

Lawrence S. DiCara, Chairman 617-749-9403  
Jaclyn Youngblood



## CITY OF BOSTON • MASSACHUSETTS

### Audit Committee

February 13, 2025

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, 2024. During this period, we had five 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 25, 2024*

The Committee was briefed on the status of the City's fiscal 2023 financial statement audit. KPMG informed the Committee that the City's financial statements were expected to be issued in late February with unmodified opinions.

KPMG then provided the Committee with an update on the status of the Federal single audit. It was noted that the expected issuance of the 2023 Single Audit report is scheduled to occur in late March.

The meeting was held via Microsoft Teams.

#### *March 21, 2024*

The Committee was briefed on the status of the City's fiscal 2023 financial statement audit. KPMG informed the Committee that the City's financial statements were issued on February 26, 2024, with unmodified opinions.

KPMG then provided the Committee with an update of the status of the Federal single audit. KPMG informed the Committee that the City's Federal single audit was still in progress due to delays with certain programs.

The meeting was held via Microsoft Teams.

#### *June 13, 2024*

KPMG briefed the Committee on the status of the City's fiscal 2024 financial statement audit. The Committee was informed that the interim audit procedures, which included substantive test work, 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 2024. 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 test work thus far.

KPMG then provided the Committee with a status of the City's fiscal 2024 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 preliminary expenditures to date, 12 major programs are currently expected to be tested as part of the fiscal 2024 audit.

The meeting was held via Microsoft Teams.

*September 12, 2024*

KPMG briefed the Committee on the status of the City's fiscal 2024 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 2024 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 2024.

KPMG then provided the Committee with a status of the City's fiscal 2024 Federal single audit. It was noted that fieldwork progress has been made for most of the programs subject to audit. It was noted that based on the City's final expenditures, 12 major programs are expected to be tested as part of the fiscal 2024 audit. KPMG then confirmed the target date for issuance of the 2024 Federal single audit report is March 2025.

The meeting was held via Microsoft Teams.

*December 12, 2024*

KPMG briefed the Committee on the status of the City's fiscal 2024 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 is expected to be end of December 2024.

KPMG then provided the Committee with a status of the City's fiscal 2024 Federal single audit. KPMG noted that the execution of the 2024 Federal single audit, which included review of 12 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 2024 federal single audit report to be March 31, 2025.

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 2024. 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's Standard & Poors AAA and Moody's AAA bond ratings were reaffirmed in May 2024.

From a financial perspective, the City continues to be heavily dependent on real and personal property taxes for its General Fund revenues. For fiscal 2024, such revenues compose approximately 73% 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 6% of fiscal 2024 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 12% of fiscal 2024 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 5.3% and 5.1% in FY 2024 and FY 2023, 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) since fiscal 2020. This funding has provided relief for the City, Boston Public Schools and other local organizations and will continue to do so over the next few years. The City has already obligated 100% of the CARES Act, Coronavirus Response and Relief Supplemental Appropriations Act and ARPA funds. Going forward, federal funds will represent a smaller percentage of the total funds available to the City.

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 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

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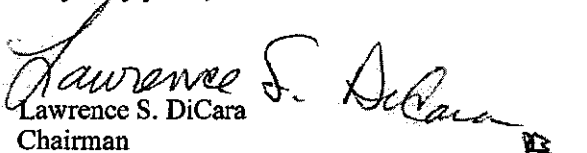
robust and frank dialogue is vital to helping the City learn to live with cyber risk and making cybersecurity a competency across the organization. While the City has policies and procedures in place, the threats around cybersecurity continuously evolve and it is critical for the City's policies and procedures to evolve at the same time as the resources in place today may not necessarily be sufficient in the future.

During this past year, there has been much discussion, at City Hall and the State House and among those who observe City government, regarding the finances of the City. Boston is the envy of other cities across the country, given the stability of its revenue base. Nevertheless, prudent management of City finances is essential in an environment where interest rates remain relatively high, and wage increases are reflective of the rate of inflation. Going forward, it may not be possible to do every item on the municipal "To Do" list. It is important that the Mayor and the City Council listen carefully to those who understand the City. The City has had over a decade of low interest rates, low inflation and minimal wage increases; that has now changed. Lastly, as the Committee files this report, we have absolutely no comprehension of the changes to the City budget as a result of dramatic changes to federal policies being undertaken by the new administration.

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