



THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Financial Statements, Required Supplementary Information,
and Supplementary Schedule

June 30, 2014

(With Independent Auditors' Report Thereon)

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

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Independent Auditors' Report

Board Chairperson and Executive Director of the
Boston Public Health Commission:

Report on the Financial Statements

We have audited the accompanying statement of net position of the Boston Public Health Commission (the Commission), a component unit of the City of Boston, as of and for the year ended June 30, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission, as of June 30, 2014, and the changes in its net position, and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the schedule of OPEB funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Commission's basic financial statements as a whole. The supplemental schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental schedule 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. Such 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 supplemental schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

KPMG LLP

December 19, 2014

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Statement of Net Position

June 30, 2014

(In thousands)

Assets:

Current:

Cash and cash equivalents (note 3)	\$	37,068
Accounts receivable:		
Billed and unbilled receivables:		
EMS and other third party billings (note 4)		28,860
Grantors (note 4)		11,729
Other		2,053
Allowance for uncollectible amounts		<u>(9,747)</u>
Net accounts receivable		32,895
Prepaid other		369
Net investment in capital lease (note 6)		324
Due from City of Boston		<u>252</u>
Total current assets		<u>70,908</u>

Noncurrent:

Net investment in capital lease (note 6)		320
Notes receivable (note 8)		32,595
Capital assets (note 9):		
Nondepreciable		11,746
Depreciable, net		<u>14,449</u>
Total noncurrent assets		<u>59,110</u>
Total assets	\$	<u><u>130,018</u></u>

Liabilities:

Current:

Accounts payable and accrued expenses	\$	16,632
Due to City of Boston		459
Current portion of due to City of Boston (note 10)		501
Current portion of capital leases (note 11)		105
Due to BMC		8,479
Unearned revenue (notes 7 and 8)		2,780
Other current liabilities		<u>20</u>
Total current liabilities		<u>28,976</u>

Noncurrent:

Due to City of Boston (note 10)		320
Long term portion of capital leases (note 11)		168
Other postemployment benefits obligation (note 12)		71,987
Unearned revenue (notes 7 and 8)		33,674
Other		<u>4,263</u>
Total noncurrent liabilities		<u>110,412</u>
Total liabilities		<u><u>139,388</u></u>

Net Position (Deficit):

Net investment in capital assets		25,745
Deficit		(35,115)
Commitments (notes 11, 15, and 17)		
Total net position (deficit)	\$	<u><u>(9,370)</u></u>

See accompanying notes to financial statements.

THE BOSTON PUBLIC HEALTH COMMISSION

(A Component Unit of the City of Boston)

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2014

(In thousands)

Operating revenues:	
Grants	\$ 45,267
EMS and other third party revenue, net (note 5)	41,558
Lease receipts	18
Rent	2,630
Other	8,681
	<hr/>
Total operating revenues	98,154
	<hr/>
Operating expenditures:	
Public health programs	121,183
Property operations	6,455
Public health service centers	16,932
Administration	10,825
Other postemployment benefit expense (note 12)	10,513
Depreciation expense	4,140
	<hr/>
Total operating expenses	170,048
	<hr/>
Operating loss	(71,894)
	<hr/>
Nonoperating income (expense):	
City appropriation	66,757
Interest income	66
Interest expense	(128)
	<hr/>
Total nonoperating income, net	66,695
	<hr/>
Loss before capital contributions	(5,199)
	<hr/>
Capital contributions	280
	<hr/>
Decrease in net position	(4,919)
	<hr/>
Net Position (Deficit), beginning of year, as restated (note 2)	(4,451)
	<hr/>
Net Position (Deficit), end of year	\$ (9,370)
	<hr/> <hr/>

See accompanying notes to financial statements.

THE BOSTON PUBLIC HEALTH COMMISSION
(A Component Unit of the City of Boston)

Statement of Cash Flows

Year ended June 30, 2014

(In thousands)

Cash flows from operating activities:	
Receipts from grantors	\$ 51,781
Receipts from EMS and other third party billings	41,122
Receipts from rent	3,235
Receipts from other	2,648
Payments to vendors	(85,161)
Payments to employees	(69,607)
Payments to retirement plans	(3,945)
Net cash used in operating activities	<u>(59,927)</u>
Cash flows from noncapital financing activities:	
Receipts from City appropriation	<u>66,504</u>
Net cash provided by noncapital financing activities	<u>66,504</u>
Cash flows from capital and related financing activities:	
Receipts for leases	313
Payments on lease commitments	(416)
Purchases and construction of capital assets	(2,010)
Principal payments on notes payable	(526)
Interest paid on notes payable	(128)
Receipts from City-Capital Contributions	280
Net cash used in capital and related financing activities	<u>(2,487)</u>
Cash flows from investing activities:	
Interest income	<u>66</u>
Net cash provided by investing activities	<u>66</u>
Net increase in cash and cash equivalents	4,156
Cash and cash equivalents, beginning of year	<u>32,912</u>
Cash and cash equivalents, end of year	<u>\$ 37,068</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (71,894)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	4,140
Changes in assets and liabilities:	
Receivables, net	(1,640)
Prepays	674
Accounts payable and accrued expenses	(1,099)
Due to/from BMC	8,399
Due to/from City of Boston	(1,307)
Other postemployment benefit expense	6,568
Unearned revenue	(2,304)
Other	(1,464)
Net cash used in operating activities	<u>\$ (59,927)</u>

See accompanying notes to financial statements.

THE BOSTON PUBLIC HEALTH COMMISSION
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Notes to Financial Statements

June 30, 2014

(1) Reporting Entity

The Boston Public Health Commission (Commission), a body politic and corporate and public instrumentality of the Commonwealth of Massachusetts, was established by Chapter 147 of the Acts of 1995. The Commission was created to assume, and have transferred to, all rights and obligations of the Trustees of Health and Hospitals (THH) and the Department of Health and Hospitals of the City of Boston (DHH), which under separate charter, were abolished by the same Act, as part of the merger of the Boston City Hospital (BCH) with the Boston University Medical Center Hospital. The Commission is governed by a seven-member board, six of which are appointed by the Mayor of Boston and confirmed by the City Council and one of whom is the Chief Executive Officer of the Boston Medical Center (BMC). Some members of the board work with or for organizations that receive funding from the Commission.

The Commission is the Board of Health for the City of Boston (City) and is responsible for the implementation of public health programs in the City. Public service and access to quality health care are the cornerstones of the Commission's mission – to protect, preserve, and promote the health and well-being of all Boston residents, particularly those who are most vulnerable. The Commission's more than 40 programs are grouped into six bureaus: Child, Adolescent & Family Health; Community Health Initiatives; Homeless Services; Infectious Disease; Addictions Prevention, Treatment & Recovery Support Services; and Emergency Medical Services, which offers a variety of specialized public health services such as operating a homeless shelter, public health nursing, substance abuse treatment and prevention programs and violence prevention efforts.

The Commission receives the majority of its funding from a City appropriation, EMS and other third party billings, and federal and state grants. The Commission expects that the City will continue to provide support for the public health programs of the Commission.

In 2001, the BPHC Mattapan Development, Corp., Inc. was created for benevolent, civic, or charitable purposes within the meaning of Section 4 of Chapter 180 of the Massachusetts General Laws, more specifically to assist in the development, redevelopment, financing, operation, and management related to the revitalization of the Boston Specialty and Rehabilitation Hospital Campus located in the Mattapan section of the City of Boston, Massachusetts. The activities of this corporation are presented as a blended component unit in the accompanying financial statements due to its financial dependency on the Commission.

In 2013, the BPHC Northampton Development Corp., Inc. was created for benevolent, civic, or charitable purposes within the meaning of Section 4 of Chapter 180 of the Massachusetts General Laws, more specifically to assist in the development, redevelopment, financing, operation, and management related to the revitalization of the Boston City Hospital School of Nursing Campus located in the South End neighborhood of the City of Boston, Massachusetts. The activities of this corporation are presented as a blended component unit in the accompanying financial statements due to its financial dependency on the Commission.

For financial reporting purposes, the Commission is considered a component unit of the City of Boston and its financial statements are included as part of the City's financial statements.

