

CITY OF WORCESTER, MASSACHUSETTS
REPORTS ON FEDERAL AWARD PROGRAMS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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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, 2006 (except for the Worcester Contributory Retirement System, which is as of and for the year ended December 31, 2005), which collectively comprise the City of Worcester, Massachusetts' basic financial statements and have issued our report thereon dated October 31, 2006. 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. The financial statements of the Upper Blackstone Water Pollution Abatement District, a discretely presented component unit, were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Worcester, Massachusetts' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

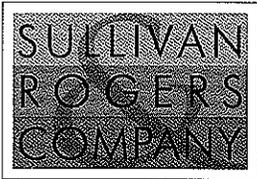
As part of obtaining reasonable assurance about whether the City of Worcester, Massachusetts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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.

However, we noted certain matters that we reported to management of the City of Worcester, Massachusetts in a separate letter dated October 31, 2006.

This report is intended solely for the information and use of management, 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.

Sullivan, Fry & Company, LLC

October 31, 2006



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Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and 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 are applicable to each of its major federal programs for the fiscal year ended June 30, 2006. 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 on the City of Worcester, Massachusetts' compliance with those requirements.

In our opinion, the City of Worcester, Massachusetts complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006.

However, the results of our auditing procedures disclosed several instances of noncompliance with those requirements that 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 06-1, 06-2, 06-3, and 06-4.

Internal Control Over Compliance

The management of the City of Worcester, Massachusetts, is responsible for establishing and maintaining effective internal control over compliance with 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 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider 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, 2006 (except for the Worcester Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2005), which collectively comprise the City of Worcester, Massachusetts' basic financial statements and have issued our report thereon dated October 31, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Worcester, Massachusetts' basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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.

This report is intended solely for the information and use of management, 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 31, 2006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture		
<u>Passed through State Department of Education:</u>		
Food Distribution Program	10.550	\$ 435,128
School Breakfast Program	10.553	1,580,303
National School Lunch Program	10.555	5,655,388
Cooperative Forestry Assistance	10.664	24,449
		<hr/>
Total U.S. Department of Agriculture		7,695,268
U.S. Department of Commerce		
<u>Direct Program:</u>		
Economic Development Administration Grant	11.302	49,131
U.S. Department of Housing and Urban Development		
<u>Direct programs:</u>		
Transitional Housing	14.178	262,877
Community Development Block Grant	14.218	4,905,101
Emergency Shelter Grants Program	14.231	183,250
Supportive Housing Program	14.235	1,064,565
Shelter Plus Care	14.238	270,441
HOME Program	14.239	1,147,209
Housing Opportunities for Persons with AIDS	14.241	272,881
Community Development Block Grants/Brownfields		
Economic Development Initiative	14.246	282,764
		<hr/>
Total U.S. Department of Housing and Urban Development		8,389,088
U.S. Department of the Interior		
<u>Direct Program:</u>		
Historic Preservation Fund Grants-In-Aid	15.904	9,000
U.S. Department of Justice		
<u>Direct programs:</u>		
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	34,806
Local Law Enforcement Block Grant	16.592	142,442
Weed and Seed Program	16.595	195,032
COPS Universal Hiring Grant	16.710	1,241,769
Edward Byrne Memorial Justice Assistance Grant Program	16.738	69,932
<u>Passed through the State Executive Office of Public Safety:</u>		
Offender Reentry Program	16.202	81,572
Key Program	16.450	348,205
Juvenile Justice and Delinquency Prevention	16.540	5,278
Title V Delinquency Prevention Program	16.548	42,549

