

CITY OF WORCESTER, MASSACHUSETTS
GAO AND OMB A-133 REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CITY OF WORCESTER, MASSACHUSETTS
GAO AND OMB A-133 REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Worcester, Massachusetts, as of and for the year ended June 30, 2014 (except for the Worcester Retirement System, which is as of and for the year ended December 31, 2013), and the related notes to the financial statements, which collectively comprise the City of Worcester, Massachusetts' basic financial statements, and have issued our report thereon dated December 9, 2014. The City of Worcester, Massachusetts' financial statements include the operations of the Worcester Retirement System (as of and for the year ended December 31, 2013) and the Worcester Redevelopment Authority and Upper Blackstone Water Pollution Abatement District (as of and for the year ended June 30, 2014). Our audit described below, did not include operations of those entities because those entities engaged for their own separate audit in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Worcester, Massachusetts' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Boston, Massachusetts
February 5, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Worcester, Massachusetts' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Worcester, Massachusetts' major federal programs for the fiscal year ended June 30, 2014. 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.

The City of Worcester, Massachusetts' financial statements include the operations of the Worcester Retirement System (as of and for the year ended December 31, 2013) and the Worcester Redevelopment Authority and Upper Blackstone Water Pollution Abatement District (as of and for the year ended June 30, 2014), component units which may have received federal awards, and which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2014. Our audit described below did not include the operations of these entities.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Worcester, Massachusetts' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Worcester, Massachusetts' compliance.

Basis for Qualified Opinion on CDBG - Entitlement Grants Cluster

As described in the accompanying schedule of findings and questioned costs, the City of Worcester, Massachusetts did not comply with requirements regarding CFDA 14.218, CDBG - Entitlement Grants Cluster, as described in finding number 2014-003 for sub-recipient monitoring. Compliance with such requirements is necessary, in our opinion, for the City of Worcester, Massachusetts to comply with the requirements applicable to those programs.

Qualified Opinion on CDBG - Entitlement Grants Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, the City of Worcester, Massachusetts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the CDBG - Entitlement Grants Cluster for the fiscal year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of Worcester, Massachusetts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the fiscal year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 2014-001, 2014-006, 2014-007 and 2014-009. Our opinion on the major federal programs are not modified with respect to these matters.

The City of Worcester, Massachusetts' responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Worcester, Massachusetts' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City of Worcester, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to previously. In planning and performing our audit of compliance, we considered the City of Worcester, Massachusetts' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Worcester, Massachusetts' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 2014-002, 2014-003, 2014-004 and 2014-008 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-001, 2014-005, 2014-006, 2014-007 and 2014-009 to be significant deficiencies.

The City of Worcester, Massachusetts' responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Worcester, Massachusetts' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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, 2014, and the related notes to the financial statements, which collectively comprise the City of Worcester, Massachusetts' basic financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The City of Worcester, Massachusetts' financial statements include the operations of the Worcester Retirement System (as of and for the year ended December 31, 2013) and the Worcester Redevelopment Authority and Upper Blackstone Water Pollution Abatement District (as of and for the year ended June 30, 2014). The federal expenditures, where applicable, for these entities are not included in the schedule of expenditures of federal awards. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Boston, Massachusetts
February 5, 2015, except for the schedule of federal awards
which is dated December 9, 2014