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Notes to Financial Statements

June 30, 2014

(2) Summary of Significant Accounting Policies

(a) *Measurement Focus, Basis of Accounting, and Basis of Presentation*

The Commission's financial statements are reported on an accrual basis of accounting as specified by the Governmental Accounting Standards Board (GASB) requirements for an enterprise fund. The accrual basis of accounting recognizes revenues when earned and recognizes expenses when the related liability is incurred, regardless of when the related cash flow takes place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Commission considers the lease receipts from BMC, rent, grants, EMS program revenue and other fees for services as operating revenues. Other revenues not meeting this definition are considered nonoperating items. Operating expenses are those expenses related to grants and City-funded expenses. Nonoperating expenses are those not meeting this definition.

(b) *Budget*

Under the legislation of the Commonwealth of Massachusetts that established the Commission, the Commission's Board must adopt its public health services budget for the ensuing fiscal year by the second Wednesday in June.

(c) *Cash and Cash Equivalents*

The Commission considers cash and cash equivalents to be cash on hand and investments with a maturity date of three months or less from the date of purchase. The fair values of the investments do not differ from their carrying value.

(d) *Capital Assets*

Capital assets are defined by the Commission as assets with an initial, individual cost of 1) more than \$25,000 for buildings and building improvements or 2) more than \$5,000 for assets other than buildings and building improvements; and an estimated useful life in excess of one year. Capital assets are stated at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

On July 1, 1996, the merger date, various capital assets of the former THH and the former DHH were transferred to the Commission at their depreciated values. These assets included the Boston Specialty and Rehabilitation Hospital (BSRH) and Northampton Square. On July 1, 1996, title to the property, plant, and equipment of the former BCH was transferred to the Commission, which was in turn leased to the BMC.

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Notes to Financial Statements

June 30, 2014

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset class	Estimated useful lives
Buildings	30
Buildings and leasehold improvements	10–30
Furniture and fixtures	10
Computers and technology	3–5
Vehicles	3
Equipment	3

(e) *Compensated Absences*

Employees are granted vacation and sick leave in varying amounts. Upon retirement, termination, or death, employees are compensated for unused vacation leave (subject to certain limitations) at their current rates of pay. Upon retirement, certain employees are compensated for varying portions of unused sick leave subject to certain limitations.

(f) *Net EMS and Other Third Party Revenue*

Net EMS and other third party revenue is recorded at standard billable rates from individuals (self-pay), third-party payers and others for services rendered. Contractual adjustments, which represent the difference between the standard billable rate and the allowable third party payer rate, are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined and are reflected in the financial statements as a contra-revenue adjustment and an increase in the allowance for uncollectible accounts. A provision for uncollectible accounts is recorded to reflect accounts receivable at its estimated net realizable value and the corresponding charge is recorded as bad debt in the financial statements.

(g) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) *Restatements*

Change in Accounting Principle

In fiscal 2014, as part of the July 1, 2013 actuarial valuation, the Commission changed the manner in which they applied the projected unit credit actuarial cost method to estimate their other postemployment benefit (OPEB) liability to accrue benefits earned over the estimated working life of the employee. Previously, the benefits earned were accrued through the date of initial benefit

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June 30, 2014

eligibility. Such change was made to achieve greater comparability with the City of Boston. The change in methodology was retroactively applied to past actuarial valuations to re-estimate the net OPEB obligation of the Commission, a participating employer in the OPEB plan, at June 30, 2013. The net position at June 30, 2013 has been restated to reflect this change in actuarial methodology.

The following represents the effect of the restatements described above (in thousands):

Beginning Net Deficit, as previously reported	(12,262)
Change in accounting for other postemployment benefits	7,811
	(4,451)
Beginning Net Deficit, as restated	(4,451)

(3) Deposits and Investments

(a) Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the Commission will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Commission does not have a policy for custodial credit risk.

At June 30, 2014, cash and cash equivalents with a carrying value of \$37,068,475 included bank and money market deposits. Bank deposits of \$11,625,155 and money market deposits of \$10,443,320 were covered by federal depository insurance of \$500,000. Additionally, \$15,000,000 were invested in certificates of deposit held in safekeeping at Bank of America. The remaining bank and money market deposits in excess of federal depository insurance were collateralized by United States government and agency obligations.

(b) Interest Rate Risk

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Commission does not have a policy for interest rate risk on debt securities.

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Notes to Financial Statements

June 30, 2014

(4) Billed and Unbilled Accounts Receivable

(a) *Emergency Medical Services and Other Third Party:*

The Commission provides services primarily to the residents of the City of Boston. An allowance for uncollectible accounts is provided in an amount equal to the estimated losses to be incurred in collection of the receivables. The allowance is based on historical collection experiences and a review of the current status of the existing receivables. The mix of receivables from patients and third-party payers at June 30, 2014 is as follows (in thousands):

Individuals	\$	8,553
Third-party payors		10,913
Medicare		4,455
Medicaid		4,939
		28,860
Total EMS and other third party accounts receivable		28,860
Less allowance for uncollectible amounts		(9,476)
EMS and other third party accounts receivable, net	\$	19,384

(b) *Grantors*

The Commission receives grants from federal, state, city governments and private parties. The types of grants include fee for service, income, advance, and letter of credit. The mix of receivables from grantors at June 30, 2014 is as follows (in thousands):

Federal billed	\$	2,787
State billed		3,309
City billed		1,351
Unbilled		3,794
Other billed		488
		11,729
Total grant accounts receivable		11,729
Less allowance for uncollectible amounts		(271)
Grant accounts receivable, net	\$	11,458

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Notes to Financial Statements

June 30, 2014

(5) EMS and Other Third Party Revenue

EMS and other third party revenue includes a provision for adjustments to reflect the differences between billed charges and amounts recovered.

Components of EMS and other third party revenue for the year ended June 30, 2014 is as follows (in thousands):

Gross EMS and other third party revenue:		
Medicare	\$	29,954
Medicaid		36,294
Individuals		9,403
Other third-party payors		20,537
Total gross EMS and other third party revenue		96,188
Contractual adjustments		(54,630)
EMS and other third party revenue, net	\$	41,558

(6) Net Investment in Capital Lease

As part of the merger described in note 1, the Commission retained title to all real property formerly held by THH and DHH, except for the Long Island Campus, which was transferred to the City's Public Facilities Department but continues to be operated by the Boston Public Health Commission. On July 1, 1996, the Commission leased the former BCH campus, except for certain identified sites, to BMC for an initial period of 50 years with four 10-year renewal options.

In accordance with the July 1, 1996 agreement, as amended, the payments received by the Commission under the lease were equal to (i) the debt service costs (principal, interest) on the note dated August 1, 2002 that secures the City's 2002 Special Obligation Refunding Bonds, Boston City Hospital issue (2002 Bonds), and (ii) the debt service on all City general obligation bonds allocable to BCH outstanding at June 30, 1996.

Effective May 1, 2012, the Commission and the BMC amended the lease dated July 1, 1996 to reflect the City of Boston's issuance of the 2012 Series C General Obligation Bonds, the proceeds of which were used to refund the 2002 Bonds. Upon issuance of the 2012 Bonds, the Commission and the Boston Medical Center Corporation amended the existing lease to reflect the refunding of the 2002 Bonds. The amended lease dated May 1, 2012 stipulates that the rent payments to be made to the Commission will be equal to the debt service on the City's general obligation bonds allocable to BCH.

On or after July 1, 2016, the lease provides for the Commission and BMC to set lease payments at fair market value for the property for the remainder of the lease term.

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Notes to Financial Statements

June 30, 2014

Future minimum lease payments to be received under the capital lease at June 30, 2014 are as follows (in thousands).

		<u>BCH debt</u>
2015	\$	350
2016		329
		<u>679</u>
Less amount representing interest		<u>(35)</u>
Net investment in capital lease	\$	<u><u>644</u></u>

(7) Other Leasing Activity

On December 7, 2006 the Commission (lessor) entered into a lease agreement with the Boston Health Care for the Homeless Program, Inc. (lessee) which allowed the lessee to renovate the Mallory Building (located at 774 Albany Street) for the sole purpose of operating a health care facility for the homeless. The lease agreement provides for an initial term of forty-two years with two (2) twenty-four year options. Base rent for the initial term is \$1.6 million payable in installments of \$160,000 upon execution, \$640,000 received in June 2008; and \$800,000 on the first anniversary of occupancy. Base rent for each option is \$1 per year. The Commission is accounting for the lease as an operating lease and is recognizing prepaid rental income over the lease term of 90 years at approximately \$18,000 per year. The cash received to date has been recorded as unearned revenue of \$1,465,181 of which \$17,778 is reflected as current.

