Boston Public Health Commission, the Economic Development and Industrial Corporation of Boston, and the Trustees of the Public Library of the City of Boston, that received federal awards that are not included in the City's schedule of expenditures of federal awards for the year ended June 30, 2016. Our audit, described below, did not include the operations of these entities because they engaged other auditors to perform audits in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002, 2016-004 through 2016-007, and 2016-010 through 2016-014. 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 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002, 2016-004, 2016-009 through 2016-012, and 2016-015 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-003, 2016-005 through 2016-008, 2016-013, and 2016-014 to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 29, 2016, 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 the Uniform Guidance 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.

Other Matter – Reissuance of Reports

The report on compliance for each major program and the report on internal control over compliance replace our previously issued reports dated December 29, 2016. As discussed in note 5 to the schedule of expenditures of federal awards, the Preschool Development Grant (PDG) (CFDA No. 84.419) was improperly excluded from the City's schedule of expenditures of federal awards for fiscal year 2016. The schedule of expenditures of federal awards has been restated to include the expenditures of the PDG program. Our report on compliance for each major program and the accompanying schedule of findings and questioned costs has been reissued to include the PDG program as a major federal program and findings 2016-011 through 2016-014. Our report on internal control over compliance has been reissued to include findings 2016-011 through 2016-015.

KPMG LLP

Boston, Massachusetts
December 29, 2016, except as to our opinion on the
Preschool Development Grant program (CFDA No. 84.419),
findings 2016-011 through 2016-015, and our report on
the schedule of expenditures of federal awards
which is January 25, 2018

CITY OF BOSTON, MASSACHUSETTS
Schedule of Expenditures of Federal Awards (Restated)
Year ended June 30, 2016

Federal grantor/pass-through grantor/program	Federal CFDA number	Passed through to subrecipients	Total federal expenditures
U.S. Department of Agriculture:			
Direct programs:			
Farmers' Market and Local Food Promotion Program	10.168	\$ —	5,000
Passed-through State Department of Education:			
Child Nutrition Cluster:			
National School Lunch Program (note 2)	10.555	—	34,662,393
Summer Food Service Program for Children	10.559	—	1,025,150
Total Child Nutrition Cluster		—	35,687,543
Child Nutrition Discretionary Grants Limited Availability	10.579	—	52,655
Fresh Fruit and Vegetable Program	10.582	—	722,081
Passed-through State Executive Office of Elder Affairs/Nutrition Program:			
Child and Adult Care Food Program	10.558	—	122
Total U.S. Department of Agriculture		—	36,467,401
U.S. Department of Commerce National Oceanic and Atmospheric Administration:			
Passed-through State Executive Office of Energy and Environmental Affairs:			
Coastal Zone Management Administration Awards	11.419	—	262,700
Total U.S. Department of Commerce National Oceanic and Atmospheric Administration		—	262,700
U.S. Department of Defense:			
Direct programs:			
Language Grant Program	12.900	—	59,311
Total U.S. Department of Defense		—	59,311
U.S. Department of Housing and Urban Development:			
Direct programs:			
Community Development Block Grants – Entitlement Grant	14.218	4,758,299	22,781,588
Emergency Solutions Grants Program	14.231	1,098,423	1,419,485
H.O.M.E. Investment Partnerships Program (note 3)	14.239	101,123	115,981,422
Housing Opportunities for Persons with AIDS	14.241	1,624,019	1,969,139
E.D.I.	14.246	—	119,184
Section 108 Loan Guarantees	14.248	—	1,523,471
ARRA – Neighborhood Stabilization Program	14.256	—	340,400
Continuum of Care Program	14.267	20,672,499	21,545,870
Fair Housing Assistance Program: State and Local	14.401	141,453	248,911
Fair Housing Initiatives Program	14.408	—	87,721
Community Challenge Planning Grant	14.704	—	123,340
Regional Housing Opportunity	14.857	—	184,282
Lead Hazard Reduction Demonstration Grant Program	14.905	—	990,080
Passed-through Massachusetts Department of Housing and Community Development:			
Community Development Block Grants – Non-Entitlement Grants	14.228	—	142,629
Choice Neighborhood Implementation Grant:			
Direct program	14.889	70,688	3,067,674
Passed-through Economic Development and Industrial Corporation of Boston	14.889	—	79,947
Total Choice Neighborhood Implementation Grant		70,688	3,147,621
Total U.S. Department of Housing and Urban Development		28,466,504	170,605,143
U.S. Department of the Interior:			
Passed-through Massachusetts Environmental Protection Division:			
Historic Preservation Fund Grants-In-Aid	15.904	—	34,765
Total U.S. Department of the Interior		—	34,765
U.S. Department of Justice:			
Direct programs:			
Community Based Violence Prevention	16.123	46,728	331,874
Part E – Developing, Testing and Demonstrating Promising New Programs	16.541	144,133	248,651
Grants to Encourage Arrest Policies	16.590	40,071	207,939
Public Safety Partnership and Community Policing Grants	16.710	—	747,139

CITY OF BOSTON, MASSACHUSETTS
Schedule of Expenditures of Federal Awards (Restated)
Year ended June 30, 2016

