



## **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, 2018

**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, 2018. 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 Redevelopment Authority, 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, 2018. 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, 2018.



*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 2018-001 through 2018-006. 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 2018-003 through 2018-005 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 2018-001, 2018-002, and 2018-006 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 24, 2018, 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*KPMG LLP*

Boston, Massachusetts  
December 24, 2018

**CITY OF BOSTON, MASSACHUSETTS**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2018

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	\$ —	35,500,800
Summer Food Service Program for Children	10.559	—	1,122,523
Total Child Nutrition Cluster		—	36,623,323
Fresh Fruit and Vegetable Program	10.582	—	1,016,445
Passed-through State Department of Food and Nutrition Service:			
Child and Adult Care Food Program	10.558	—	1,060
Passed-through State Department of Foreign Agricultural Service:			
USDA Local and Regional Food Aid Procurement Program	10.612	—	5,000
Total U.S. Department of Agriculture		—	37,645,828
U.S. Department of Defense:			
Direct programs:			
Language Grant Program	12.900	—	98,748
Total U.S. Department of Defense		—	98,748
U.S. Department of Housing and Urban Development:			
Direct programs:			
Community Development Block Grants – Entitlement Grant	14.218	8,528,381	22,287,598
Emergency Solutions Grants Program	14.231	1,908,523	2,345,755
H.O.M.E. Investment Partnerships Program (note 3)	14.239	8,306	116,633,037
Housing Opportunities for Persons with AIDS	14.241	2,413,502	2,496,889
E.D.I.	14.246	—	79,452
Continuum of Care Program	14.267	20,964,116	22,312,905
Fair Housing Assistance Program: State and Local	14.401	1,415	207,164
Fair Housing Initiatives Program	14.408	—	42,899
Community Challenge Planning Grant	14.704	—	39,736
Lead Hazard Reduction Demonstration Grant Program	14.905	—	1,054,058
Choice Neighborhood Implementation Grant:			
Direct program	14.889	129,480	1,110,760
Passed-through Economic Development and Industrial Corporation of Boston	14.889	—	37,710
Total Choice Neighborhood Implementation Grant		129,480	1,148,470
Total U.S. Department of Housing and Urban Development		33,953,723	168,647,963
U.S. Department of the Interior:			
Direct programs:			
Youth Engagement, Education, and Employment	15.676	—	88,527
Passed-through National Park Service:			
Historic Preservation Fund Grants-In-Aid	15.904	—	10,700
Passed-through Massachusetts Executive Office of Energy & Environmental Affairs:			
Outdoor Recreation Acquisition, Development and Planning	15.916	—	250,000
Total U.S. Department of the Interior		—	349,227
U.S. Department of Justice:			
Direct programs:			
Community Based Violence Prevention	16.123	172,346	764,584
Public Safety Partnership and Community Policing Grants	16.710	—	70,765
Special Data Collections and Statistical Studies	16.734	—	29,716
Forensic DNA Backlog Reduction Program	16.741	—	236,362
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	29,217	34,857
Passed-through State Office for Victim Assistance:			
Antiterrorism Emergency Reserve	16.321	—	47,861
Passed-through State Office of Juvenile Justice and Delinquency Prevention:			
Missing Children's Assistance	16.543	—	3,908
Passed-through State Executive Office of Public Safety:			
Violence Against Women Formula Grants	16.588	—	39,348
Edward Byrne Memorial Competitive Grant Program	16.751	—	108,976
Edward Byrne Memorial Justice Assistance Grant:			
Direct program	16.738	7,598	558,249
Passed-through State Executive Office of Public Safety	16.738	—	17,589
Total Edward Byrne Memorial Justice Assistance Grant		7,598	575,838
Passed-through Massachusetts Department of State Police:			
Paul Coverdell Forensic Sciences Improvement Grant	16.742	—	9,437
Total U.S. Department of Justice		209,161	1,921,652