(8) Notes Receivable

During fiscal 2002, the BPHC Mattapan Development Corp., a fully controlled nonprofit entity of the Commission, sold the Foley and E Buildings on the Mattapan Campus to a developer for \$2,955,000. The BPHC Development Corp. holds two notes receivable for the entire purchase price of the buildings – \$2,805,000 at 5.5% interest and \$150,000 at 0.01% interest. The principal of the notes and the accrued unpaid interest are payable in a balloon payment in fiscal 2040. The accrued unpaid interest is \$2,723,426 as of June 30, 2014.

During fiscal 2005, the Commission and the BPHC Mattapan Development Corp. completed Phase II by selling Mattapan buildings A, B, C, D, and I to Trinity Mattapan Heights Limited Partnership for \$582,000. The Commission holds a note receivable of \$162,000 with simple interest of 0.01% per annum with principal and interest payable in 40 years. BPHC Mattapan Development Corp. holds a note receivable of \$420,000 with interest compounding annually at 5.21%. The principal of the note and the accrued unpaid interest are payable in a balloon payment in fiscal 2040. The accrued unpaid interest is \$275,062 as of June 30, 2014. Because of the structure of these transactions, including the fact that the building was fully depreciated at the time of lease execution, the Commission has deferred gains until certain criteria for income recognition are met.

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June 30, 2014

During fiscal 2007, the Commission and the BPHC Mattapan Development Corp. completed Phase III by selling Mattapan Building F to Trinity Mattapan Heights Three Limited Partnership for \$400,000. BPHC Mattapan Development Corp. holds a note receivable (Acquisition Loan) for \$400,000 with simple interest of 5.5% per annum with principal and interest payable in 40 years, secured by a mortgage on such property.

BPHC Mattapan Development Corp. also holds a note receivable (State Tax Credits and Development Fee) for \$3,493,660 from Trinity Mattapan Heights Three Limited Partnership, with simple interest of 3.0% per annum with principal and interest payable in 40 years, secured by a mortgage on such property.

In addition, BPHC Mattapan Development Corp. holds a note receivable for \$250,000 from Trinity Mattapan Heights Three Limited Partnership, with simple interest of 3.0% per annum with principal and interest payable in 40 years, secured by a mortgage on such property.

The accrued unpaid interest is \$893,603 as of June 30, 2014.

During fiscal 2012, the Commission and the BPHC Development Corp. completed Phase V by selling Land Parcel G to Trinity Mattapan Heights Five Limited Partnership for \$9,724,000, a State Tax Credit Loan (Note). BPHC Mattapan Development Corp. holds a note receivable (State Tax Credit Loan) for \$9,724,000 without interest, payable in 40 years, secured by a mortgage on such property.

During fiscal 2014, the BPHC Northampton Development Corp. Inc., a fully controlled nonprofit entity of the Commission, sold 35 Northampton Street on the Northampton Square Campus to a developer for \$11,251,646. The BPHC Northampton Development Corp. Inc. holds a note receivable for the entire purchase price of the building – \$11,251,646. at 1% interest. The principal of the notes and the accrued unpaid interest are payable in a balloon payment in fiscal 2043 secured by a mortgage on such property. The accrued unpaid interest is \$84,387 as of June 30, 2014.

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Notes to Financial Statements

June 30, 2014

(9) Capital Assets

The following is a summary of the activity in capital assets for the years ended June 30, 2014 (in thousands):

	<u>Balance, June 30, 2013</u>	<u>Additions</u>	<u>Disposals or reclasses</u>	<u>Balance, June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 11,741	—	—	11,741
Construction in progress	<u>1,125</u>	<u>5</u>	<u>(1,125)</u>	<u>5</u>
Total capital assets not being depreciated	<u>12,866</u>	<u>5</u>	<u>(1,125)</u>	<u>11,746</u>
Capital assets being depreciated:				
Buildings and improvements	38,987	941	(9,933)	29,995
Leasehold improvements	8,770	—	—	8,770
Vehicles	16,362	1,515	(220)	17,657
Computers and technology	7,573	—	—	7,573
Equipment	2,108	674	—	2,782
Furniture and fixtures	<u>425</u>	<u>—</u>	<u>—</u>	<u>425</u>
Total capital assets being depreciated	<u>74,225</u>	<u>3,130</u>	<u>(10,153)</u>	<u>67,202</u>
Less accumulated depreciation for:				
Buildings and improvements	30,257	1,267	(9,933)	21,591
Leasehold improvements	4,778	835	—	5,613
Vehicles	14,639	1,405	(220)	15,824
Computers and technology	6,712	482	—	7,194
Equipment	1,975	148	—	2,123
Furniture and fixtures	<u>405</u>	<u>3</u>	<u>—</u>	<u>408</u>
Total accumulated depreciation	<u>58,766</u>	<u>4,140</u>	<u>(10,153)</u>	<u>52,753</u>
Total capital assets being depreciated, net	<u>15,459</u>	<u>(1,010)</u>	<u>—</u>	<u>14,449</u>
Total capital assets, net	<u>\$ 28,325</u>	<u>(1,005)</u>	<u>(1,125)</u>	<u>26,195</u>

(10) Due to City of Boston

The Commission is responsible for reimbursing the City for the principal and interest on portions of the General Obligation (G.O.) Bonds of the City that relate to the property and operations of the Boston City Hospital Campus, Northampton Square, Mattapan Campus (BSRH), Emergency Medical Service (EMS) Operations and the Long Island Campus. This obligation relates to G.O. Bonds issued by the City between December 1967 and October 1995, with interest rates ranging from 3.75% to 10.0%.

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The future principal and interest payments to be made by the Commission to the City for this debt as of June 30, 2014 are as follows (in thousands):

	BCH		G.O.	
	Principal	Interest	Principal	Interest
	(In thousands)			
2015	\$ 324	26	177	5
2016	320	9	—	—
	\$ 644	35	177	5

(11) Leases

(a) Operating Leases

The Commission leases building space to house its operations as a tenant at will. The Commission also has lease commitments with various vendors to lease equipment used in its operations. These leases are treated as operating leases with related rents charged to operations as incurred. The lease between the City of Boston and the Commission for the space at 1010 Massachusetts Avenue expired on December 31, 2009. Both parties continue to honor the expired agreement.

The following is a schedule, by year, of future minimum lease payments under operating leases as of June 30, 2014 (in thousands):

	Real estate	Equipment	Total
2015	\$ 178	108	286
2016	180	72	252
2017	180	37	217
2018	180	34	214
2019	45	9	54
	\$ 763	260	1,023

Total rent expense for the year ended June 30, 2014 was \$1,782,537 and \$163,737 for Real Estate and Equipment, respectively.

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June 30, 2014

(b) Capital Leases

The following is a schedule by year, of future minimum lease payments under capital leases as of June 30, 2014 (in thousands):

	\$	115
2015		88
2016		88
2017		88
		291
Less amount representing interest		(18)
	\$	273

(12) Other Postemployment Benefit (OPEB) Disclosures

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses and changes in net position when a future retiree earns their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the statement of net position over time.

In addition to the pension benefits described in note 13, the Commission provides postemployment health care and life insurance benefits, in accordance with State statute and City ordinance, to participating retirees and their beneficiaries under the City of Boston’s health insurance plan. As of June 30, 2013, the valuation date, approximately 181 retirees, beneficiaries and dependents and 960 active members meet the eligibility requirements as put forth in Chapter 32B of MGL. The Commission participates in an agent multi-employer defined benefit OPEB plan (Plan) sponsored by the City of Boston (the City). The Plan is administered by the City and does not issue a stand-alone financial report.

Medical and prescription drug benefits are provided to all eligible retirees not enrolled in Medicare through a variety of plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Neighborhood Health Plan. Medical and prescription drug benefits are provided to retirees enrolled in Medicare through supplemental and Medicare Advantage plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Tufts Health Plan.