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Federal Grantor/ <u>Pass-Through Grantor/</u> 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>			
<i>Child Nutrition Cluster</i>			
School Breakfast Program - Cash Assistance	10.553	14-348	\$ 3,777,374
National School Lunch Program - Cash Assistance	10.555	14-348	8,891,282
National School Lunch Program - Non-Cash Assistance (Commodities)	10.555	14-348	879,077
Subtotal Child Nutrition Cluster			<u>13,547,733</u>
Fruit and Vegetable Program	10.582	14-348	<u>332,586</u>
Total U.S. Department of Agriculture			<u>13,880,319</u>
U.S. Department of Housing and Urban Development			
<u>Direct programs:</u>			
Community Development Block Grant	14.218	Not Applicable	2,576,053
<u>Passed through the State Department of Housing and Community Development:</u>			
<i>CDBG - Entitlement Grants Cluster (continued)</i>			
Community Development Block Grant	14.218	SCOCD 3242 1059028 0000	1,215,937
Subtotal CDBG - Entitlement Grants Cluster			<u>3,791,990</u>
<u>Direct programs:</u>			
Emergency Shelter Grants Program	14.231	Not Applicable	362,358
Supportive Housing Program	14.235	Not Applicable	467,573
Shelter Plus Care	14.238	Not Applicable	423,580
HOME Investment Partnerships Program	14.239	Not Applicable	984,960
Housing Opportunities for Persons with AIDS	14.241	Not Applicable	516,799
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	Not Applicable	56,138
Continuum of Care Program	14.267	Not Applicable	1,309,371
Community Challenge Planning Grant Program	14.704	Not Applicable	101,893
<u>Passed through the State Department of Housing and Community Development:</u>			
Lead-Based Paint Hazard Control Grant	14.900	SCOCD542065605160000	641,857
Total U.S. Department of Housing and Urban Development			<u>8,656,519</u>
U.S. Department of the Interior			
<u>Passed through the Massachusetts Executive Office Of Public Safety and Security</u>			
STOP Grant	15.587	2012-WF-AF-0039	<u>38,162</u>
U.S. Department of Justice			
<u>Direct programs:</u>			
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	Not Applicable	82,383
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	Not Applicable	62,445
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Not Applicable	<u>239,091</u>
Total U.S. Department of Justice			<u>383,919</u>
U.S. Department of Labor			
<u>Passed through the State Department of Career Services:</u>			
Employment Service/Wagner-Peyser Funded Activities	17.207	CT EOL 3250 10OSCC01WORC02 /CT EOL 14CCWORCWP	306,109
Unemployment Insurance	17.225	CT EOL 3250 10OSCC01WORC02/CT EOL 14CCWORCNEGREA	183,374
Trade Adjustment Assistance	17.245	CT EOL 3250 10OSCC01WORC02	42,407

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
<i>WIA Cluster:</i>			
WIA Adult Program	17.258	CT EOL 3250 10OSCC01WORC02/CT EOL 14CCWORCWIA	857,498
WIA Youth Activities	17.259	CT EOL 3250 10OSCC01WORC02/CT EOL 14CCWORCWIA	1,102,910
WIA Dislocated Workers	17.278	CT EOL 3250 10OSCC01WORC02/CT EOL 14CCWORCWIA	1,382,015
Subtotal WIA Cluster			<u>3,342,423</u>
Workforce Investment Act (WIA) National Emergency Grants	17.277	CT EOL 3250 10OSCCPIWORC02/CT EOL 14CCWORCNEGREA	176,476
Expanding Business Engagement	17.280	CT EOL 3250 10OSCC01WORC02	4,326
Disabled Veterans' Outreach Program	17.801	CT EOL 3250 10OSCC01WORC02	23,094
Local Veterans' Employment Representative Program	17.804	CT EOL 3250 10OSCC01WORC02	4,039
Total U.S. Department of Labor			<u>4,082,248</u>
U.S. Department of Transportation			
<u>Passed through the State Office of Emergency Management:</u>			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	CDA FFY13HMEPWORCESTER	79
Environmental Protection Agency			
<u>Direct Programs:</u>			
Environmental Policy and Innovation Grants	66.811	Not Applicable	68,802
ARRA - Brownfields Cleanup and Assessment Cooperative Agreements	66.818	Not Applicable	65,062
Total Environmental Protection Agency			<u>133,864</u>
U.S. Department of Education			
<u>Direct Programs:</u>			
Early Reading First	84.359	Not Applicable	241,500
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
<i>Title I, Part A Cluster</i>			
Title I Distribution (fiscal year 2014)	84.010	305-028728-2014-0348	7,854,128
Title I Distribution (fiscal year 2013)	84.010	0305-009954-2013-0348	1,826,946
Title I School Support (fiscal year 2013)	84.010	323-077-2-0348-M	47,059
Title I Supplemental Support (fiscal year 2012)	84.010	320-036-2-0348-M	19,392
Subtotal Title I, Part A Cluster			<u>9,747,525</u>
<i>Special Education Cluster</i>			
SPED 94-142 Allocation (fiscal year 2014)	84.027	240-289-4-0348-O	7,055,941
SPED 94-142 Allocation (fiscal year 2013)	84.027	240-121-3-0348-N	43,511
SPED Carryover Grant (fiscal year 2013)	84.027	240-408-3-0348-N	142,534
SPED Program Improvement (fiscal year 2014)	84.027	274-202-4-0348-O	8,291
SPED Program Improvement (fiscal year 2013)	84.027	274-251-3-0348-N	115,758
SPED Mass Urban (fiscal year 2014)	84.027	240-337-4-0348-O	26,322
SPED Mass Urban (fiscal year 2013)	84.027	240-135-3-0348-N	12,578
SPED Tiered System of Support (fiscal year 2013)	84.027	324-037-3-0348-N	5,779
SPED Early Childhood Program Improvement (fiscal year 2014)	84.173	298-339-4-0348-O	4,629
SPED Early Childhood Program Improvement (fiscal year 2013)	84.173	298-045-3-0348-N	5,750
<u>Passed through the State Department of Early Education and Care:</u>			
<i>Special Education Cluster (continued)</i>			
SPED Early Childhood Allocation (fiscal year 2014)	84.173	26214 Worcester Public	264,792
SPED Early Childhood Allocation (fiscal year 2013)	84.173	26213 Worcester Public	1,797
Subtotal Special Education Cluster			<u>7,687,682</u>
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Impact Aid	84.041	297-16-0-0348	8,649
Career and Technical Education (fiscal year 2014)	84.048	400-048-0-0348-K	476,678

