

CITY OF WORCESTER, MASSACHUSETTS

**REPORTS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING, COMPLIANCE AND
FEDERAL AWARD PROGRAMS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

CITY OF WORCESTER, MASSACHUSETTS
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FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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**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***

To the Honorable Mayor and City Council
City of Worcester, Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Worcester, Massachusetts, as of and for the fiscal year ended June 30, 2010 (except for the Worcester Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2009), which collectively comprise the City of Worcester, Massachusetts' basic financial statements and have issued our report thereon dated October 29, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Worcester, Massachusetts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Worcester, Massachusetts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Worcester, Massachusetts' internal control over financial reporting.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

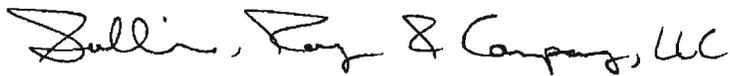
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Worcester, Massachusetts' financial statements are free of 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*.

We noted certain matters that we reported to management of the City of Worcester, Massachusetts, in a separate letter dated October 29, 2010.

This report is intended solely for the information and use of management, the Mayor, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 29, 2010



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Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and City Council
City of Worcester, Massachusetts

Compliance

We have audited the compliance of the City of Worcester, Massachusetts with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2010. The City of Worcester, Massachusetts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Worcester, Massachusetts' management. Our responsibility is to express an opinion on the City of Worcester, Massachusetts' compliance based on our audit.

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 City of Worcester, Massachusetts' 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. Our audit does not provide a legal determination of the City of Worcester, Massachusetts' compliance with those requirements.

As described in items 10-4 and 10-5 in the accompanying schedule of findings and questioned costs, the City of Worcester, Massachusetts did not comply with the requirements regarding allowable costs/cost principles and sub-recipient monitoring that are applicable to its CDBG - Entitlement Grants Cluster Program. Compliance with such requirements is necessary, in our opinion, for the City of Worcester, Massachusetts to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Worcester, Massachusetts complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-6, 10-7, 10-11, 10-12, 10-13, 10-14, 10-15, 10-18, 10-19, and 10-20.

Internal Control Over Compliance

Management of the City of Worcester, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Worcester, Massachusetts' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 City of Worcester, Massachusetts' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-1, 10-2, 10-3, 10-8, 10-9, 10-10, 10-16, and 10-17 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Worcester, Massachusetts, as of and for the fiscal year ended June 30, 2010 (except for the Worcester Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2009), and have issued our report thereon dated October 29, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Worcester, Massachusetts' basic financial statements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The City of Worcester, Massachusetts' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Worcester, Massachusetts' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Mayor, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bullin, Ray & Company, LLC

