



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, 2017

CITY OF BOSTON, MASSACHUSETTS

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KPMG LLP
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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, 2017. 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, 2017. 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, 2017.



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 2017-003 through 2017-012, and 2017-14. 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 2017-003, 2017-005, 2017-006, 2017-010, and 2017-014 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 2017-001, 2017-002, 2017-004, 2017-007 through 2017-009, and 2017-011 through 2017-013 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.



Exhibit I

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 the 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 27, 2017, 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.

KPMG LLP

Boston, Massachusetts
December 29, 2017

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Passed through to subrecipients	Total federal expenditures
U.S. Department of Agriculture:			
Passed-through State Department of Education:			
Child Nutrition Cluster:			
National School Lunch Program (note 2)	10.555	\$ —	33,375,482
Summer Food Service Program for Children	10.559	—	1,201,325
Total Child Nutrition Cluster		—	34,576,807
Child Nutrition Discretionary Grants Limited Availability	10.579	—	31,035
Fresh Fruit and Vegetable Program	10.582	—	1,072,631
Passed-through State Executive Office of Elder Affairs/Nutrition Program:			
Child and Adult Care Food Program	10.558	—	701
Total U.S. Department of Agriculture		—	35,681,174
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	—	82,062
Total U.S. Department of Commerce National Oceanic and Atmospheric Administration		—	82,062
U.S. Department of Defense:			
Direct programs:			
Language Grant Program	12.900	—	99,324
Total U.S. Department of Defense		—	99,324
U.S. Department of Housing and Urban Development:			
Direct programs:			
Community Development Block Grants – Entitlement Grant	14.218	5,425,739	26,201,673
Emergency Solutions Grants Program	14.231	1,173,404	1,303,029
H.O.M.E. Investment Partnerships Program (note 3)	14.239	70,113	117,187,890
Housing Opportunities for Persons with AIDS	14.241	2,196,724	2,279,328
E.D.I.	14.246	—	51,899
Section 108 Loan Guarantees	14.248	—	1,010,795
ARRA – Neighborhood Stabilization Program	14.256	—	12,944
Continuum of Care Program	14.267	20,621,939	21,813,551
Fair Housing Assistance Program: State and Local	14.401	48,821	128,693
Fair Housing Initiatives Program	14.408	—	33,986
Community Challenge Planning Grant	14.704	—	111,048
Regional Housing Opportunity	14.857	—	75,627
Lead Hazard Reduction Demonstration Grant Program	14.905	—	1,375,599
Choice Neighborhood Implementation Grant:			
Direct program	14.889	120,748	1,824,273
Passed-through Economic Development and Industrial Corporation of Boston	14.889	—	143,065
Total Choice Neighborhood Implementation Grant		120,748	1,967,338
Total U.S. Department of Housing and Urban Development		29,657,488	173,553,400
U.S. Department of the Interior:			
Passed-through Massachusetts Environmental Protection Division:			
Historic Preservation Fund Grants-In-Aid	15.904	—	26,790
Total U.S. Department of the Interior		—	26,790
U.S. Department of Justice:			
Direct programs:			
Community Based Violence Prevention	16.123	94,240	408,496
Part E – Developing, Testing and Demonstrating Promising New Programs	16.541	8,867	30,497
Grants to Encourage Arrest Policies	16.590	25,904	34,611
Public Safety Partnership and Community Policing Grants	16.710	—	(306)
Forensic DNA Backlog Reduction Program	16.741	—	300,962
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	26,990	32,648
Second Chance Act Reentry Initiative	16.812	352,104	686,179
Passed-through State Office for Victim Assistance:			
Antiterrorism Emergency Reserve	16.321	—	1,127,755
Passed-through State Executive Office of Public Safety:			
Violence Against Women Formula Grants	16.588	—	69,766
Edward Byrne Memorial Competitive Grant Program	16.751	—	48,710
Edward Byrne Memorial Justice Assistance Grant:			
Direct program	16.738	—	663,637
Passed-through State Executive Office of Public Safety	16.738	59,520	214,772
Total Edward Byrne Memorial Justice Assistance Grant		59,520	878,409