CITY OF WORCESTER, MASSACHUSETTS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
<i>Education of Homeless Children and Youth Cluster</i>			
Education for Homeless Children & Youth (fiscal year 2014)	84.196	310-015-4-0348-O	31,222
Education for Homeless Children & Youth (fiscal year 2013)	84.196	310-011-3-0348-N	6,941
Subtotal Education of Homeless Children and Youth Cluster			<u>38,163</u>
21st Century Community Learning Centers (fiscal year 2014)	84.287	647-026-4-0348-O	77,120
22nd Century Community Learning Centers (fiscal year 2014)	84.287	647-084-4-0348-O	99,047
21st Century Community Learning Centers (fiscal year 2013)	84.287	647-034-2-0348-M	39,344
21st Century Community Learning Centers (fiscal year 2013)	84.287	647-020-3-0348-N	86,057
High School Graduation Initiative (fiscal year 2014)	84.360	Not Available	9,739
High School Graduation Initiative (fiscal year 2013)	84.360	CT DOE 137600WORCESTRCCRJC3	3,138
Title III - English Language Acquisition (fiscal year 2014)	84.365	180-024-4-0348-O	860,106
Title III - English Language Acquisition - Summer (fiscal year 2014)	84.365	184-006-4-0348-0	6,812
Title III - English Language Acquisition (fiscal year 2013)	84.365	180-039-3-0348-N	225,126
Title III - English Language Acquisition Carryover (fiscal year 2013)	84.365	180-119-3-0348-N	14,588
Title IIA - Improving Teacher Quality (fiscal year 2014)	84.367	140-031850-2014-0348	1,699,620
Title IIA - Improving Teacher Quality (fiscal year 2013)	84.367	0140-006302-2013-0348	56,638
Title IIA - Improving Teacher Quality Carryover (fiscal year 2013)	84.367	140-075-3-0348-N	31,169
School Improvement Grants (fiscal year 2014)	84.377	511-024-3-0348-N	365,726
School Improvement Grants (fiscal year 2013)	84.377	511-024-3-0348-N	57,706
<i>School Improvement Grants Cluster</i>			
ARRA - School Improvement Program (fiscal year 2014)	84.388	767-005-4-0348-O	742,379
ARRA - School Improvement Program (fiscal year 2013)	84.388	767-007-3-0348-N	15,144
Subtotal School Improvement Grants Cluster			<u>757,523</u>
<i>State Fiscal Stabilization Fund - Race to the Top Incentive Grants</i>			
ARRA - Race to the Top (fiscal year 2014)	84.395	201-015704-2014-0348	2,005,064
ARRA - Race to the Top (fiscal year 2014)	84.395	202-005-4-0348-O	18,680
ARRA - Race to the Top (fiscal year 2014)	84.395	211-014-4-0348-O	46,180
ARRA - Race to the Top (fiscal year 2013)	84.395	201-000403-2013-0348	315,501
ARRA - Race to the Top - Science, Technology, Engineering, and Mathematics (STEM) (fiscal year 2014)	84.395	208-003-4-0348-O	13,097
ARRA - Race to the Top - Science, Technology, Engineering, and Mathematics (STEM) (fiscal year 2013)	84.395	208-002-3-0348-N	12,943
ARRA - Race to the Top - Wraparound Zone Initiative (fiscal year 2014)	84.395	209-002-4-0348-O	112,000
ARRA - Race to the Top - Wraparound Zone Initiative (fiscal year 2013)	84.395	209-006-3-0348-N	83,673
ARRA - Race to the Top - Pre-Ap Special Support (fiscal year 2013)	84.395	328-008-3-0348-N	26,886
Subtotal - Race to the Top Incentive Grants			<u>2,634,024</u>
<i>State Fiscal Stabilization Fund Cluster</i>			
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services	84.397A	S397A090022	644,393
Total U.S. Department of Education			<u>25,868,073</u>
U.S. Department of Health and Human Services			
<u>Direct Programs:</u>			
Consolidated Knowledge Development and Application Program	93.230	Not Applicable	158
<i>Head Start Cluster</i>			
Head Start Program	93.600	Not Applicable	5,738,912