October 29, 2010

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass-Through Grantor/ Program	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Food Distribution Program	10.550	14-348	\$ 529,628
<i>Child Nutrition Cluster:</i>			
School Breakfast Program	10.553	14-348	2,696,907
National School Lunch Program	10.555	14-348	6,827,570
Summer Food Service Program for Children	10.559	14-348	73,492
Child Nutrition Discretionary Grants - Recovery Act	10.579	721-020-0-0348-K	65,465
Fruit and Vegetable Program	10.582	14-348	79,769
Total U.S. Department of Agriculture			<u>10,272,831</u>
U.S. Department of Commerce			
<u>Direct Programs:</u>			
Investments for Public Works and Economic Development Facilities	11.300	Not Applicable	1,178,181
Economic Development Administration Grant	11,302	Not Applicable	54,054
Total U.S. Department of Commerce			<u>1,232,235</u>
U.S. Department of Housing and Urban Development			
<u>Direct programs:</u>			
<i>CDBG - Entitlement Grants Cluster</i>			
Community Development Block Grant	14.218	Not Applicable	5,571,948
Community Development Block Grant Recovery (CDBG-R)	14.253	Not Applicable	372,044
Emergency Shelter Grants Program	14.231	Not Applicable	174,694
Supportive Housing Program	14.235	Not Applicable	1,602,727
Shelter Plus Care	14.238	Not Applicable	262,184
HOME Program	14.239	Not Applicable	2,413,724
Housing Opportunities for Persons with AIDS	14.241	Not Applicable	364,903
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257	Not Applicable	875,503
<u>Passed through the State Department of Housing and Community Development:</u>			
Lead-Based Paint Hazard Control Grant	14.900	SCOCD542065605160000	1,422,441
Total U.S. Department of Housing and Urban Development			<u>13,060,168</u>
U.S. Department of Justice			
<u>Direct programs:</u>			
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	Not Applicable	70,500
Weed and Seed Program	16.595	Not Applicable	66,825
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Not Applicable	119,595
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	Not Applicable	805,699
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	16.804	Not Applicable	567,989
<u>Passed through the State Executive Office of Public Safety:</u>			
Violence Against Women Formula Grants	16.588	SCEPS 3001	26,899
Total U.S. Department of Justice			<u>1,657,507</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor/ <u>Pass-Through Grantor/</u> Program	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Labor			
<u>Direct Program:</u>			
H-1B High Growth Job Training Grants	17.268	Not Applicable	715,232
<u>Passed through the State Division of Career Services:</u>			
Employment Service/Wagner-Peyser Funded Activities	17.207	CT EOL 3250 06OSCC01WORC01	101,285
Employment Service/Wagner-Peyser Funded Activities - Recovery Act	17.207	CT EOL 3250 09STIMWORC01	12,494
Unemployment Insurance	17.225	CT EOL 3250 06OSCC01WORC01	2,241
Trade Adjustment Assistance	17,245	CT EOL 3250 10OSCC01WORC02	16,896
<u>WIA Cluster:</u>			
WIA Adult Program	17.258	CT EOL 3250 06OSCC01WORC02	947,512
WIA Adult Program - Admin Costpool	17.258	CT EOL 3250 06OSCC01WORC02	72,185
WIA Adult Program - Recovery Act	17.258	CT EOL 3250 09STIMWORC01	644,172
WIA Adult Program - Recovery Act Admin Costpool	17.258	CT EOL 3250 09STIMWORC01	37,095
WIA Youth Activities	17.259	CT EOL 3250 06OSCC01WORC02	1,398,410
WIA Youth Activities - Admin Costpool	17.259	CT EOL 3250 06OSCC01WORC02	81,965
WIA Youth Activities - Recovery Act	17.259	CT EOL 3250 09STIMWORC01	589,542
WIA Youth Activities - Recovery Act Admin Costpool	17.259	CT EOL 3250 09STIMWORC01	77,017
WIA Youth Incentive	17.259	CT EOL 3250 06OSCC01WORC01	25,478
WIA Rapid Response Grant	17.260	CT EOL 3250 06OSCC01WORC03	5,685
WIA Rapid Response Grant - Recovery Act	17.260	CT EOL 3250 10STIMWORC01	63,512
WIA Dislocated Workers	17.260	CT EOL 3250 06OSCC01WORC03	925,637
WIA Dislocated Workers - Admin Costpool	17.260	CT EOL 3250 06OSCC01WORC03	61,642
WIA Dislocated Workers - Recovery Act	17.260	CT EOL 3250 09STIMWORC01	682,933
WIA Dislocated Workers - Recovery Act Admin Costpool	17.260	CT EOL 3250 09STIMWORC01	40,626
Disabled Veterans' Outreach Program	17.801	CT EOL 3250 06OSCC01WORC01	179
Local Veterans' Employment Representative Program	17.804	CT EOL 3250 06OSCC01WORC01	3,724
<u>Passed through Senior Service America, Inc.:</u>			
Senior Community Service Employment Program	17.235	AD-16177-07-60	149
<u>Passed through the Commonwealth Corporation:</u>			
Incentive Grants - WIA Section 503	17,267	8496	10,838
Total U.S. Department of Labor			<u>6,516,449</u>
U.S. Department of Transportation			
<u>Passed through Massachusetts Aeronautics Commission:</u>			
Airport Improvement Program	20.106	3-25-0053-36-2008	<u>2,400,986</u>
National Endowment for the Humanities			
<u>Direct Program:</u>			
Our Living Past Grant	45.167	Not Applicable	<u>41</u>
Environmental Protection Agency			
<u>Direct Programs:</u>			
Environmental Policy and Innovation Grants	66.811	Not Applicable	583,036
Recovery Act - Brownfields Cleanup and Assessment Cooperative Agreements	66.818	Not Applicable	<u>24,026</u>
Total Environmental Protection Agency			<u>607,062</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor/ <u>Pass-Through Grantor/</u> Program	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Education			
<u>Direct Programs:</u>			
Safe & Drug Free Schools and Communities - National Program	84.184	Not Applicable	500
National Professional Development Program	84.195	Not Applicable	52
School Counseling Grant	84.215E	Not Applicable	363,093
Teaching American History Grant	84.215X	Not Applicable	539,082
Advanced Placement Incentive	84.330C	Not Applicable	175,338
Early Reading First	84.359	Not Applicable	104,114
Literacy Through School Libraries	84.364A	Not Applicable	60,779
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
<i>Title I, Part A Cluster</i>			
Title I Distribution (fiscal year 2009)	84.010	305-225-9-0348-J	3,610,226
Title I Distribution (fiscal year 2010)	84.010	305-000-0-0348-K	7,826,482
Title I School Support (fiscal year 2009)	84.010	323-004-9-0348-J	111,293
Title I School Support (fiscal year 2010)	84.010	323-004-0-0348-K	314,995
Title I Academic Achievement (fiscal year 2010)	84.010	316-011-0-0348-K	390
Title I Program Improvement	84.010	322-021-0-0348-K	90,902
Title I Grants - Recovery Act	84.389	770-140-0-0348-K	1,831,432
<i>Special Education Cluster</i>			
SPED 94-142 Allocation (fiscal year 2009)	84.027	240-269-9-0348-J	396,536
SPED 94-142 Allocation (fiscal year 2010)	84.027	240-051-0-0348-K	5,516,674
SPED Program Improvement (fiscal year 2009)	84.027	274-153-9-0348-J	57,925
SPED Secondary Reading (fiscal year 2009)	84.027	267-004-9-0348-J	15,861
SPED Secondary Reading (fiscal year 2010)	84.027	267-003-0-0348-K	5,844
SPED Mass Urban (fiscal year 2009)	84.027	240-270-9-0348-J	13,168
SPED Mass Urban (fiscal year 2010)	84.027	240-050-0-0348-K	26,014
SPED IDEA - Recovery Act	84.391	760-283-0-0348-K	2,273,465
<u>Passed through the State Department of Early Education and Care:</u>			
<i>Special Education Cluster (continued)</i>			
SPED Early Childhood Allocation (fiscal year 2009)	84.173	26209 Worcester Public	80,281
SPED Early Childhood Allocation (fiscal year 2010)	84.173	26210 Worcester Public	7,482
Kindergarten Curriculum Development (fiscal year 2009)	84.173	264-012-9-0348-J	9,934
Kindergarten Curriculum Development (fiscal year 2010)	84.173	264-008-0-0348-K	18,947
Project Impact	84.173	297-160-0-0348-K	899
SPED Early Childhood - Recovery Act	84.392	76210 Worcester Public	62,324
<u>Passed through the State Department of Elementary & Secondary Education (continued):</u>			
Occupational Education-Vocational Skills (fiscal year 2009)	84.048	400-053-9-0348-J	55,824
Occupational Education-Vocational Skills (fiscal year 2010)	84.048	400-048-0-0348-K	319,681
State Leadership - Research Grants (fiscal year 2010)	84.048	411-029-0-0348-K	195
Safe and Drug-Free Schools (fiscal year 2009)	84.186	331-083-9-0348-J	157,497
Safe and Drug-Free Schools (fiscal year 2010)	84.186	331-080-0-0348-K	36,145
<i>Education of Homeless Children and Youth Cluster</i>			
Education for Homeless Children & Youth (fiscal year 2009)	84.196	310-035-9-0348-J	36,374
Education for Homeless Children & Youth (fiscal year 2010)	84.196	310-006-0-0348-K	40,143
Education for Homeless Children & Youth - Recovery Act	84.387	755-007-0-0348-K	12,480
21st Century Community Learning Centers (fiscal year 2008)	84.287	647-047-8-0348-I	152
21st Century Community Learning Centers (fiscal year 2009)	84.287	647-006-9-0348-J	129,305
21st Century Community Learning Centers (fiscal year 2010)	84.287	647-053-0-0348-K	255,900
21st Century Community Learning Centers (fiscal year 2009)	84.287	647-057-9-0348-J	201,776
21st Century Community Learning Centers (fiscal year 2010)	84.287	647-017-0-0348-K	930,828
21st Century Community Learning Centers (fiscal year 2010)	84.287	647-037-0-0348-K	294,160
21st Century Community Learning Centers (fiscal year 2010)	84.287	647-079-0-0348-K	8,736
21st Century Community Learning Centers (fiscal year 2010)	84.287	647-109-0-0348-K	4,599

