



CITY OF BOSTON • MASSACHUSETTS

Audit Committee

March 30, 2023

The Members of the Boston City Council:

We are writing to update you on our activities as members of the Audit Committee of the City of Boston (“City”) for the year ended December 31, 2022. During this period, we had four meetings with the City’s independent auditor, KPMG LLP (“KPMG”), and the City Auditor to discuss various aspects of the City’s audit as follows:

January 27, 2022

The Committee was briefed on the status of the City’s fiscal 2021 financial statement audit. KPMG informed the Committee that the City’s financial statements will be issued on January 31, 2022 and will include an unmodified opinion.

KPMG then provided the Committee with an update of the status of the Federal Single Audit. It was noted that the expected issuance of the 2021 Single Audit report is scheduled to occur in June.

The meeting was held via Microsoft Teams.

June 16, 2022

KPMG briefed the Committee on the status of the City’s fiscal 2022 financial statement audit. The Committee was informed that the interim audit procedures, which included substantive testwork, were currently in process. No issues were noted to date and the final phase of the financial statement audit is set to begin in September 2022. KPMG also informed the Committee that the testing of the City’s information technology (IT) controls relied upon as part of the audit was currently in process. It was noted that no observations were identified as a result of this testwork thus far.

KPMG then provided the Committee with a status of the City’s fiscal 2021 Federal Single Audit. It was noted that the City’s Federal Single Audit was issued on June 10, 2022 with an unmodified opinion on each of the City’s major federal programs. The control and compliance findings related to the major federal programs included in the final report had not materially changed from those discussed at the prior meetings.

KPMG then provided the Committee with a status of the City’s fiscal 2022 Federal Single Audit. It was noted that the major programs to be audited cannot be confirmed until there is a final schedule of expenditures of federal awards. However, for those programs that KPMG was able to determine would be subject to testing, KPMG informed the Committee that fieldwork had begun. It was noted that based on the City’s expenditures to date, eight major programs are currently expected to be tested as part of the fiscal 2022 audit.

The meeting was held via Microsoft Teams and in person at KPMG’s office at 60 South Street, Boston, MA 02111.

September 15, 2022

KPMG briefed the Committee on the status of the City's fiscal 2022 financial statement audit. The Committee was informed that the final phase of fieldwork has begun and no issues have arisen to date. KPMG then informed the Committee that the City's information technology controls were deemed effective for the fiscal year 2022 audit such that reliance could be placed on identified application controls of the City's Peoplesoft system. KPMG then confirmed the target date of the City's Annual Comprehensive Financial Report (ACFR) issuance is still December 2022.

KPMG then provided the Committee with a status of the City's fiscal 2022 Federal Single Audit. It was noted that fieldwork progress has been made for most of the programs subject to audit. KPMG then confirmed the target date for issuance of the 2022 single audit report is March 2023.

The meeting was held via Microsoft Teams and in person at KPMG's office at 60 South Street, Boston, MA 02111.

December 15, 2022

KPMG briefed the Committee on the status of the City's financial statement audit. The Committee was informed that KPMG was in the process of finalizing its substantive procedures and starting the completion process. KPMG then informed the Committee that the timing of the issuance of the City's ACFR was partially dependent on the issuance of the Pool Trust Funds, Dudley Square Realty Corporation and Ferdinand Building Development Corporation, and the Boston Public Health Commission. The audited financial statements of these entities are needed to finalize the City's ACFR. The issuance of the City's ACFR is expected to be by late-January of 2023.

KPMG then provided the Committee with a status of the City's fiscal 2022 Federal single audit. KPMG noted that the execution of the 2022 Federal single audit, which included review of eight major programs, has taken a track parallel to the completion of the financial statement audit. The Committee was informed that the final phase of testing was in process. KPMG then re-confirmed the target date of issuance of the 2022 single audit report to be March 31, 2023.

The meeting was held via Microsoft Teams.

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Similar to the past several years, the City achieved strong financial results in fiscal 2022. The City continues to be in strong financial condition, particularly when compared with other cities across the Commonwealth and other large cities across the country. The City continues to recover from the impacts of the COVID-19 pandemic. The City's Standard & Poors AAA and Moody's Aaa bond ratings were reaffirmed in April 2022.

From a financial perspective, the City continues to be heavily dependent on real and personal property taxes for its General Fund revenues. For fiscal 2022, such revenues compose approximately 74% of General Fund revenue on a budgetary basis. While real and personal property tax revenue growth has exceeded the annual increase limitations of Proposition 2 ½ over recent years (approximate 4-6% growth in each of the past three fiscal years), this has largely been driven by new growth to the assessment roll from a robust construction market. Should such new growth slow in future years, the City could experience reductions in annual incremental real and personal property taxes necessary to fund increases in spending for delivery of services and other fixed costs required to maintain current service levels.

The potential limitations on real and personal property taxes created by Proposition 2 ½ are exacerbated by the relatively small proportion of General Fund revenues created from other tax streams. Approximately 3% of fiscal 2022 General Fund revenues on a budgetary basis were generated through excise taxes. Compared with other major metropolitan cities across the country, the City has a relatively limited suite of tax revenue streams to fund General Fund expenditures, with the majority of such revenues coming from motor vehicle excise taxes, hotel/motel room excise taxes, meals excise taxes, and jet fuel taxes.. Because of these limited number of excise taxes, the financial benefit gained from expanded economic activity within the City is often muted to some degree, while spending to support such expanded activity often grows.