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Passed through to subrecipients	Total federal expenditures
Passed-through Massachusetts Department of State Police: Paul Coverdell Forensic Sciences Improvement Grant	16.742	\$ —	25,237
Total U.S. Department of Justice		<u>567,625</u>	<u>3,642,964</u>
U.S. Department of Labor: Passed-through Economic Development and Industrial Corporation of Boston: Workforce Investment Act – Youth Activities	17.259	—	87,944
Total U.S. Department of Labor		<u>—</u>	<u>87,944</u>
U.S. Department of Transportation: Direct programs: National Infrastructure Investments	20.933	—	5,415,916
Passed-through State Executive Office of Transportation: Highway Safety Grant	20.205	—	184,302
Passed-through State Executive Office of Public Safety/Administration: Highway Safety Cluster: State and Community Highway Safety	20.600	—	56,154
National Priority Safety Programs	20.616	—	169,101
Total Highway Safety Cluster		<u>—</u>	<u>225,255</u>
Total U.S. Department of Transportation		<u>—</u>	<u>5,825,473</u>
National Endowment for the Arts: Direct programs: Promotion of the Arts	45.024	—	97,415
Promotion of the Humanities	45.149	—	3,686
Total National Endowment for the Arts		<u>—</u>	<u>101,101</u>
National Science Foundation: Passed-through University of Massachusetts: Education and Human Resources	47.076	—	50,108
Total National Science Foundation		<u>—</u>	<u>50,108</u>
U.S. Department of Education: Passed-through State Department of Elementary and Secondary Education: Adult Education – Basic Grants to States	84.002	—	1,623
Title I – Grants to Local Educational Agencies	84.010	—	33,139,279
Special Education (IDEA) Cluster: Special Education	84.027	—	16,951,600
Special Education – Preschool Grants	84.173	—	631,860
Total Special Education (IDEA) Cluster		<u>—</u>	<u>17,583,460</u>
Vocational Education	84.048	—	1,233,491
Education for Homeless Children and Youth	84.196	—	61,969
English Language Acquisition State Grants	84.365	—	2,400,752
Improving Teacher Quality State Grants	84.367	—	5,922,355
School Improvement Grants	84.377	—	2,343,950
ARRA – School Improvement Grants	84.388	—	1,030
Twenty-First Century Community Learning Centers: Direct program	84.287	—	90,137
Passed-through State Department of Elementary and Secondary Education	84.287	—	1,362,485
Passed-through American Institute for Research	84.287	—	1,356
Passed-through Economic Development and Industrial Corporation of Boston	84.287	—	105,546
Total Twenty-First Century Community Learning Centers		<u>—</u>	<u>1,559,524</u>
Passed-through The New Teacher Project, Inc.: TEACH Grants	84.379	—	164,142
Passed-through Leslie University: ARRA – SFSF Investing in Innovation (i3) Fund	84.396	—	1,901
Passed-through State Department of Early Education and Care: Preschool Development Grants	84.419	2,120,527	3,289,597
Total U.S. Department of Education		<u>2,120,527</u>	<u>67,703,073</u>

CITY OF BOSTON, MASSACHUSETTS
Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Passed through to subrecipients	Total federal expenditures
U.S. Department of Health and Human Services:			
Direct programs:			
Empowering Teens Through Health	93.079	\$ —	373,056
Passed-through State Executive Office of Elderly Affairs:			
Special Programs for the Aging:			
Title VII, Chapter 2	93.042	155,199	155,199
Title III, Part D	93.043	60,660	420,354
National Family Caregiver Support, Title III, Part E	93.052	253,927	253,927
Aging Cluster:			
Special Programs for the Aging:			
Title III, Part B	93.044	730,392	957,054
Title III, Part C	93.045	1,619,991	1,619,991
Nutritional Services Incentive Program	93.053	365,143	365,143
Total Aging Cluster		<u>2,715,526</u>	<u>2,942,188</u>
Passed-through State Department of Education:			
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	—	10,026
Passed-through State Department of Public Health:			
Child Care and Development Block Grant	93.136	—	244
National Bioterrorism Hospital Preparedness Program	93.889	—	33,796
Passed-through Boston Public Health Commission:			
Partnership to Improve Community Health	93.331	—	226,316
Total U.S. Department of Health and Human Services		<u>3,185,312</u>	<u>4,415,106</u>
Corporation for National and Community Services:			
Direct programs:			
Retired and Senior Volunteer Program	94.002	—	108,657
Senior Companions Programs	94.016	—	229,502
Total Corporation for National and Community Services		<u>—</u>	<u>338,159</u>
U.S. Department of Homeland Security:			
Direct programs:			
Port Security Grant Program	97.056	—	413,174
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	—	7,014,550
Passed-through Massachusetts Emergency Management Agency:			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	—	296,383
Emergency Management Performance Grants	97.042	—	172,918
Passed-through State Executive Office of Public Safety:			
Homeland Security Grant Program	97.067	3,857,023	14,608,854
Total U.S. Department of Homeland Security		<u>3,857,023</u>	<u>22,505,879</u>
Total expenditures of federal awards		<u>\$ 39,387,975</u>	<u>314,112,557</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, 2017