Federal grantor/pass-through grantor/program	Federal CFDA number	Passed through to subrecipients	Total federal expenditures
Forensic DNA Backlog Reduction Program	16.741	\$ —	175,283
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	69,132	73,751
Second Chance Act Reentry Initiative	16.812	623,427	1,112,056
Passed-through WestEd:			
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	—	2,079
Passed-through University of Illinois:			
National Institute of Justice Research, Evaluation, and Demonstration	16.560	—	4,059
Passed-through State Executive Office of Public Safety:			
Violence Against Women Formula Grants	16.588	—	54,399
Antiterrorism Emergency Reserve Grant:			
Direct program	16.321	—	213,441
Passed-through State Office for Victim Assistance	16.321	—	105,347
Total Antiterrorism Emergency Reserve Grant		—	318,788
Edward Byrne Memorial Justice Assistance Grant:			
Direct program	16.738	39,000	788,983
Passed-through State Executive Office of Public Safety	16.738	—	70,864
Total Edward Byrne Memorial Justice Assistance Grant		39,000	859,847
Paul Coverdell Forensic Sciences Improvement Grant:			
Direct program	16.742	—	72,578
Passed-through Massachusetts Department of State Police	16.742	—	24,154
Total Paul Coverdell Forensic Sciences Improvement Grant		—	96,732
Total U.S. Department of Justice		962,491	4,232,597
U.S. Department of Labor:			
Passed-through Economic Development and Industrial Corporation of Boston:			
Workforce Investment Act – Youth Activities	17.259	—	106,202
Total U.S. Department of Labor		—	106,202
U.S. Department of Transportation:			
Direct programs:			
National Infrastructure Investments	20.933	—	4,947,001
Passed-through State Executive Office of Transportation:			
Highway Safety Grant	20.205	—	271,254
Passed-through State Executive Office of Public Safety/Administration:			
State and Community Highway Safety	20.600	—	87,767
Total U.S. Department of Transportation		—	5,306,022
National Endowment for the Arts:			
Direct programs:			
Promotion of the Arts	45.024	—	64,375
Promotion of the Humanities	45.149	—	1,250
Total National Endowment for the Arts		—	65,625
U.S. Environmental Protection Agency:			
Direct programs:			
Brownfields Assessment & Clean-up Cooperative Agreements	66.818	—	29,852
Total U.S. Environmental Protection Agency		—	29,852
U.S. Department of Energy:			
Passed-through State Department of Energy Resources:			
Energy Efficiency and Renewable Energy Technology Deployment	81.129	—	58,758
Total U.S. Department of Energy		—	58,758
U.S. Department of Education:			
Direct programs:			
Foundation for Citizens Through Character Education	84.215	—	197,101
TEACH Grants	84.379	—	54,829
Investing in Innovation (i3) Fund	84.411	—	135,698

CITY OF BOSTON, MASSACHUSETTS
Schedule of Expenditures of Federal Awards (Restated)
Year ended June 30, 2016

Federal grantor/pass-through grantor/program	Federal CFDA number	Passed through to subrecipients	Total federal expenditures
Race to the Top – District Grants	84.416	—	363,281
Passed-through State Department of Elementary and Secondary Education:			
Title I – Grants to Local Educational Agencies	84.010	\$ —	32,305,392
Special Education (IDEA) Cluster:			
Special Education	84.027	—	16,542,914
Special Education – Preschool Grants	84.173	—	367,972
Total Special Education (IDEA) Cluster		—	16,910,886
Vocational Education	84.048	—	1,303,348
Education for Homeless Children and Youth	84.196	—	42,938
English Language Acquisition State Grants	84.365	—	1,643,240
Improving Teacher Quality State Grants	84.367	—	5,834,059
School Improvement Grants	84.377	—	2,106,088
ARRA – School Improvement Grants	84.388	—	288,325
ARRA – SFSF Race To The Top Incentive Grants	84.395	—	1,707
Passed-through State Department of Early Education and Care:			
Preschool Development Grants	84.419	2,780,436	3,372,728
Adult Education – Basic Grants to States:			
Passed-through State Department of Elementary and Secondary Education	84.002	—	1,548
Passed-through Economic Development and Industrial Corporation of Boston	84.002	—	4,068
Total Adult Education – Basic Grants to States		—	5,616
Twenty-First Century Community Learning Centers:			
Passed-through State Department of Elementary and Secondary Education	84.287	—	1,046,210
Passed-through Economic Development and Industrial Corporation of Boston	84.287	—	102,570
Passed-through American Institute for Research	84.287	—	59,663
Total Twenty-First Century Community Learning Centers		—	1,208,443
ARRA – SFSF Investing in Innovation (i3) Fund:			
Passed-through State Department of Elementary and Secondary Education	84.396	—	472
Passed-through Leslie University	84.396	—	8,095
Total ARRA – SFSF Investing in Innovation (i3) Fund		—	8,567
Total U.S. Department of Education		2,780,436	65,782,246
U.S. Department of Health and Human Services:			
Direct programs:			
Empowering Teens Through Health	93.079	—	438,932
Passed-through State Executive Office of Elderly Affairs:			
Special Programs for the Aging:			
Title VII, Chapter 2	93.042	118,271	118,271
Title III, Part D	93.043	112,354	425,738
National Family Caregiver Support, Title III, Part E	93.052	438,023	438,023
Aging Cluster:			
Special Programs for the Aging:			
Title III, Part B	93.044	665,669	937,541
Title III, Part C	93.045	1,385,331	1,965,314
Nutritional Services Incentive Program	93.053	341,448	360,975
Total Aging Cluster		2,392,448	3,263,830
Passed-through State Department of Education:			
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	—	111,955
Passed-through Boston Public Health Commission:			
Partnership to Improve Community Health	93.331	—	267,252
Passed-through Massachusetts Department of Early Education and Care:			
Child Care and Development Block Grant	93.575	—	2,901
Passed-through State Department of Public Health:			
National Bioterrorism Hospital Preparedness Program	93.889	—	2,340
Total U.S. Department of Health and Human Services		3,061,096	5,069,242

CITY OF BOSTON, MASSACHUSETTS
Schedule of Expenditures of Federal Awards (Restated)
Year ended June 30, 2016

<u>Federal grantor/pass-through grantor/program</u>	<u>Federal CFDA number</u>	<u>Passed through to subrecipients</u>	<u>Total federal expenditures</u>
Corporation for National and Community Services:			
Direct programs:			
Retired and Senior Volunteer Program	94.002	\$ —	128,868
Senior Companions Programs	94.016	—	253,374
Total Corporation for National and Community Services		—	382,242
U.S. Department of Homeland Security:			
Direct programs:			
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	—	4,034,423
Passed-through Massachusetts Emergency Management Agency:			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	—	2,892,096
Emergency Management Performance Grants	97.042	—	70,814
Passed-through State Executive Office of Public Safety:			
Homeland Security Grant Program	97.067	3,222,693	10,826,738
Regional Catastrophic Preparedness Grant Program	97.111	—	87,934
Passed-through Northeastern University:			
Centers for Homeland Security	97.061	—	62,091
Port Security Grant Program:			
Direct program	97.056	—	516,481
Passed-through State Executive Office of Public Safety	97.056	—	66
Total Port Security Grant Programs		—	516,547
Total U.S. Department of Homeland Security		3,222,693	18,490,643
Total expenditures of federal awards		\$ 38,493,220	306,952,749

See accompanying notes to schedule of expenditures of federal awards.