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Groups 1 and 2 retirees with at least 10 years or 20 years of creditable service are eligible at age 55 or any age, respectively. Group 4 retirees with at least 10 years or 20 years of creditable service are eligible at age 45 or any age, respectively. Retirees on ordinary or accidental disability retirement are eligible at any age while ordinary disability requires 10 years of creditable service. The surviving spouse is eligible to receive both pre- and post-retirement death benefits, as well as medical and prescription drug coverage.

(a) Funding Policy

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The Commission provides health insurance to its employees under the City's health insurance plans. The Commission currently funds the Plan on a pay-as-you-go basis. The Commission and plan members share the cost of benefits. As of June 30, 2013, the valuation date, the plan members contribute 10% to 26.25% of the monthly premium cost, depending on the plan in which they are enrolled. The Commission contributes the balance of the premium cost.

(b) Annual OPEB Cost and Net OPEB Obligation

The Commission's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period of thirty years. The following table shows the components of the Commission's annual OPEB cost for the year ending June 30, 2014, the amount actually contributed to the Plan, and the change in the Commission's net OPEB obligation based on an actuarial valuation as of June 30, 2013 (in thousands):

Annual Required Contribution (ARC)	\$	9,329
Interest on net OPEB obligation		3,761
Adjustment to ARC		(2,577)
		10,513
Annual OPEB cost		10,513
Contributions		(3,945)
		6,568
Increase in net OPEB obligation		6,568
Net OPEB obligation – beginning of year, restated (note 2)		65,419
		65,419
Net OPEB obligation – end of year	\$	71,987

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The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation were as follows (in thousands):

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of OPEB cost contributed</u>	<u>Net OPEB obligation</u>
2014	\$ 10,513	37.50%	\$ 71,987
2013	14,253	28.48	65,419
2012	13,267	22.20	63,036

(c) ***Funded Status and Funding Progress***

The funded status of the plan as of June 30, 2014, based on an actuarial valuation as of June 30, 2013, was as follows (in thousands):

Actuarially accrued liability (AAL)	\$ 94,402
Actuarial value of plan assets	<u>5,212</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 89,190</u>
Funded ratio (actuarial value of plan assets/AAL)	5.52%
Covered payroll (active plan members)	\$ 59,756
UAAL as a percentage of covered payroll	149.3%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Commission are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

In January 2009, the Commonwealth adopted Chapter 479, which amends Chapter 32B and allows local municipalities to establish an OPEB liability trust fund and a funding schedule for the trust fund. On October 1, 2009, the City Council approved the establishment of an irrevocable OPEB trust. Since October 1, 2009, the Commission has contributed \$7.0 million to the Plan.

(d) ***Actuarial Methods and Assumptions***

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Commission and its employees) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Commission

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and its employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, (the most recent valuation) the projected unit credit cost method was used. The actuarial assumptions included a 5.75% investment rate of return and an inflation rate of 4.5% and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements to an ultimate rate of 5.0% after 5 – 6 years. The actuarial value of assets was determined using the fair value of investments. The healthcare cost trend rate differs between the master medical and other healthcare plans. The Commission's UAAL is being amortized as a level percentage of pay on an open basis. The remaining amortization period at July 1, 2013 was 30 years.

(13) Employee Benefit Plans

Most Commission employees are eligible to participate in the State-Boston Retirement System (SBRS).

(a) State-Boston Retirement System (SBRS)

Benefit eligible employees must participate in the State-Boston Retirement System (the System), a cost-sharing multiple-employer, defined benefit pension plan. The System provides for retirement allowance benefits up to a maximum of 80% of an employee's highest three-year average annual rate of regular compensation. Benefit payments are based upon an employee's age, length of service, level of compensation and group classification. Employees become vested after 10 years of creditable service. A retirement allowance may be received upon completion of 20 years of service or upon reaching the age of 55 with 10 years of service. The System issues a publicly available financial report that can be obtained from the State-Boston Retirement System, Boston City Hall, Boston, Massachusetts 02201.

Plan members are required to contribute to the System at rates ranging from 5% to 9% of annual covered compensation. Employees hired on or after January 1, 1979 pay an additional 2% of salary in excess of \$577 per week. The Commonwealth of Massachusetts reimburses the System for a portion of benefit payments for cost of living increases. The Commission is required to pay into the System its share of the remaining system-wide actuarially determined contribution. The contribution of plan members, the Commission and the Commonwealth are governed by Chapter 32 of the Massachusetts General Laws. The Commission was billed \$14.0 million, \$13.8 million, and \$13.0 million for contributions by the System for the years ended June 30, 2014, 2013 and 2012 respectively, and paid those amounts during the respective years.

(b) Defined Contribution Retirement Plan

The Commission has a closed defined contribution retirement plan. Employer contributions are 4% of the gross wages of participating employees. Employees may make additional voluntary contributions. Payments made by the Commission under this plan amounted to \$112,719 during the year ended June 30, 2014.

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(c) *Deferred Compensation Plan*

Benefit eligible employees of the Commission are eligible to participate in a deferred compensation plan. All contributions to the plan are made by the employees as pre-taxed and subject to a \$16,500 maximum.

(14) Medicaid Managed Care Agreement

The Commission is a party to a Medicaid Managed Care Agreement (MCO Agreement) with the Commonwealth of Massachusetts to provide MassHealth services to members of the Boston Medical Center HealthNet Plan (the Plan). The Commission has a subcontract agreement with Boston Medical Center Health Plan Inc. to operate the Plan and to contract with providers to provide MassHealth services to Plan Members (the Subcontract). The MCO Agreement pays the Plan capitation rates which are appropriated by the Legislature. These payments are subject to conditions that may be imposed by appropriations and to the availability of full federal financial participation (FFP). These conditions require the Commission to make specified payments to the Commonwealth.

For the year ending June 30, 2014, the Commission received such payments in the amount of \$1.239 billion from the Commonwealth. The Commission (acting as the sponsor of the Boston Medical Center HealthNet Plan) transferred all payments received from the Commonwealth to the Boston Medical Center HealthNet Plan.

(15) Related-Party Transactions

(a) *Leases*

The Commission leases space (tenant-at-will) from the City of Boston to house its operations at 1010 Massachusetts Avenue. Fiscal 2014 rent expense was \$781,467 and the Management Services expenses paid to the City of Boston were \$304,255 for this location.

(b) *Grant Administration Agreement*

On May 31, 2011, the Commission entered into a grant administration with the BMC. Under the terms of the agreement, the Commission assumed responsibility for all fiscal, grant management and management operations of the Commission including Boston EMS. The agreement provided for final payment for all services provided by BMC during the life of the previous agreement. The parties further agreed that BMC would continue to provide certain services to the Commission regarding the TB clinic, School Based Health Centers, Occupational Health Services, certain professional staffing provided through Boston University's Faculty Practice Foundation, utilities to the Woods Mullen, Finland and 727 Massachusetts Avenue properties and pharmaceutical supplies and services to Boston EMS. The Commission reimburses BMC for the actual cost of goods and services provided under the terms of the agreement. Reimbursements paid in fiscal 2014 amounted to \$1,679,525.

THE BOSTON PUBLIC HEALTH COMMISSION
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June 30, 2014

(16) Risk Management

The Commission receives management services from the City for health insurance, and workers' compensation. Although the City pays for these claims on behalf of the Commission, the City charges back the Commission for these costs. Therefore, the claims cost ultimately resides with the Commission. However, the liability associated with these claims is recorded by the City. The Commission provides its own defense for legal claims.

The Commission makes available life insurance to its employees and utilizes an outside agency for cost control measures regarding unemployment insurance claims, and is under a self-insured arrangement with the Commonwealth of Massachusetts.

The Commission is self-insured for its property and casualty losses. The City appropriates annual operating funds and assists the Commission in financing unexpected costs over multiple years.

(17) Commitments and Contingencies

Various federal and state programs and research activities administered by the Commission are subject to post-performance review and adjustment. The Commission currently records adjustments to reflect costs incurred in excess of grant funds available and differences between provisional and final indirect cost reimbursement rates. Other adjustments resulting from grantor reviews are recorded during the period in which they occur.

