



Report on Applying Agreed-Upon Procedures

Boston Redevelopment Authority/
Economic Development Industrial Corporation



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Independent Accountant's Report on Applying Agreed-Upon Procedures

The Management and Board of Directors of the Boston Redevelopment Authority/Economic Development Industrial Corporation:

We have performed the procedures enumerated on the following pages, which were agreed to by management and the Board, solely to assist you in evaluating the BRA/EDIC's compliance with its internal policies, procedures and protocols. BRA/EDIC's management is responsible for compliance with those policies and procedures. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on BRA/EDIC's compliance with its internal policies, procedures and protocols. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and the Board of Directors of the BRA/EDIC and is not intended to be and should not be used by anyone other than these specified parties. However, the agreed-upon procedures report is intended to be a matter of public record and its distribution is not limited.

KPMG LLP

July 11, 2014

Background Information and Structure of the Organization

The Boston Redevelopment Authority (BRA) was formed in 1957 and merged with the Economic Development Industrial Corporation (EDIC), a quasi-government non-profit corporation, in 1995. Additionally, the activities of the City's Office of Jobs and Community Services (JCS) (formerly housed in the Mayor's Office) were added in 1990 under EDIC; the Boston Local Development Corporation (BLDC), a 501(c)(3) non-profit corporation was created in 1978 and is considered an 'affiliate' of EDIC; the Friends of Youth Opportunity Boston, Inc. (FYOB), a 501(c)(3) non-profit corporation, was created in 2007 and is also considered an 'affiliate' of EDIC and was created to support the activities of Youth Opportunity Boston, a JCS program (now called Youth Opportunities Unlimited); the Boston Industrial Development Financing Authority (BIDFA), an industrial development financing authority created in 1971 under Chapter 40D of the Massachusetts General Laws; Boston Connects, Inc., a 501(c)(3) non-profit corporation, created in 1999 to oversee and implement the Empowerment Zone Strategy Plan; WriteBoston, Inc., a 501(c)(3) non-profit corporation, was formed in 2012 to support the activities of WriteBoston, a JCS program. It is possible that other affiliates and/or related entities may exist that have not been identified.

One Board of Directors oversees the activities of both entities - the Board of Directors of the BRA is also the Board for EDIC. Actions taken by the Directors acting as BRA Directors are not binding on the EDIC, and actions taken by the Directors acting as EDIC Directors are not binding on the BRA. This arrangement continues the appearance that EDIC and BRA are not working as one entity for the overall benefit of the City.

Additionally, after nearly 20 years the operations of the organizations have remained quite separate. In addition to EDIC maintaining its 501c(3) status and BRA maintaining its position as a quasi-government organization, the employees of each entity continue to be segregated in multiple ways. Physically, BRA staff is being housed primarily at City Hall, while EDIC staff is housed at Hawkins Street and in the Boston Marine Industrial Park (BMIP). The two entities are governed by different payroll and benefit structures creating confusion and morale issues among the employees and continue to view many day to day activities as either EDIC or BRA activities rather than functioning as one organization. In certain instances, similar services are procured for each entity as opposed to procuring services once for the combined entity. For example, parking management services for the BMIP were separately bid from parking management services for various BRA properties.

Jobs and Community Services (JCS)

JCS' mission is to help support job growth within the City. Its funding comes principally from federal grants and certain revenues generated by EDIC – most notably funds deposited in the City of Boston's Neighborhood Jobs Fund. The activities of JCS have changed considerably since 1990, and several related non-profit organizations have been created to support those activities. As such, management may wish to revisit the positioning of JCS under the BRA/EDIC in the context of other broader changes that may occur at the BRA/EDIC. Whether or not JCS activities are transferred, management should review the funding model to ensure that the current model supports the job growth mission in the City.

Boston Industrial Development Finance Authority (BIDFA)

BRA leadership should consider how best to utilize the powers of the Boston Industrial Development Finance Authority (BIDFA) to best support the BRA/EDIC mission. BIDFA is a quasi-government agency that is related to the BRA, but not under the control of the BRA/EDIC board. This Authority was established as a conduit debt issuer to provide entities in Boston a vehicle through which to borrow money. It operates in a fashion that is similar to MassDevelopment and, if effectively used, may be able to provide a new revenue stream for the City. Although state legislation may be required to enable the City to optimize the use of BIDFA, the City/BRA/EDIC should review BIDFA's powers and consider implementing a strategy that can increase its benefit to the City.

Other Non-profit entities

For a number of the other non-profit entities operating under the BRA/EDIC umbrella, we could not determine the extent of the BRA/EDIC Board's involvement with or oversight of these entities. Without an appropriate level of involvement and oversight by the BRA/EDIC management and Board, the City and the BRA/EDIC may ultimately be at risk for actions taken by the non-profits, including compliance with applicable laws and regulations such as federal and state tax laws related to their tax-exempt status.