CITY OF BOSTON, MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards (Restated)

Year ended June 30, 2016

(1) 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 the Uniform Guidance. 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 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 2016 and includes \$1,431,780 of noncash contributions of commodities passed through the Commonwealth of Massachusetts. For purposes of the schedule of expenditures of federal awards, such commodities are valued at federally published wholesale prices. These commodities are not recorded in the financial records, although memorandum records are maintained.

(c) Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)

Disaster Grants – Public Assistance (FEMA) program expenditures are recorded in the schedule of expenditures of federal awards when deemed eligible per an approved Project Worksheet. Total expenditures in the accompanying schedule of expenditures of federal awards for the FEMA program includes \$2,892,096 of eligible expenditures incurred in fiscal year 2015.

(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 2016, as well as the unpaid principal balance from loans originated in previous years that are subject to continuing compliance requirements, as defined by the Uniform Guidance. As of June 30, 2016, the H.O.M.E. program had loan balances subject to continuing compliance requirements of \$114,436,309.

(4) Indirect Cost Rate

The City has elected to not use the 10% de minimus indirect cost rate as discussed in Section 200.514 of the Uniform Guidance.

CITY OF BOSTON, MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards (Restated)

Year ended June 30, 2016

(5) Restatement

During 2017, the City determined that a grant previously considered to be a state award should have been included as a federal award in the schedule of expenditures of federal awards for the year ended June 30, 2016. Accordingly, the City has included the grant within the accompanying schedule of expenditures of federal awards for the year ended June 30, 2016. The effect of this restatement was to increase total federal expenditures for the year ended June 30, 2016 by \$3,372,728, which resulted in an additional major program, Preschool Development Grants (CFDA # 84.419).



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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, 2016, 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 29, 2016. Our report includes a paragraph on other matters related to the City's implementation of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinions were not modified with respect to this matter. Our report also 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 Boston Retirement System, the City's OPEB Trust Fund and Private-Purpose Trust Funds, the Boston Public Health Commission, 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 and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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*.

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

Boston, Massachusetts
December 29, 2016

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Findings and Questioned Costs (Reissued)
 Year ended June 30, 2016

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified for all opinions**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None Reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **Yes**
 - Significant deficiencies: **Yes**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**
- (g) Identification of Major Programs

<u>Name of federal program or cluster</u>	<u>CFDA number</u>
H.O.M.E. Investment Partnerships Program	14.239
National Infrastructure Investments	20.933
Special Education (IDEA) Cluster:	
Special Education	84.027
Special Education – Preschool Grants	84.173
Preschool Development Grants	84.419
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
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036
Homeland Security Grant Program	97.067
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee: **No**

CITY OF BOSTON, MASSACHUSETTS
Schedule of Findings and Questioned Costs (Reissued)
Year ended June 30, 2016

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

None.

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Findings and Questioned Costs (Reissued)
 Year ended June 30, 2016

(3) Findings and Questioned Costs Relating to Federal Awards

Finding number: 2016-001

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: M15-MC25-0200

Award year: July 1, 2015 to June 30, 2016

Finding: Section 3 Summary Report

Prior Year Finding: No

Criteria

Per 24 CFR Sections 135.3(a)(1) and 135.9, each recipient that administers covered public and Indian housing assistance, regardless of the amount expended, and each recipient that administers covered housing and community development assistance in excess of \$200,000 in a program year, must submit information required by HUD 60002 *Section 3 Summary Report, Economic Opportunities for Low – and Very Low-Income Persons* (Section 3 Report). Key line items within this report as identified within the 2016 OMB Compliance Supplement include:

- a. Number of new hires that meet the definition of a Section 3 resident
- b. Total dollar amount of construction contracts awarded during the reporting period
- c. Dollar amount of construction contracts awarded to Section 3 businesses during the reporting period
- d. Number of Section 3 businesses receiving the construction contracts
- e. Total dollar amount of nonconstruction contracts awarded during the reporting period
- f. Dollar amount of nonconstruction contracts awarded to Section 3 businesses during the reporting period
- g. Number of Section 3 businesses receiving the nonconstruction contracts

Additionally, 2 CFR 200.303 indicates that non-Federal entities receiving Federal awards must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

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Views of Responsible Officials of the Auditee

Since the award year that is the subject of this finding, the City has implemented policies and procedures to ensure timely collection and accurate reporting of activities subject to Section 3. Prior to activity closeout and prior to approval of final payment disbursement, Section 3 data must be provided to and reviewed by the Compliance Unit. Section 3 reports are maintained in a file for aggregation at the close of the reporting period. To ensure activities subject to reporting have not been overlooked, they are reviewed against IDIS closeouts. In the future, prior to online submission, a second Compliance staff member will review the data to ensure no transcription or arithmetic errors are made, as was the case in this instance.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Findings and Questioned Costs (Reissued)

Year ended June 30, 2016

Finding number: 2016-002

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: M15-MC25-0200

Award year: July 1, 2015 to June 30, 2016

Finding: Housing Quality Standards

Prior Year Finding: Yes; 2015-003

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 92.209(i), 92.252(f), and 92.504 (d) 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.

Additionally, 2 CFR 200.303 indicates that non-Federal entities receiving Federal awards must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition

During our testing of DND's monitoring of housing quality standards through a sample selection of 40 units across 15 projects, we noted that the housing quality standards inspections were not completed within the time requirements prescribed by HUD for 11 out of 15 projects and 29 out of 40 units selected for testing. Such delays in completing housing quality inspections for these 11 projects ranged from less than a year to in excess of two years. The monitoring policies and procedures installed by DND to ensure the performance of timely housing quality standards inspections appear to not be operating effectively.

Cause

This appears to be due to inadequate monitoring and tracking of properties to ensure that inspections occur timely, stemming from the lack of personnel to conduct the inspections.

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Effect

The City is not completing inspections in a timely manner, which increases the risk of inadequate housing quality.

Whether Sampling was Statistically Valid

The sample was not intended to be, and was not, a statistically valid sample.

Questioned Costs: None

Recommendation

We recommend that DND review its system of tracking housing quality standards inspections, and reiterate its policies and procedures in place to ensure such inspections are performed timely.

