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CITY OF BOSTON • MASSACHUSETTS

Audit Committee

February 9, 2022

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, 2021. 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:

March 31, 2021

The Committee was briefed on the status of the City's fiscal 2020 financial statement audit. KPMG informed the Committee that the City's financial statements were issued on January 28, 2021, with 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 2020 Single Audit report was scheduled to occur in April. The compliance findings related to the major federal programs included in the final report had not materially changed from those discussed at the prior meetings.

The meeting was held via Skype due to the COVID-19 pandemic.

June 17, 2021

KPMG briefed the Committee on the status of the City's fiscal 2021 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 2021. 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 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 2021 audit. It was also noted that the 2020 Single Audit report was issued on April 15, 2021, with an unmodified opinion.

The meeting was held via Skype due to the COVID-19 pandemic.

September 16, 2021

KPMG briefed the Committee on the status of the City's fiscal 2021 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 2021 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 2021.

KPMG then provided the Committee with a status of the City's fiscal 2021 Federal Single Audit. It was noted that fieldwork progress has been made for most of the programs subject to audit, but due to a delay in the release of the 2021 compliance supplement and related addendum from the Office of Management and Budget (OMB), the audit for some programs would not begin until the later in the fall. KPMG then confirmed the target date for issuance of the 2021 single audit report is March 2022.

The meeting was held via Microsoft Teams due to the COVID-19 pandemic.

December 9, 2021

KPMG provided a status update on the City's financial statement audit. Mr. Mahoney noted that KPMG was in the process of finalizing its completion procedures, and City management was performing reviews of the City's Annual Comprehensive Financial Report (ACFR).

KPMG then provided an update on the status of the City's 2021 federal single audit. KPMG noted that the execution of the 2021 federal single audit, which included a review of nine major programs, has taken a track parallel to the completion of the financial statement audit. However, due to a delay in the release of the 2021 compliance supplement addendums from the Office of Management and Budget (OMB), the audit of certain funding would not be completed until the winter of 2022. KPMG noted that the goal is to try to issue by March 31, 2022.

The meeting was held via Microsoft Teams due to the COVID-19 pandemic.

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Similar to the past several years, the City achieved strong financial results in fiscal 2021. 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. However, 2021 brought some challenges due to the impacts of the COVID-19 pandemic. Despite the impacts, it's important to highlight that the City's Standard & Poors AAA and Moody's Aaa bond ratings were reaffirmed in December 2020.

From a financial perspective, the City continues to be heavily dependent on real and personal property taxes for its General Fund revenues. For fiscal 2021, 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 5-7% 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 due to the COVID-19 pandemic, 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 4% of fiscal 2021 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, which were impacted by the COVID-19 pandemic, but have been recovering. 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 2021 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 6.6% and 5.6% in FY 2021 and FY 2020, respectively.

The City was awarded approximately \$1 billion in total federal funds 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 will help ensure the continued response to the COVID-19 pandemic. 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 the majority 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 has become increasingly transparent-providing critical public services when they are needed most. These forces will continue to apply pressure to the City while it faces perhaps one of its biggest challenges, the impending departure of some of the best, brightest and most tenured employees. 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. These challenges are also presenting themselves at a time of transition at the City. Transitions can often lead to turnover, which makes this even more of an initiative that the City needs to focus on today.

The City of Boston has embarked on a journey to transform its human resources service delivery across the organization. The goal of the transformation is to re-envision the entire employee lifecycle from hire

to retire and design a new human resources operating model that meets the needs of all customers across the City. The City of Boston has engaged Deloitte Consulting to help identify opportunities to improve human resources service delivery and to develop the roadmap which will outline the plan and assist the City with building and implementing the new human resources model. Additionally, the City has created a Governance Committee of City leadership, who is charged with providing input that will guide the strategic direction of the transformation and has hired a Human Resources Transformation Director to oversee and lead the transformation efforts. The transformation efforts continue to focus on improving and moving four human resources functional areas, identified as key priorities by the Governance Committee, into the new human resources operating model. These four priority areas include recruiting & hiring, classification & compensation, onboarding and policies & procedures.

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. We strongly encourage the City, through the efforts of the Human Resources Transformation, to develop a strategic plan for recruiting and retaining talent at all levels of service so that the City has a strong pipeline of talent both for now and for the future. This may include developing new, innovative approaches and methods for attracting talent, reconsidering certain policies and requirements for employment, for example, residency requirements, 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 educational session related to the new budget process which is now in effect due to the passage of Question 1 during the municipal election on November 2, 2021. The Audit Committee would like to work with the Council to better understand the process and procedures that the City is implementing to ensure an effective transition from the mayoral-directed budget process which has been in place for over 100 years. The strong fiscal management that has provided the City with financial stability and resulted in the City's AAA/Aaa bond ratings is critical. As such, obtaining a better understanding of how the budget process could potentially impact the City's financial results would be a helpful exercise.

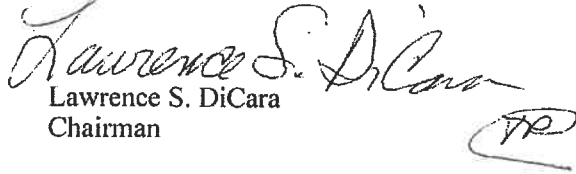
On November 16, 2021, the new City Mayor, Michelle Wu, was sworn into office. We wish Mayor Wu the best in her new role and thank former acting Mayor Janey for her service to the City. This transition is happening at a challenging time as the City continues to work through the difficulties presented by the COVID-19 pandemic. The Committee believes that continued strong fiscal management is paramount as the City continues to work through this crisis and the economic recovery takes hold.

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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 617-348-4555.

Very truly yours,


Lawrence S. DiCara
Chairman