Leadership of the BRA/EDIC in concert with the City's new Chief of Economic Development should consider all activities currently under the purview of the BRA/EDIC to determine whether such activities are consistent with the mission of the organization or are better situated in other parts of the City. Once those activities are agreed upon, all costs and sources

of funding should be fully accounted for, and all activities should be subject to the oversight of the BRA/EDIC board.

In ultimately determining what the BRA/EDIC should be responsible for within the City, available funding sources will need to be a consideration. Currently, the BRA's website (<http://www.bostonredevelopmentauthority.org/about-us/planning-boston-s-future>) indicates that "We are a self sustaining agency..." Leadership needs to evaluate structural changes, future strategies and current funding sources to determine whether funding should be driving the organization's strategy or whether strategy should drive funding. Currently, it appears as if available funding is driving strategy which may be limiting the organization's ability to effectively carry out its mission. For example, currently the amount of planning that can be undertaken within a particular year is limited by the amount of funding that is 'budgeted' for planning purposes. In the 14 points proposed by the Mayor regarding the BRA, it was stated that neighborhood zoning be completely updated, at a minimum, every 10 years. To accomplish this goal, the organization's strategy may need to drive the amount of funding allotted or allocated to that effort. Leadership will need to prioritize its strategies and goals and ensure that adequate funding is available to support those efforts. It may also need to update the BRA/EDIC's current budgeting process to ensure that mission, goals, activities and funding are properly linked, monitored and reported.

The leadership of the BRA/EDIC, in whatever form it takes, needs to be focused on correcting the internal issues and the external view of the BRA/EDIC. The leadership should consider having not only a Director of the BRA who can ensure that the mission is defined and adhered to but also a 'chief operating officer' who would be responsible for day to day operations of the organization consistent with the implementation of that mission. The responsibilities of the chief operating officer potentially could be assigned to the BRA's Executive Director-Secretary position.

Operational Systems, Policies and Procedures

Documentation and document management

- 1. We requested written policies and procedures for the areas of document maintenance and retention, document storage and back up and document/project naming conventions and noted that, while some written policies exist, evidence of the implementation of these policies could not be provided.**

The following documents were provided:

- Records Management Manual Program, Employee Manual – dated May 24, 2012
- Electronic Communications Procedures – dated May 24, 2012
- Public Record Request and Litigation Hold Procedures – dated May 24, 2012
- Records Disposition Procedures – dated May 24, 2012
- Records Management and Archival Policy – dated January 13, 2012

The organization has been slow to update its operational systems, policies and processes and currently lacks documentation protocols consistent with standard business practices and information systems to effectively manage the business. Such documentation protocol deficiencies cause difficulties in (i) obtaining information and analyzing data in an effective and efficient fashion; and (ii) determining whether all documents are accounted for and properly distributed to those individuals within the BRA/EDIC who need them. Additionally, the lack of documentation protocols reduces the transparency surrounding the decision making process, makes the decision making process more difficult and results in inconsistent documentation supporting decisions that are made. Several issues were noted including the lack of:

- Centralized document repository
- Electronically imaged documents
- Online document center
- Document naming conventions

The BRA/EDIC does not maintain a central repository for its documents. While the legal department maintains many documents, they are not digitally maintained, numerically controlled, or not effectively distributed throughout the organization. For example, the population of leases should be analyzed to extract the salient provisions, monitored and followed up on to ensure all payments due to the BRA/EDIC are proactively managed. Similarly,

the critical provisions of all Article 80 documents, including developer agreements for financial and non-financial commitments should be captured and documented in a compliance database so that commitments can be monitored and fulfillment can be documented.

Virtually all of the critical documents maintained by the BRA/EDIC are maintained in paper form rather than electronic form. Furthermore, the lack of a system of internal controls that would ensure that all critical documents are accounted for and available to all in the organization that need access to the documents creates an environment where appropriate monitoring of activities and compliance with provisions of key documents cannot and does not occur. A systematic approach is needed to capture the salient provisions of each agreement, record those provisions, and monitor compliance with those provisions to ensure that all parties to the agreement are fulfilling their respective commitments. Such a systematic approach requires cooperation and collaboration among many individuals and/or groups within the BRA/EDIC. The current system does not provide any assurances that all documents are captured and all provisions are enforced in a timely fashion.

Although the BRA/EDIC website contains a 'document center' (<http://www.bostonredevelopmentauthority.org/document-center>)_ that includes many documents, the center is not well organized, has limited search capabilities, lacks document naming conventions and document IDs and does not link related documents such that the data contained in the center would be in a more transparent and usable format.

As one of the primary external communications vehicle for the BRA/EDIC, the website should be reviewed to ensure it provides an appropriate level of transparency into the documentation maintained by the BRA, including information about the 'development pipeline' and the status of the decision making surrounding individual projects.

In addition to the lack of electronic document management systems, the lack of internal project naming conventions makes it extremely difficult to research information on prior agreements. For example, 1325 Boylston is also known as the Fenway Triangle. Another property is known as either 115 Federal Street or 115 Winthrop Square, while another property is known as P-7a or 240 Tremont St. The lack of a project naming convention can create confusion and make researching information more difficult.