(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 2017 and includes \$1,186,439 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.

(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 2017, 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, 2017, the H.O.M.E. program had loan balances subject to continuing compliance requirements of \$115,043,876.

(4) Indirect Cost Rate

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



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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, 2017, 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 27, 2017. Our report includes a paragraph on other matters related to the City's implementation of Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 77, *Tax Abatement Disclosures*. 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 City'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.



Exhibit III

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 27, 2017

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2017

(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 #</u>
Child Nutrition Cluster:	
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559
Community Development Block Grants – Entitlement Grant	14.218
H.O.M.E. Investment Partnerships Program	14.239
Special Education (IDEA) Cluster:	
Special Education	84.027
Special Education – Preschool Grants	84.173
Preschool Development Grants	84.419
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
Year ended June 30, 2017

(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
 Year ended June 30, 2017

(3) Findings and Questioned Costs Relating to Federal Awards

Finding number:	2017-001
Federal agency:	U.S. Department of Agriculture
Pass-through agency:	Massachusetts Department of Elementary and Secondary Education
Program:	Child Nutrition Cluster – National School Lunch Program
CFDA#:	10.555
Award number:	Various
Award years:	July 1, 2016 to June 30, 2017
Finding:	Internal Control over Reporting
Prior Year Finding:	No

Criteria

7 CFR 210.8(b), 225.9(d), and 225.15(c)(2) indicate that in order to receive reimbursement payments for meals, a School Food Authority must submit claims for reimbursement to its administering agency.

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 monthly claims for reimbursement reports, it was disclosed that each claim is reviewed by the City of Boston Public Schools (BPS) Director of Finance, Food and Nutrition Services, and then submitted electronically to the Commonwealth of Massachusetts. However, this review and approval process is not documented and therefore could not be confirmed during testing.

Cause

This appears to be the result of the lack of a formal process to document the review and approval of monthly claims submitted.

Effect

Insufficient documentation over review and approval of monthly reimbursement claims increases the risk of inaccurate reimbursement claims requested.

Whether Sampling was Statistically Valid

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

CITY OF BOSTON, MASSACHUSETTS
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Questioned Costs: None

Recommendation

We recommend that BPS implement formal procedures for documenting the review and approval process over monthly claims submitted for reimbursement in order to ensure compliance over reporting requirements of the cluster.

View of Responsible Officials from the Auditee

Management agrees with the audit finding and recommendation. Procedures will be implemented effective immediately to ensure the submission of claims for federal reimbursement payment reflects a preparer and reviewer sign-off.

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2017

Finding number: 2017-002

Federal agency: U.S. Department of Agriculture

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

Program: Child Nutrition Cluster – National School Lunch Program

CFDA#: 10.555

Award number: Various

Award years: July 1, 2016 to June 30, 2017

Finding: Internal Control over School Food Accounts

Prior Year Finding: No

Criteria

7 CFR 210.14(a), 210.14(c), 210.19(a)(2), 215.7(d), 220.2 and 220.7(e)(1)(i) indicate that a School Food Authority (SFA) is required to account for all revenues and expenditures of its nonprofit school food service in accordance with State requirements. A SFA must operate its food services on a nonprofit basis; all revenue generated by the school food service must be used to operate and improve its food services.

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 school food accounts, it was disclosed that the recording of food service federal reimbursement payments is reviewed and approved by the City of Boston Public Schools (BPS) Food and Nutrition Services Director of Finance and Business Development. However, this review and approval process is not documented and therefore could not be confirmed during testing.

Cause

This appears to be the result of the lack of a formal process to document the review and approval of the recording of food service cash receipts.