(18) Subsequent Events

On October 8, 2014, the City of Boston closed the Long Island Bridge. As a result of the closure of the bridge to all traffic, the Commission has closed all programming on the Long Island campus. The impact of the closure on the Commission is currently being evaluated.

As part of the on-going renovations of the Northampton Square complex, the Board of the Commission on October 11, 2014 and the City Council for the City of Boston on December 3, 2014 and December 17, 2014 approved the conveyance of the 860 Harrison Avenue and to Trinity Financial, developers for the complex. This transfer went to record on December 18, 2014.

THE BOSTON PUBLIC HEALTH COMMISSION
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Schedule of OPEB Funding Progress
Required Supplementary Information

June 30, 2014

Unaudited

(Dollars in thousands)

Actuarial valuation date	Actuarial value of plan assets (a)	Actuarial accrued liability (AAL) (b)	(Overfunded) unfunded AAL (UAALS) (b - a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
June 30, 2013	\$ 5,212	94,402	89,190	5.52%	\$ 59,756	149.3%
June 30, 2011	1,302	108,258	106,956	1.20	56,914	187.9
June 30, 2009	—	95,703	95,703	—	52,915	180.9
June 30, 2007	—	112,703	112,703	—	47,922	235.2

See accompanying independent auditors' report.

THE BOSTON PUBLIC HEALTH COMMISSION
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Supplementary Schedule of Revenues and Expenditures – Budgetary Basis

Year ended June 30, 2014

(In thousands)

	<u>Original budget</u>	<u>Supplemental and reallocations</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable) to final budget</u>
Revenues:					
Rent	\$ 5,096	—	5,096	2,630	(2,466)
Interest	60	—	60	66	6
City appropriation	66,357	400	66,757	66,504	(253)
Other	37,831	—	37,831	37,481	(350)
Total revenues	<u>109,344</u>	<u>400</u>	<u>109,744</u>	<u>106,681</u>	<u>(3,063)</u>
Expenditures:					
Administration	11,616	84	11,700	10,906	794
Public health program	74,121	138	74,259	73,897	362
Property operations	7,228	19	7,247	6,711	536
Public health service centers	13,918	159	14,077	13,424	653
OPEB expense	2,250	—	2,250	2,250	—
Debt service	211	—	211	211	—
Total expenditures	<u>109,344</u>	<u>400</u>	<u>109,744</u>	<u>107,399</u>	<u>2,345</u>
Excess expenditures over revenues	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>(718)</u>	<u>718</u>

See accompanying independent auditors' report.



BOSTON PUBLIC HEALTH COMMISSION

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2014

(With Independent Auditors' Report Thereon)

BOSTON PUBLIC HEALTH COMMISSION

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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 Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

Board Chairperson and Executive Director
Boston Public Health Commission:

Report on Compliance for Each Major Federal Program

We have audited the Boston Public Health Commission's (the Commission's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2014. The Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Commission'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 Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, the Commission 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, 2014.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-007. Our opinion on each major federal program is not modified with respect to this matter.

The Commission's response to the noncompliance finding identified in our audit are described in the accompanying schedule of findings and questioned costs. The Commission'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 Commission 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 Commission'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 OMB Circular A-133, 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 Commission'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 were not 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 findings and questioned costs as item 2014-007 that we consider to be a significant deficiency.

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



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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Commission as of and for the year ended June 30, 2014, and have issued our report thereon dated December 19, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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

March 10, 2015

BOSTON PUBLIC HEALTH COMMISSION

Exhibit II

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

	Federal CFDA number	Pass-through number	Federal expenditures
U.S. Department of Health and Human Services:			
Direct awards:			
Injury Prevention and Control Research	93.136		\$ 178,044
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243		1,088,845
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283		321,041
Affordable Care Act (ACA) Grant for School	93.501		2,184
ARRA – Prevention and Wellness Communities Putting Prevention to Work Funding Opportunities Announcement	93.724		2,753
Racial and Ethnic Approaches to Community Health: Obesity and Hypertension Demonstration Projects financed solely by 2012 Prevention and Public Health Funds	93.743		1,324,057
HIV Emergency Relief Project Grants	93.914		12,569,817
Healthy Start Initiative	93.926		1,862,280
Passed-through the Commonwealth of Massachusetts:			
Public Health Emergency Preparedness	93.069	INTF6208M04903418062	12,548
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	INTF6207PP1401418543 INTF6208M04903418062	1,540,731
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	0BOSTONPUBLISAMHSALC	2,071,106
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	INTF2354M03W30816047 INTF2354MM3900913001 INTF2354MM3900913002 INTF2354MM3900913003 INTF2354MM3900913004 INTF2357MM3W33216003 INTF3121M04W01315008	985,664
Immunization Cooperative Agreements	93.268	MEDICALSERVICESM2M0077	65,000
ARRA – Trans-NIH Recovery Act Research Support	93.701	INTF3056J50ARRA03012	(1,672)
National Bioterrorism Hospital Preparedness	93.889	INTF6207HH4300522452 INTF6207J50008414126 INTF6207J50008414534	339,865
HIV Care Formula Grants	93.917	INTF4943MM3200120045	282,721
Block Grants for Prevention and Treatment of Substance Abuse	93.959	INTF2354M04301822057 INTF2354MM3901115015 INTF2354MM3901115016 INTF2354MM3901115017 INTF2354MM3901115018 INTF4942MM3100119033 SCDPH231853620220000 SCDPH234853570190000 INTF7900MM3701516136	3,105,063
Maternal and Child Health Services Block Grant to the States	93.994		193,673
Passed-through Boston University:			
Health Promotion and Disease Prevention Research Centers: PPHF 2012 – Affordable Care Act Projects	93.542	#U48DP001922-04 U48DP001922	25,792
Passed-through the University of Massachusetts:			
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	6144614 WA00136287/RFS2014067	101,429
Passed-through Harvard School of Public Health:			
Assistance Programs for Chronic Disease and Control	93.945		4,328
Passed-through ABCD:			
Family Planning Services	93.217	70390	34,327
ARRA – Community Services Block Grant	93.710	FY11008207 FY11009152	(870)
Passed-through Childrens' Hospital			
ARRA – Trans-NIH Recovery Act Research Support	93.701	87908 1 RC4 HD066907-01	31,143
Passed-through NACCHO			
Medical Reserve Corps Small Grant Program	93.008	5-MRCSG101005-04-00 MRC13-0108-C	10,302
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	5U38HM000449-05	20,000
Passed-through Health Resources in Action			
Health Care Innovation Awards (HCIA)	93.610	1C1CMS331039-01-00	(5)
Total U.S. Department of Health and Human Services			<u>26,170,166</u>

BOSTON PUBLIC HEALTH COMMISSION

Exhibit II

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

	<u>Federal CFDA number</u>	<u>Pass-through number</u>	<u>Federal expenditures</u>
U.S. Department of Labor:			
Direct awards:			
Healthy Homes Demonstration Grants	14.901		\$ (202)
Healthy Homes Technical Studies Grants	14.906		282,602
Passed-through the City of Boston:			
Emergency Solutions Grant Program	14.231	OCD800HFESG121325S0	281,724
Supportive Housing Program	14.235	35198-13; 38910-14; C-30585-11; C-34601-12; C-36970-13; C-37249-13	1,001,602
Housing Opportunities for Persons with AIDS	14.241	35550-13	66,175
Total U.S. Department of Labor			<u>1,631,901</u>
Department of Housing and Urban Development:			
Passed-through The Economic Development & Industrial Corporation of Boston, JCS:			
Choice Neighborhoods Implementation Grants	14.889		136,225
Total Department of Housing and Urban Development			<u>136,225</u>
U.S. Department of Justice:			
Direct:			
Engaging Men in Preventing Sexual Assault Part E – Developing, Testing and Demonstrating Promising Reduction and Prevention of Children’s Exposure to Violence	16.014		94,064
Second Chance Act Prisoner Reentry Initiative	16.730		803,421
Passed-through the Commonwealth of Massachusetts:	16.812		(20,580)
Edward Byrne Memorial Justice Assistance Grant Program	16.738	13EHSSSYIBOSTONPHCLC	281,351
Passed-through the City of Boston:			
Community-Based Violence Prevention Program	16.123	MOU 34660	184,466
ARRA – OVW Technical Assistance Initiative	16.526		147,070
ARRA – Recovery Act – Edward Byrne Memorial Competitive Grant Program	16.808	2009-SC-B9-0069	(9,595)
Passed-through Boston Medical Center:			
Public Housing Community Health Workers	14.999	MAAIH0002-11	16,733
Total U.S. Department of Justice			<u>1,496,930</u>
U.S. Department of Transportation:			
Passed-through the Commonwealth of Massachusetts:			
State Traffic Safety Information System Improvement Grants	20.610	TR-13-13 TR-14-18	145,773
Total U.S Department of Transportation			<u>145,773</u>
Environmental Protection Agency:			
Direct awards:			
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		152,783
Healthy Communities Grant Program	66.110		2,872
Total Environmental Protection Agency			<u>155,655</u>
Department of Homeland Security:			
Passed-through the Commonwealth of Massachusetts:			
Homeland Security Grant Program	97.067	80004700 VC6000183008	294,842
Passed-through the City of Boston:			
Non-Profit Security Program	97.067	35456; 36510; 38001; 38005; 36618; 38035; 25456; 37956; 38292; 38402; 38676; 38760; 38765; 39108; C-36815; C-25901	2,262,336
Passed-through Massachusetts Bay Transportation Authority:			
Rail and Transit Security Grant Program	97.075		2,705
Total Department of Homeland Security			<u>2,559,883</u>
Total Expenditures of Federal Awards			\$ <u><u>32,296,533</u></u>