Compliance Responsibilities

- 2. We requested a complete listing of all the compliance requirements the BRA/EDIC should be monitoring and adhering to, but no such comprehensive list was available.**

Without a complete listing of such requirements, it is unclear how the BRA/EDIC effectively monitors its compliance or the compliance of counterparties to the BRA/EDIC agreements.

Overall Compliance Responsibilities

The BRA/EDIC is responsible for complying with numerous statutes, executive orders, regulations and agreements and is responsible for monitoring numerous compliance requirements related to the business transactions it has executed. The importance of compliance within the BRA/EDIC cannot be overstated as appropriate identification, monitoring and enforcement translates into the organization receiving the appropriate financial and non-financial commitments from third parties on a timely basis. Proper compliance also ensures that program regulations are being enforced, federal tax and grant regulations are being adhered to, and risk to the organization is properly managed. As such, BRA/EDIC should have strong personnel, policies, procedures and controls in this area. The types of requirements that the BRA/EDIC needs to comply with include, among others:

- Developer commitments both monetary and non-monetary,
- Leases and equity participation requirements,
- Boston job creation regulations,
- Affordable housing requirements,
- State and federal statutes and regulations (related to grants, non-profit status, IRS regulations, etc.).

While a 'Compliance Department' and a 'Compliance Database' do exist within the organization, their effectiveness has been inadequate. The Department has existed since about 2004 and developing and maintaining the database, which is concerned principally with tracking compliance with Article 80 developer commitments, is manually intensive. Finally, the responsibility for compliance with other requirements (leases, affordable housing, etc.) does not fall under the Compliance Department either directly or indirectly. The Compliance Database, similar to the development 'pipeline' is maintained in a Microsoft Access database but the database and pipeline are not fully integrated and, due to the manual updating process, do not always contain consistent data.

Transaction Level Compliance

Over the years, the BRA/EDIC during the normal course of business has entered into and continues to enter into various complex agreements with developers, lessees and other third parties. These agreements outline the responsibilities of both the BRA/EDIC and the counterparty. Accordingly, the enforcement of critical provisions of these agreements is and should be a major focus of the BRA/EDIC. However, there is no effective system in place to ensure that all documents are captured or that all key elements of the agreements are identified and managed to ensure that the counterparty commitments made to the BRA/EDIC are delivered in full and on a timely basis. Some of these areas include:

- Inclusionary Development Policy (IDP) payments
- Lease/equity participation agreements
- Deed restrictions

Inclusionary Development Policy (IDP) payments

3. We requested a written policy over how or where IDP funds were to be spent and a schedule demonstrating compliance with that policy, but no policy exists.

IDP obligations are required to be met by developers of certain residential properties within the City. The requirement for these obligations emanates from a February 2000 mayoral executive order, as amended in 2005, 2006 and 2007.

The BRA/EDIC has historically been responsible for executing IDP agreements with developers and for ensuring adherence to the agreement by either collecting IDP payments for spending on affordable housing projects around the City or by verifying that affordable housing units were constructed by the developer. Additionally, we were unable to obtain a written policy over how or where IDP funds were to be spent, and the tracking of actual spending was not well documented as BRA/EDIC could not articulate where each IDP receipt was spent in support of affordable housing initiatives.

While BRA/EDIC is a key part of the City's overall economic development function, other parts of the City also play key roles including Inspectional Services Department (ISD) and Department of Neighborhood Development (DND). However, within the development process, the lines of responsibilities among the BRA/EDIC, DND, ISD and other City agencies are not always clearly

defined and certain activities – affordable housing activities for example – are performed by both the BRA/EDIC and DND (and possibly other City agencies) creating potential concerns over accountability and transparency.

In addition to improving the lines of responsibilities it is important to ensure that coordination among these and other key economic development players around the City is occurring. One key point of interaction between the BRA/EDIC and ISD that does not appear to be working effectively relates to building permits. Under Article 80, developer commitments to make payments to the BRA/EDIC are often tied to the issuance of a building permit for a project. Currently, there is no systematic method for ensuring all building permit information is transmitted by ISD or received by BRA/EDIC in a timely and accurate fashion. Without an appropriate process for ensuring that building permit data is accurately exchanged, the BRA/EDIC may not be receiving its commitment payments from developers in a timely manner.

Ensuring developer compliance with their IDP obligation is dependent upon capturing and monitoring the provisions of the legal documents supporting development agreements. As with other areas of compliance, the systems in place do not support the appropriate management of the IDP policy – identification, monitoring, collection or verification of constructed units. One item tested, the Fenway Triangle Project/Van Ness project, was signed off by BRA/EDIC management in June 2013, but it was not captured by the Compliance Department in its database for approximately 10 months. During this 10 month period, construction had started but no evidence of a building permit being provided by ISD to BRA/EDIC could be provided. Under the terms of the DIP Agreement, a payment of almost \$300,000 should have been made by the developer to the City Treasurer when the building permit was issued and another \$300,000 payment should have been made one year after the building permit was issued. As of June 1, no developer payments have been made, although negotiations are being held with the developer to satisfy all obligations due under the developer agreements. These obligations include the affordable housing contribution and payments supporting jobs and affordable housing. Although we requested a copy of the building permit for this development, one was not provided. The lack of a monitoring system to identify, track and follow up on these types of developer commitments may result in developer funds not being remitted completely or on time to the BRA/EDIC or the City Treasurer. Additionally, the lack of coordination between ISD, the department responsible for issuing key documents (such as, building permits, certificates of occupancy, etc.) and the BRA/EDIC, the entity responsible for monitoring compliance with the developer commitments may result in developer obligations not being enforced.