Effect

Insufficient documentation over review and approval of the recording of food service federal reimbursement payments increases the risk of inaccurate or untimely recording of these cash receipts.

Whether Sampling was Statistically Valid

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

CITY OF BOSTON, MASSACHUSETTS
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Questioned Costs: None

Recommendation

We recommend that BPS implement formal procedures for documenting the review and approval process over the recording of food service federal reimbursement payments in order to ensure compliance over school food accounts requirements of the cluster.

View of Responsible Officials from the Auditee

Management agrees with the audit finding and recommendation. Procedures will be implemented effective immediately to ensure the reconciliation of federal reimbursement payments reflects a preparer and reviewer sign-off.

CITY OF BOSTON, MASSACHUSETTS
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2017

Finding number: 2017-003

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

Pass-through agency: N/A – Direct Funding

Program: Community Development Block Grants – Entitlement Grant;
H.O.M.E. Investment Partnerships Program

CFDA#: 14.218; 14.239

Award number: Various

Award year: Various

Finding: Internal Control and Compliance over Section 3 Summary Report

Prior Year Finding: Yes; 2016-001

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 the United States Department of Housing and Urban Development (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 2017 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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Condition

Based on our testing of the Section 3 Report covering the period from July 1, 2015 through June 30, 2016, we noted that the amounts for the applicable key line items (items a through e noted above) did not agree with the supporting documentation provided by the various City's Department of Neighborhood Development (DND) program managers. The reported number of 163 new hires that met the definition of a Section 3 resident is overstated by 28 new hires. The reported dollar amount of construction contracts awarded during the reporting period of \$108,021,125 is overstated by \$15,020,501. The reported dollar amount of construction contracts awarded to Section 3 businesses during the reporting period of \$20,564,316 is overstated by \$9,251,535. The reported number of 48 Section 3 businesses receiving the construction contracts is overstated by 35 contracts. The reported dollar amount of nonconstruction contract awarded during the reporting period of \$41,366,190 is overstated by \$27,169,619.

It was also noted that the supporting documentation for the Section 3 report is based upon data gathered from the project developers. Such data is provided by DND Project Managers within the Neighborhood Housing Development Division to the DND Compliance Group (Assistant Director or Senior Compliance Officer) as part of project closeout. Once reviewed by the Compliance Group, the reports are delivered to the Compliance Monitor, who aggregates all such reports and submits the Section 3 report using the SPEARS application. However, there is no review of the Section 3 report by another member of the Compliance Group subsequent to the preparation of the report and prior to submission.

Cause

This appears to be the result of the ineffective design of policies and procedures related to the preparation of the Section 3 report.

Effect

The City is not in compliance within the Section 3 report required to be submitted for the CDBG and HOME awards.

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 implement policies and procedures related to the preparation and submission of the Section 3 report 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

DND has implemented the spreadsheet aggregation and secondary review noted in its FY2016 single audit; however, the 2016 finding was provided after the September 2016 report was filed, and thus before the new procedure was implemented. The September 2017 report was filed in accordance with the procedure, and provided to the auditor together with complete support documentation to demonstrate the effectiveness of the new procedure.

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Auditor Response

The September 2017 report was not subject to audit in the June 30, 2017 audit. If the CDBG or HOME program is audited in the June 30, 2018 audit, the report filed in Sept 2017 would be subject to review as part of that audit.

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Finding number: 2017-004

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

Pass-through agency: N/A – Direct Funding

Program: Community Development Block Grants – Entitlement Grant

CFDA#: 14.218

Award number: Various

Award year: Various

Finding: Internal Control and Compliance over Required Certifications and HUD Approvals

Prior Year Finding: No

Criteria

CDBG funds (and local funds to be reimbursed with CDBG funds) cannot be obligated or expended before receipt of the United States Department of Housing and Urban Development's (HUD) approval of a Request for Release of Funds (RROF) and environmental certification, except for exempt activities under 24 CFR Section 58.34 and categorically excluded activities under Section 58.35(b) (24 CFR Section 58.22).

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 to determine whether the City is obligating and expending program funds only after HUD's approval of the RROF, we noted for one of the 40 sample items selected for testwork, approval or exempt determination was not made before fund were expended.

Cause

This appears to be the result of insufficient review of approvals or exempt determination by HUD before obligating or expending program funds.