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass-Through Grantor/ Program	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Education (continued)			
<u>Passed through the State Department of Elementary & Secondary Education (continued):</u>			
<i>Educational Technology State Grants Cluster</i>			
Enhanced Education Through Technology (fiscal year 2009)	84.318	160-165-9-0348-J	15,161
Enhanced Education Through Technology (fiscal year 2010)	84.318	160-107-0-0348-K	6,141
Integrated Technology Models (fiscal year 2009)	84.318	165-010-9-0348-J	65,001
Integrated Technology Models (fiscal year 2010)	84.318	165-006-0-0348-K	9,431
Technology Enhancement - Options (fiscal year 2009)	84.318	170-009-9-0348-J	51,466
Technology Enhancement - Options (fiscal year 2010)	84.318	170-010-0-0348-K	49,743
Technology Data Driven Decisions (fiscal year 2009)	84.318	164-009-9-0348-J	47,879
Enhanced Education Through Technology - Recovery Act	84.386	776-026-0-0348-K	48,751
Transition to Teaching (fiscal year 2008)	84.350	72400WORCESTERPS0066	14,552
Reading First (fiscal year 2008)	84.357	728-024-8-0348-I	205
Reading First (fiscal year 2009)	84.357	728-011-9-0348-J	127,901
Reading First (fiscal year 2010)	84.357	728-006-0-0348-K	53,969
Title III - English Language Acquisition (fiscal year 2009)	84.365	180-022-9-0348-J	357,285
Title III - English Language Acquisition (fiscal year 2010)	84.365	180-044-0-0348-K	453,089
Title III - English Language Acquisition (fiscal year 2009)	84.365	180-068-9-0348-J	6,408
Title III - English Language Acquisition (fiscal year 2009)	84.365	180-083-9-0348-J	4,950
Title IIA - Improving Teacher Quality (fiscal year 2009)	84.367	140-073-9-0348-J	1,639,937
Title IIA - Improving Teacher Quality (fiscal year 2010)	84.367	140-196-0-0348-K	190,584
Streamline Data Management Systems	84.372	120-005-0-0348-K	75
School Design and Restructuring Program (fiscal year 2009)	84.377	510-009-9-0348-J	52,094
School Design and Restructuring Program (fiscal year 2010)	84.377	510-013-0-0348-K	4,610
School Design and Restructuring Program (fiscal year 2010)	84.377	510-024-0-0348-K	1,875
American Recovery and Reinvestment Act (ARRA) - State Fiscal Stabilization Fund (SFSF)	84.394	780-093-0-0348-K	14,716,320
American Recovery and Reinvestment Act (ARRA) - State Fiscal Stabilization Fund (SFSF) - Government Services	84.397A	5397A090022	685,433
Total U.S. Department of Education			<u>44,600,687</u>
U.S. Department of Health and Human Services			
<u>Direct Programs:</u>			
Medical Reserve Corps Small Grant Program	93.008	Not Applicable	5,093
Consolidated Knowledge Development and Application Program	93.230	Not Applicable	137,721
<i>Head Start Cluster</i>			
Head Start Program	93.600	Not Applicable	5,364,192
Head Start Program - Recovery Act	93.708	Not Applicable	278,998
<u>Passed through the State Department of Social Services:</u>			
Promoting Safe and Stable Families	93.556	INTF0000009950719142	133,039
<u>Passed through the State Department of Public Health:</u>			
Public Health and Social Services Emergency Fund	93.003	INTF6207P01W97710925	7,319
Public Health Emergency Preparedness	93.069	4516-1021	276,406
Public Health Emergency Preparedness	93.069	4510-0404	2,178,599
Childhood Lead Poisoning Prevention Program	93.197	INTF7900MM3701516135	18,320
Centers for Disease Control & Prevention - Investigations and Technical Assistance	93.283	INTF6208P01RFR459031	135,680
National Bioterrorism Hospital Preparedness Program	93.889	INTF6207P01906110929	70,480
Substance Abuse Prevention and Treatment (SAPT) Block Grant	93.959	INTF2354MM3901115036	193,729
<u>Passed through the State Department of Health and Human Services:</u>			
School-Based Medicaid Reimbursement Program	93.778	1950622	<u>1,421,807</u>
Total U.S. Department of Health and Human Services			<u>10,221,383</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass-Through Grantor/ Program	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
Corporation for National and Community Service			
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Learn and Serve America - School and Community Based Programs (fiscal year 2009)	94.004	354-016-9-0348-J	4,654
Learn and Serve America - School and Community Based Programs (fiscal year 2010)	94.004	354-058-0-0348-K	31
Learn and Serve America - School and Community Based Programs (fiscal year 2009)	94.004	355-012-9-0348-J	8,096
Learn and Serve America - School and Community Based Programs (fiscal year 2010)	94.004	354-030-0-0348-K	<u>1,250</u>
Total Corporation for National and Community Service			<u>14,031</u>
U.S. Department of Homeland Security			
<u>Passed through the State Executive Office of Public Safety & Homeland Security:</u>			
Homeland Security Grant Program (fiscal year 2006)	97.004	SCEPSMMRS06WORCESTER	11,782
Homeland Security Grant Program (fiscal year 2007)	97.067	SCEPSMMRS07WORCESTER	34,558
<u>Passed through the State Office of Emergency Management:</u>			
Public Assistance Grants	97.036	CT CDA 09FEMA1813WORC	280,118
Emergency Management Performance Grants	97.042	CT CDA 09EMPG0700WORC	<u>2,500</u>
Total U. S. Department of Homeland Security			<u>328,958</u>
Total			<u>\$ 90,912,338</u>

(concluded)

See notes to schedule of expenditures of federal awards.

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Worcester, Massachusetts and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 – U.S. Department of Agriculture

The amount reported for the Food Distribution Program represents non-monetary assistance and is reported in the schedule at the fair market value of the commodities received. The amounts reported for the School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children, Child Nutrition Discretionary Grants – Recovery Act, and Fruit and Vegetable Program represent cash receipts from federal reimbursements.

Note 3 – U.S. Department of Commerce

The amount reported for the Investments for Public Works and Economic Development Facilities program represents federal cash receipts.

Note 4 – U.S. Department of Transportation

The amount reported for the Airport Improvement Program represents federal cash receipts.

Note 5 – U.S. Department of Health and Human Services

The amount reported for the School-Based Medicaid Reimbursement Program represents federal reimbursements for the Administrative Activity Claims.

Note 6 – U.S. Department of Homeland Security

The amounts reported for the Public Assistance Grants and the Emergency Management Performance Grants represent federal cash receipts.

Note 7 – Sub-recipients

The City of Worcester, Massachusetts provided the following awards to sub-recipients for the fiscal year ended June 30, 2010:

Program Description	CFDA Number	Amount
Community Development Block Grant	14.218	\$ 2,222,664
Emergency Shelter Grants Program	14.231	165,698
Supportive Housing Program	14.235	1,532,603
Shelter Plus Care	14.238	218,792
HOME Program	14.239	2,103,946
Housing Opportunities for Persons with AIDS	14.241	355,562
Community Development Block Grant Recovery (CDBG-R)	14.253	289,185
Lead-Based Paint Hazard Control Grant	14.900	274,628
Violence Against Women Formula Grants	16.588	11,076
Edward Byrne Memorial Justice Assistance Grant Program	16.738	21,013
WIA Youth Activities	17.259	1,149,537
WIA Youth Activities - Recovery Act	17.259	515,771
Environmental Policy and Innovation Grants	66.811	567,723
Promoting Safe and Stable Families	93.556	129,008
		\$ 9,557,206
Total		\$ 9,557,206

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Worcester, Massachusetts.
2. There were no significant deficiencies disclosed during the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements of the City of Worcester, Massachusetts, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Material weaknesses in internal control over major federal award programs disclosed during the audit are reported in the Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the City of Worcester, Massachusetts expresses a qualified opinion on the CDBG - Entitlement Grants Cluster program, and an unqualified opinion on all other major federal award programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule on pages 16-27.