Beginning in late 2103 and early 2014, the City's Department of Neighborhood Development (DND), working with the BRA/EDIC personnel, has undertaken an extensive effort to clean-up

the IDP records prior to a planned transfer of certain responsibilities and funds from the BRA/EDIC to DND.

4. We requested a copy of the agreement outlining the new responsibilities of BRA/EDIC and DND, but as of June 11, 2014, the written agreement had not been finalized.

While such a transfer moves certain activities that are not core to the BRA/EDIC operations to DND, under the draft agreement, many IDP and affordable housing responsibilities would continue to remain at the BRA/EDIC including:

- executing and adhering to all agreements with developers to ensure compliance with the IDP policy,
- managing IDP-generated funds to pay for all remaining unexpended and legally binding IDP funding obligations into which it has entered,
- monitoring the compliance, reporting and legal requirements for those development projects that have affordable housing obligations as a result of the IDP policy that have not received affordable housing funding from other sources (DND, City, State or Federal governments), and
- awarding of, expenditure of and all monitoring requirements associated with affordable housing units created under the BRA's voluntary and separate affordable housing program that are not subject to the IDP policy.

Even with the movement of certain IDP activities to DND, the BRA/EDIC continues to have significant responsibilities regarding the administration of the IDP. As such, leadership needs to ensure that robust processes and procedures are in place to properly discharge the organization's responsibility for this program.

Leases/equity participation agreements

Leases entered into by BRA/EDIC often contain escalators/termination payment clauses. Others contain 'participation' provisions that allow for additional funds to be paid to the BRA/EDIC.

- 5. We requested a comprehensive listing of the leases with escalators/termination and participation provisions to determine whether those item were being effectively tracked, monitored and pursued, but no comprehensive listing is maintained.**

The BRA/EDIC has entered into numerous agreements whereby the owner/lessee are responsible for financial commitments upon the occurrence of some event or the attainment of certain financial benchmarks. For example, certain leases containing 'equity participation' provisions, that require counterparties to pay the BRA/EDIC certain amounts should a property refinancing occur. One of the properties reviewed indicated that, despite a property being refinanced twice – once in 2006 and once in 2011, no 'equity participation' was paid to the BRA/EDIC due to inadequate monitoring of the lease provisions. Not until May 2013 when another refinancing effort was undertaken was the 'equity participation' provision identified and the amount due previously was determined. The amount that the BRA/EDIC estimated that it should have received as a result of the 2006 and 2011 refinancing was nearly \$1 million. A second property reviewed that allowed for 'rent participation' resulted in the BRA/EDIC being owed almost \$300,000 for calendar year 2012. This commitment was not identified in a timely fashion due to the lack of monitoring controls over third party agreements.

The BRA/EDIC should institute adequate controls to ensure that all agreements entered into by the organization are appropriately analyzed, so that key provisions are documented and a system is established to monitor and enforce commitments made by third parties. The organization should then begin a project to review all existing agreements to determine whether all amounts due under the terms of the agreements have, in fact, been collected. This effort can be done separately from or in conjunction with the effort to move toward an effective electronic document management system, and it may require additional personnel with expertise in real estate, finance, etc. to act as a document administrator.

Deed Restrictions

- 6. We requested, but the BRA/EDIC could not provide a listing of properties within the City that should include deed restrictions. Thus we could not test to determine that the deeds contained the appropriate restrictions.**

Over the years, the BRA/EDIC has placed deed restrictions on many properties in the Charlestown Navy Yard as well as other parts of the City. The restrictions often place limits on future transfers of the properties (i.e., affordable housing restrictions) or require a portion of future sales proceeds to be remitted to the BRA/EDIC when a property sale occurs. Without comprehensive listings, it is unclear how the BRA/EDIC could ensure that such restrictions are being enforced and that BRA/EDIC receives all funds it is entitled to when a deed restricted transaction occurs. We inquired and were told that such restrictions have been in place for many years and the BRA/EDIC staff has relied on the restrictions having been properly recorded sometime in the past and that the legal department would be responsible for enforcing deed restrictions when a current transaction occurs.

Because no comprehensive listing of restrictions is maintained, we could not test whether:

- deed restrictions related to property sales were in place and being collected - (Note: BRA/EDIC receives 2% or 4% of gross proceeds from the sales of certain properties),
- deed restrictions related to long term land leases were in place,
- deed restrictions related to owner occupancy and non-monetary mortgages were in place, or
- compliance with affordable housing restrictions for both rental housing and condominium sales were effective

In addition to the compliance items noted above, the BRA/EDIC has many other agreements requiring compliance that may or may not be tied to amounts owed to the organization. Many of these requirements are programmatic in nature and systems are not in place to effectively ensure that the requirements are being met.