Effect

The City is not in compliance with the documentation requirements related to *Required Certification and HUD Approvals* for the CDBG program.

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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: \$2,500

Recommendation

We recommend that DND reemphasize its policies and procedures related to required certifications and HUD approvals to ensure compliance of program expended funds.

View of Responsible Officials from the Auditee

DND and the City have reviewed the subject transaction and deemed it ineligible for CDBG funding. The transaction has been reversed and the invoice paid with non-federal funds.

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Finding number:	2017-005
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:	Various
Award year:	Various
Finding:	Internal Control and Compliance over Eligibility for Individuals
Prior Year Finding:	No

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. The HOME Program has income targeting requirements. Only low-income or very low-income persons, as defined in 24 CFR Section 92.2, can receive housing assistance (24 CFR Section 92.1). Therefore, DND must determine if each family is income eligible by determining the family's annual income, including all persons in the household, as provided for in 24 CFR Section 92.203. Annual verification is to be done to determine that low-income persons occupy the unit and appropriate rent levels are administered. Participating jurisdictions must maintain records for each family assisted (24 CFR Section 92.508).

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

As part of our testing of DND's compliance with individual eligibility requirements, we selected a sample of 15 projects and 40 units and noted that compliance with the income monitoring requirement was not accurately documented based on the following:

- Two units were occupied by tenants whose income increased and exceeded the low-income limits set forth above. We were unable to determine if DND took appropriate action to ensure that all vacancies were filled in accordance with § 92.252(h)(i)(1) until the noncompliance is corrected.
- 18 of the 40 units tested the Rent and Income Certification Forms were not certified by DND.

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In addition, during our testing over the completeness of the Eligibility population, we noted a discrepancy between the HOME projects population for Eligibility and the population of HOME projects for Housing Quality Standard (HQS) Inspection. Four projects included in the HQS Inspection population were not included in the Eligibility population. The Eligibility population should be all inclusive for HOME funded projects. Lastly, five of the 15 projects from the Inspection population reported by DND's standardized database did not correspond to the Rent and Income Certifications provided. As a result, we could not reasonably conclude that the population was complete.

Cause

The items noted above appear to be due to inadequate monitoring and insufficient review of documentation supporting the information reported on the Rent and Income Certification Forms received from the Project Managers and the entering of the Rent and Income Certification Forms into the standardize database used to monitor, and track the number of HOME units within a project.

Effect

DND is not performing sufficient reviews of income and other documentation to ensure that all projects and units are properly monitored for low income status and low income, therefore, DND is not in compliance with Eligibility for Individuals..

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 process for reviewing income documentation to ensure that all projects and units are properly monitored for low income status and low income status, along with rental limits, are subjected to proper income verification. DND should also reiterate its policies and procedures in place to ensure income is being reviewed and reported accurately into their standardized database.

View of Responsible Officials from the Auditee

Both of the units occupied by tenants whose income increased in excess of the low-income limits established in the Covenant for Affordable Housing pursuant to the HOME program initiated their tenancy during 2015. DND provided the auditors with the Tenant Income Certification, together with lease and income source documentation to demonstrate compliance at initial move-in pursuant to 24 CFR 92.203. In addition, DND provided the auditors with copies of the annual rent/income certification for the entire project during FY 2016 and 2017 that it had collected and inspected in accordance with 24 CFR 92.252(h)(i)(1), which demonstrated that the project continues to be in compliance with regulations and the Affordable Housing Covenant. DND collects rent/income certifications annually for all HOME-assisted projects to ensure low-income requirements are met, in accordance with regulation and HUD best practices. Although this issue was not raised until after the audit exit conference, DND provided the explanation that in accordance with the affordable housing covenant and pursuant to 24 CFR 92.252(i)(1), HOME-assisted units continue to qualify as affordable housing despite a temporary noncompliance caused by increases in the incomes of existing tenants if actions satisfactory to HUD are being taken to ensure that all vacancies

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are filled in accordance with this section until the noncompliance is corrected. Since DND took appropriate action to ensure that all vacancies were filled in accordance with 24 CFR 92.252(h)(i)(1) and with procedures reviewed and approved by HUD, DND does not concur with this finding.

All rent/income certifications are submitted by property managers electronically, and reviewed on screen. In the future, Compliance Staff will print the submitted documents when the review is complete, sign them if approved, and scan the signed documents to maintain the digital electronic file.