**CITY OF BOSTON, MASSACHUSETTS**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Passed through to subrecipients	Total federal expenditures
U.S. Department of Labor:			
Passed-through Economic Development and Industrial Corporation of Boston:			
Workforce Investment Act – Youth Activities	17.259	\$ —	92,954
Total U.S. Department of Labor		—	92,954
U.S. Department of Transportation:			
Direct programs:			
National Infrastructure Investments	20.933	—	6,599,160
Passed-through State Executive Office of Transportation:			
Highway Safety Grant	20.205	—	2,365,119
Passed-through State Executive Office of Public Safety/Administration:			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	—	46,071
National Priority Safety Programs	20.616	—	37,926
Total Highway Safety Cluster		—	83,997
Total U.S. Department of Transportation		—	9,048,276
National Endowment for the Arts:			
Direct programs:			
Promotion of the Arts	45.024	—	59,453
Passed-through Institute of Museum and Library Services:			
Grants to States	45.310	—	13,899
Total National Endowment for the Arts		—	73,352
National Science Foundation:			
Passed-through State Office for Victim Assistance:			
Social, Behavioral, and Economic Sciences	47.075	—	318,481
Passed-through University of Massachusetts:			
Education and Human Resources	47.076	—	96,606
Total National Science Foundation		—	415,087
U.S. Environmental Protection Agency:			
Direct programs:			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	—	49,567
Total U.S. Environmental Protection Agency		—	49,567
U.S. Department of Education:			
Direct programs:			
Education Research, Development and Dissemination	84.305	—	130,040
Mathematics and Science Partnerships	84.366	—	644
Hurricane Education Recovery	84.938	—	772,695
Passed-through State Department of Elementary and Secondary Education:			
Adult Education – Basic Grants to States	84.002	—	56,636
Title I – Grants to Local Educational Agencies	84.010	—	38,829,511
Special Education (IDEA) Cluster:			
Special Education	84.027	—	20,082,406
Special Education – Preschool Grants	84.173	—	373,119
Total Special Education (IDEA) Cluster		—	20,455,525
Vocational Education	84.048	—	1,689,484
Education for Homeless Children and Youth	84.196	—	104,653
English Language Acquisition State Grants	84.365	—	2,999,228
Improving Teacher Quality State Grants	84.367	—	4,333,150
DC School Choice Incentive Program	84.370	—	45,755
School Improvement Grants	84.377	—	2,544,887
Student Support and Academic Enrichment Program	84.424	—	852,755
Twenty-First Century Community Learning Centers:			
Direct program	84.287	—	20,453
Passed-through State Department of Elementary and Secondary Education	84.287	—	950,370
Passed-through Economic Development and Industrial Corporation of Boston	84.287	—	94,809
Total Twenty-First Century Community Learning Centers		—	1,065,632
Passed-through The New Teacher Project, Inc.:			
TEACH Grants	84.379	—	185,605
Passed-through State Department of Early Education and Care:			
Preschool Development Grants	84.419	3,355,978	4,297,049
Total U.S. Department of Education		3,355,978	78,363,249

**CITY OF BOSTON, MASSACHUSETTS**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2018

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	\$ —	482,950
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	—	196,764
Passed-through State Executive Office of Elderly Affairs:			
Special Programs for the Aging:			
Title VII, Chapter 2	93.042	186,002	186,002
Title III, Part D	93.043	46,868	571,930
National Family Caregiver Support, Title III, Part E	93.052	436,663	448,371
Aging Cluster:			
Special Programs for the Aging:			
Title III, Part B	93.044	529,774	1,084,097
Title III, Part C	93.045	1,637,744	1,956,924
Nutritional Services Incentive Program	93.053	405,395	405,395
Total Aging Cluster		<u>2,572,913</u>	<u>3,446,416</u>
Passed-through Boston Public Health Commission:			
Partnership to Improve Community Health	93.331	—	78,121
Total U.S. Department of Health and Human Services		<u>3,242,446</u>	<u>5,410,554</u>
Corporation for National and Community Services:			
Direct programs:			
Retired and Senior Volunteer Program	94.002	—	137,324
Senior Companions Programs	94.016	—	268,419
Total Corporation for National and Community Services		<u>—</u>	<u>405,743</u>
U.S. Department of Homeland Security:			
Direct programs:			
Assistance to Firefighters Grant	97.044	—	85,631
Port Security Grant Program	97.056	—	118,974
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	—	1,729,677
Passed-through Massachusetts Emergency Management Agency:			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	—	346,318
Emergency Management Performance Grants	97.042	—	90,304
Passed-through State Executive Office of Public Safety:			
Homeland Security Grant Program	97.067	5,000,348	11,400,154
Total U.S. Department of Homeland Security		<u>5,000,348</u>	<u>13,771,058</u>
Total expenditures of federal awards		<u>\$ 45,761,656</u>	<u>316,293,258</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, 2018

**(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 2018 and includes \$1,549,629 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 2018, 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, 2018, the H.O.M.E. program had yearend loan balances subject to continuing compliance requirements of \$120,657,093.