See accompanying notes to schedule of expenditures of federal awards.

BOSTON PUBLIC HEALTH COMMISSION

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant transactions of the Commission recorded on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*.

(2) Indirect Costs

The Department of Health and Human Services has approved a 20.5% indirect cost rate, in effect through June 30, 2014.

BOSTON PUBLIC HEALTH COMMISSION

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(3) Subrecipients

Certain federal funds are passed through to subrecipient organizations by the Boston Public Health Commission. Expenditures incurred by these subrecipients and reimbursed by the Boston Public Health Commission totaled \$14,286,931 for the year ended June 30, 2014 and are presented in the Schedule of Expenditures of Federal Awards.

Program name	CFDA	Amount
Choice Neighborhoods Implementation Grants	14.889	\$ 99,980
Healthy Homes Technical Studies Grant	14.906	110,480
Engaging Men in Preventing Sexual Assault, Domestic Violence, Dating Violence and Stalking Program	16.014	7,100
Community-Based Violence Prevention Program	16.123	85,417
OVW Technical Assistance Initiative	16.526	122,000
Reduction and Prevention of Children's Exposure to Violence	16.730	348,321
Edward Byrne Memorial Justice Assistance Grant Program	16.738	164,319
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034	1,899
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	882,035
Injury Prevention and Control Research and State and Community Based Programs	93.136	31,804
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	879,284
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	61,806
Racial and Ethnic Approaches to Community Health: Obesity and Hypertension Demonstration Projects financed solely by Prevention and Public Health Funds	93.743	553,446
National Bioterrorism Hospital Preparedness Program	93.889	38,356
HIV Emergency Relief Project Grants	93.914	9,233,210
Healthy Start Initiative	93.926	1,153,661
Block Grants for Prevention and Treatment of Substance Abuse	93.959	418,273
Homeland Security Grant Program	97.067	95,540
		\$ 14,286,931



KPMG LLP
Two Financial Center
60 South Street
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*

Board Chairperson and Executive Director
Boston Public Health Commission:

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 Boston Public Health Commission (the Commission), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission'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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 through 2014-004 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-005 and 2014-006 to be significant deficiencies.



Exhibit III

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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*.

The Commission's Responses to Findings

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 Commission'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 Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 19, 2014

BOSTON PUBLIC HEALTH COMMISSION

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? x yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? x yes none reported

Noncompliance material to the financial statements noted? yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes x no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? x yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? x yes no

Identification of Major Programs

CFDA	Name of Federal Program or Cluster
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance
93.743	Racial and Ethnic Approaches to Community Health: Obesity and Hypertension Demonstration Projects financed solely by Prevention and Public Health Funds
93.914	HIV Emergency Relief Project Grants
93.926	Healthy Start Initiative

Dollar threshold used to distinguish between type A and type B programs: \$968,896

Auditee qualified as low-risk auditee? yes x no

BOSTON PUBLIC HEALTH COMMISSION

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(2) Findings and Questioned Costs Relating to Financial Statements Reported in Accordance with Government Auditing Standards**Finding Reference: 2014-001****Financial Reporting**

The Commission lacks appropriate internal controls over its external financial reporting process. Internal controls over the compilation and review of its financial statements are not designed to detect, prevent or correct material errors in its financial statements.

The deficiency in controls can be attributed to, among other things, inadequate documentation of the process, lack of standardized workflows, lack of clear lines of responsibility and a lack of ‘chain of review and approval’ structure.

Additionally, identifying, extracting and reporting Commission activity from the general ledger system and sub-ledger systems is a cumbersome and time consuming process. The information generated from these systems, often requires significant rework and reprocessing in order for it to be useful to management.

Recommendation

We recommend that Commission establish properly designed internal controls to ensure that:

1. Appropriate Commission personnel understand the data that is available in the accounting systems as well as how to retrieve and report the data in a format that is useful for Commission purposes;
2. General ledger activities are recorded after being properly approved;
3. General ledger accounts are reviewed, analyzed and reconciled on a timely basis – for example, the EMS cash account was not reconciled at any point during fiscal 2014;
4. Standardized documentation is created to support the interim and annual financial reporting process to ensure that activities can continue without difficulties when personnel changes occur;
5. The chain of review and approval – preparation, review, approval process – is clearly delineated to ensure that responsibility and authority are properly aligned to ensure that financial reports are both complete and accurate; and
6. Duties in the accounting and financial reporting areas are properly segregated.

Views of Responsible Officials and Corrective Action

We agree that during fiscal 2014, the Commission experienced some difficulties in the annual financial reporting process. Some of the difficulties encountered were due to the departure of the Commission’s controller and to the reconstruction of certain accounts receivable records that resulted in routine internal controls not operating effectively.

BOSTON PUBLIC HEALTH COMMISSION

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Management will continue their search for a permanent controller and will work on reviewing and updating all key accounting and finance processes, work assignments and workflows to help ensure that the Commission's internal controls are designed and operating properly.

Responsible Official

John Townsend, Director of Administration and Finance

Bob Puglisi, Interim Controller

William Kibaja, Director Budget and Grants Administration

BOSTON PUBLIC HEALTH COMMISSION

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Finding Reference: 2014-002

Grant Receivables

The Commission has a significant balance of outstanding federal, state and city grant receivables. During the audit of these grant receivables, we noted that numerous outstanding balances within the grant receivables related to prior years that had not been collected. Our initial audit selection of outstanding grant receivable balances as of June 30, 2014 indicated the first three items reviewed were incorrect. These items were corrected by management in the final financial statements and resulted in a more rigorous review of the grant receivables culminating in a write off of over \$5 million of receivables before the final financial statements were issued.

While we believe that some aspect of the difficulties with the grant accounting can be attributed to the Commission's grant accounting system, other factors directly impacting this area include lack of adequate training for key personnel at the Commission, lack of documented processes and procedures, lack of appropriate reviews of activities and lack of properly segregated duties.

Recommendation

We recommend that the Commission institute policies and procedures in the grant accounting and receivable areas that will ensure that personnel are adequately trained, that policies are sufficiently documented, that review controls are effectively implemented and that duties are properly segregated.

Views of Responsible Officials and Corrective Action

We agree that during fiscal 2014, the Commission experienced some difficulties in the grant accounting area that resulted in a large write-off of grant receivable balances. While we believe some of the difficulties can be attributed to computer system issues, we agree that the Commission needs to ensure that appropriate policies and procedures in the grant accounting and receivable area are in place and operating effectively to ensure duties are properly segregated and grant activities are timely and accurately accounted for and reported. In addition to reviewing and updating the policies and procedures, we will also review the need for additional training for key personnel in the grant accounting area.