Financial Activities

Lease Receivables

The BRA/EDIC has entered into a substantial number of leases for property it owns and monitors unpaid lease amounts and delinquent accounts through regular meetings. Additionally, many leases have expired or have been renegotiated and new leases or amendments have not been prepared and executed.

7. We requested and obtained a listing of leases to determine whether expired or amended leases had been executed in a timely fashion.

Specific information about some of the expired/amended leases we selected as of April 2014 is presented below:

<u>Lessee</u>	<u>Total Due</u>	<u>Amount over 60 days old</u>	<u>Status</u>
Global Protection	\$ 59,775	\$ 17,327	Amendment approved at November 2013 Board Meeting – Awaiting lease amendment
Copy Cop	213,859	182,246	Amendment approved at November 2011 Board Meeting – Awaiting lease amendment
McDonald Steel	6,673	0	Amendment approved at December 2012 Board Meeting – Awaiting lease amendment
Pete’s Dockside	1,816	0	Amendment approved at October 2013 Board Meeting – Awaiting lease amendment

8. We requested and obtained a listing of open lease receivables to determine unpaid lease balances more than 90 days old. We also requested the written policy/procedure for tenant eviction for non-payment of rent and determined that no policy exists.

While a listing of open lease receivables is maintained for BRA and EDIC properties, the listing as of April 2014 contains many lessees that have past due amounts over 60 days old. There are also overdue amounts included in the open lease receivable listing for inter-entity charges. The EDIC's listing of overdue lease receivables provided as of April 2, 2014 had an unpaid amount of almost \$4.3 million. Receivables over 90 days old amounted to almost \$2.8 million, with \$2.3 million being listed as due from entities related to EDIC. Many of the lessees on the open lease receivable listing have substantial unpaid balances. The lessees where the balance owed is over \$10,000 and the amount over 90 days old is presented below:

<u>Lessee</u>	<u>Balance Owed</u>	<u>Over 90 days old</u>
Bitwise	\$ 18,840	\$ 11,308
Comcast	28,333	23,333
Copy Cop	213,859	166,196
Geekhouse *	86,162	62,704
Mad Props	46,286	46,286
National Color	93,118	7,537
New Bedford Seafood	126,098	98,654
Newport construction	30,834	30,834
Zoom	276,852	23,328

* Geekhouse Bike also had a loan outstanding as June 30, 2013 from BLDC for almost \$60,000.

The BRA's listing of overdue lease receivables provided as of April 4, 2014 had an unpaid amount of almost \$800,000. Receivables over 90 days old amounted to almost \$370,000. Many lessees have substantial unpaid balances. The lessees where the balance owed is over \$10,000 and the amount over 90 days old is presented below:

<u>Lessee</u>	<u>Balance Owed</u>	<u>Over 90 days old</u>
Boston Harbor Cruises	\$ 43,959	\$ 7,904
Cooper Condo Trust	25,213	12,656
Richard Natale	17,400	17,400
Pappas Enterprises	295,908	295,908
Harborview at the Navy Yard	32,500	32,500

Affiliate Organizations

EDIC Audited financial statements

- 9. We requested and obtained copies of the financial statements for BRA, EDIC and its affiliated non-profit organizations and summarized the inter-entity charges and other significant items.**

The EDIC financial statements list several ‘affiliated nonprofit organizations’ in its 2013 financial statements including the BLDC, FYOB and BIDFA. EDIC, FYOB and BLDC are all nonprofit organizations governed under Section 501(c)(3) of the Internal Revenue Code. BIDFA is a quasi-government authority.

Employees of all of these affiliated organizations are paid through the EDIC payroll system and are covered by EDIC fringe benefit policies. EDIC also sends bills to the BRA for payroll and certain operating costs, and receives bills from BRA for the cost of BRA employees working on EDIC/JCS projects and grants. While inter-entity charges for payroll, benefits and other services among related entities are not uncommon, writing off such receivables charges as uncollectible effectively results in the charging entity subsidizing the operations of other entities. Such a practice does not allow for the measurement of the true cost of operations for each of the impacted entities.

In the fiscal year ended June 30, 2013, EDIC wrote off nearly \$1 million in inter-entity payroll and fringe charges to its affiliates resulting in ‘subsides’ to those entities. EDIC wrote off the following amount from the affiliate indicated below:

<u>Affiliate</u>	<u>Amount written off</u>
From BRA	\$ 551,546
From BLDC	252,565
From BIDFA	197,602

In other words, EDIC paid the payroll and fringe costs for its employees while they worked on BRA, BLDC and BIDFA activities.

10. We requested a written policy regarding inter-entity billing and writing off inter-entity receivables and determined that there is no written policy regarding approvals required for the write off of charges.