Views of Responsible Officials of the Auditee

During the award year that is the subject of this finding, the City of Boston completed Housing Quality Standards Inspections for every H.O.M.E.-assisted project in its portfolio. During the award year, the City also updated its tracking system so that all such projects are integrated into a workflow to ensure inspections are completed timely and in accordance with the regulatory mandate.

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Finding number: 2016-003

Federal agency: U.S. Department of Transportation

Pass-through agency: N/A – Direct Funding

Program: National Infrastructure Investments

CFDA#: 20.933

Award number: DTFH6114G00008

Award years: July 1, 2015 to June 28, 2019

Finding: Proper Reporting of Expenditures in the Schedule of Expenditures of Federal Awards

Prior Year Finding: No

Criteria

Per Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F, Section 200.510, a recipient of Federal awards subject to audit (the auditee) must prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the auditee’s financial statements which must include the total Federal awards expended as determined in accordance with §200.502. Such section indicates that the determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs.

Condition/Context

During our testing of the allowability of expenditures, an expenditure in the amount of \$263,421 included on the current year SEFA was determined to relate to the prior period, resulting in an overstatement of the expenditure amount for the program on the current year SEFA. Such expenditure was related to a single monthly invoice from the main contractor providing construction services to the City being reimbursed through this award.

Cause

The invoice supporting this expenditure was received and authorized for payment by the City subsequent to the close of the City’s prior year financial records and no estimate of the cost of work performed prior to the fiscal year-end was accrued.

Effect

The expenditures for the program were understated in the prior year SEFA and overstated in the current year SEFA.

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Whether Sampling was Statistically Valid

The sample was not intended to be, and was not, a statistically valid sample.

Questioned Costs: None

Recommendation

We recommend that the City Department of Public Works enhance year-end reporting controls to ensure that work performed prior to year-end for which invoices have not been received is identified and accrued for appropriately.

View of Responsible Officials from the Auditee

The City's Auditing Department has a procedure in place to ensure that all work performed prior to year-end is accrued for appropriately. The Auditing Department will ensure that these accrued amounts are reported on the SEFA in the proper fiscal year.

CITY OF BOSTON, MASSACHUSETTS
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 Year ended June 30, 2016

Finding number: 2016-004
Federal agency: U.S. Department of Education
Pass-through agency: Massachusetts Department of Elementary and Secondary Education
Program: Special Education (IDEA) Cluster
CFDA#s: 84.027; 84.173
Award numbers: All DESE IDEA Awards
Award year: September 1, 2014 to August 31, 2015
Finding: Schoolwide Program
Prior Year Finding: No

Criteria

As required by 34 CFR Section 200.26, to operate a schoolwide program, a school must incorporate the following three core elements:

1. Comprehensive needs assessment of the entire school (34 CFR Section 200.26(a)).
2. Comprehensive plan based on data from the needs assessment (34 CFR Section 200.26(b)).
3. Annual evaluation of the results achieved by the schoolwide program and revision of the schoolwide plan based on that evaluation (34 CFR Section 200.26(c)).

Further, as required by 34 CFR Section 200.28, a schoolwide plan also must include the following components:

1. Schoolwide reform strategies (34 CFR Section 200.28(a)).
2. Instruction by highly qualified professional staff (34 CFR Section 200.28(b)).
3. Strategies to increase parental involvement (34 CFR Section 200.28(c)).
4. Additional support to students experiencing difficulty (34 CFR Section 200.28(d)).
5. Transition plans for assisting preschool children in the successful transition to the schoolwide program (34 CFR Section 200.28(e)).

Additionally, 2 CFR 200.303 indicates that non-Federal entities receiving federal awards must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

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Condition

Our audit of the compliance with the schoolwide program requirements included a review of whole school improvement plans for 25 out of 120 schools within the City of Boston Public Schools system. This review noted the following:

1. Whole school improvement plans for five schools reviewed did not include documentation regarding strategies to increase parental involvement.
2. Whole school improvement plans for 12 schools reviewed did not include documentation that indicated how funding was used in accordance with the plans.
3. Whole school improvement plans for nine schools reviewed did not include documentation of actions taken to revise the plan in accordance with the evaluation results of the plans.
4. The whole school improvement plan for one school also did not contain documentation for the following:
 - a. Schoolwide reform strategies
 - b. Instruction by highly qualified professional staff
 - c. Additional support to students experiencing difficulty

Cause

This appears to be due to the lack of formal and consistent guidance to the individual schools within the City's school district in regards to the preparation and monitoring of whole school improvement plans.

Effect

The City is not in compliance with schoolwide program requirements.

Whether Sampling was Statistically Valid

The sample was not intended to be, and was not, a statistically valid sample.

Questioned Costs: None

Recommendation

We recommend that the City implement policies and procedures to ensure that schoolwide improvement plans for each school within its district include all information as required by schoolwide program requirements and to centrally monitor the appropriate completion and evaluation of the schoolwide improvement plans.

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View of Responsible Officials from the Auditee

For fiscal year 2017 the Whole School Improvement plans were revised collaboratively with the Instructional Superintendents (the new Principal Leaders), the Academics and Strategy team, and the Chief of Schools. The plan was also shared with the Title I liaison at the State to ensure it captured all the required components. Schools are using this document to check in with their Instructional Superintendent over the course of the year and all sections will be completed at the time of this review.

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Finding number: 2016-005

Federal agency: U.S. Department of Health and Human Services

Pass-through agency: Executive Office of Elder Affairs

Program: Aging Cluster

CFDA#s: 93.044; 93.045; 93.053

Award numbers: CT ELD 0366 TITLE3FEDYR15BOSTCOM
 CT ELD 0366 TITLE3FEDYR16BOSTCOM

Award years: October 1, 2014 to September 30, 2016

Finding: Subrecipient Monitoring

Prior Year Finding: No

Criteria

2 CFR Section 200.331(a) indicates that all pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification:

(1) Federal Award Identification.