7. The programs tested as major programs were:

Program Description	CFDA Number
<i>Child Nutrition Cluster</i>	
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559
<i>CDBG - Entitlements Grants Cluster</i>	
Community Development Block Grant	14.218
Community Development Block Grant Recovery (CDBG-R)	14.253
<i>WIA Cluster</i>	
WIA Adult Program	17.258
WIA Adult Program - Admin Costpool	17.258
WIA Adult Program - Recovery Act	17.258
WIA Adult Program - Recovery Act Admin Costpool	17.258
WIA Youth Activities	17.259
WIA Youth Activities - Admin Costpool	17.259
WIA Youth Activities - Recovery Act	17.259
WIA Youth Activities - Recovery Act Admin Costpool	17.259
WIA Youth Incentive	17.259
WIA Rapid Response Grant	17.260
WIA Rapid Response Grant - Recovery Act	17.260
WIA Dislocated Workers	17.260
WIA Dislocated Workers - Admin Costpool	17.260
WIA Dislocated Workers - Recovery Act	17.260
WIA Dislocated Workers - Recovery Act Admin Costpool	17.260
<i>Title I, Part A Cluster</i>	
Title I Distribution	84.010
Title I School Support	84.010
Title I Academic Achievement	84.010
Title I Program	84.010
Title I Grants - Recovery Act	84.389
<i>Special Education Cluster</i>	
SPED 94-142 Allocation	84.027
SPED Program Improvement	84.027
SPED Secondary Reading	84.027
SPED Mass Urban	84.027
SPED Early Childhood Allocation	84.173
Kindergarten Curriculum Development	84.173
Project Impact	84.173
SPED IDEA - Recovery Act	84.391
SPED Early Childhood - Recovery Act	84.392
American Recovery and Reinvestment Act (ARRA) - State Fiscal Stabilization Fund (SFSF)	84.394
<i>Head Start Cluster</i>	
Head Start Program	93.600
Head Start Program - Recovery Act	93.708

8. The threshold used for distinguishing between Type A and B programs was \$2,727,370.

9. The City of Worcester, Massachusetts did not qualify as a low-risk auditee.

B. Findings – Financial Statement Audit

None.

C. Findings and Questioned Costs – Major Federal Award Programs Audit**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT***Material Weaknesses in the Internal Control over Major Programs*

- 10-1 Community Development Block Grant - Entitlement Grants Cluster – CFDA No.’s 14.218 and 14.253; Fiscal year ended June 30, 2010

Condition and Criteria: The City did not comply with the allowable costs/cost principles compliance requirements related to the program. Internal controls should be designed and implemented to ensure that the City adheres to the compliance requirements of federal award programs as outlined in OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133), and OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87).

Cause: Internal controls are not in place to maintain the required time and effort reports, (i.e., periodic certifications, personnel activity reports, time sheets) supporting the salaries and wages charged to the grant program for all grant employees.

Effect: Noncompliance with the federal award program’s allowable costs/cost principles compliance requirements could occur and not be detected and corrected timely.

Auditors’ Recommendation: Internal controls surrounding the federal award program should be implemented to maintain the required documentation for all salaries and wages charged to the grant program, and to adhere to all of the federal allowable costs/cost principles compliance requirements, as prescribed in OMB Circulars A-87 and A-133.

Grantee Response: For fiscal year 2010, the substantiation (time sheets) was not maintained consistent with the requirements of the federal program allowable costs/cost principles. Contributing to this deficiency was the reduction in the administrative support in the City’s Department of Inspectional Services Department. Recognizing that this administrative deficiency would continue into fiscal year 2011, the City has transitioned from an hourly to a fee for service reimbursement, which is administratively manageable with the resources available.

- 10-2 Community Development Block Grant - Entitlement Grants Cluster – CFDA No.’s 14.218 and 14.253; Fiscal year ended June 30, 2010

Condition and Criteria: The City did not comply with the sub-recipient monitoring compliance requirements related to the program. Internal controls should be designed and implemented to ensure that the City adheres to the compliance requirements of federal award programs as outlined in OMB Circular A-133 and OMB Circular A-87.

Cause: Internal controls are not in place to maintain documentation of monitoring activities performed for the City’s sub-recipients.

Effect: Noncompliance with the federal award program's sub-recipient monitoring compliance requirements, as well as noncompliance by the sub-recipients, could occur and not be detected and corrected timely.

Auditors' Recommendation: Internal controls surrounding the federal award program should be implemented to perform and maintain documentation of the required sub-recipient monitoring activities, and to adhere to all of the federal grant sub-recipient monitoring compliance requirements as prescribed in OMB Circulars A-87 and A-133.

Grantee Response: For fiscal year 2011, where program monitoring is efficiently and effectively able to be assumed by Administration and Finance at the point of reimbursement, the Administration and Finance division shall perform program monitoring with desk audits. Where fieldwork is required, staff from Neighborhood Services shall implement at minimum, a semi annual program monitoring schedule.

10-3 Community Development Block Grant - Entitlement Grants Cluster - CFDA No.'s 14.218 and 14.253;
Fiscal year ended June 30, 2010

Condition and Criteria: The City did not comply with the rehabilitation special tests and provisions compliance requirements related to the program. Internal controls should be designed and implemented to ensure that the City adheres to the compliance requirements of federal award programs as outlined in OMB Circular A-133 and OMB Circular A-87.

Cause: Internal controls are not in place to maintain rehabilitation contracts for all projects and to conduct final inspections of the rehabilitation work performed.

Effect: Noncompliance with the federal award program's rehabilitation special tests and provisions compliance requirements could occur and not be detected and corrected timely.

Auditors' Recommendation: Internal controls surrounding the federal award program should be implemented to maintain rehabilitation contracts and conduct final inspections of the work performed, and to adhere to all of the federal grant rehabilitation special tests and provisions compliance requirements as prescribed in OMB Circulars A-87 and A-133.

Grantee Response: For fiscal year 2011, the City shall implement procedures for final inspections to include review of all permits and inspections conducted by the City's Department of Inspectional Services.

Material Noncompliance Related to Major Programs

10-4 Community Development Block Grant - Entitlement Grants Cluster - CFDA No.'s 14.218 and 14.253;
Fiscal year ended June 30, 2010

Condition and Criteria: Program management did not maintain the required documentation related to the support of salaries and wages related to its major programs as prescribed in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. Procedures to ensure accountability for authorization of federal grant charges must be in place to determine allowable costs and cost principles.