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Federal Grantor/ <u>Pass-Through Grantor/</u> Program	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
<u>Passed through the State Department of Public Health:</u>			
Public Health and Social Services Emergency Fund	93.003	INTF6207P01W11311282	6,038
Medical Reserve Corps Grant	93.008	4516-1010	125,004
Public Health Emergency Preparedness	93.069	4512-90658	433,305
Substance Abuse and Mental Health Services Centers for Disease Control & Prevention - Investigations and Technical Assistance	93.243	W30816	127,183
Opioid Grants	93.283	4512-9069	153,428
The Patient Protection and Affordable Care Act	93.450	4512-9068	14,352
National Bioterrorism Hospital Preparedness Program	93.541	INTF1100P01203816181	82,867
Block Grants for Prevention and Treatment of Substance Abuse	93.889	4510-0404	191,169
Maternal and Child Health Services	93.959	4512-9069 and 200218	338,025
	93.994	4512-9069	41,887
<u>Passed through the State Department of Social Services:</u>			
Promoting Safe and Stable Families	93.556	INTF0000009950719142	89,273
<u>Passed through the State Department of Health and Human Services:</u>			
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	CT ORI 0100 12 TAG000002	213,231
School-Based Medicaid Reimbursement Program	93.778	1950622	936,399
Total U.S. Department of Health and Human Services			<u>8,491,231</u>
U.S. Department of Homeland Security			
<u>Direct Programs:</u>			
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	Not Applicable	1,444,177
<u>Passed through the State Office of Emergency Management:</u>			
Emergency Management Performance Grants	97.042	CT CDA FY 11EMPG0900WORC	79,846
Emergency Management Performance Grants	97.042	CT CDA FY 14EMPG1000000WORC	56,531
Assistance to Firefighters	97.044	EMW-2012-FP-00810	10,051
<u>Passed through the State Executive Office of Public Safety & Homeland Security:</u>			
Homeland Security Grant Program	97.067	80004700	313,612
Total U. S. Department of Homeland Security			<u>1,904,217</u>
Total			<u>\$ 63,438,631</u>

(concluded)

See notes to schedule of expenditures of federal awards.

CITY OF WORCESTER, MASSACHUSETTS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local 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 National School Lunch Program – Non-Cash Assistance (Commodities) 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 – Cash Assistance, and Fruit and Vegetable Program represent cash receipts from federal reimbursements.

Note 3 – U.S. Department of Transportation

The amount reported for the Interagency Hazardous Materials Public Sector Training and Planning Grants program represents federal cash receipts.

Note 4 – 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 5 – U.S. Department of Homeland Security

The amount reported for the Emergency Management Performance Grants represents federal cash receipts.

CITY OF WORCESTER, MASSACHUSETTS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Note 6 – Sub-recipients

The City of Worcester, Massachusetts provided the following awards to sub-recipients for the fiscal year ended June 30, 2014:

Program Description	CFDA Number	Amount
Community Development Block Grant	14.218	\$ 2,286,146
Emergency Shelter Grants Program	14.231	335,727
Supportive Housing Program	14.235	376,306
Shelter Plus Care	14.238	418,824
HOME Program	14.239	884,975
Housing Opportunities for Persons with AIDS	14.241	501,672
Continuum of Care Program	14.267	1,019,604
Community Challenge Planning Grant Program	14.704	78,820
Lead-Based Paint Hazard Control Grant	14.900	23,588
STOP Grant	15.587	38,035
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	26,780
WIA Youth Activities	17.259	812,385
Environmental Policy and Innovation Grants	66.811	38,757
ARRA - Brownfields Cleanup and Assessment Cooperative Agreements	66.818	45,437
Promoting Safe and Stable Families	93.556	87,867
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	<u>177,684</u>
Total		<u>\$ 7,152,607</u>

CITY OF WORCESTER, MASSACHUSETTS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

A. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal Control over Financial Reporting:	
• Material weakness(es) identified?	_____ Yes <u> X </u> No
• Significant deficiency(ies) identified?	<u> </u> Yes <u> X </u> No
Noncompliance material to the financial statements noted?	_____ Yes <u> X </u> No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	<u> X </u> Yes _____ No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> X </u> Yes _____ No

Type of auditors' report on compliance for major programs:

Qualified: CDBG - Entitlement Grants Cluster
 Unqualified: All other major programs

Were any findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	_____ X _____ Yes _____ No
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Identification of Major Programs:

10.553 and 10.555	Child Nutrition Cluster
14.218	CDBG - Entitlement Grants Cluster
17.258, 17.259 and 17.278	WIA Cluster
84.010	Title I, Part A Cluster
84.027 and 84.173	Special Education Cluster
84.395	SFSF - Race to the Top Incentive Grants
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 1,903,159
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Auditee qualified as a low-risk auditee?	_____ Yes <u> X </u> No
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B. Findings - Financial Statement Audit

None

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

C. Findings and Questioned Costs – Major Federal Award Programs Audit

DEPARTMENT OF AGRICULTURE

2014-001 Child Nutrition Cluster - CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2014

Noncompliance and Significant Deficiency in Internal Control Over Major Programs

Compliance Requirement: Eligibility

Criteria: The Code of Federal Regulations (CFR) Title 7, part 245.6c states that school officials must determine household eligibility for free or reduced price meals either through direct certification or the application process at or about the beginning of the school year. The local educational agency must determine eligibility for free or reduced price meals when a household submits an application or, if feasible, through direct certification, at any time during the school year.

Condition/Context: Two (2) of the 60 student files tested did not contain an application.

Effect: The lunch status for the two students for which applications were not maintained by the City could not be verified for accuracy.

Cause: Procedures were not in place to maintain lunch applications for all students receiving lunch benefits.

Questioned Costs: \$1,757 (calculated as the average daily reimbursement rate multiplied by 180 school days in the year for the two students identified in this finding)

Auditors' Recommendation: Procedures must be implemented to maintain lunch applications for all students receiving lunch benefits.

Views of Responsible Officials and Corrective Action:

Explanation of disagreement with audit finding: None

Actions planned in response to finding: The meal application approval process has been changed from a decentralized eligibility determination process to a centralized process whereas all steps of determination, data entry and updates are directly maintained within the Child Nutrition Office.

Responsible Party: Director of Child Nutrition Programs

Planned completion date for corrective action plan: October 1, 2014

Plan to monitor completion of corrective action plan: Weekly edit checks throughout the school year.

Corrective Action Plan: Further strengthening accuracy at all levels of the meal counting/claiming procedures and per meal application approval requirements:

- *initial* determination/meal status entry occurs upon receipt of application
- *confirmation* reviews initial determination for accuracy
- *verifying* confirms correct entry into the student eligibility data base

Once the above procedures are complete, all meal applications will remain on file in the Nutrition office. Student eligibility will be reconciled with school based meal eligibility rosters throughout the school year.

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

2014-002 Child Nutrition Cluster - CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2014

Material Weakness in Internal Control Over Major Programs

Compliance Requirement: Procurement and Suspension and Debarment

Criteria: The Code of Federal Regulations (CFR) Title 2, part 180.220 states that "non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All non-procurement transactions entered into by a recipient (i.e., sub-awards to sub-recipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215."

Condition: The City did not obtain a debarment certification or check the *System for Award Management* website for the vendor contracted with in excess of \$25,000 related to the grant program.

Context: The one (1) vendor contracted with in excess of \$25,000.

Effect: Noncompliance with the federal award program's procurement and suspension and debarment compliance requirements could occur and not be detected and corrected timely.

Cause: Procedures are not in place to verify that vendors contracted with in excess of \$25,000 related to the grant program are not suspended, debarred or otherwise excluded from doing business.

Questioned Costs: None. The vendor contracted with in excess of \$25,000 was not suspended/debarred.

Auditors' Recommendation: Procedures must be implemented to ensure that all vendors contracted with have not been suspended or debarred or otherwise excluded from doing business, prior to procuring their services. In order to verify this, program management should either obtain debarment certifications from the vendors or check the *System for Award Management* website. Procedures must also be implemented to maintain documentation supporting the debarment checks performed.

Views of Responsible Officials and Corrective Action:

Explanation of disagreement with audit finding: None

Actions planned in response to finding: The Worcester Public Schools Child Nutrition Department will verify the eligibility of vendors' status from the Excluded Party List System.

Responsible Party: Department of Child Nutrition

Planned completion date for corrective action plan: January 1, 2015

Plan to monitor completion of corrective action plan: Documentation supporting debarment check from the Excluded Party List System will be kept on file as requisitions are being initiated.

Corrective Action Plan: The System for Award Management website will be checked and documentation supporting debarment check will be kept on file.

