



CITY OF CAMBRIDGE, 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* (Uniform Guidance) and
Government Auditing Standards and Related Information

Year Ended June 30, 2017

CITY OF CAMBRIDGE, MASSACHUSETTS

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Exhibit I

Independent Auditors' Report on Compliance for Each Major 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 Cambridge, Massachusetts:

Report on Compliance for Each Major Federal Program

We have audited the City of Cambridge, Massachusetts' (the City's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major Federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs.

The City's basic financial statements include the operations of the Cambridge Health Alliance that received federal awards that are not included in the City's schedule of expenditures of federal awards for the year ended June 30, 2017. Our audit, described below, did not include the operations of the Cambridge Health Alliance because they engaged other auditors to perform an audit 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 of Cambridge, Massachusetts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of current year findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of current year findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

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 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. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of current year findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of current year findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 27, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards (the Schedule) in Exhibit II is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

March 28, 2018

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

Exhibit II

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>Passed through to subrecipients</u>	<u>Federal expenditures</u>
U.S. Department of Agriculture:			
Passed through the Commonwealth of Massachusetts Department of Education:			
Food Distribution	10.550	\$ —	103,689
Child Nutrition Cluster:			
School Breakfast Program (SBP)	10.553	—	315,534
National School Lunch Program (NSLP)	10.555	—	1,114,439
Summer Food Service Program for Children (SFSPC)	10.559	122,045	144,064
Total Child Nutrition Cluster		122,045	1,574,037
Child and Adult Care Food Program	10.558	—	8,410
Fresh Fruit and Vegetable Program	10.582	—	997
Total		122,045	1,687,133
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Community Development Block Grants	14.218	1,544,638	2,554,184
Emergency Solutions Grants Program	14.231	154,157	218,501
HOME Investment Partnerships Program	14.239	451,980	13,938,647
Continuum of Care Program	14.267	3,122,750	3,365,601
Fair Housing Assistance Program State and Local	14.401	—	74,536
Passed through the Commonwealth of Massachusetts Department of Housing and Community Development:			
Emergency Solutions Grants Program	14.231	85,443	106,428
Passed through the Cambridge Housing Authority:			
Moving to Work Demonstration Program	14.881	—	75,007
Total		5,358,968	20,332,904
U.S. Department of Justice:			
Direct Programs:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	—	35,297
Passed through the Commonwealth of Massachusetts Office of Victim Assistance:			
Crime Victim Assistance Discretionary Grants	16.582	2,153	2,832
Passed through the Commonwealth of Massachusetts Executive Office of Public Safety:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	30,000	97,141
Total		32,153	135,270
U.S. Department of Transportation:			
Passed through the Commonwealth of Massachusetts Department of Transportation:			
Highway Planning and Construction Program	20.205	—	18,082
Passed through the Commonwealth of Massachusetts Department of Transportation and the Metropolitan Area Planning Council:			
Highway Planning and Construction Program	20.205	—	5,017
Passed through the Commonwealth of Massachusetts Executive Office of Public Safety:			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	—	55,885
National Priority Safety Programs	20.616	—	23,862
Total Highway Safety Cluster		—	79,747
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	—	4,200
Total		—	107,046
U.S. Environmental Protection Agency:			
Passed through the Commonwealth of Massachusetts Department of Environmental Protection:			
Water Quality Management Planning	66.454	—	11,348
Passed through the Massachusetts Clean Water Trust:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	—	4,956,503
Total		—	4,967,851
U.S. Department of Education:			
Passed through the Commonwealth of Massachusetts Department of Education:			
Adult Education Basic Grants to States	84.002	34,656	193,821
Title I Grants to Local Educational Agencies	84.010	—	1,163,064
Special Education Cluster (IDEA):			
Special Education-Grants to States (IDEA, Part B)	84.027	—	2,430,372
Special Education-Preschool Grants (IDEA Preschool)	84.173	—	57,304
Total Special Education Cluster (IDEA)		—	2,487,676