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Justice (continued)		
Byrne Formula Grant Program	16.579	29,280
Stop Violence Against Women	16.588	22,064
Project Safe Neighborhoods	16.609	12,140
		<hr/>
Total U.S. Department of Justice		2,225,069
U.S. Department of Labor		
<u>Passed through Massachusetts Commonwealth Corporation:</u>		
Employment Service	17.207	273,581
Unemployment Insurance	17.225	741
WIA Adult Program	17.258	631,806
WIA Youth Activities	17.259	1,312,134
WIA Dislocated Workers	17.260	1,433,117
Employment and Training Administration Pilots, Demonstrations and Research Projects	17.261	1,121,503
Metro South/West REB Comm	17.280	154,750
Disabled Veterans' Outreach Program	17.801	5
Veterans' Employment Program	17.802	104,156
Local Veterans' Employment Representative Program	17.804	4
<u>Passed through National Council of Senior Citizens:</u>		
Senior Community Service Employment Program	17.235	566,109
		<hr/>
Total U.S. Department of Labor		5,597,906
U.S. Department of Transportation		
<u>Passed through Massachusetts Aeronautics Commission:</u>		
Airport Improvement Program	20.106	1,111,715
<u>Passed through the State Highway Department:</u>		
Highway Planning and Construction Program	20.205	439,199
		<hr/>
Total U.S. Department of Transportation		1,550,914
National Endowment for the Humanities		
<u>Direct Program:</u>		
Our Living Past	45.167	54,751
		<hr/>
Environmental Protection Agency		
<u>Direct Programs:</u>		
Performance Partnership Grants	66.605	27,070
Environmental Policy and Innovation Grants	66.811	113,583
		<hr/>
Total Environmental Protection Agency		140,653

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education		
<u>Direct Programs:</u>		
Safe & Drug Free Schools and Communities - National Program	84.184	2,894,953
Training for all Teachers	84.195B	208,685
Smaller Learning Communities Program	84.215L	956,730
Teaching American History Grant	84.215X	72,033
Research in Special Education	84.324	104,021
<u>Passed through the State Department of Education:</u>		
Title I Distribution	84.010	15,410,379
Title I School Support	84.010	21,642
Title I Comprehensive School Reform	84.010	282,215
SPED 94-142 Allocation	84.027	7,900,133
SPED Program Improvement	84.027	30,000
SPED Mental Health	84.027	19,992
SPED Autistic Program	84.027	48,833
SPED Professional Development	84.027	65,529
SPED Secondary Reading	84.027	106,857
SPED Mass Urban	84.027	41,117
SPED Electronic Portfolio	84.027	2,296
Vocational Education - Grants to States	84.048	523,772
Title IV	84.151	184,295
SPED Early Childhood	84.173	13,108
Safe and Drug-Free Schools	84.186	281,956
Education for Homeless Children & Youth	84.196	108,494
Character Education	84.215	16,980
School Support Program	84.218	3,269
Technical Preparation Education	84.243	126,582
Eisenhower Professional Development - State Grants	84.281	66,553
21st Century Community Learning Centers	84.287	1,722,224
Model Technology	84.318	9,876
Title IID	84.318	187,104
Tech Enhancement	84.318	57,732
Advanced Placement Program	84.330	61,030
Reading First	84.357	736,531
Title III - English Language Acquisition	84.365	802,464
Mathematics and Science Partnerships	84.366	24,552
Title IIA - Improving Teacher Quality	84.367	2,263,001
 Total U.S. Department of Education		 <u>35,354,938</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services		
<u>Direct Program:</u>		
Head Start	93.600	5,831,606
<u>Passed through the State Department of Social Services:</u>		
Promoting Safe and Stable Families	93.556	130,679
<u>Passed through the State Department of Public Health:</u>		
Public Health and Social Services Emergency Fund	93.003	10,778
Centers for Disease Control & Prevention - Investigations and Technical Assistance	93.283	448,365
HIV Care Formula Grants	93.917	111,737
		<hr/>
Total U.S. Department of Health and Human Services		6,533,165
Corporation for National and Community Service		
<u>Direct Program:</u>		
Retired Senior Volunteer Program	94.002	229,922
<u>Passed through the State Department of Education:</u>		
Learn and Serve America - School and Community Based Programs	94.004	27,031
		<hr/>
Total Corporation for National and Community Service		256,953
U.S. Department of Homeland Security		
<u>Direct Program:</u>		
Metropolitan Medical Response System	97.071	377,352
<u>Passed through the State Office of Public Safety:</u>		
State Domestic Preparedness Program	97.004	415,806
Homeland Security Grant Program	97.067	3,209
<u>Passed through the State Office of Emergency Management:</u>		
Public Assistance Grants	97.036	113,627
Community Emergency Response	97.054	3,127
		<hr/>
Total U. S. Department of Homeland Security		913,121
		<hr/>
Total		\$ 68,769,957
		<hr/> <hr/>

(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 included in the 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 Programs

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 and National School Lunch Program represent cash receipts from federal reimbursements.