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

2014-003 CDBG – Entitlement Grants Cluster – CFDA No. 14.218; Fiscal year ended June 30, 2014

Material Noncompliance and Material Weakness in Internal Control Over Major Programs

Compliance Requirement: Sub-recipient Monitoring

Criteria: Federal guidelines require that pass-through entities, during the award period, conduct 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.

Condition/Context: One (1) of the three (3) sub-recipient files tested did not contain documentation of monitoring activities performed. Two (2) of the three (3) sub-recipient files tested did not contain evidence of the sub-recipients A-133 audit reports and/or evidence that the sub-recipients were not required to receive A-133 audits. All three (3) sub-recipient files tested did not contain contracts with the federal CFDA number identified in the contract.

Effect: There was noncompliance with, and a significant deficiency in internal control over, the federal award program's sub-recipient monitoring requirements. In addition, noncompliance by the City's sub-recipients could occur and not be detected and corrected timely.

Cause: Procedures were not in place to perform and/or document all required monitoring of sub-recipients.

Questioned Costs: \$10,000 (based on total sub-recipient payments charged to the grant for the one sub-recipient for which there was no documentation of monitoring activities performed)

Auditors' Recommendation: Procedures must be implemented to ensure that, during the award period, 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.

Views of Responsible Officials and Corrective Action:

Explanation of disagreement with audit finding: None

Actions planned in response to finding: The sub-recipient file(s) that were tested was a fiscal year 2013 / HUD program year 38 activity which was expensed in fiscal year 2014 / HUD program year 39. During the course of fiscal year 2013 and into the beginning of fiscal year 2014, the City worked in concert with the U.S. Department of Housing and Urban Development (HUD) - Office of the Inspector General and the Region 1 field office to redesign internal processes and procedures for the Block Grant/HOME programs. The focus of this endeavor with HUD was to implement corrective actions for prospective program years (fiscal year 14/ HUD program year 39). Unfortunately, the activity that was reviewed occurred during the transition period when the City was redeveloping its sub-recipient monitoring procedures. Commencing with fiscal year 14/ HUD program year 39 and future subsequent fiscal/program years, all CDBG expenditures are being processed consistent with the policies and procedures developed in concert with HUD, which includes monitoring and sub-recipient compliance. In addition, the City will ensure that any payments made to prior year activities have undergone an onsite monitoring previous to payments being issued.

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Responsible Party: Executive Office of Economic Development

Planned completion date for corrective action plan: Already implemented

Plan to monitor completion of corrective action plan: Already implemented

Corrective Action Plan: See above

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

2014-004 CDBG – Entitlement Grants Cluster – CFDA No.’s 14.218;Fiscal year ended June 30, 2014

Material Weakness in Internal Control Over Major Programs

Compliance Requirement: Procurement and Suspension and Debarment

Criteria: The Code of Federal Regulations (CFR) Title 2, part 180.220 states that “non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All non-procurement transactions entered into by a recipient (i.e., sub-awards to sub-recipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.”

Condition: The City did not obtain a debarment certification or check the *System for Award Management* website for a vendor contracted with in excess of \$25,000 related to the grant program.

Context: One (1) of one (1) vendor tested with a contract with in excess of \$25,000.

Effect: Noncompliance with the federal award program’s procurement and suspension and debarment compliance requirements could occur and not be detected and corrected timely.

Cause: Procedures are not in place to verify that vendors contracted with in excess of \$25,000 related to the grant program are not suspended, debarred or otherwise excluded from doing business.

Questioned Costs: None. The vendor tested was not suspended/debarred.

Auditors’ Recommendation: Procedures must be implemented to ensure that all vendors contracted with have not been suspended or debarred or otherwise excluded from doing business, prior to procuring their services. In order to verify this, program management should either obtain debarment certifications from the vendors or check the *System for Award Management* website. Procedures must also be implemented to maintain documentation supporting the debarment checks performed.

Views of Responsible Officials and Corrective Action:

Explanation of disagreement with audit finding: None

Actions planned in response to finding: The City has procedures that have been implemented to ensure that debarment verifications are made at the point in time where contracts are executed with sub recipients and/or contractors. In the instance observed, the City amended a prior year contract (which preceded the above referenced procedures being implemented). The City has subsequently revised its procedures to retroactively verify debarment on all open contracts.

Responsible Party: Executive Office of Economic Development

Planned completion date for corrective action plan: Already implemented

Plan to monitor completion of corrective action plan: Already implemented

Corrective Action Plan: See above

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

2014-005 CDBG – Entitlement Grants Cluster – CFDA No.’s 14.218;Fiscal year ended June 30, 2014

Significant Deficiency in Internal Control Over Major Programs

Compliance Requirement: Reporting

Criteria: The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. For the financial reporting compliance requirement, internal controls should be in place to require supervisory reviews of reports prepared and submitted in order to ensure accuracy and completeness.