The lack of a written policy regarding the write off of charges results in inter-entity subsidies that are not consistent with the BRA/EDIC budgeting/financing plan. However, we inquired and have been told that efforts have begun to address this item through the BRA/EDIC budgeting process.

BLDC Audited Financial Statements

BLDC is funded principally by EDIC and DND. In addition, to inter-entity charges for payroll and other services, discussed above, the 2013 BLDC financial statements included the following payments from BLDC to programs operated by JCS:

<u>Affiliate</u>	<u>Amount Paid</u>
Read Boston	\$ 202,162
Write Boson	356,578

Additionally, BLDC had a loan and accounts receivable balance at June 30, 2013 of \$3.6 million of which \$2.1 million was over 90 days old. The largest loan outstanding is for \$900,000 made to the Children’s Museum in May 2007. The loan bears interest at 1% and has a term of fifty years, at which time the outstanding balance and accrued interest will be due and payable.

Friends of Youth Opportunity Boston, Inc. (FYOB) Unaudited Financial Statements

FYOB is a supporting organization for the City’s Youth Opportunity Unlimited program which is administered by JCS. The financial statements of FYOB are reviewed, not audited, and indicate that FYOB is ‘controlled by the Mayor of the City of Boston’. Over 1/3 (35%) of FYOB spending is classified as ‘subrecipient expense’ indicating that the FYOB may be providing funds to non-profit entities other than those under the BRA/EDIC umbrella.

Property Designations

Developers are often granted a tentative designation on a development site to allow time for financing to be arranged and to allow other aspects of the development to be put in order prior to final approval of the project moving forward. Designations are generally intended to be short term in nature.

11. We requested the written policy under which designations are granted or extended and determined that no written policy exists. We also requested and obtained the listing of open designations to review the aging of those designations.

The designation listing provided identified thirteen properties with the Original Tentative Designation Dates for one of those properties dating back almost 9 years to August 11, 2005, while three other properties had dates prior to August 13, 2009. One property, 115 Federal Street, had no Original Tentative Designation Date or Expiration Date in the listing provided. A board memo dated January 2007 recommended to the City that the proposed developer “be tentatively designated as developer” by the City. It is unclear why the BRA/EDIC Board was involved in this property as it is not owned by the BRA/EDIC, but rather it is owned by the City. It is also not known whether any such designation was ever executed by the City. While granting or extending temporary designations is often done and may be necessary for the project to be completed, there is no written policy under which designations are granted or extended. The list of designations provided listed expiration dates ranging from May 16, 2014 to November 16, 2015. The designations that expired in May 2014 were extended by the Board. There is no written policy regarding fees for extending designations and no fees were charged for these extensions.

Information technology

The use of information technology to support the overall mission of the BRA/EDIC and its financial and operational processes and procedures does not appear to have been a top priority for the organization making it reactive rather than proactive in terms of managing its activities.

12. We requested the following documents and determined that such documents were not available or were outdated:

- **IT strategy for the organization**
- **hardware or software configurations standards**
- **inventory of IT hardware, software or software license agreements**

We also noted that the BRA/EDIC had no centralized repository for data that can be accessed by employees throughout the organization and it had limited interaction with the IT professionals and processes at the City.

In order for the BRA/EDIC to operate in a more effective and efficient fashion, technology needs to be employed as part of the overall solution – technology is not the solution. Simply automating current operating processes and procedures does not address the deficiencies that currently exist and those deficiencies will not be corrected by spending more on technology. Rather, technology should be implemented after (or at least concurrent with) upgrading the current processes and practices to conform to standard business practices. Before technology is pursued, the BRA/EDIC must perform an end-to-end review of all core business processes, update and streamline those processes and then look to automate those processes.

Recognizing that all technology issues cannot be undertaken simultaneously, it is important that all tasks be identified, reviewed, prioritized and executed in an appropriate fashion and on an appropriate timetable. This process has been started by the new Chief Information Officer, hired in late 2013, but, to be successful, it requires the support of both the BRA's Director and Board. With regard to the specific IT items noted above, the benefits of addressing those items are discussed below:

1. The development of a short and long term IT strategy for the organization should be part of the overall strategy for BRA/EDIC and should help support the organizational purpose and mission. Without an effective strategy, the use of IT throughout the organization has no common direction and the procedures supporting the strategy will continue to be disconnected.