- Subrecipient name (which must match registered name in DUNS);
- Subrecipient's DUNS number (see § 200.32 Data Universal Numbering System (DUNS) number);
- Federal Award Identification Number (FAIN);
- Federal award date;
- Subaward Period of Performance Start and End Date;
- Amount of Federal Funds Obligated by this action;
- Total Amount of Federal Funds Obligated to the subrecipient;
- Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
- Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- Name of Federal awarding agency, pass-through entity, and contact information for awarding official;
- CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;

CITY OF BOSTON, MASSACHUSETTS

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- Identification of whether the award is R&D; and
 - Indirect cost rate for the Federal award (including if the de minimis rate is charged per § 200.414 Indirect (F&A) costs).
- (2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award.
- (3) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the Federal awarding agency including identification of any required financial and performance reports;
- (4) An approved Federally recognized indirect cost rate negotiated between the subrecipient and the Federal government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a de minimis indirect cost rate as defined in § 200.414 Indirect (F&A) costs, paragraph (b) of this part.
- (5) A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the passthrough entity to meet the requirements of this section, §§ 200.300 Statutory and national policy requirements through 200.309 Period of performance, and Subpart F – Audit Requirements of this part; and
- (6) Appropriate terms and conditions concerning closeout of the subaward.

Further, 2 CFR Section 200.331(b) requires pass-through entities to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

Condition

For all 10 subrecipients selected for testing from the population of 19 subrecipients, it was noted that award letters between the City's Commission on Affairs of the Elderly (the Elderly Commission) and the subrecipient were executed covering the period October 1, 2014 through September 30, 2016; however, these documents did not contain all of the required elements of 2 CFR Section 200.331(a) listed above. The agreements contained only the subrecipient's name, subaward period of performance start and end dates, total amount of Federal funds obligated to the subrecipient, the pass-through entity name and contact information for the awarding official, and the Federal CFDA number for the award.

It was also noted that the Elderly Commission has standard subrecipient monitoring policies in place, which include the performance of periodic monitoring site visits and desk reviews of financial and operational reports, the frequency of which may be altered depending on the subrecipient. For all 10 subrecipients selected for testing, we noted subrecipient monitoring was conducted in accordance with the Elderly Commission's policies; however, the Elderly Commission did not document its assessment of risk for each subrecipient used to determine the nature and extent of such subrecipient monitoring procedures.

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Schedule of Findings and Questioned Costs (Reissued)

Year ended June 30, 2016

Finding number:	2016-006
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 numbers:	Boston FFY 14 UASI; Boston FFY 13 UASI
Award years:	September 1, 2013 to July 31, 2016
Finding:	Payroll Costs
Prior Year Finding:	No

Criteria

In accordance with 2 CFR 200.430(i)(1), charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities;
- (iv) Encompass both Federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
- (v) Comply with the established accounting policies and practices of the non-Federal entity; and
- (vi) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Additionally, 2 CFR 200.303 indicates that non-Federal entities receiving Federal awards must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

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Condition

During our testing of allowable costs associated with payroll charges, we noted that the City's Office of Emergency Management ensures salary and wage distribution to the Homeland Security Grant Program award through review and approval of employee timesheets by the Assistant Program Director. In our testing of 40 payroll transactions charged to the program, we noted that three of the tested transactions, which all related to time charged to the award by the Program Director, were not reviewed and approved by another member of program management.

Cause

This appears to be the result of a lack of a formal procedure for review and approval of the allocation of the Program Director's time to the Homeland Security Grant Program award by another member of program management.

Effect

Insufficient review of department timesheets or other time allocation documentation increase the risk of inaccurate payroll costs being considered for allocation to a grant award.

Whether Sampling was Statistically Valid

The sample was not intended to be, and was not, a statistically valid sample.

Questioned Costs: \$9,843

Recommendation

We recommend that the City's Office of Emergency Management enhance its policies and procedures to include the review of the Program Director's time allocation by another member of program management to ensure time charged to the award is appropriate.

View of Responsible Officials from the Auditee

The Director's timesheets will be verified and signed off by the Assistant Program Director.

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Finding number: 2016-007

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 numbers: Boston FFY 2015 UASI; Boston FFY 2014 UASI; Boston FFY 2013 UASI

Award years: September 1, 2013 to June 30, 2018

Finding: Subrecipient Monitoring

Prior Year Finding: No

Criteria

2 CFR Section 200.331(a) indicates that all pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification:

(1) Federal Award Identification.

- Subrecipient name (which must match registered name in DUNS);
- Subrecipient's DUNS number (see § 200.32 Data Universal Numbering System (DUNS) number);
- Federal Award Identification Number (FAIN);
- Federal award date;
- Subaward Period of Performance Start and End Date;
- Amount of Federal Funds Obligated by this action;
- Total Amount of Federal Funds Obligated to the subrecipient;
- Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
- Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- Name of Federal awarding agency, pass-through entity, and contact information for awarding official;
- CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;

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- Identification of whether the award is R&D; and
 - Indirect cost rate for the Federal award (including if the de minimis rate is charged per § 200.414 Indirect (F&A) costs).
- (2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award.
- (3) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the passthrough entity to meet its own responsibility to the Federal awarding agency including identification of any required financial and performance reports;
- (4) An approved Federally recognized indirect cost rate negotiated between the subrecipient and the Federal government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a de minimis indirect cost rate as defined in § 200.414 Indirect (F&A) costs, paragraph (b) of this part.
- (5) A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the passthrough entity to meet the requirements of this section, §§ 200.300 Statutory and national policy requirements through 200.309 Period of performance, and Subpart F – Audit Requirements of this part; and
- (6) Appropriate terms and conditions concerning closeout of the subaward.

Condition

Based on a review of the original Memorandum of Agreement (MOA) document between the City's Office of Emergency Management and its 9 subrecipients and subsequent addendums, it was noted that such documents did not contain all of the required elements of 2 CFR Section 200.331(a) listed above. The MOA contained only the subrecipient's name, subaward period of performance start date, scope of services, total amount of federal funds obligated to the subrecipient in the first year, and pass-through entity name and contact information for the awarding official. The most recent addendums for the period July 1, 2014 through December 31, 2016 contained only the purpose, duration and fiscal administration of the awards.

Cause

This appears to be due to the original Memorandum of Agreements being executed many years prior to the effective date of 2 CFR Section 200 and the updated requirements for information contained in subrecipient agreements.

Effect

The City's Office of Emergency Management is not in compliance with subrecipient notification requirements.

Whether Sampling was Statistically Valid

The sample was not intended to be, and was not, a statistically valid sample.

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Questioned Costs: None

Recommendation

We recommend that the City's Office of Emergency Management issue updated Memorandum of Agreements with its subrecipients that include all information described in 2 CFR Section 200.331(a)(1) as required by the Uniform Guidance.