Auditor Response

With regard to the two units that were occupied by tenants whose income increased and exceeded the low-income limits, we have not received evidence from DND to enable us to determine if DND took appropriate action to ensure that all vacancies were filled and we have not received any written documentation from HUD indicating their satisfaction with DND actions.

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Finding number: 2017-006
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: Various
Award year: Various
Finding: Internal Control and Compliance over Housing Quality Standards
Prior Year Finding: Yes; 2016-002

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

To test DND’s compliance with the monitoring of housing quality standards (HQS) we selected a sample of 40 units from 15 projects and noted the following:

- It does not appear a sufficient number of unit inspections were completed for three projects:
 - Humphrey Street Rental 3 Home Units 1 Unit Inspected
 - Sister Clara Co-Op 8 Home Units 1 Unit Inspected
 - Nate Smith House 4 Home Units 1 Unit Inspected
- For four units, we requested but DND could not provide a signed Inspection Checklist documenting the performance of the units’ inspections and the related results. For each unit, DND did provide an unsigned letter on Boston Housing Authority (BHA) letterhead indicating an inspection was done and the result of the inspection, but we were not provided with and were not able to perform tests of the

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information, if any, supporting these letters. As such, for these four units, we could not determine that the compliance requirement had been met.

In addition, during our testing over the completeness of the HQS population, we noted a discrepancy between the HOME project listing provided to KPMG for Eligibility testing and the listing of HOME projects provided for HQS Inspection. We noted four projects were included in the HQS Inspection population that were not part of the Eligibility population. The Eligibility population should be all inclusive for HOME funded projects. Finally, one of the 15 projects from the population provided by DND's standardized database, the database used to track the number of HOME assisted units, did not correspond to the unit's Covenant that was provided. As a result, we could not reasonably conclude that the population was complete.

Cause

The items noted above appear to be the result of policies and procedures established to help ensure that inspections are performed as required and that documentation of such inspections is completed and is maintained on file not being adequately performed.

Effect

DND is not performing and retaining documentation of HQS inspections as required by federal regulations, therefore, DND is not in compliance with HQS.

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 current policies and procedures to help ensure that HQS inspections are performed as required and that documentation maintained to evidence monitoring of projects for HQS is complete.

Views of Responsible Officials of the Auditee

Guidance published by HUD in "Building HOME," (Chapter 6, page 19: <https://www.hudexchange.info/resources/documents/Building-HOME-Chapter-6-Rental-Housing-Activities.pdf>) states "Not all units must be inspected in a large project, only a "sufficient sample" and suggests a sampling "rule of thumb" such that at least 15% of HOME-assisted units in a project be inspected, or one HOME-assisted unit per building be inspected, whichever is greater. The projects identified range in size from 11 to 44 total units. This "rule of thumb" would require that at least 0.45 units at Humphrey Street Rental be inspected, 1.2 units at Sister Clara Co-op be inspected, and 0.6 units at Nate Smith House be inspected. Since one unit was inspected at both Humphrey Street Rental and Nate Smith House, the sample is sufficient. DND has adjusted its records such that at least 2 units will be inspected at Sister Clara Co-op in the future.

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DND disagrees that the documentation of four inspections completed by the Boston Housing Authority (BHA) and are provided to DND under an MOA approved by HUD is insufficient to document compliance. The BHA letters are electronically generated upon completion of an inspection using tablet applications fully vetted and approved by HUD. Any violations noted in the inspections are incorporated into the letters automatically, are sent to the property manager, and must be addressed and documented in a timely fashion. The letters provided are sufficient support documentation for the inspections as the methodology for inspection is approved by HUD, the letters from which they are generated documenting approvals or deficiencies to be corrected are approved by HUD, and the MOA under which BHA shares the inspections is approved by HUD.

DND and the BHA have invested significant time in implementing a system to ensure that we have complete support by all parties involved to ensure our regulatory obligations for housing quality standards are met, including extensive (and repeated) vetting with HUD, both with their Office of Community Planning and Development and their Office of Public and Indian Housing.

The discrepancy noted from the downloaded report resulted from rows being inadvertently deleted from the initial report. The database fields regarding the number of HOME-assisted units have been updated to correspond with the covenants.

Auditor Response

DND should seek written clarification from HUD regarding how the information in the Building Home document should be interpreted and how it relates to the other codified federal regulations. DND should then incorporate HUD's position into a written DND policy.