Cause: Procedures are not in place to accumulate the required documentation.

Effect: As a result of the required documentation not being maintained, the salary charges are subject to disallowance and considered questioned costs.

Questioned Costs: Questioned salary costs charged to the CDBG – Entitlement Grants Cluster program total \$429,815. This is considered material to the program.

Auditors' Recommendation: Procedures must be implemented to ensure that appropriate supporting documentation is maintained and program management is aware of all compliance requirements of its major programs, including the allowable cost/cost principles requirements noted above. For employees that work on both CDBG – Entitlement Grants Cluster program and other non-grant related activities, personnel activity reports must be maintained that (1) reflect an after-the-fact distribution of the actual activity of the employee, (2) account for the total activity for which the employee is compensated, (3) are prepared at least monthly and coincide with one or more pay periods, and (4) must be signed by the employee.

For employees that work solely on the CDBG – Entitlement Grants Cluster program, periodic certifications that the employees worked solely on that program for the period covered by the certification must be completed semi-annually and signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Grantee Response: For fiscal year 2010, the substantiation (time sheets) was not maintained consistent with the requirements of the federal program allowable costs/cost principles. Contributing to this deficiency was the reduction in the administrative support in the City's Department of Inspectional Services Department. Recognizing that this administrative deficiency would continue into fiscal year 2011, the City has transitioned from and hourly to a fee for service reimbursement which is administratively manageable with the resources available.

10-5 Community Development Block Grant – Entitlement Grants Cluster – CFDA No.'s 14.218 and 14.253; Fiscal year ended June 30, 2010

Condition and Criteria: The sub-recipient files tested did not contain documentation of monitoring activities performed, and did not contain OMB Circular A-133 audit reports for the sub-recipients that were subject to such an audit. Federal guidelines require that pass-through entities conduct during-the-award monitoring of the sub-recipients and ensure that the sub-recipients expending more than \$500,000 of federal awards in the fiscal year have met the OMB Circular A-133 audit requirements.

Cause: Procedures are not in place to ensure that the required documentation supporting the sub-recipient monitoring activities is maintained.

Effect: Program management is not in compliance with the federal grant sub-recipient monitoring requirements.

Questioned Costs: There are no questioned costs associated with this finding.

Auditors' Recommendation: Procedures should be implemented to ensure that during-the-award monitoring of all the sub-recipients are performed each year through reporting, site visits, and other reasonable means, and that documentation supporting the monitoring activities and sub-recipients' compliance with OMB Circular A-133 audit requirements is maintained in the sub-recipients' files.

Grantee Response: For fiscal year 2011, where program monitoring is efficiently and effectively able to be assumed by Administration and Finance at the point of reimbursement, the Administration and Finance division shall perform program monitoring with desk audits. Where fieldwork is required, staff from Neighborhood Services shall implement at minimum, a semi annual program monitoring schedule.

Other Noncompliance Related to Major Programs

- 10-6 Community Development Block Grant – Entitlement Grants Cluster – CFDA No.’s 14.218 and 14.253; Fiscal year ended June 30, 2010

Condition and Criteria: None of the rehabilitation project files tested contained evidence of any final inspections being performed. Additionally, one of the project files tested did not contain a contract or scope of services detailing the required rehabilitation work based on the pre-rehabilitation inspection. As stated in the federal compliance supplement, the City is required to identify the deficiencies determined through pre-rehabilitation inspections conducted in the rehabilitation contracts, and perform final inspections of the rehabilitation work done to verify that the work is in accordance with the contract specifications, prior to making payments.

Cause: Procedures are not in place to ensure that all rehabilitation contracts are maintained and final inspections are performed for all rehabilitation projects.

Effect: The rehabilitation expenses charged to the grant program for which a rehabilitation contract did not exist and/or final inspections were not performed are subject to disallowance and considered questioned costs.

Questioned Costs: Questioned costs related to this finding total \$130,366.

Auditors’ Recommendation: Procedures must be implemented to ensure that rehabilitation contracts are maintained and final inspections are performed on all rehabilitation projects to verify that the work is completed in accordance with the contract specifications, prior to making payments, and that the inspection documentation is maintained as a permanent record.

Grantee Response: For fiscal year 2011, the City shall implement procedures for final inspections to include review of all permits and inspections conducted by the City’s Department of Inspectional Services.

- 10-7 Community Development Block Grant – Entitlement Grants Cluster – CFDA No.’s 14.218 and 14.253; Fiscal year ended June 30, 2010

Condition and Criteria: Program management did not file the required quarterly “SF-272, Federal Cash Transaction Reports” with the U.S. Department of Housing and Urban Development during the program year for the Community Development Block Grant Recovery (CDBG-R) program.

Cause: Procedures are not in place to submit the required reports for all programs in the Cluster.

Effect: Program management is not in compliance with federal grant reporting requirements.

Questioned Costs: There are no questioned costs related to this finding.

Auditors’ Recommendation: Procedures must be implemented to ensure that the “SF-272, Federal Cash Transaction Reports” are filed with the U.S. Department of Housing and Urban Development (HUD) in a timely manner for all programs in the Cluster.

Grantee Response: The City shall file the required SF-272, Federal Cash Transaction Reports, timely.

DEPARTMENT OF EDUCATION

Material Weaknesses in the Internal Control over Major Programs

10-8 Title I, Part A Cluster – CFDA No.'s 84.010 and 84.389; Fiscal year ended June 30, 2010

Condition and Criteria: The City did not comply with the activities allowed or unallowed and allowable costs/cost principles compliance requirements related to the program. Internal controls should be designed and implemented to ensure that the City adheres to the compliance requirements of federal award programs as outlined in OMB Circular A-133 and OMB Circular A-87.

Cause: Internal controls are not in place to submit an original contract or a contract amendment with the granting agency that identifies the actual indirect cost rate used to charge indirect costs to the grant program. Additionally, internal controls are not in place to maintain the required documentation supporting the salaries and wages charged to the grant program for all employees.

Effect: Noncompliance with the federal award program's activities allowed or unallowed and allowable costs/cost principles requirements could occur and not be detected and corrected timely.

Auditors' Recommendation: Internal controls surrounding the federal award program should be implemented to ensure that original contracts or contract amendments are filed with the granting agency that specify the actual indirect cost rate used to charge indirect costs to the grant program, and that all salaries and wages expenses charged to the grant program are supported by the required documentation, as prescribed in OMB Circulars A-87 and A-133.