**(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, 2018, 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 24, 2018. Our report includes a paragraph on other matters related to the City's implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions were not modified with the respect to this matter. Our report also includes a reference to other auditors who audited the financial statements of Dudley Square Realty Corporation, the Ferdinand Building Development Corporation, the City's Permanent Funds, the Boston Retirement System, the City's OPEB Trust Fund, the City's 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 opinion 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 24, 2018

**CITY OF BOSTON, MASSACHUSETTS**  
 Schedule of Findings and Questioned Costs  
 Year ended June 30, 2018

**(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 opinion units**
- (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>
Community Development Block Grants – Entitlement Grant	14.218
H.O.M.E. Investment Partnerships Program	14.239
Continuum of Care Program	14.267
Title I – Grants to Local Educational Agencies	84.010
Improving Teacher Quality State Grants	84.367
Preschool Development Grants	84.419

- (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, 2018

**(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, 2018

**(3) Findings and Questioned Costs Relating to Federal Awards**

**Finding number:** 2018-001

**Federal agency:** U.S. Department of Education

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

**Program:** Title I – Grants to Local Education Agencies

**CFDA#s:** 84.010

**Award number:** 305-146523-2018-0035

**Award year:** September 1, 2017 to June 30, 2019

**Finding:** Internal Control and Compliance over Payroll Costs

**Prior Year Finding:** No

**Type of Finding:** Significant Deficiency

*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.

**CITY OF BOSTON, MASSACHUSETTS**  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2018

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 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 deficiency was noted in our review of 40 payroll transactions charged to the program:

- For 2 payroll transactions, timesheets were not provided that support the cost charged to the grant.

*Cause*

This appears to be due to insufficient system of filing and maintenance of supporting documentation for payroll transactions charged to Federal programs.

*Effect*

Insufficient system of filing and maintenance increases the risk of inaccurate payroll costs being charged to the grant award.

*Whether Sampling was Statistically Valid*

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

**Questioned Costs:**

Questioned costs of \$2,991, for unsupported payroll charges, were charged to CFDA No. 84.010, Award No. 305-146523-2018-0035.

**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**

All schools and departments are required to operate a daily paper sign-in process. The paper sign-in process is then used to create the Department Time Summary (DTS) report for each school or department prior to payroll. DTS reports are to be run by every department on the Wednesday prior to the paycheck date. All DTS reports are to be reviewed for accuracy by the timekeeper: any discrepancies should be addressed immediately and prior to the issuance of the paycheck. After verification of time all DTS reports are to be signed by the timekeeper as the preparer and the department head as the approver and submitted to the payroll department on the Wednesday prior to the payday. BPS will continue to work with all schools and departments to make sure this process is followed daily by all.

**CITY OF BOSTON, MASSACHUSETTS**  
 Schedule of Findings and Questioned Costs  
 Year ended June 30, 2018

**Finding number:** 2018-002

**Federal agency:** U.S. Department of Education

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

**Program:** Title I – Grants to Local Education Agencies

**CFDA#:** 84.010

**Award number:** 305-073349-2016-0035

**Award year:** September 1, 2015 to June 30, 2017

**Finding:** Internal Control and Compliance over Management of Grant Funds

**Prior Year Finding:** No

**Type of Finding:** Significant Deficiency

*Criteria*

The City of Boston Public Schools (BPS) receives funding from the Commonwealth of Massachusetts' Department of Elementary and Secondary (DESE). DESE sets policy for the grants and required reports. DESE issues guidance in *Grants for Schools: Getting Them and Using Them, A Procedural Manual*.

According to the DESE's procedure manual, "At the conclusion of grant activities, recipients must submit a final financial report to the Department, accounting for the expenditure of funds received. Grants Management has developed a standard form (FR-1) for collecting this information. Grant recipients should file their reports after carefully reconciling all figures with their city auditor, town accountant, or agency business manager."

Further, the manual states that drawdown "requests should be based, as much as possible, on actual expenditures, rather than what is obligated." The manual further states that "by submitting a request the grantee certifies that the request is in compliance with the "Cash Management Act" and EDGAR regulations, which allows for cash advances provided grantees maintain procedures to minimize the time elapsing between receipt and disbursement of grant funds."