DND relies on signed Inspection Checklists which were not provided. With regard to the arrangement between DND and BHA, we were not provided with a copy of an MOA or HUD's approval of that MOA. Additionally, BHA was not within the scope of the June 30, 2017 audit and, as such, the controls, policies, procedures at BHA were not required to be reviewed as part of the audit. If DND intends to rely on a computerized system to demonstrate its compliance with federal regulations, DND should obtain written approval of the MOA from HUD and incorporate the MOA information into a DND policy. Additionally, DND will need to perform and document the procedures DND performed to ensure the automated system can be relied upon.

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Finding number: 2017-007

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: 240-393-6-0035-Q

Award years: September 1, 2015 to August 31, 2016
September 1, 2016 to August 31, 2017

Finding: Internal Control and Compliance over 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 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:

- For 1 payroll transaction, 1 of 10 supporting timesheets was not signed by the employee resulting in a questioned cost of \$339.
- For 1 payroll transaction, the employee was paid \$2,274 as compared to the authorized bi-weekly salary of \$1,137. This employee was not paid for a subsequent pay period, reducing the overpayment to \$569.

Cause

This appears to be due to insufficient review of both timesheets and authorized payroll amounts as compared to amounts paid to employees.

Effect

BPS is not in compliance with 2 CFR 200.430(i)(1) regarding documentation in support of salaries and wages charge 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: \$908

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

The BPS Special Education Extended School Year (ESY) Program Manager will manage hiring practices more closely, especially for part-time summer employees, so that the payroll is both timely and accurate for the work period performed. Whereas in prior years, the volume of summer hiring led to late and incorrect paychecks, the district has implemented early hiring measures to ensure more timely processing of pay and implemented controls and alerts within the data entry system for the Special Education staff managing payroll for ESY to verify that pay does not exceed appropriate amounts.

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Finding number: 2017-008
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 number: 240-029-7-0035-R
Award years: February 24, 2017 to August 31, 2017
Finding: Internal Control and Compliance over Period of Performance
Prior Year Finding: No

Criteria

In accordance with 2 CFR 200.309, a non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity.

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 period of performance associated with nonpayroll charges, we noted that 2 of 78 transactions charged to the program were incurred prior to the beginning of the grant award's start date.

Cause

This appears to be due to insufficient review of the federal award start date and invoice date when charging costs to the federal award.

Effect

The City of Boston Public Schools (BPS) is not in compliance with 2 CFR 200.309 in regards to charging to the federal award only allowable costs incurred during the award's period of performance.

Whether Sampling was Statistically Valid

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

Questioned Costs: \$78,850

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Recommendation

We recommend that BPS implement control procedures to ensure that only allowable costs incurred during the period of performance are charged to a federal award as required by 2 CFR 200.309.

View of Responsible Officials from the Auditee

The Director of Operations and Service Implementation in the Special Education department will ensure that individuals processing purchases and incurring costs under the Special Education federal awards are informed very clearly of the period of performance for the grant. The Office of Federal and State grants will also provide additional communication and support to ensure compliance with period of performance and other federal policies, especially if a period of performance is adjusted from prior years, new staff are on-boarded, or federal policy is revised. The questioned costs were subsequently moved off the grant.

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Finding number: 2017-009
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, 2015 to August 31, 2017
Finding: Internal Control and Compliance over Schoolwide Program
Prior Year Finding: Yes; 2016-004

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 Boston Public School system. This review noted 1 school's whole school improvement plan was missing the majority of the required elements noted above.

Cause

This appears to be due to insufficient monitoring of the individual schools within the City's school district in regards to the preparation and completeness 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 BPS enhance its policies and procedures to ensure that schoolwide improvement plans for each school within its district include all information as required by schoolwide program requirements.

View of Responsible Officials from the Auditee

In FY17 the Whole School Improvement plans were revised collaboratively with the Instructional Superintendents, the Academic and Strategy team, and representatives from various other central offices. It was revisited for FY18, to make any necessary changes. 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 are completed at the time of this review.