View of Responsible Officials from the Auditee

The Program will incorporate all required information to subrecipient documents as that information becomes available. All required information will be included within: Memorandum of Agreement, Award Budget Agreements through Jurisdictional Points of Contact (JPOC) and any project Award Letters.

CITY OF BOSTON, MASSACHUSETTS

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Year ended June 30, 2016

Finding number:	2016-008
Federal agency:	U.S. Department of Homeland Security
Pass-through agency:	N/A – Direct Funding
Program:	Staffing for Adequate Fire and Emergency Response (SAFER)
CFDA#:	97.083
Award number:	EMW-2014-FH-00610
Award years:	September 16, 2015 to September 15, 2017
Finding:	Internal Control over Allowable Costs – Payroll
Prior Year Finding:	No

Criteria

In accordance with 2 CFR 200.430(i)(1), charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities;
- (iv) Encompass both Federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
- (v) Comply with the established accounting policies and practices of the non-Federal entity; and
- (vi) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Additionally, 2 CFR 200.303 indicates that non-Federal entities receiving Federal awards must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

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Condition

During our testing of allowable costs associated with payroll charges, we noted that the City of Boston's Fire Department (BFD) documents time and attendance of firefighters on daily tour reports, and that these daily tour reports are to be electronically approved in a timekeeping system specific to the Fire Department by the location's Tour Captain and to be manually signed by the location's District Chief as indication of review and approval of time worked. However, it was noted that tour reports generated for time spent at the City's Fire Academy were only required to be electronically approved by the Tour Captain because there is no District Chief on location. Of our testwork of 40 weekly payroll costs charged to the SAFER award, we noted that 22 weekly payroll charges related to time spent at the Fire Academy. Of these 22 weekly payroll charges, 17 were supported by daily tour reports that were solely approved electronically by the Tour Captain and five were supported by multiple daily tour reports that were neither manually nor electronically approved by the Tour Captain. Of the remaining 18 items tested relating to payroll charges for time worked at a City firehouse, one weekly payroll charge was supported by one daily tour report that was not signed by the respective District Chief.

Cause

This appears to be the result of a difference in approval policies for tour reports supporting time spent at the City's Fire Academy.

Effect

Insufficient review of time and attendance documentation increases the risk of inaccurate payroll costs being considered for allocation to a grant award.

Whether Sampling was Statistically Valid

The sample was not intended to be, and was not, a statistically valid sample.

Questioned Costs: None

Recommendation

We recommend that the BFD add a policy requiring manual approval of tour reports generated at the Fire Academy so that there is evidence of approval outside of the internal Fire Department timekeeping system, which is not a Citywide system. We also recommend that this manual approval be executed by someone other than the Tour Captain responsible for electronically approving the tour reports to be consistent with the approval policies for tour reports generated from City firehouses.

View of Responsible Officials from the Auditee

The payroll department at the Boston Fire Department will continue to monitor and ensure that all tour reports are properly reviewed and approved by an authorized and knowledgeable designee.

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Findings and Questioned Costs (Reissued)
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Finding number: 2016-009

Federal agency: U.S. Department of Homeland Security

Pass-through agency: N/A – Direct Funding

Program: Staffing for Adequate Fire and Emergency Response (SAFER)

CFDA#: 97.083

Award number: EMW-2014-FH-00610

Award years: September 16, 2015 to September 15, 2017

Finding: Internal Control over Cash Management

Prior Year Finding: No

Criteria

In accordance with 2 CFR Section 200.305(b), non-Federal entities must minimize the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity and disbursement by the non-Federal entity for direct program or project costs and the proportionate share of allowable indirect costs, whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means.

Additionally, 2 CFR 200.303 indicates that non-Federal entities receiving Federal awards must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition

During our testing of Federal cash drawdowns, we noted that drawdown requests for the SAFER award were prepared and reviewed and approved by the same individual within BFD. Compensating controls were not considered sufficient to reduce the risk of this lack of segregation of duties.

Cause

This appears to be the result of the ineffective design of policies and procedures related to the drawdown of Federal funds for the SAFER award.

Effect

Insufficient review of cash drawdown requests increases the risk of noncompliance with Federal cash management requirements.

CITY OF BOSTON, MASSACHUSETTS
Schedule of Findings and Questioned Costs (Reissued)
Year ended June 30, 2016

Whether Sampling was Statistically Valid

The sample was not intended to be, and was not, a statistically valid sample.

Questioned Costs: None

Recommendation

We recommend that BFD implement policies and procedures related to Federal cash drawdowns that segregate the preparation and review functions, in order to ensure the accuracy and compliance of the requests.

View of Responsible Officials from the Auditee

Management has implemented a policy and procedure to segregate the preparation and review functions. This has been accomplished as a result of a new hire into a vacant position that has now provided the adequate separation of duties to ensure accuracy and compliance with requests. In addition, all draw down requests are now reviewed and approved by the City's Grants Monitoring Unit prior to the funds being requested from the Federal agency.

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 Schedule of Findings and Questioned Costs (Reissued)
 Year ended June 30, 2016

Finding number: 2016-010

Federal agency: U.S. Department of Homeland Security

Pass-through agency: N/A – Direct Funding

Program: Staffing for Adequate Fire and Emergency Response (SAFER)

CFDA#: 97.083

Award number: EMW-2014-FH-00610

Award years: September 16, 2015 to September 15, 2017

Finding: Internal Control and Compliance over Reporting

Prior Year Finding: No

Criteria

The U.S. Department of Homeland Security requires its recipients of SAFER Program awards to file a semi-annual SF-425 Federal Financial Report (SF-425 Report). These reports include amounts expended and unliquidated obligations to date, and are required to be based on information contained in the recipient's financial records. Recipients are also required to file quarterly Hiring Performance Reports that include certain employment and operational statistics.

Additionally, 2 CFR 200.303 indicates that non-Federal entities receiving Federal awards must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition

During our testing of the one SF-425 Report required to be filed by BFD in fiscal year 2016, we noted a difference of \$103,974 between the total expenditures reported in the SF-425 (\$1,236,175) and the expenditures for the award reported in the City's general ledger as of the date of the SF-425 report (\$1,132,201).