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 audit of cash management, we found that the City of Boston (the City) drew down the entire amount of the grant award by August 31, 2017, which reflected an advance of federal funds as the City did not incur eligible expenditures prior to the final draw to make it a request for reimbursement. Upon the filing of the FR-1, \$348,895 of this advance remained unspent based on total costs for this grant award as recorded in the City's general ledger.

Additionally, in testing the final FR-1 financial report for this award, we noted that the amount included in the FR-1 on the line titled "B. Funds expended" did not reconcile to the expenditure amount for the award as recorded in the City's general ledger through the filing date of the FR-1, as follows:

Funds expended as reported on the final FR-1	\$	31,137,776
Funds recorded in the City's general ledger		<u>30,788,881</u>
Difference	\$	<u><u>348,895</u></u>

*Cause*

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

*Effect*

The City drew cash in advance of expenditure which were ultimately not supported by eligible expenditures. The City also did not file accurate financial reports with the pass-through entity.

*Whether Sampling was Statistically Valid*

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

**Questioned Costs:**

Questioned costs of \$348,895, for unspent charges, were charged to CFDA No. 84.010, Award No. 305-073349-2016-0035.

**Recommendation:**

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

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**View of Responsible Officials from the Auditee**

All schools and departments receive a monthly report of open purchase orders. All purchase orders must be fully received in order to file the FR-1 report. A fully received purchase order indicates that the goods or services were received in full and that the full amount will be paid. At this point, BPS files the FR-1 report under the assumption that all fully received purchase orders will be paid out in full upon vendor invoice. The Office of Grants and External Funding and the Business Services team will continue to work closely with schools and departments to ensure purchase orders are either paid out or cancelled in a timely manner.

Subsequent to the year end, the remaining encumbrance has decreased to \$316,425.54 due to vendors providing invoices for fully received purchase orders several years later.

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**Finding number** 2018-003

**Federal agency:** U.S. Department of Education

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

**Program:** Title I – Grants to Local Education Agencies

**CFDA #:** 84.010

**Award number:** Various

**Award year:** Various

**Finding:** Internal Control and Compliance over Level of Effort

**Prior Year Finding:** No

**Type of Finding:** Material Weakness

*Criteria*

In accordance with 20 USC 6321(b), Local Educational Agencies may use program funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for the education of participating students. In no case may an LEA use Federal program funds to supplant funds from non-Federal sources.

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*

It was noted that the percentage of fiscal year 2018 Title I funding to the total fiscal year 2018 City of Boston Public Schools (BPS) budget (2.84%) increased from the fiscal year 2017 percentage (2.56%).

BPS did not provide documentation to demonstrate that internal controls over the compliance requirements above were in place and that BPS was in compliance with the requirements.

*Cause*

This condition appears to be the result of lack of documented controls and evidence of compliance.

*Effect*

We were unable to determine compliance regarding level of effort requirements.

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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:**

Unknown.

**Recommendation**

We recommend that BPS implement monitoring procedures to ensure that Title I funding supplements, and not supplants, funds available from non-Federal sources for the education of participating students as required by 20 USC 6321(b).

**View of Responsible Officials from the Auditee**

BPS has a consistent proven methodology to ensure external funds supplement rather than supplant local funds. BPS distributes its state and local funds to its Title I schools using a methodology that is Title I neutral. Under the weighted student funding model, BPS calculates per-student funding by assigning a value to the various factors that go into meeting a student's academic needs, based for instance on his or her grade level and instructional needs. A base foundation allocation is applied to every school as well. These local dollars are provided to all schools based on this student need, and separate and distinct from Title I allocations.

The WSF templates showing the weights assigned are available on the BPS website.

BAIS Financial security access is set up so that schools only have access to their schools, and cannot transfer funds between other schools/departments. The Budget and Grants team are the final approvers on all transfers. In addition, BAIS Financial controls do not allow for overspending on non-personnel lines, and stipend lines are monitored and approved by the respective budget analyst.