Note 3 - U.S. Department of Transportation

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

Note 4 - U.S. Department of Homeland Security

The amount reported for the Public Assistance Grants represents federal cash receipts.

Note 5 - Subrecipients

The City provided the following awards to subrecipients for the fiscal year ended June 30, 2006:

Program Description	CFDA Number	Amount
Transitional Housing	14.178	\$ 256,297
Community Development Block Grant	14.218	2,863,117
Emergency Shelter Grants Program	14.231	173,434
Supportive Housing Program	14.235	1,038,668
Shelter Plus Care	14.238	270,441
HOME Program	14.239	919,820
Housing Opportunities for Persons with AIDS	14.241	259,227
Brownfields Economic Development Initiative	14.246	282,764
Key Program	16.450	341,711
Juvenile Justice and Delinquency Prevention	16.540	4,009
Title V Delinquency Prevention Program	16.548	29,074
Byrne Formula Grant Program	16.579	19,425
Stop Violence Against Women	16.588	21,843
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	28,694
Local Law Enforcement Block Grant	16.592	62,523
Weed and Seed Program	16.595	171,734
Project Safe Neighborhoods	16.609	6,532
Edward Byrne Memorial Justice Assistance Grant Program	16.738	49,647
Senior Community Service Employment Program	17.235	505,051
WIA Youth Activities	17.259	1,006,416
Employment and Training Administration Pilots, Demonstrations and Research Projects	17.261	1,080,064
Promoting Safe and Stable Families	93.556	132,552
HIV Care Formula Grants	93.917	110,620
Retired Senior Volunteer Program	94.002	221,527
State Domestic Preparedness Program	97.004	113,855
		<u>\$ 9,969,045</u>

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 reportable conditions disclosed during the audit of the 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. No reportable conditions were disclosed during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the City of Worcester, Massachusetts expresses an unqualified opinion on all 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 12-14.
7. The programs tested as major programs were:

<u>Program Description</u>	<u>CFDA Number</u>
<i>Child Nutrition Cluster:</i>	
School Breakfast Program	10.553
National School Lunch Program	10.555
Community Development Block Grant	14.218
HOME Program	14.239
Airport Improvement Program	20.106
Safe and Drug-Free Schools and Communities - National Programs	84.184
21st Century Community Learning Centers	84.287
Reading First	84.357
Title IIA - Improving Teacher Quality	84.367

8. The threshold used for distinguishing between Type A and B programs was \$2,063,099.
9. The City of Worcester, Massachusetts qualified as a low-risk auditee.

B. Findings - Financial Statement Audit

None.

C. Findings and Questioned Costs - Major Federal Award Programs Audit**DEPARTMENT OF AGRICULTURE***Finding*

06-1 Child Nutrition Cluster – CFDA No.’s 10.553 and 10.555; Fiscal year ended June 30, 2006

Condition and Criteria: Seven of the 40 (18%) student files tested had the incorrect eligibility status based on the income documentation used to determine eligibility for receiving free and/or reduced lunches.

Cause: Policies and procedures are not in place to ensure that each student receives the appropriate school lunch status through the income eligibility process.

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

Questioned Costs: Questioned costs related to this finding total \$1,355.

Auditor’s Recommendation: Procedures must be implemented to ensure that each student receiving free and/or reduced lunches is income eligible.

Grantee Response: Federal School Lunch and Breakfast meal application verification procedures require a 3% sample of income eligible free/reduced households to submit financial documents confirming the household income listed on the meal application which was used to determine meal eligibility status.

The Worcester Public Schools closely follows the policies and procedures of the state and federal government for approving meal application eligibility for free and reduced meals. To strengthen this procedure, in FY07 the School Nutrition Department has added an additional audit review level (from one to two review levels) of the income documents submitted by the sample household(s) and consequent confirmation of eligibility status.