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Finding number: 2017-010
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, 2017
Finding: Internal Control and Compliance over Payroll Costs
Prior Year Finding: Yes; 2016-011

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 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 47 payroll transactions charged to the program:

- Timesheets and department time summary reports were not provided for 5 payroll transactions tested. Payroll and related costs charged to the award associated with these transactions were \$20,120.
- For 10 payroll transactions, certain of the supporting timesheets 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 \$22,531.

Total payroll costs charged to the award for the fiscal year were approximately \$792,000.

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: \$42,651

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.

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Finding number: 2017-011

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, 2017

Finding: Internal Control and Compliance over Subrecipient Monitoring

Prior Year Finding: Yes; 2016-013

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

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- 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

For all 4 subrecipients selected for testing from the population of 8 subrecipients, it was noted that the initial notification award letter, and the Memorandum of Understanding (MOU) document between the City of Boston Public Schools (BPS) and the 4 subrecipients, did not contain, or incorporate through reference to other documents, the subrecipient's DUNS number, Federal Award Identification Number, federal award date, and identification of whether the award is R&D.

Cause

This appears to be due to the MOU being a standard template provided by the pass-through agency, which did not include certain of the required elements of 2 CFR Section 200.331(a).

Effect

BPS 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.

Questioned Costs: None

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.

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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 sub-recipients for the 2017-18 year.

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Finding number: 2017-012
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, 2017
Finding: Internal Control and Compliance over Subrecipient Monitoring
Prior Year Finding: Yes; 2016-014

Criteria

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.

Condition

Our review of program monitoring documentation for our sample of 4 of the population of 8 subrecipients indicated that, although the City of Boston Public Schools (BPS) performed subrecipient monitoring in fiscal year 2017 using the standard template as recommended by the *Preschool Expansion Grant Implementation Guide* issued by the pass-through agency, which included site visits and periodic meetings with the subrecipient, and reported areas of noncompliance to the subrecipients, BPS did not follow-up and ensure that the subrecipient took timely and appropriate action on reported noncompliance.

Cause

This appears to be due to inadequate policies and procedures in place to ensure follow-up over subrecipients when issues of noncompliance are identified during program monitoring reviews.

Effect

BPS is not in compliance with the requirements related to ensuring that subrecipients take timely and appropriate action on all deficiencies pertaining to Preschool Development Grants provided to the subrecipient.

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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 BPS implement control procedures to ensure that subrecipients take timely and appropriate action on all areas of noncompliance identified through program monitoring reviews.

View of Responsible Officials from the Auditee

Management agrees with the audit finding and recommendation. Procedures have been put in place during fiscal year 2018 to ensure the City is in compliance with subrecipient monitoring.

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Finding number: 2017-013

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: Yes, 2016-009

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 controls were in place. However, for two of the three cash drawdowns selected for testing, we noted immaterial differences between the underlying support versus the amount requested.

Cause

The condition above appears to be the result of an inadequate review of the request for drawdown of federal funds for the SAFER award.

Effect

Inadequate review of cash drawdown requests increases the risk of noncompliance with federal cash management 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 of Boston's Fire Department strengthen its policies and procedures related to federal cash drawdowns in order to help ensure the accuracy of the drawdown requests.

View of Responsible Officials from the Auditee

Management has implemented a policy and procedure to segregate the preparation and review functions to ensure accuracy and compliance with drawdown 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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Finding number: 2017-014

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: Yes; 2016-010

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 only SF-425 Report required to be filed by the City of Boston's Fire Department (BFD) in fiscal year 2017, we noted the City utilized the cash draw amount to populate the report rather than the accrual basis draw noted on the report. This resulted in a difference of \$1,900,364 between the total expenditures reported in the SF-425 (\$5,573,712) and the expenditures for the award reported in the City's general ledger (\$7,474,076).

During our testing of Hiring Performance Reports, we noted both samples selected were not submitted with the 30 day window per grant guidelines.

Additionally, we noted that the FY17 SF-425 report and the quarterly Hiring Performance Reports were prepared, reviewed and approved by the same employee. Sufficient compensating controls were not in place to reduce the risk associated with this lack of segregation of duties.

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Cause

The condition above appears to be the result of the ineffective design and execution of policies and procedures related to the preparation and submission of federal reports required to be submitted for the SAFER award.

Effect

BFD is not in compliance with 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 of the expended amount 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 to ensure accuracy and compliance with reports. In addition, all reports are now reviewed for accuracy by the City's Grants Monitoring Unit prior to being submitted to the federal agency.