Going forward, the Commission will continue to adjust its policies and procedures and provide additional training to the appropriate staff to enable them to perform their duties in an effective and efficient manner

Responsible Official

William Kibaja, Director Budget and Grants Administration

John Townsend, Director of Administration and Finance

BOSTON PUBLIC HEALTH COMMISSION

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Finding Reference: 2014-003**EMS and Other Receivables***EMS Receivables*

The Commission has a significant balance of Emergency Medical Services (EMS) accounts receivables. During the year, the Commission undertook a project to review and re-record a significant portion of these receivables along with re-applying the cash receipts against these receivables to arrive at an adjusted beginning and end of year outstanding balances.

During the audit of the EMS patient receivables, we noted a significant reduction in the outstanding receivables balances from 2013 to 2014 and a significant reduction in the related allowance for uncollectible accounts.

Other Billed Receivables

Our test work in the other receivable and cash receipt areas indicates that the Commission does not have appropriate controls over the proper tracking of ‘other receivables’ – including rents, utilities, etc. – or a centralized process for receiving checks and appropriate controls over the application of cash received to the related to these receivables.

Recommendation

The Commission uses a third party processor for its EMS receivables and needs to institute and execute adequate controls to ensure that all activities – billings, collections, adjustments, etc. – are completely and accurately recorded and that accounts are reconciled to the general ledger on a timely basis. Management needs to establish user controls to ensure that the activity outsourced to the third party is complete and accurate. This includes receiving, reviewing and addressing any comments noted in the third party’s SAS 70 report.

With regard to the other receivables, the Commission should explore using the City’s billing and accounts receivable system as a means to enable all of the Commission’s receivables and cash receipts to be better controlled and tracked.

Views of Responsible Officials and Corrective Action

The Commission will review the need to establish user controls to ensure that the billing activities outsourced to the third party are complete and accurate and will determine whether any comments noted in the third party’s SAS 70 report requires Commission action.

We will also review the Commission’s practices and controls related to all other accounts receivables to ensure their integrity, including studying the feasibility of using the COB billing systems.

Responsible Official

Bob Puglisi, Interim Controller
John Townsend, Director of Administration and Finance
William Kibaja, Director Budget and Grants Administration

BOSTON PUBLIC HEALTH COMMISSION

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Finding Reference: 2014-004**Information Technology System PowerUsers**

Based on our review of the Commission's Information Technology area, we noted that two individuals in the Grant Accounting area and one individual in IT are designated as IT 'PowerUsers'. Such a designation provides unlimited access and processing privileges to the designated user. Thereby these individuals to perform a wider range of computer activities than can be performed by other Commission employees.

PowerUser privileges while necessary to configure applications, administer access and sometimes research and correct problems, by their nature defeat separation of duties controls and consequently need to be carefully assigned and strictly controlled. These roles are generally assigned to persons who have no functional responsibility for processing transactions through the system particularly financial transactions. Individuals with such roles should be limited in the other duties they perform. Other duties performed by users with such access must be rigorously reviewed and always properly segregated to ensure that the incompatible activities performed by a PowerUser are appropriate. Having a PowerUser with the ability to perform incompatible functions including access to bank accounts, check signing authority, establishing new vendors on the system, making journal entries, recording accounting transactions, reconciling general ledger/bank accounts etc. creates an unnecessarily high risk to the Commission.

Recommendation

BPHC should:

- Design and implement a segregation of duties model for all users to GP.
- Restrict Poweruser access to those individuals that do not have financial or business responsibilities, e.g IT staff appropriately trained.
- Perform a periodic review of the users, roles and any potential SOD conflicts. Documentation of the review should be retained.

Views of Responsible Officials and Corrective Actions

The Commission is currently in the process of reviewing all user access to its finance systems, Great Plains to ensure that users only have access to appropriate functions. While the designation of a "PowerUser" does pose a certain amount of risk it is at times necessary to have an individual who has certain financial knowledge and system knowledge in order to resolve system issues. In order to minimize the risk inherent in such a situation, the Commission designed the system to provide certain safeguards such as:

- a. The financial systems are hosted by third part provider, who has full administrative and physical server control. Therefore, PowerUsers do not have access to make changes to any IT related system activities.
- b. BPHC has a structure of departmental delegation of authority for purchasing. In the BPHC procurement process, only authorizes approvers in accordance to BPHC signature matrix approved by the Executive Director (a copy of which was provided to the auditors), is allowed to approve purchasing order requisitions, which is primary process of approving expenditures.

BOSTON PUBLIC HEALTH COMMISSION

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

None of the PowerUsers has such authority. The other form of expenditure authorization is through check requisition which requires Executive Officer approval. None of the PowerUsers has such authority. The final means of expenditure authorization is by using BPHC visa card. None of PowerUsers have been issued a visa card

- c. BPHC physically restricts access to the check printing machine and the actual check books by keycard access and a safe. Accounts payable staff are the only ones allowed access. In addition, BPHC restricted receipts of payment and deposit to accounts receivable department, while over 90% of payments are direct deposited into bank accounts or lockbox. None of the PowerUsers are AP staff.
- d. BPHC restricts payroll processing to human resources staff using an external provider payroll system. None of the PowerUsers are human resources staff.
- e. Only the accounting department can perform actual bank reconciliation using the GP financial system. None, of the accounting staff are PowerUsers.
- f. All banking transactions require separate initiation and approvals. No PowerUsers has initiation authority and only one PowerUser has secondary approval authority which may be used only in the absence of the primary approver. All wire transfer of funds are reviewed in advance by the Controller, initiated by a member of the accounting staff and approved by the Director of Administration and Finance. Wire transfers of funds are also reviewed on a weekly basis.

BPHC, takes this matter very seriously, and is re-evaluating its current policies and procedures to make sure all risks are identified and minimized. Also, BPHC PowerUsers have been reduced to two from its current 3 users with only one having any finance duties. As an additional precaution, all activity in the finance system is now logged by the third party provider. If possible BPHC may hire an individual in IT with both financial and IT knowledge to be the designated PowerUser to replace the current PowerUser who has additional financial responsibilities.

Responsible Officials

Jeanne Cannata, CIO

John Townsend, Director of Administration and Finance

BOSTON PUBLIC HEALTH COMMISSION

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Finding Reference: 2014-005**Information Technology Information Security Policy and Procedures**

While the Commission has issued several IT and Information Security related policies, (e.g. Computer and Network use, HIPAA Privacy, Change Management), no comprehensive IT policy document, including a detailed Written Information Security Policy (WISP), exists. Additionally, we noted that the two formally authorized policies (Computer and Network Usage and HIPAA Privacy) were last reviewed in June, 2008.

Formally documented and management endorsed IT and Information Security policies and procedures permit functional groups such as IT to introduce, promote and implement necessary controls with the authority of senior management across a diverse and sometimes resistant user community. A comprehensive and documented Information Security Program / Policy managed and overseen by a dedicated resource (e.g., an ISO) is a mandatory requirement of several federal privacy statutes.

In 2014 noted that BPHC IT is developing the information security policy and plans to complete it in the 2014 calendar year.

Recommendation

We recommend that the Commission's IT management continue to drive a project to develop and introduce a comprehensive information security policy and supporting subpolicies and standards for adoption and enforcement by the Commission IT and functional departments and agencies.

We further recommend that the Commission's management review existing policies for currency and update and reissue accordingly. In particular the HIPAA policy should be reviewed in light of the 2009 HIPAA-HITECH legislation.

Views of Responsible Officials and Corrective Actions

The Commission concurs with the Auditors' view that information security policies must be a strategic imperative and in conformance with statutory regulations. The recommendation to establish an Information Security Officer has been approved and posted, however the ISO position remains unfilled. CIO indicated that for various reasons the position has failed to attract suitably qualified candidates.

The Commission's management is presently reviewing existing policies including HIPAA Privacy and Security for currency and will update accordingly

Management would like to note with regard to the auditors proposal regarding WISP that 201 CMR 17.01 specifically excludes from the definition of "person" any "agency, executive office, department, board, commission, bureau, division or authority of the Commonwealth, or any of its branches, or any political subdivision thereof." Consequently, the regulation requiring WISP does not apply to the BPHC.