We also noted that the SF-425 report and the quarterly Hiring Performance Reports are prepared and reviewed and approved by the same individual. Compensating controls were not considered sufficient to reduce the risk of this lack of segregation of duties.

Cause

This appears to be the result of the ineffective design of policies and procedures related to the preparation of reports required to be submitted for the SAFER award.

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Schedule of Findings and Questioned Costs (Reissued)
Year ended June 30, 2016

Effect

Insufficient review of Federal reports increase the risk of errors within the reports required to be submitted for the SAFER award.

Whether Sampling was Statistically Valid

The sample was not intended to be, and was not, a statistically valid sample.

Questioned Costs: None

Recommendation

We recommend that BFD implement policies and procedures related to the preparation and submission of required reports that segregate the preparation and review functions in order to ensure the accuracy and compliance of the requests.

View of Responsible Officials from the Auditee

Management has implemented a policy and procedure to segregate the preparation and review functions. This has been accomplished as a result of a new hire into a vacant position that has now provided the adequate separation of duties to ensure accuracy and compliance with requests. In addition, all SF-425 reports are reviewed for accuracy by the City's Grants Monitoring Unit prior to being submitted to the Federal agency.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Findings and Questioned Costs (Reissued)

Year ended June 30, 2016

Finding number: 2016-011

Federal agency: U.S. Department of Education

Pass-through agency: Massachusetts Department of Early Education and Care

Program: Preschool Development Grants

CFDA#: 84.419

Award number: 5186PEGBOSTONPUBLIC

Award years: March 31, 2015 to August 31, 2016

Finding: Payroll Costs

Prior Year Finding: No

Criteria

In accordance with 2 CFR 200.430(i)(1), charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities;
- (iv) Encompass both Federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
- (v) Comply with the established accounting policies and practices of the non-Federal entity; and
- (vi) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Additionally, 2 CFR 200.303 indicates that non-Federal entities receiving Federal awards must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

CITY OF BOSTON, MASSACHUSETTS
Schedule of Findings and Questioned Costs (Reissued)
Year ended June 30, 2016

Condition

During our testing of allowable costs associated with payroll charges, we noted that the City of Boston Public Schools (BPS) documents time and attendance of employees on daily timesheets signed by the employee, and that these timesheets are approved by the department supervisor on a department time summary report. However, the following deficiencies were noted in our review of 40 payroll transactions charged to the program:

- Timesheets and department time summary reports were not provided for 9 payroll transactions tested. These transactions related to four specific pay cycles during the fiscal year for which timekeeping information could not be located. For two of these pay cycles, payroll costs for only one employee were charged to the award. Additionally, for one of these payroll transactions, the employee appeared to be paid approximately \$3,000 more than their authorized earnings. Payroll and related costs charged to the award associated with these transactions were \$45,431.
- For 11 payroll transactions tested, an allocation of payroll was made based on estimated time worked on the award (23.5%), however, no documentation was provided to support this estimate. These transactions related to five employees who represent the only employees for which an allocation of payroll was charged to the award. Payroll costs associated with these employees were charged to the award only for a portion of the fiscal year. Payroll and related costs charged to the award associated with these transactions were \$11,878.
- For 3 other payroll transactions, certain of the supporting timesheets within the pay cycle were not signed by the employee. The related department time summary, however, was approved by the supervisor. Payroll and related costs charged to the award associated with these transactions were \$8,599.

Total payroll and related costs charged to the award for the fiscal year were approximately \$504,000.

Cause

This appears to be due to insufficient review of timesheets and department time summary reports, and tracking of time sheets and department time summary reports to ensure all required support is received and retained.

Effect

BPS is not in compliance with 2 CFR 200.430(i)(1) regarding documentation in support of payroll and related charges to the Federal program.

Whether Sampling was Statistically Valid

The sample was not intended to be, and was not, a statistically valid sample.

Questioned Costs: \$65,908

CITY OF BOSTON, MASSACHUSETTS
Schedule of Findings and Questioned Costs (Reissued)
Year ended June 30, 2016

Recommendation

We recommend that BPS implement control procedures to ensure that all payroll costs charged to the Federal program are supported by documentation as required by 2 CFR 200.430(i)(1).

View of Responsible Officials from the Auditee

Starting immediately, the BPS Early Childhood department will closely monitor payroll including:

- Reviewing time reporting documents every two weeks and send employee reminders as needed;
- Review payroll allocations for the grant in January 2018 and May 2018 to ensure they support the approved distribution of employees' salaries and wages; and
- Conduct a time study on our Preschool Development Grant employees to determine the percentage of time spent on each work assignment.

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Findings and Questioned Costs (Reissued)
 Year ended June 30, 2016

Finding number: 2016-012

Federal agency: U.S. Department of Education

Pass-through agency: Massachusetts Department of Early Education and Care

Program: Preschool Development Grants

CFDA#: 84.419

Award number: 5186PEGBOSTONPUBLIC

Award years: March 31, 2015 to August 31, 2016

Finding: Cash Management

Prior Year Finding: No

Criteria

In accordance with 2 CFR 200.305(b), Non-Federal entities must minimize the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity and disbursement by the non-Federal entity for direct program or project costs and the proportionate share of allowable indirect costs, whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means.

The *Preschool Expansion Grant Implementation Guide Q&A #4*, issued by the Massachusetts Department of Early Education and Care (EEC), indicates that Preschool Development Grant (PDG) funds will be disbursed by EEC to local education agencies (LEAs) on a bi-monthly advance basis to cover the award allocation for the subsequent two months upon the submission of a Request for Funds form (RFF). EEC is to provide the funding to the LEAs within 5 business days and the LEA is to make grant payments to subrecipient early learning providers (ELPs) within 5 business days of receipt of funds from EEC.

Additionally, 2 CFR 200.303 indicates that non-Federal entities receiving Federal awards must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition

Boston Public Schools (BPS) received two grant payments from EEC during fiscal year 2016. We noted that in both cases, BPS did not make subsequent grant payments to subrecipient ELPs within 5 days of receipt of funds from EEC as required by *Preschool Expansion Grant Implementation Guide Q&A #4*. The payments received from EEC were fully disbursed to subrecipient ELPs in excess of two months after receipt.