Grantee Response: Consistent with OMB Circular A-87, the City of Worcester began assessing all grants a 1% indirect cost rate reimbursement after obtaining approval from the City's federal cognizant agent (HUD) in fiscal year 1992. For fiscal year 2010, the City submitted and obtained a revised Administrative Cost Allocation Plan to its federal cognizant agent (HUD) and were approved an increase, from 1% to 3%, to the City's indirect cost rate reimbursement. The Worcester School Committee and Administration contends that pursuant to Massachusetts General Laws (MGL) 44-53A, grant spending must be authorized by the School Committee.

The name of one instructional assistant was inadvertently omitted from the list of 227 Title I funded employees when the list was updated. The employee in question has in fact been determined to be working on Title I program related activities. We are reviewing our procedures for compiling and maintaining certification reports listing grand funded employees.

10-9 Special Education Cluster – CFDA No.'s 84.027, 84.173, 84.391, and 84.392; Fiscal year ended June 30, 2010

Condition and Criteria: The City did not comply with the activities allowed or unallowed and allowable costs/cost principles compliance requirements related to the program. Internal controls should be designed and implemented to ensure that the City adheres to the compliance requirements of federal award programs as outlined in OMB Circular A-133 and OMB Circular A-87.

Cause: Internal controls are not in place to submit an original contract or a contract amendment with the granting agency that identifies the actual indirect cost rate used to charge indirect costs to the grant program. Additionally, internal controls are not in place to maintain the required documentation supporting the salaries and wages charged to the grant program for all employees.

Effect: Noncompliance with the federal award program's activities allowed or unallowed and allowable costs/cost principles requirements could occur and not be detected and corrected timely.

Auditors' Recommendation: Internal controls surrounding the federal award program should be implemented to ensure that original contracts or contract amendments are filed with the granting agency that specify the actual indirect cost rate used to charge indirect costs to the grant program, and that all salaries and wages expenses charged to the grant program are supported by the required documentation, as prescribed in OMB Circulars A-87 and A-133.

Grantee Response: Consistent with OMB Circular A-87, the City of Worcester began assessing all grants a 1% indirect cost rate reimbursement after obtaining approval from the City's federal cognizant agent (HUD) in fiscal year 1992. For fiscal year 2010, the City submitted and obtained a revised Administrative Cost Allocation Plan to its federal cognizant agent (HUD) and were approved an increase, from 1% to 3%, to the City's indirect cost rate reimbursement. The Worcester School Committee and Administration contends that pursuant to MGL 44-53A, grant spending must be authorized by the School Committee.

The names of three instructional assistants were inadvertently omitted from the list of 277 SPED grant funded employees when the lists were updated. The employees in question have in fact been determined to be working on Special Education program related activities; one of the employees was a short term substitute. We are reviewing our procedures for compiling and maintaining certification reports listing grant funded employees.

10-10 Special Education Cluster – CFDA No.'s 84.027, 84.173, 84.391, and 84.392; Fiscal year ended June 30, 2010

Condition and Criteria: The City did not comply with the Davis-Bacon Act compliance requirements related to the program. Internal controls should be designed and implemented to ensure that the City adheres to the compliance requirements of federal award programs as outlined in OMB Circular A-133 and OMB Circular A-87.

Cause: Internal controls are not in place to obtain the required certified payrolls from the construction vendors to ensure that the employees are being paid in accordance with the applicable prevailing wage rate.

Effect: Noncompliance with the federal award program's Davis-Bacon Act compliance requirements could occur and not be detected and corrected timely.

Auditors' Recommendation: Internal controls surrounding the federal award program should be implemented to obtain the certified payrolls from all vendors contracted with for construction projects charged to the grant program, and to adhere to all of the federal Davis-Bacon Act compliance requirements as prescribed in OMB Circulars A-87 and A-133.

Grantee Response: The City of Worcester Purchasing department shall commence monitoring activities where the monitoring of the provisions of the Davis-Bacon Act are required upon notification from the Worcester Public Schools' (WPS) grants office.

Noncompliance Related to Major Programs

10-11 Title I, Part A Cluster – CFDA No.’s 84.010 and 84.389; Fiscal year ended June 30, 2010

Condition and Criteria: An indirect cost rate of 3% (as approved by HUD) of total receipts was used to charge indirect costs to the grant program. However, the indirect cost rate identified in the approved grant contracts for the program was 1% of total receipts. Therefore, a discrepancy existed between the indirect cost rate identified in the approved grant contract and the actual indirect cost rate charged to the grant program.

Cause: Procedures were not in place to submit an original contract or a contract amendment with the granting agency that identified the actual indirect cost rate used to charge indirect costs to the grant program.

Effect: The actual indirect costs charged to the grants (at a rate of 3%) in excess of the indirect costs identified in the approved grant contracts (at a rate of 1%) are subject to disallowance and considered questioned costs.

Questioned Costs: Questioned costs related to this finding total \$165,197.

Auditors’ Recommendation: Procedures must be implemented to ensure that original contracts or contract amendments are filed with the granting agency that specify the actual indirect cost rate used to charge indirect costs to the grant program.

Grantee Response: Consistent with OMB Circular A-87, the City of Worcester began assessing all grants a 1% indirect cost rate reimbursement after obtaining approval from the City’s federal cognizant agent (HUD) in fiscal year 1992. For fiscal year 2010, the City submitted and obtained a revised Administrative Cost Allocation Plan to it’s federal cognizant agent (HUD) and were approved an increase, from 1% to 3%, to the City’s indirect cost rate reimbursement. The Worcester School Committee and Administration contends that pursuant to MGL 44-53A, grant spending must be authorized by the School Committee.

10-12 Title I, Part A Cluster – CFDA No.’s 84.010 and 84.389; Fiscal year ended June 30, 2010

Condition and Criteria: Program management did not maintain the required documentation related to the support of salaries and wages for one employee whose salary was charged to the grant program as prescribed in OMB Circular A-87. Procedures to ensure accountability for authorization of federal grant charges must be in place to determine allowable costs and cost principles.

Cause: Procedures are not in place to accumulate the required documentation.

Effect: As a result of the required documentation not being maintained, the salary charges related to the one employee are subject to disallowance and considered questioned costs.

Questioned Costs: Questioned salary costs charged to the Title I, Part A Cluster program total \$23,569.

Auditors’ Recommendation: Procedures should be implemented to ensure that appropriate supporting documentation is maintained for all salaries and wages charged to the grant program. For employees that work on both Title I, Part A Cluster program and other non-grant related activities, personnel activity reports must be maintained that (1) reflect an after-the-fact distribution of the actual activity of the employee, (2) account for the total activity for which the employee is compensated, (3) are prepared at least monthly and coincide with one or more pay periods, and (4) must be signed by the employee.

For employees that work solely on the Title I, Part A Cluster program, periodic certifications that the employees worked solely on that program for the period covered by the certification must be completed semi-annually and signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Grantee Response: The name of one instructional assistant was inadvertently omitted from the list of 227 Title I funded employees when the list was updated. The employee in question has in fact been determined to be working on the Title I program related activities. We are reviewing our procedures for compiling and maintaining all our certification reports listing grant funded employees.