Condition: There was no evidence to support that supervisory personnel reviewed quarterly SF-425 reports prior to submission to the Department of Housing and Urban Development (HUD).

Context: Each of the two (2) reports tested.

Effect: Noncompliance with the federal award program’s reporting compliance requirements could occur and not be detected and corrected timely.

Cause: Procedures are not in place to perform and/or document supervisory reviews of quarterly SF-425 reports prior to submission to HUD.

Questioned Costs: None.

Auditors’ Recommendation: Procedures must be implemented to ensure that all required reports are reviewed by supervisory official prior to submission to HUD and to document the review procedures.

Views of Responsible Officials and Corrective Action:

Explanation of disagreement with audit finding: None

Actions planned in response to finding: The City is required to file quarterly financial reports (SF-425 reports) with the Boston Field Office of the United States Department of Housing and Urban Development. During the course of FY14, said reports were inadvertently prepared and filed by line staff without supervisor review/approval. The City has amended procedures to include a supervisory review/approval prior to execution by the certifying official, the City Manager.

Responsible Party: City Administration and Finance

Planned completion date for corrective action plan: Already implemented

Plan to monitor completion of corrective action plan: Already implemented

Corrective Action Plan: See above

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

DEPARTMENT OF EDUCATION

2014-006 Title I, Part A Cluster - CFDA No. 84.010; Fiscal year ended June 30, 2014

Noncompliance and Significant Deficiency in Internal Control Over Major Programs

Compliance Requirement: Allowable Costs/Cost Principles

Criteria: In order to be in compliance with all grant program requirements, grantees are required to adhere to the terms and budgets included in the approved grant contracts from the awarding agencies, as well all Federal guidelines stated in the OMB A-133 Compliance Supplement.

Condition: 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.

Context: All grant indirect costs

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.

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.

Questioned Costs: \$86,377 (indirect costs charged to the grant in excess of the rate in the approved grant contracts)

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.

Views of Responsible Officials and Corrective Action:

Explanation of disagreement with audit finding:

Worcester Public Schools/Worcester School Committee

The Worcester School Committee holds that under MGL Chapter 44-53A, 71-26C, and 71-37A, all grant spending must be authorized by the School Committee, and has authorized a 1% indirect cost rate on grant awards. The Massachusetts Department of Elementary and Secondary Education (DESE) has issued a legal opinion supporting the position of the Worcester School Committee and noting that education funds received through the DESE are subgrants, with the indirect cost rate subject to approval by DESE and the U.S. Department of Education. Contracts submitted by the school department and approved by the awarding agency reflect a 1% indirect cost rate. Neither the Worcester School Committee nor the DESE has authorized the higher amount withheld by the city finance office.

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

City Administration and Finance

Consistent with the Office of Management and Budget (OMB) Circular A-87, the City of Worcester began assessing all federal grants a 1% indirect cost rate reimbursement, after obtaining approval from the City's federal cognizant agent, the U.S. Department of Housing and Urban Development, in fiscal year 1992. For fiscal year 2010, the City submitted and obtained a revised Administrative Cost Allocation plan from its federal cognizant agent, the U.S. Department of Housing and Urban Development, and were approved an increase, from 1% to 3%, to the City's indirect cost rate reimbursement.

Actions planned in response to finding:

Worcester Public Schools/Worcester School Committee

The Worcester Public Schools will continue to budget 1% as long as this is the maximum amount authorized by the Worcester School Committee.

City Administration and Finance

OMB has promulgated revised guidance relative to the administration of federal grants. The administration is currently reviewing said guidance as it relates to indirect cost rates.

Responsible Party: The Worcester Public Schools grants department as part of the Finance and Operations Division will continue to follow the directives of the School Committee as well as grantor limits on indirect costs.

Planned completion date for corrective action plan: Any change to the maximum indirect cost rate will be implemented as soon as directed by the Worcester School Committee, or as required by the responsible grantor agency.

Plan to monitor completion of corrective action plan: Grant budgets are monitored by the Administration of the Worcester Public Schools, as well as the Worcester School Committee, which accepts grant funds.

Corrective Action Plan: Should the Worcester School Committee adjust the maximum indirect cost rate allowed to be charged on grants, future grant budgets will reflect the new rate(s).