2. Standards for IT hardware or software configurations are important to ensure a certain level of consistency throughout the organization. For example, a standard configuration for PC's helps create a common work environment for all employees and helps to reduce down time, repair, upgrade and other costs.
3. An inventory of hardware, software and software license agreements helps to ensure that the organization has a record of assets owned and it helps to ensure that the organization is compliant with the terms of the licensing agreements thereby avoiding potential penalties from the software owner.
4. With the wealth of information that resides in all departments and divisions of the BRA/EDIC, it is critical that this data be properly managed and maintained to ensure that consistent data is used throughout the organization and made transparent to individuals outside the organization. Establishing document/data management protocols or naming conventions help to ensure that data can be properly accessed, updated, managed and referred to in a consistent fashion inside and outside the organization.
5. Instituting an electronic document management/archiving system helps ensure the completeness of the document population, minimizes the risk of documents being lost or misplaced, improves the ability to search data efficiently and allows for appropriate data backup processes to occur.
6. A great deal of information and documents are not effectively shared with others making collaboration and consistency around the organization difficult and increasing the risk that information used for decision-making is incomplete or out-of-date. Implementing a centralized repository for data (e.g., data warehouse) that could be accessed by employees throughout the organization and is linked to a report writing software package would enable the organization to maintain one data set, eliminate inconsistent data sets that currently exist locally on PC's and allow for the generation of reports with consistent data that can help improve the decision making process entity-wide.
7. Management at the BRA/EDIC should continue to explore additional opportunities to use the technology currently available and used around the City before purchasing or upgrading new technology. Internally, Geographic Information System (GIS) should be reviewed to assess if or how the use of that system could be expanded to support other needs of the organization. The

BRA/EDIC should also continue to coordinate its technology initiatives and needs with other initiatives or applications around the City to determine if applications currently exist that the BRA/EDIC can leverage. For example, a fully functional city-wide billing/accounts receivable application exists that the BRA/EDIC could explore as a possible way to implement a more consistent billing/receivable process for leases, rents, etc.

Real Estate Management/Monetization

The BRA/EDIC owns a significant amount of property around the City – the two largest being the Marine Industrial Park and the Charlestown Navy Yard. Other larger properties include those held as parks or for future development. The organization also holds many small parcels that are of limited use and are oftentimes of value only to abutters.

13. We requested and obtained a listing of the property owned by BRA/EDIC

While the BRA/EDIC has a listing of property it owns, a formal strategy and protocol around the management/monetization of these properties should be considered to ensure optimal value is generated.

14. We selected certain properties from the listing to determine whether the property was generating revenue for the BRA/EDIC and noted that, currently, several properties exist that appear to be non-revenue producing.

Selected BMIP parcels include:

<u>Parcel</u>	<u>Lot Size</u>	<u>Zoning</u>
A	1 acre	Commercial
C1	1.5 acres	Maritime Development
C2	1 acre	Maritime Development
M	3 acres with building	Maritime Development
N	3 acres with building	Industrial
Q1	1 acre	Currently Parking
R	4 acres	Industrial
V	8 acres	Maritime Development

While there may be some restrictions on the use of certain pieces of property at the BMIP, the development of an asset monetization plan will help determine the best and highest use for these properties within the mission of the BRA/EDIC.

The selected non-BMIP parcels included several properties identified as ‘parking’. However, it does not appear as if the BRA receives any revenue from these parcels.

<u>Parcel ID</u>	<u>Address</u>	<u>Size (in sq. ft.)</u>
0306169000	Shawmut Av	8,543
0306182000	Herald St	2,294
0203964000	Rutherford Ave (BHCC parking)	129,692
0203963050	Austin St (BHCC parking)	131,480
0202624050	Mishuam St Sullivan Sq (EMS Parking)	5,245

With regard to the Austin St site, according to the BRA website <http://www.bostonredevelopmentauthority.org/opportunities-properties/bra-owned-land/austin-st> , “Lot is used as student parking for Bunker Hill Community College. Zero revenue is derived from one of our largest parcels in the City.”

With regard to the Rutherford Ave site, according to the BRA website <http://www.bostonredevelopmentauthority.org/opportunities-properties/bra-owned-land/rutherford-av> , “Parcel is used as student parking for Bunker Hill Community College. BRA should be receiving some revenue for the use of the lots.”

Several properties owned by the BRA were identified as ‘Housing sites’. One parcel selected – 132 Chestnut Hill Ave in the Brighton section of the City - was acquired in 2004 for \$625,000 for the development of affordable housing. The City’s assessed value at the time, as a commercial property, was \$348,000 and the value currently listed on the BRA website is \$304,900, the City’s assessed value as of 2009. We requested appraisals from the 2004 transaction but none could be provided. Currently, the City’s assessed value for the property which is classified as tax-exempt property is \$646,500.

The BRA/EDIC currently has individuals with the skills and experience needed to manage its real estate portfolio. The BRA/EDIC should consider establishing a ‘Real Estate Management Team’ that includes dedicated real estate, legal and finance professionals to manage the portfolio.

This team should develop a real estate management plan and implement the plan under the supervision of the BRA's Director and Board.

The Real Estate Management team should be responsible and accountable for the financial and contractual terms of all agreements including purchase and sale contracts, leases, licenses, etc. The team should also determine and justify the method (e.g., negotiated deals, requests for proposals, etc.) through which properties are monetized (leased, sold, rented, or donated). Because there has not been a documented policy regarding property use or the method for monetizing property, there is no standard process/documentation to justify the choice of monetization or method.

Personnel Policies

The personnel policies in the organization continue to differentiate between EDIC and BRA employees.

15. We selected several employees and reviewed their payroll records for compliance with BRA/EDIC policies, as applicable.