Responsible Official

Jeanne Cannata, CIO

John Townsend, Director of Administration and Finance

BOSTON PUBLIC HEALTH COMMISSION

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Finding Reference: 2014-006

Information Technology – Sensitive Data Encryption

In general, the Commission’s Personally Identifiable Information (PII) and other sensitive/confidential data is not encrypted:

- at rest – located on file servers
- during transport – backup system copies transported offsite (Iron Mountain)
- during transmission – e-mails
- on removable storage devices - HR, management laptops, removable devices (flash drives, CD-W etc)

Unsecured data whether it resides on an entity’s file server inside the network, is contained with an e-mail transmitted on the internet or copied to transportable media such as laptop drive, a USB flash device, or backup media stored offsite, is at risk of unauthorized access, misuse and misappropriation. Studies confirm that a major cause of security breaches is loss or theft of unencrypted devices used to store sensitive data. The consequences of such losses involving PII or other regulated data are costly both in monetary and reputational terms.

Recommendation

We recommend that the Commission’s IT management continue working on ensuring the appropriate level of security over PII and other sensitive/confidential data is in place.

Views of Responsible Officials and Corrective Actions

All laptops are encrypted at the Commission. All end users have the ability to encrypt email. Users are only able to purchase flash drives through ITS and these drives are required to be encrypted.

We will work with our vendor to encrypt sensitive data.

Responsible Official

Jeanne Cannata, CIO

John Townsend, Director of Administration and Finance

BOSTON PUBLIC HEALTH COMMISSION

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(3) Findings and Questioned Costs Relating to Federal Awards**Finding Reference:** 2014-007**Federal Agency:** U.S. Department of Health and Human Services**Federal Program(s):** Racial and Ethnic Approaches to Community Health: Obesity and Hypertension Demonstration Projects financed solely by 2012 Prevention and Public Health Funds (93.743)**Finding:** FFATA Reporting***Criteria***

Prime Contractors awarded a Federal contract or order that is subject to Federal Acquisition Regulation clause 52.204-10 (Reporting Executive Compensation and First-Tier Subcontract Awards) are required to file a FFATA subaward report by the end of the month following the month in which the prime contractor awards any subcontract greater than \$25,000. The Federal prime awardees use the FFATA Subaward Reporting System (FSRS) to capture and report subaward and executive compensation data regarding their first-tier subawards to meet the FFATA reporting requirements. Prime contract awardees will report against sub-contracts awarded and prime grant awardees will report against sub-grants awarded. The sub-award information entered in FSRS will then be displayed on www.USASpending.gov associated with the prime award furthering Federal spending transparency.

Condition

It was noted during the testing of the FFATA report submitted to the FSRS, that the subawards were not submitted in a timely manner for the program listed above.

Possible Cause

A lack of effective internal control over the reporting process.

Effect

The FFATA reports that were submitted were not submitted timely in accordance with instructions.

Questioned Costs

None

Recommendation

The commission should strengthen procedures around the reporting process to ensure that reports are submitted timely.

BOSTON PUBLIC HEALTH COMMISSION

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Views of Responsible Officials and Corrective Action

BPHC Grants Administration department along with the Procurement department amended the policy and procedures as it pertains to grant related contracts as follows: As of July 2014 all contracts that a grant funded require a signature from the grants administration department on the expenditure authorization form prior to execution by BPHC executive office. This additional authorization ensure that all contract federally funded have all required documentation and allows for the assigned grant staff to file the FFATA report within the required time frame in accordance with the FFATA reporting guidelines.

Responsible Official

William Kibaja, Director of Budget and Grants Administration

Implementation Date

July 1, 2014

BOSTON PUBLIC HEALTH COMMISSION

Summary Schedule of Prior Year Audit Findings

Year ended June 30, 2014

BOSTON PUBLIC HEALTH COMMISSION

Summary Schedule of Prior Year Audit Findings

Year ended June 30, 2014

CFDA#	Reference	Summary of Finding	Questioned Costs	Status	Corrective Action Plan
2013					
N/A	2013-001	<p>The Commission has a significant balance of accounts receivables, primarily related to federal, state and city grants, and EMS patient receivables. During the audit of the grant receivables, we noted the following:</p> <ol style="list-style-type: none"> 1. multiple outstanding balances within these accounts related to prior years; 2. significant issues with the application of cash obtained for contracts; and 3. the lack of a detailed aging report resulting in management being unable to perform a sufficient review of aging balances within the accounts receivable and deferred revenue accounts 	None	Resolved	<p>The Commission budget and grants administration department reconciled the prior year outstanding balances as planned. The Commission can now run the aging reports that can be reviewed by the director of administration and finance in a quarterly basis.</p>

BOSTON PUBLIC HEALTH COMMISSION

Summary Schedule of Prior Year Audit Findings

Year ended June 30, 2014

CFDA#	Reference	Summary of Finding	Questioned Costs	Status	Corrective Action Plan
N/A	2013-002	Due to a variety of issues, identifying, extracting and reporting Commission activity from the general ledger system and sub-ledger systems was a cumbersome and time consuming process. The information generated from these systems, often required significant rework and reprocessing in order for it to be useful to management. While these difficulties are, in some part, due to the newness of the systems, others may be due to training issues.	None	Partially Resolved	Suites of accurate and pertinent report have been developed and are available to management regarding Commission activity from the general ledger and sub-ledger systems. Additional training has been completed for designate accounting staff to provide any necessary support.

BOSTON PUBLIC HEALTH COMMISSION

Summary Schedule of Prior Year Audit Findings

Year ended June 30, 2014

CFDA#	Reference	Summary of Finding	Questioned Costs	Status	Corrective Action Plan
N/A	2013-003	<p>While the Commission has issued several IT and Information Security related policies, (e.g. Computer and Network use, HIPAA Privacy, Change Management), no comprehensive IT policy document, including a detailed Written Information Security Policy (WISP), exists. Additionally, we noted that the two formally authorized policies (Computer and Network Usage and HIPAA Privacy) were last reviewed in June, 2008.</p> <p>Formally documented and management endorsed IT and Information Security policies and procedures permit functional groups such as IT to introduce, promote and implement necessary controls with the authority of senior management across a diverse and sometimes resistant user community. A comprehensive and documented Information Security Program / Policy managed and overseen by a dedicated resource (e.g., an ISO) is a mandatory requirement of several federal privacy statutes.</p>	None	Partially Resolved	<p>The Commission is currently working on a comprehensive review and update of all IT policies including the information security policies and procedures and the HIPAA Privacy policy. Work on the information security policies will be completed with the hiring of an Information Security Officer, whose recruitment and hiring is ongoing.</p> <p>Management would like to note with regard to the auditors proposal regarding WISP that 201 CMR 17.01 specifically excludes from the definition of “person” any “agency, executive office, department, board, commission, bureau, division or authority of the Commonwealth, or any of its branches, or any political subdivision thereof.” Consequently, the regulation requiring WISP does not apply to the BPHC.</p>

BOSTON PUBLIC HEALTH COMMISSION

Summary Schedule of Prior Year Audit Findings

Year ended June 30, 2014

CFDA#	Reference	Summary of Finding	Questioned Costs	Status	Corrective Action Plan
93.243 93.283 93.724 93.914 93.926	2013-004	<p>The A-102 Common Rule require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The objectives of internal control pertaining to the compliance requirements for Federal programs (Internal Control Over Federal Programs), as found in §_____ of OMB Circular A-133, include providing reasonable assurance that Federal awards are expended only for allowable activities and that the costs of goods and services charged to Federal awards are allowable and in accordance with the applicable cost principles.</p> <p>According to the instructions for completing the SF-425 Federal Financial Report, Line 10(b) Cash Disbursements is defined as the sum of actual cash disbursement for direct charges for goods and services, the amount of indirect expenses charged to the award, and the amount of cash advances and payments made to subrecipients and contractors.</p>	None	Resolved	<p>In July FY 2014 the Commission amended their quarterly SF-425 PMS reporting reconciliation process as follows: All adjustment and allocation for prior performance periods are posted in the quarter in which the transaction occurs. In accordance with the guidelines and instructions from the DPM, the Commission’s Grants Analyst’s reconciliation of submitted SF-425 PMS reports are adjusted and revised in the period in which the transactions occur. This amendment to the reporting process will ensure that the cumulative reporting of cash disbursements will accurately tie out to the transaction record in the period in which the SF-425 reports are filed.</p>