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**Finding number:** 2018-004

**Federal agency:** U.S. Department of Education

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

**Program:** Title I, Grants to Local Education Agencies

**CFDA #:** 84.010

**Award number:** Various

**Award year:** Various

**Finding:** Internal Control and Compliance over Annual Report Card, High School Graduation Rate

**Prior Year Finding:** No

**Type of Finding:** Material Weakness

*Criteria*

Beginning with annual report cards providing assessment results for the 2010–2011 school year, an SEA and its LEAs must report graduation rate data for all public high schools at the school, LEA, and State levels using the 4-year adjusted cohort rate under 34 CFR Section 200.19(b)(1)(i)-(iv)). Additionally, SEAs and LEAs must include the 4-year adjusted cohort graduation rate (which may be combined with an extended-year adjusted cohort graduation rate or rates) in adequate yearly progress (AYP) determinations beginning with determinations based on assessments administered in the 2011–2012 school year. Graduation rate data must be reported both in the aggregate and disaggregated by each subgroup described in 34 CFR Section 200.13(b)(7)(ii) using a 4-year adjusted cohort graduation rate. To remove a student from the cohort, a school or LEA must confirm, in writing, that the student transferred out, emigrated to another country, or is deceased. To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.

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*

For 7 of 40 students removed from their respective cohorts in the Student Information Management System (SIMS) selected for testing, the City of Boston Public Schools (BPS) could not provide any official written

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documentation that the student emigrated to another country, is deceased, or is enrolled in another school or in an education program that culminates in the award of a regular high school diploma.

*Cause*

This appears to be due to a lack of policies and procedures in place at BPS to ensure compliance with this requirement.

*Effect*

BPS is potentially misstating the number of students in the adjusted cohorts used by the Commonwealth of Massachusetts to determine the 4-year adjusted cohort graduation rate.

*Whether Sampling was Statistically Valid*

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

**Questioned Costs:**

None

**Recommendation**

BPS management should re-familiarize staff with the requirements related to the removal of students from the adjusted cohorts used to determine the 4-year adjusted cohort graduation rate and establish policies and procedures to obtain and monitor official written documentation of student transfers required to remove students from their respective cohort.

**View of Responsible Officials from the Auditee**

BPS staff will establish policies and procedures to ensure students are not removed from the cohort unless sufficient documentation is obtained to verify the student emigrated to another country, is deceased, or is enrolled in another school or in an education program that culminates in the award of a regular high school diploma.

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**Finding number:** 2018-005

**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, 2019

**Finding:** Internal Control and Compliance over Payroll Costs

**Prior Year Finding:** No

**Type of Finding:** Material Weakness

*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

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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 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.

Our review of 40 payroll transactions charged to the program noted that for 12 payroll transactions tested, an allocation of payroll was made based on estimated time worked on the award for 8 employees whose salary was partially charged to the program; however, no documentation was provided to support this estimate.

*Cause*

This appears to be due to a lack of a formal system that documents actual time worked by program for employees that are charged to several funding sources.

*Effect*

Insufficient time allocation 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:**

Questioned costs of \$28,473, for unsupported payroll charges, were charged to CFDA No. 84.419, Award No. 5186PEGBOSTONPUBLIC.

**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**

During fiscal year 2018, the Preschool Development Grant (PDG) Project Manager designed a scope of work for each BPS employee named in the PDG grant, aligned with percentage of employee time to accomplish that work, and allocated funding in the PDG grant. The percentage of time and scope of work was noted in the monitoring tool and budget submitted to the Department of Early Education and Care. This process was revisited during fiscal year 2019 to include tracking each employee's actual work time

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under the grant in a spreadsheet called Y3 program visit dates for audit response. The spreadsheet notes the visit dates and summary of notes for each employee paid under the grant.

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**Finding number:** 2018-006

**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, 2019

**Finding:** Internal Control and Compliance over Subrecipient Monitoring

**Prior Year Finding:** Yes; 2017-012

**Type of Finding:** Significant Deficiency

*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.
- 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*

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 2018 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 for 3 of the 4 subrecipients tested.

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*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*

Untimely follow-up could result in findings not being addressed by the City and corrected by the subrecipient in a timely manner.

*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**

In the past, the Preschool Development Grant (PDG) Manager followed up on issues of non-compliance during ongoing monitoring meetings with subrecipients. Throughout fiscal year 2018, the PDG Project Manager visited programs and discussed areas of noncompliance identified through program monitoring reviews; however, there was no written documentation.

In May 2018, BPS created an audit response checklist for each subrecipient that was aligned to the areas of noncompliance identified through the program monitoring reviews. This will be the written documentation that confirms areas of noncompliance have been reviewed and appropriate action has been taken.

In order to ensure that subrecipients take timely and appropriate action on all areas of noncompliance, the PDG Project Manager meets with the subrecipient, reviews the audit response checklist, and attains a signature from the subrecipient. This procedure will also be followed for the program monitoring reviews conducted in all future years of the grant.