10-13 Special Education Cluster – CFDA No.’s 84.027, 84.173, 84.391, and 84.392; Fiscal year ended June 30, 2010

Condition and Criteria: An indirect cost rate of 3% (as approved by HUD) of total receipts was used to charge indirect costs to the grant program. However, the indirect cost rate identified in the approved grant contracts for the program was 1% of total receipts. Therefore, a discrepancy existed between the indirect cost rate identified in the approved grant contract and the actual indirect cost rate charged to the grant program.

Cause: Procedures were not in place to submit an original contract or a contract amendment with the granting agency that identified the actual indirect cost rate used to charge indirect costs to the grant program.

Effect: The actual indirect costs charged to the grants (at a rate of 3%) in excess of the indirect costs identified in the approved grant contracts (at a rate of 1%) are subject to disallowance and considered questioned costs.

Questioned Costs: Questioned costs related to this finding total \$4,175.

Auditors’ Recommendation: Procedures must be implemented to ensure that original contracts or contract amendments are filed with the granting agency that specify the actual indirect cost rate used to charge indirect costs to the grant program.

Grantee Response: Consistent with OMB Circular A-87, the City of Worcester began assessing all grants a 1% indirect cost rate reimbursement after obtaining approval from the City’s federal cognizant agent (HUD) in fiscal year 1992. For fiscal year 2010, the City submitted and obtained a revised Administrative Cost Allocation Plan to it’s federal cognizant agent (HUD) and were approved an increase, from 1% to 3%, to the City’s indirect cost rate reimbursement. The Worcester School Committee and Administration contends that pursuant to MGL 44-53A, grant spending must be authorized by the School Committee.

10-14 Special Education Cluster – CFDA No.’s 84.027, 84.173, 84.391, and 84.392; Fiscal year ended June 30, 2010

Condition and Criteria: Program management did not maintain the required documentation related to the support of salaries and wages for three employees whose salaries were charged to the grant program as prescribed in OMB Circular A-87. Procedures to ensure accountability for authorization of federal grant charges must be in place to determine allowable costs and cost principles.

Cause: Procedures are not in place to accumulate the required documentation.

Effect: As a result of the required documentation not being maintained, the salary charges related to the three employees are subject to disallowance and considered questioned costs.

Questioned Costs: Questioned salary costs charged to the Special Education Cluster program total \$30,844.

Auditors' Recommendation: Procedures should be implemented to ensure that appropriate supporting documentation is maintained for all salaries and wages charged to the grant program. For employees that work on both Special Education Cluster program and other non-grant related activities, personnel activity reports must be maintained that (1) reflect an after-the-fact distribution of the actual activity of the employee, (2) account for the total activity for which the employee is compensated, (3) are prepared at least monthly and coincide with one or more pay periods, and (4) must be signed by the employee.

For employees that work solely on the Special Education Cluster program, periodic certifications that the employees worked solely on that program for the period covered by the certification must be completed semi-annually and signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Grantee Response: The names of three instructional assistants were inadvertently omitted from the list of 277 SPED grant funded employees when the lists were updated. The employees in question have in fact been determined to be working on Special Education program related activities; one of the employees was a short term substitute. We are reviewing our procedures for compiling and maintaining certification reports listing grant funded employees.

10-15 Special Education Cluster – CFDA No.'s 84.027, 84.173, 84.391, and 84.392; Fiscal year ended June 30, 2010

Condition and Criteria: Program management did not obtain the required certified payrolls from their construction vendor and therefore did not verify that the employees were being paid in accordance with the applicable prevailing wage rates.

Cause: Procedures were not in place to accumulate the required certified payrolls for the construction contract greater than \$2,000 funded with Federal grant funds.

Effect: As a result, the construction labor expenditures charged to the grant are subject to disallowance and considered questioned costs.

Questioned Costs: Questioned costs related to this finding total \$8,000.

Auditors' Recommendation: Procedures should be implemented to obtain the weekly certified payrolls from all vendors contracted with to perform construction projects greater than \$2,000 related to the grant program, and to ensure that the employees' salaries are in accordance with the applicable prevailing wage rates prior to making payments to the vendors.

Grantee Response: The City of Worcester Purchasing department shall commence monitoring activities where the monitoring of the provisions of the Davis- Bacon Act are required upon notification from the WPS' grants office.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Material Weaknesses in the Internal Control over Major Programs

10-16 Head Start Cluster – CFDA No.'s 93.600 and 93.708; Fiscal year ended June 30, 2010

Condition and Criteria: The City did not comply with the activities allowed or unallowed and allowable costs/cost principles compliance requirements related to the program. Internal controls should be designed and implemented to ensure that the City adheres to the compliance requirements of federal award programs as outlined in OMB Circular A-133 and OMB Circular A-87.

Cause: Internal controls are not in place to submit an original contract or a contract amendment with the granting agency that identifies the actual indirect cost rate used to charge indirect costs to the grant program. Additionally, internal controls are not in place to maintain the required documentation supporting the salaries and wages charged to the grant program for all employees.

Effect: Noncompliance with the federal award program's activities allowed or unallowed and allowable costs/cost principles requirements could occur and not be detected and corrected timely.

Auditors' Recommendation: Internal controls surrounding the federal award program should be implemented to ensure that original contracts or contract amendments are filed with the granting agency that specify the actual indirect cost rate used to charge indirect costs to the grant program, and that all salaries and wages expenses charged to the grant program are supported by the required documentation, as prescribed in OMB Circulars A-87 and A-133.

Grantee Response: Indirect cost charges appear in the Head Start budget as administration costs. These are allowable costs of the program as long as they do not cause total administrative expenditures to exceed 15% of the entire program budget, which they do not.

The salary costs in question were reimbursements for two custodial employees paid by the school department to maintain Head Start facilities. These are allowable costs of the program. Since they are not considered Head Start employees, they do not appear on the list of approximately 167 program staff, but are certified on a separate list of school department employees charged to the Head Start program. We will continue to review our procedures for maintaining certification reports listing grand funded employees.

10-17 Head Start Cluster – CFDA No.'s 93.600 and 93.708; Fiscal year ended June 30, 2010

Condition and Criteria: The City did not comply with the Davis-Bacon Act compliance requirements related to the program. Internal controls should be designed and implemented to ensure that the City adheres to the compliance requirements of federal award programs as outlined in OMB Circular A-133 and OMB Circular A-87.

Cause: Internal controls are not in place to verify that employees' salaries paid, as identified in the certified payrolls from the construction vendors, are within the applicable prevailing wage rates.

Effect: Noncompliance with the federal award program's Davis-Bacon Act compliance requirements could occur and not be detected and corrected timely.