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>Passed through to subrecipients</u>	<u>Federal expenditures</u>
Passed through the Commonwealth of Massachusetts Department of Education (continued):			
Career and Technical Education Basic Grants to States	84.048	\$ —	34,669
Education for Homeless Children and Youth	84.196	—	27,159
Twenty-First Century Community Learning Centers	84.287	130,663	178,202
English Language Acquisition State Grants	84.365	—	148,891
Supporting Effective Instruction State Grants	84.367	—	373,174
Passed through Framingham State University:			
English Language Acquisition State Grants	84.365	—	36,000
Total		<u>165,319</u>	<u>4,642,656</u>
U.S. Department of Health and Human Services:			
Passed through the Commonwealth of Massachusetts Executive Office of Housing and Community Development:			
Low Income Home Energy Assistance Programs (LIHEAP)	93.568	—	982,951
Passed through the Commonwealth of Massachusetts Department of Education:			
Community Based Child Abuse Prevention Grant	93.590	—	63,116
Passed through the Commonwealth of Massachusetts Department of Public Health:			
National Bioterrorism Hospital Preparedness Program	93.889	—	1,909
Total		<u>—</u>	<u>1,047,976</u>
U.S. Department of Homeland Security:			
Direct Programs:			
Assistance to Firefighters Grant	97.044	—	20,454
Passed through the Middlesex County Local Emergency Food and Shelter Board:			
Emergency Food and Shelter National Board Program	97.024	—	7,961
Passed through the Massachusetts Emergency Management Agency:			
Emergency Management Performance Grants	97.042	—	35,188
Passed through the City of Boston, Massachusetts:			
Homeland Security Grant Program	97.067	—	430,504
Total		<u>—</u>	<u>494,107</u>
Total federal expenditures		<u>\$ 5,678,485</u>	<u>33,414,943</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

(1) Definition of Reporting Entity

The schedule of expenditures of federal awards (the Schedule) presents the activity of all federal awards of the City of Cambridge, Massachusetts (the City) exclusive of the City's discretely presented component unit, the Cambridge Health Alliance. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the Schedule.

(2) Summary of Significant Accounting Policies

The accounting and reporting policies of the City are set forth below:

(a) Basis of Presentation

The Schedule is presented using the modified accrual basis of accounting.

(b) School Breakfast/Lunch Programs

The City accounts for local, state, and federal expenditures of the National School Lunch and School Breakfast programs in one combined fund. Program expenditures in the Schedule represent total federal reimbursements for meals provided during fiscal 2017.

(c) Food Distribution Program

Noncash contributions of commodities under the Food Distribution Program are received under a state distribution formula and are valued at federally published wholesale prices for purposes of the Schedule. Such commodities are not recorded in the financial records, although memorandum records are maintained.

(d) Other

Certain federal programs stipulate that a portion of the grant award be paid directly to the Massachusetts Teachers Retirement System (MTRS). The City does not report the amount paid directly to the MTRS as an expenditure in the accompanying Schedule. The program and corresponding amounts paid directly to the MTRS are as follows:

Program title	CFDA number	Amount paid to MTRS
Supporting Effective Instruction State Grants	84.367	\$ 14,578
Title I Grants to Local Educational Agencies	84.010	45,421
Total		\$ 59,999

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

(3) HOME Investment Partnerships Program Loans (CFDA # 14.239)

Total expenditures in the Schedule for the HOME Investment Partnerships (HOME) program include the total amount of new loans made during fiscal year 2017 of \$451,980 as well as the unpaid principal balance from loans originated in previous years that are subject to continuing compliance requirements, as defined by the Uniform Guidance. As of June 30, 2017, the HOME program had loan balances subject to continuing compliance requirements of \$13,736,310.