CITY OF BOSTON, MASSACHUSETTS
Schedule of Findings and Questioned Costs (Reissued)
Year ended June 30, 2016

Cause

This appears to be due to inadequate policies and procedures in place to ensure compliance with Federal cash management requirements and the cash management requirements of the EEC as detailed in *Preschool Expansion Grant Implementation Guide Q&A #4*. BPS appears to have provided grant funds to the subrecipient ELPs on a cost-reimbursement basis as opposed to the protocol established in *Preschool Expansion Grant Implementation Guide Q&A #4*.

Effect

BPS is not in compliance with 2 CFR 200.305(b) and the *Preschool Expansion Grant Implementation Guide Q&A #4* in regards to minimizing the time elapsing between the transfer of funds from the pass-through entity and disbursement by BPS to subrecipients.

Whether Sampling was Statistically Valid

The sample was not intended to be, and was not, a statistically valid sample.

Questioned Costs: None

Recommendation

We recommend that BPS implement control procedures to ensure that PDG funds received by BPS from EEC are disbursed to subrecipient ELPs within five days of receipt as required by the *Preschool Expansion Grant Implementation Guide Q&A #4*.

View of Responsible Officials from the Auditee

BPS concurs with the finding. Per the EEC guidelines, all payments to subrecipients were based upon a cost-reimbursement system commencing in year 2 of the grant. Controls have been put in place to ensure BPS is in compliance with 2 CFR 200.305(b) and the *Preschool Expansion Grant Implementation Guide Q&A #4* in regards to minimizing the time elapsing between the transfer of funds from the pass-through entity and disbursement by BPS to subrecipients.

CITY OF BOSTON, MASSACHUSETTS

Schedule of Findings and Questioned Costs (Reissued)

Year ended June 30, 2016

Finding number: 2016-013

Federal agency: U.S. Department of Education

Pass-through agency: Massachusetts Department of Early Education and Care

Program: Preschool Development Grants

CFDA#: 84.419

Award number: 5186PEGBOSTONPUBLIC

Award years: March 31, 2015 to August 31, 2016

Finding: Subrecipient Monitoring

Prior Year Finding: No

Criteria

2 CFR Section 200.331(a) indicates that all pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification:

(1) Federal Award Identification.

- Subrecipient name (which must match registered name in DUNS);
- Subrecipient's DUNS number (see § 200.32 Data Universal Numbering System (DUNS) number);
- Federal Award Identification Number (FAIN);
- Federal award date;
- Subaward Period of Performance Start and End Date;
- Amount of Federal Funds Obligated by this action;
- Total Amount of Federal Funds Obligated to the subrecipient;
- Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
- Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- Name of Federal awarding agency, pass-through entity, and contact information for awarding official;
- CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
- Identification of whether the award is R&D; and

CITY OF BOSTON, MASSACHUSETTS
Schedule of Findings and Questioned Costs (Reissued)
Year ended June 30, 2016

Recommendation

We recommend that BPS execute an updated MOU with its subrecipients that expressly includes all information described in 2 CFR Section 200.331(a)(1) as required by the Uniform Guidance.

View of Responsible Officials from the Auditee

The Boston PDG 2017-18 MOU was revised by the Preschool Expansion Grant Project Manager, and an updated copy was provided to the City Auditors office for review prior to sending it to subrecipients for the 2017-18 year.

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Findings and Questioned Costs (Reissued)
 Year ended June 30, 2016

Finding number: 2016-014

Federal agency: U.S. Department of Education

Pass-through agency: Massachusetts Department of Early Education and Care

Program: Preschool Development Grants

CFDA#: 84.419

Award number: 5186PEGBOSTONPUBLIC

Award years: March 31, 2015 to August 31, 2016

Finding: Subrecipient Monitoring

Prior Year Finding: No

Criteria

According to 2 CFR 200.331(b), a pass-through entity must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring, which may include consideration of such factors as:

- The subrecipient's prior experience with the same or similar subawards;
- The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F – Audit Requirements of this part, and the extent to which the same or similar subaward has been audited as a major program;
- Whether the subrecipient has new personnel or new or substantially changed systems; and
- The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

Also, according to 2 CFR 200.331(d), a pass-through entity must:

- Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.
- Follow-up and ensure that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Findings and Questioned Costs (Reissued)
 Year ended June 30, 2016

Finding number: 2016-015

Federal agency: U.S. Department of Education

Pass-through agency: Massachusetts Department of Early Education and Care

Program: Preschool Development Grants

CFDA#: 84.419

Award number: 5186PEGBOSTONPUBLIC

Award years: March 31, 2015 to August 31, 2016

Finding: Completeness of Expenditures in the Schedule of Expenditures of Federal Awards

Prior Year Finding: No

Criteria

Per Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F, Section 200.510, a recipient of Federal awards subject to audit (the auditee) must prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the auditee’s financial statements which must include the total Federal awards expended as determined in accordance with §200.502.

Condition/Context

During our audit of the City of Boston’s (the City) fiscal year 2017 SEFA, it was determined that the Preschool Development Grant (PDG) awarded in fiscal year 2016 passed through by the Massachusetts Department of Early Education and Care (EEC), was incorrectly coded as a state award in the City’s accounting records. As a result, expenditures for this award were omitted from the originally issued 2016 SEFA.

Cause

Inaccurate coding of grant awards within the City’s general ledger and inadequate review of the preparation of the SEFA for completeness.

Effect

The PDG was improperly excluded from the SEFA which caused total federal expenditures reported on the originally issued SEFA to be understated by \$3,372,728.

CITY OF BOSTON, MASSACHUSETTS
Schedule of Findings and Questioned Costs (Reissued)
Year ended June 30, 2016

Questioned Costs: None

Recommendation

We recommend that the City enhance year-end reporting controls to ensure that the SEFA is complete and accurate, including all Federal expenditures, as well as enhance controls to ensure grants are properly coded when inputted into the City's general ledger.

View of Responsible Officials from the Auditee

The City has implemented additional procedures and policies over the preparation of the SEFA. These procedures included a one-time review of all state, federal and local grants— for all departments, to ensure proper coding with the City's general ledger system. Additionally, and each year going forward, an internal review of all current year grants expended is compared to a prior year listing. If additional awards were received, they are verified against the award document to ensure proper reporting. Lastly, as awards are entered into the City's general ledger, they are reviewed by someone other than the person entering the information.