Auditors' Recommendation: Internal controls surrounding the federal award program should be implemented to review the certified payrolls from vendors to ensure that the employees performing construction work were paid within the applicable prevailing wage rates, and to adhere to all of the federal Davis-Bacon Act compliance requirements as prescribed in OMB Circulars A-87 and A-133.

Grantee Response: The City of Worcester Purchasing department shall commence monitoring activities where the monitoring of the provisions of the Davis- Bacon Act are required upon notification from the WPS' grants office.

Noncompliance Related to Major Programs

10-18 Head Start Cluster – CFDA No.'s 93.600 and 93.708; Fiscal year ended June 30, 2010

Condition and Criteria: An indirect cost rate of 3% (as approved by HUD) of total receipts was used to charge indirect costs to the grant program. However, an indirect cost rate wasn't identified (nor were any indirect costs allocated) in the approved grant contracts for the program. Therefore, a discrepancy in indirect costs existed between the approved grant contract and the actual indirect cost rate charged to the grant program.

Cause: Procedures were not in place to submit an original contract or a contract amendment with the granting agency that identified the actual indirect cost rate used to charge indirect costs to the grant program.

Effect: The actual indirect costs charged to the grants (at a rate of 3%) in excess of the indirect costs identified in the approved grant contracts (at a rate of 0%) are subject to disallowance and considered questioned costs.

Questioned Costs: Questioned costs related to this finding total \$153,232.

Auditors' Recommendation: Procedures must be implemented to ensure that original contracts or contract amendments are filed with the granting agency that specify the actual indirect cost rate used to charge indirect costs to the grant program.

Grantee Response: Indirect cost charges appear in the Head Start budget as administrative. These are allowable costs of the program as long as they do not cause total administrative expenditures to exceed 15% of the entire program budget, which they do not.

10-19 Head Start Cluster – CFDA No.'s 93.600 and 93.708; Fiscal year ended June 30, 2010

Condition and Criteria: Program management did not maintain the required documentation related to the support of salaries and wages for two employees whose salaries were charged to the grant program, as prescribed in OMB Circular A-87. Procedures to ensure accountability for authorization of federal grant charges must be in place to determine allowable costs and cost principles.

Cause: Procedures are not in place to accumulate the required documentation.

Effect: As a result of the required documentation not being maintained, the salary charges related to the two employees are subject to disallowance and considered questioned costs.

Questioned Costs: Questioned salary costs charged to the Head Start Cluster program total \$95,211.

Auditors' Recommendation: Procedures should be implemented to ensure that appropriate supporting documentation is maintained for all salaries and wages charged to the grant program. For employees that work on both Head Start Cluster program and other non-grant related activities, personnel activity reports must be maintained that (1) reflect an after-the-fact distribution of the actual activity of the employee, (2) account for the total activity for which the employee is compensated, (3) are prepared at least monthly and coincide with one or more pay periods, and (4) must be signed by the employee.

For employees that work solely on the Head Start Cluster program, periodic certifications that the employees worked solely on that program for the period covered by the certification must be completed semi-annually and signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Grantee Response: The salary costs in question were reimbursements for two custodial employees paid by the school department to maintain Head Start facilities. These are allowable costs of the program. Since they are not considered Head Start employees, they do not appear on the list of approximately 167 program staff, but are certified on a separate list of the school department employees charged to the Head Start program. We will continue to review our procedures for maintaining certification reports listing grant funded employees.

10-20 Head Start Cluster – CFDA No.'s 93.600 and 93.708; Fiscal year ended June 30, 2010

Condition and Criteria: The City contracted with a vendor for a construction project related to the grant program, and the employees performing the construction work were not paid in accordance with the federal prevailing wage rate. Federal guidelines require that all employees of contractors or subcontractors working on construction contracts in excess of \$2,000 must be paid wages not less than the applicable federal prevailing wage rates.

Cause: Procedures are not in place to verify that all employees of construction contractors and subcontractors related to the grant program are paid within the applicable prevailing wage rates.

Effect: The construction expenditures charged to the grant are subject to disallowance and considered questioned costs.

Questioned Costs: Questioned costs related to this finding total \$26,614.

Auditors' Recommendation: Procedures must be implemented to ensure that employees performing work on construction projects greater than \$2,000 are paid within applicable prevailing wage rates prior to making payments to the vendors.

Grantee Response: The City of Worcester Purchasing department shall commence monitoring activities where the monitoring of the provisions of the Davis- Bacon Act are required upon notification from the WPS' grants office.

D. Summary of Prior Audit Findings**MAJOR FEDERAL AWARD PROGRAMS AUDIT****Department of Education***Significant Deficiency in the Internal Control over Major Programs Considered to be a Material Weakness*

- 09-1 American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Fund (SFSF) Grants - CFDA No. 84.394; Fiscal year ended June 30, 2009

Condition: The results of our audit of the original Final Financial Report disclosed that the City had not complied with the federal period of availability compliance requirements related to the program. As a result, the City filed an amended Final Financial Report with the Massachusetts Department of Elementary and Secondary Education (DESE) with revised expenditures that were obligated during the allowable period of availability.

Current Status: This finding has been resolved.

Noncompliance Related to Major Programs

- 09-2 Special Education Cluster - CFDA No.'s 84.027 and 84.173; Fiscal year ended June 30, 2009

Condition: Program management did not file all Requests for Funds (Form RF-1) in a manner that would minimize the time elapsing between the receipt and the disbursement of grant funds.

Current Status: This finding has been resolved.

- 09-3 Title I Distribution and Title I School Support - CFDA No. 84.010; Fiscal year ended June 30, 2009

Condition: Program management did not file all Requests for Funds (Form RF-1) in a manner that would minimize the time elapsing between the receipt and the disbursement of grant funds.

Current Status: This finding has been resolved.

- 09-4 Title III - English Language Acquisition - CFDA No. 84.365; Fiscal year ended June 30, 2009

Condition and Criteria: Program management did not file all Requests for Funds (Form RF-1) in a manner that would minimize the time elapsing between the receipt and the disbursement of grant funds.

Current Status: This finding has been resolved.

Department of Health and Human Services*Significant Deficiency in the Internal Control over Major Programs Considered to be a Material Weakness*

09-5 Centers for Disease Control & Prevention – Investigations and Technical Assistance – CFDA No. 93.283;
Fiscal year ended June 30, 2009

Condition: The City did not comply with the allowable costs/cost principles compliance requirements related to the program.

Current Status: This finding has been resolved.

Material Noncompliance Related to Major Programs

09-6 Centers for Disease Control & Prevention – Investigations and Technical Assistance – CFDA No. 93.283;
Fiscal year ended June 30, 2009

Condition: Program management did not maintain the required documentation related to the support of salaries and wages related to its major programs as prescribed in OMB Circular A-87, Cost Principals for State, Local and Indian Tribal Governments.

Current Status: This finding has been resolved.