EDIC has approximately 120 employees and the BRA has approximately 78. While the 'Salary Structure' indicates that it covers both BRA and EDIC non-union employees, we were provided with little documentation supporting the salary amounts included on that schedule. We were told that the schedule is based on information extracted from a document titled the "Municipal Position Evaluation Manual" which is undated and therefore may not be relevant in the current environment. Additionally, the document did not appear to contain any addressee or any reference to the EDIC, BRA or City of Boston. Finally, in the Introduction section of the report, the author indicates that the Manual "has been carefully designed to enable a trained person to effectively evaluate and rank all levels of positions found within the health care organization" [emphasis added].

While the Manual does contain certain job performance and evaluation criteria, when asked, virtually all of the employees at the BRA/EDIC have not had their job performance evaluated in many years or at all to determine whether individuals have been performing at, above or below expectations. Without some type of timely job performance review and feedback mechanism, it is unclear how high performers are distinguished from low performers and what rewards/sanctions.

In addition to the salaries earned, BRA/EDIC employees participate in certain, but different, benefit plans.

- BRA employees participate in the State Boston Retirement System, a defined benefit pension plan, and postretirement health and life benefits through the Massachusetts Group Insurance Commission.
- EDIC employees are eligible to participate in a Thrift Savings Plan, a defined contribution IRC 457 plan, and a second defined contribution plan under IRC 401(a), but do not participate in a postretirement benefit plan.

The awarding of different benefits to the two separate employee groups reflects the BRA/EDIC continuing to operate as separate entities rather than one unified agency.

At the current time, the BRA/EDIC operates with many key long term employees that are able to or will be retiring soon. The loss of personnel with historical knowledge coupled with documentation deficiencies, the lack of succession planning and the lack of cross training of employees will present the organization with some tremendous challenges when these employees depart.

If not addressed, there is a significant risk to the organization that key functions will not be effectively performed if key employees leave without effectively transferring historical knowledge to and training their replacements.

The BRA/EDIC needs to begin a process of identifying those employees performing key functions for the organization, identifying a replacement establishing a transition plan to ensure that currently undocumented information gets memorialized.

Planning Department

The Planning department at the BRA plays a crucial role in the current and future development of the City and works with both private developers and non-profit entities.

The development approval process in the City is often long and complex with the Board approval of a project being one major milestone. The approval voted by the Board as evidenced in the Board minutes, is often viewed as a 'high level' project approval that is conditional on or subject to continuing design review.

Once approved by the Board, the Planning Department works with developers to perform the project design review. As this design review process is often unique to individual projects, the Planning Department has some discretion in performing and finalizing the review. However, there does not appear to be any written standards or policies regarding when the Board should be updated on the status of project or timeline.

Although the use of judgment in the design review process is important to ensure that projects move forward in an efficient fashion, it is also important that the Board be kept informed of significant changes that may be inconsistent with the nature and substance of the originally approved project or significant changes in initial timeline.

As such an internal system should be established to ensure that significant changes made to Board approved projects be reviewed with the Board and if necessary be re-approved. This system would include the establishment of a policy around design review changes that would distinguish between non-significant changes that would remain under the auspices of the Planning Department and significant changes that would require resubmission to the Board for review and possibly re-approval. Such a system would help ensure that only those projects with significant changes are resubmitted to the Board, would help improve transparency, would improve documentation supporting project changes and would help minimize the impact of changes made in the design review process on the BRA/EDIC staff and developers.

Business Signage

The Urban Design division within the Planning department oversees certain aspects of business development/oversight within the City ranging from approving project design prior to issuance of building permits by the Inspectional Services Department to the permissibility and content of business signs.

16. We requested the written policies for permissibility and content of business signs and noted that no written policies exist.

The lack of written policies regarding business signage, such as rooftop signs, free standing signs and temporary banners, does not allow for a consistent process for making and documenting decisions regarding when signs are permissible or what types of signs are permissible. Additionally, the lack of written guidelines against which sign content can be assessed does not allow for a consistent objective approach to reviewing and deciding on appropriateness of sign content.

Although written guidelines do not exist, we inquired and have been told that certain general practices exist regarding the placement of temporary banners on the exterior of buildings. These practices include allowing certain temporary banners to be placed only on the exterior of buildings for up to 60 days and that the banners announce items such as a special sale/introduction of a product or service, or an activity that is taking place within the building. We noted that temporary banners have been displayed on a building on Boylston Street in the Fenway neighborhood for at least three years that does not appear to advertise a product or service that relates to the business within the building. No documentation could be provided to indicate why this signage did not conform to the general practices of the Urban Design division.

Additional Review

Because of the importance of the Planning Department to development in the City, we agreed with BRA management that a separate end to end review focused solely on the Planning Department activities and the inter-relationship among the Planning Department and the City's other economic development initiatives would be appropriate. This separate review should consider the City's future development strategy and direction and may be best executed in conjunction the Mayor's Office to help ensure that all critical area are reviewed. Any changes resulting from the review should consider the impact of any proposed changes to the current policies, procedures and protocols to ensure consistency with the future direction of the Department and the City.