DEPARTMENT OF EDUCATION*Findings*

06-2 21st Century Community Learning Centers – CFDA No. 84.287; Fiscal year ended June 30, 2006

Condition and Criteria: The financial reports submitted to the Massachusetts Department of Education were not completed based upon expenditures processed and recorded in the City’s general ledger and, therefore, did not represent an accurate, current and complete disclosure of financial results. This condition is a violation of the financial reporting requirements prescribed in Section 20 of the OMB Common Rule.

Cause: Policies and procedures are not in place to reconcile financial reports to the general ledger prior to submission.

Effect: As a result of reconciliations not being performed prior to submission of financial reports, management is not in compliance with OMB Circular A-133 requirements. The awarding agencies could limit or refuse grant awards due to inadequate financial reporting systems.

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

Auditor's Recommendation: Procedures must be implemented to reconcile financial reports to the general ledger prior to submission.

Grantee Response: Annual Final Financial Reports filed with the Massachusetts Department of Education have been prepared based on, and reconciled to, the City's general ledger. Quarterly Requests for Funds have been based on school department records. These are generally reconciled monthly to the City's general ledger. They have not always been reconciled on the same date that the Request for Funds was prepared; this is being implemented during the current fiscal year. In addition, our district is participating in a pilot project with the Massachusetts Department of Education, which should result in changes to the procedures for requesting funds.

06-3 Reading First – CFDA No. 84.357; Fiscal year ended June 30, 2006

Condition and Criteria: The financial reports submitted to the Massachusetts Department of Education were not completed based upon expenditures processed and recorded in the City's general ledger and, therefore, did not represent an accurate, current and complete disclosure of financial results. This condition is a violation of the financial reporting requirements prescribed in Section 20 of the OMB Common Rule.

Cause: Policies and procedures are not in place to reconcile financial reports to the general ledger prior to submission.

Effect: As a result of reconciliations not being performed prior to submission of financial reports, management is not in compliance with OMB Circular A-133 requirements. The awarding agencies could limit or refuse grant awards due to inadequate financial reporting systems.

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

Auditor's Recommendation: Procedures must be implemented to reconcile financial reports to the general ledger prior to submission.

Grantee Response: Annual Final Financial Reports filed with the Massachusetts Department of Education have been prepared based on, and reconciled to, the City's general ledger. Quarterly Requests for Funds have been based on school department records. These are generally reconciled monthly to the City's general ledger. They have not always been reconciled on the same date that the Request for Funds was prepared; this is being implemented during the current fiscal year. In addition, our district is participating in a pilot project with the Massachusetts Department of Education, which should result in changes to the procedures for requesting funds.

06-4 Title IIA- Improving Teacher Quality – CFDA No. 84.367; Fiscal year ended June 30, 2006

Condition and Criteria: The financial reports submitted to the Massachusetts Department of Education were not completed based upon expenditures processed and recorded in the City's general ledger and, therefore, did not represent an accurate, current and complete disclosure of financial results. This condition is a violation of the financial reporting requirements prescribed in Section 20 of the OMB Common Rule.

Cause: Policies and procedures are not in place to reconcile financial reports to the general ledger prior to submission.

Effect: As a result of reconciliations not being performed prior to submission of financial reports, management is not in compliance with OMB Circular A-133 requirements. The awarding agencies could limit or refuse grant awards due to inadequate financial reporting systems.

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

Auditor's Recommendation: Procedures must be implemented to reconcile financial reports to the general ledger prior to submission.

Grantee Response: Annual Final Financial Reports filed with the Massachusetts Department of Education have been prepared based on, and reconciled to, the City's general ledger. Quarterly Requests for Funds have been based on school department records. These are generally reconciled monthly to the City's general ledger. They have not always been reconciled on the same date that the Request for Funds was prepared; this is being implemented during the current fiscal year. In addition, our district is participating in a pilot project with the Massachusetts Department of Education, which should result in changes to the procedures for requesting funds.

D. Summary of Prior Audit Findings

DEPARTMENT OF AGRICULTURE

05-1 Child Nutrition Cluster – CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2005

Condition: Four of the 46 (9%) student files tested either had the incorrect eligibility status or did not include the student applications and appropriate income verification documentation used to determine eligibility for receiving free and/or reduced lunches.

Current Status: This finding has not been resolved. Please see current year finding 06-1.