The City also continues to depend substantially on revenue from the Commonwealth of Massachusetts. Such revenues represented approximately 13% of fiscal 2022 General Fund revenues on a budgetary basis. The gross revenues from the Commonwealth have generally been static since 2015, however, such revenues net of State and district assessments have declined by approximately 8.0% and 6.6% in FY 2022 and FY 2021, respectively.

The City was awarded approximately \$1 billion in total federal funds in the past couple of years through the Coronavirus Aid, Relief and Economic Security (CARES) Act, Coronavirus Response and Relief Supplemental Appropriations Act, and American Rescue Plan Act (ARPA). This funding has provided relief for the City, Boston Public Schools and other local organizations and will continue to do so over the next several years. The City has already awarded 100% of the CARES Act funds and over 25% of the total expected ARPA funds.

As it relates to expenditures, the City should continue to explore ways to make service delivery more efficient and effective in an effort to contain costs while meeting the service needs of the City's constituency and various statutorily mandated service requirements. The cost-effectiveness of service delivery will only grow in importance as the City faces near-term increases in fixed expenditures associated with reducing the unfunded obligations associated with pension and postemployment health care benefits (OPEB) for City employees. The City continues to make strides in reducing these unfunded obligations, including maintaining a funding path to eliminate the unfunded pension liability by 2027 and making advance contributions to reduce the OPEB obligation. Such efforts, while resulting in increased expenditures in the near term, will put the City on stronger long-term economic footing, and should be continued.

With all of these factors that may impact revenue and expenditure levels in the future, the Committee believes the City should be mindful of committing current budgetary resources for programs and other costs that amount to fixed future obligations in order to ensure budgetary flexibility and discretion should key revenue sources be negatively impacted or expenditures associated with core service delivery face non-discretionary increases.

The City finds itself in a time in which the demand for services has increased, the expectation for quality service is high and the accountability for results is exceptional. During the COVID-19 pandemic, the crucial role that public sector employees play in everyday activities became increasingly transparent-providing critical public services when they are needed most. These forces will continue to apply pressure to the City. As such, the Committee believes that employee recruitment, retention and succession planning must remain an operational focus of the City. The issues of recruitment, retention and succession planning in today's human capital environment are made more challenging by the unique characteristics of the younger workforce and technological advances that have allowed for a more mobile workforce, which have accelerated as a result of the COVID-19 pandemic. The evolution we are seeing today continues to shift priorities toward focusing on people and bringing the employee experience to the forefront in the public sector. Therefore, taking a proactive approach is critical to meeting the needs of the workforce, which will ideally lead to stronger recruitment and retention.

The City of Boston is engaging in a variety of strategies to improve recruitment and retention—which is a much needed focus. This year, the City created a People Operations cabinet and named its first ever Chief People Officer. This new structure has enabled Boston to take on strategies which focus directly on supporting the City’s workforce. The City is improving its sourcing strategies, refining its hiring processes, and evaluating and reexamining policies which might present barriers to recruitment. The City is also investing in significant improvements to the benefits of working for the City both through collective bargaining, as well as offering all employees certain benefits including heavily subsidized public transit.

The City of Boston has a diverse, multi-generational employee population with employees serving in a wide array of positions across more than 50 departments. The City of Boston, as it’s addressing issues of recruitment and retention and succession planning, must consider the unique and evolving needs of a 21st century workforce. The Committee recommends that the City continue to actively engage in developing new, innovative approaches and methods for attracting talent, reconsidering certain policies and requirements for employment, which may serve as a barrier to attracting and retaining talent, and identifying opportunities to improve professional development and training for employees.

The Committee also believes the City should remain focused on cybersecurity, which is a risk area that is not abating. While prevention is critical, it is also important to focus on training, detection, containment and response. These risks are more than an information technology risk, but are an enterprise-wide business issue that affects strategy, compliance, and relationships with vendors, suppliers, employees, and constituents. A robust and frank dialogue is vital to helping the City learn to live with cyber risk and making cybersecurity a competency across the organization. While the City has policies and procedures in place, the threats around cybersecurity continuously evolve and it is critical for the City’s policies and procedures to evolve at the same time as the resources in place today may not necessarily be sufficient in the future.

The Committee believes that it would in the public interest that there be an in-person educational session related to the current participatory budget process. To this end, the Chairman of the Committee and the Chief Financial Officer and Collector-Treasurer will contact the Council President next quarter to set up such an in-person session. The Committee also believes it would be beneficial for the Committee to share its insights with the Council as it relates to the impacts the budgetary framework and decisions have on the financial health and stability of the City and its external financial reporting, which is critical to key stakeholders including the rating agencies.

The City’s audit reports discussed above are on file in the City Clerk’s office.

During the past year, the Committee members received the full cooperation of the City Auditor in dealing with the issues presented to us. If any member of the City Council has further questions about our activities, please contact me at 617-749-9403.

Very truly yours,



Lawrence S. DiCara
Chairman