(4) Indirect Cost Rate

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



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Boston, MA 02111

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 Cambridge, 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 business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cambridge, Massachusetts (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 27, 2017. Our report includes a paragraph on other matters related to the City's implementation of Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 77, *Tax Abatement Disclosures*. Our opinions were not modified with respect to these matters. Our report also includes a reference to other auditors who audited the financial statements of the Cambridge Health Alliance, the discretely presented component unit, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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

December 27, 2017

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

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles: Unmodified for all opinion units

Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weaknesses? yes no
- Significant deficiencies? yes none reported

Noncompliance material to the financial statements? yes no

Federal Awards

Internal control deficiencies over major programs disclosed by the audit:

- Material weaknesses? yes no
- Significant deficiencies? yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified for all major programs

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of Major Programs

Name of federal program or cluster	CFDA number
HOME Investment Partnerships Program	14.239
Special Education Cluster:	
Special Education – Grants to States (IDEA, Part B)	84.027
Special Education – Preschool Grants (IDEA, Preschool)	84.173
Low Income Home Energy Assistance Programs (LIHEAP)	93.568

Dollar threshold used to distinguish between type A and type B programs: \$1,002,448

Auditee qualified as low-risk auditee? yes no

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2017

(2) Findings and Questioned Costs Relating to Financial Statements Reported in Accordance with Government Auditing Standards

None

(3) Findings and Questioned Costs Relating to Federal Awards

Finding number: 2017-001
Federal agency: U.S. Department of Education
Pass-through agency: Department of Elementary and Secondary Education
Program: Special Education Cluster
CFDA#: 84.027 and 84.173
Award number: Various
Award years: 2017
Prior Year Finding: No
Statistically Valid Sample: No

Compliance Requirement: Period of Performance*Criteria*

Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged for obligations of a subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-Federal entity during the same or a future period (A-102 Common Rule, §____.23; OMB Circular A-110 (2 CFR Section 215.28)).

Non-Federal entities shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation). The Federal agency may extend this deadline upon request (A-102 Common Rule, §____.23; OMB Circular A-110 (2 CFR Section 215.71)).

Condition

During our testing of period of performance requirements in conjunction with allowable costs associated for non-payroll charges, we noted that the City of Cambridge Public Schools (CPS) documents appropriate approval of costs. However, we noted that for 4 out of 25 items tested, the approved expenditure was outside the period of performance.

- We noted that the 4 exceptions were isolated to summer school tuition contracts which were charged to grant SC17605.

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2017

- The July 2016 charges were under tuition contracts termed 7/1/2016 – 6/30/2017. The July 2016 charges were applied to the FY17 SPED 240 (SC17605) grant. Per the Superintendent's Recommendation #16-205, grant SC17605 had an official start date of 9/1/2016. July charges to SC17605 were therefore outside the period of performance specified by the grant as the underlying transaction occurred prior to the 9/1/2016 grant start date.

Cause

Lack of controls in place at School Department

Effect

Not in compliance with policies

Questioned Costs

\$35,649

Recommendation

We recommend that Program Managers implement controls are to ensure expenditures within the period of performance.

Views of Responsible Officials from the Auditee

Unfortunately the errors made on the FY17 IDEA grant occurred during a time where the Office of Student Services department had a vacancy in their Fiscal and Operations role. During the past year or so the Office of Student Services and the Cambridge Public School finance department have been working hard in order to prevent the mistakes of prior years from reoccurring by implementing many different processes and procedures. In submitting requisitions for tuitions and other expenses the department makes it a priority to make certain we are using funds for expenses within the appropriate time frame by not only using a tuition tracking spreadsheet but by also using a tuition funding tracking spreadsheet which are reconciled against each other. The department has been attempting to defer from using this grant for tuition contracts beginning prior to the grant's start date per the advisement of the finance team. As a department we have been using the IDEA to fund the new tuition services that are being encumbered post the IDEA approval. The office of Student Services also works hand in hand with the purchasing and finance departments to make sure funding is accurately split and allocated in the event a requisition has multiple funding sources based on calculations of those services being rendered prior to the start date of the grant and those services being rendered post the start day of the grant. We are hopeful these new processes will prevent the errors of previous years from occurring in the future.

Implementation Date: September 1, 2017

Contact: Claire Spinner, Chief Financial Officer of Cambridge Public Schools Department