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

2014-007 Special Education Cluster Program - CFDA No.'s 84.027 and 84.173; Fiscal year ended June 30, 2014

Noncompliance and Significant Deficiency in Internal Control Over Major Programs

Compliance Requirement: Allowable Costs/Cost Principles

Criteria: In order to be in compliance with all grant program requirements, grantees are required to adhere to the terms and budgets included in the approved grant contracts from the awarding agencies, as well all Federal guidelines stated in the OMB A-133 Compliance Supplement.

Condition: 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.

Context: All grant indirect costs

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.

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.

Questioned Costs: \$137,762 (indirect costs charged to the grant in excess of the rate in the approved grant contracts)

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.

Views of Responsible Officials and Corrective Action:

Explanation of disagreement with audit finding:

Worcester Public Schools/Worcester School Committee

The Worcester School Committee holds that under MGL Chapter 44-53A, 71-26C, and 71-37A, all grant spending must be authorized by the School Committee, and has authorized a 1% indirect cost rate on grant awards. The Massachusetts Department of Elementary and Secondary Education (DESE) has issued a legal opinion supporting the position of the Worcester School Committee and noting that education funds received through the DESE are subgrants, with the indirect cost rate subject to approval by DESE and the U.S. Department of Education. Contracts submitted by the school department and approved by the awarding agency reflect a 1% indirect cost rate. Neither the Worcester School Committee nor the DESE has authorized the higher amount withheld by the city finance office.

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

City Administration and Finance

Consistent with the Office of Management and Budget (OMB) Circular A-87, the City of Worcester began assessing all federal grants a 1% indirect cost rate reimbursement, after obtaining approval from the City's federal cognizant agent, the U.S. Department of Housing and Urban Development, in fiscal year 1992. For fiscal year 2010, the City submitted and obtained a revised Administrative Cost Allocation plan from its federal cognizant agent, the U.S. Department of Housing and Urban Development, and were approved an increase, from 1% to 3%, to the City's indirect cost rate reimbursement.

Actions planned in response to finding:

Worcester Public Schools/Worcester School Committee

The Worcester Public Schools will continue to budget 1% as long as this is the maximum amount authorized by the Worcester School Committee.

City Administration and Finance

OMB has promulgated revised guidance relative to the administration of federal grants. The administration is currently reviewing said guidance as it relates to indirect cost rates.

Responsible Party: The Worcester Public Schools grants department as part of the Finance and Operations Division will continue to follow the directives of the School Committee as well as grantor limits on indirect costs.

Planned completion date for corrective action plan: Any change to the maximum indirect cost rate will be implemented as soon as directed by the Worcester School Committee, or as required by the responsible grantor agency.

Plan to monitor completion of corrective action plan: Grant budgets are monitored by the Administration of the Worcester Public Schools, as well as the Worcester School Committee, which accepts grant funds.

Corrective Action Plan: Should the Worcester School Committee adjust the maximum indirect cost rate allowed to be charged on grants, future grant budgets will reflect the new rate(s).

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

2014-008 Special Education Cluster Program - CFDA No.'s 84.027 and 84.173; Fiscal year ended June 30, 2014

Material Weakness in Internal Control Over Major Programs

Compliance Requirement: Special Tests and Provisions

Criteria: The No Child Left Behind Act requires that all teachers and paraprofessionals who work in a program supported by federal Special Education funds be highly qualified. All teachers must hold a full State certification as a teacher, or must have passed the State teacher licensing examination and hold a license to teach in the State. All paraprofessionals must have a high school diploma or its equivalent and must have (1) completed at least 2 years of study at an institution of higher education, (2) obtained an associate's or higher degree, or (3) met a rigorous standard of quality, and can demonstrate through a formal State or local academic assessment knowledge of, and the ability to assist in instructing, reading/language arts, writing, and mathematics, or reading readiness, writing readiness, and mathematics readiness.

Condition: The City did not originally maintain all education documentation in each of the personnel files of paraprofessionals tested whose salaries were charged to the grant program. Subsequent to our audit fieldwork, the applicable education documentation was obtained and filed by the City.

Context: Five (5) of the twenty-nine paraprofessionals' personnel files tested did not originally contain sufficient documentation supporting their education and/or experience achieved. Subsequent to our audit fieldwork, the applicable education documentation was obtained and filed by the City.

Effect: We were originally unable to verify that the paraprofessionals paid from the grant funds met the criteria for being highly qualified to provide instructional services in the program. Subsequent to our audit fieldwork, the applicable education documentation was obtained and filed by the City.

Cause: Policies and procedures were not originally in place to obtain and maintain documentation ensuring that all paraprofessionals working in the program were highly qualified.

Questioned Costs: None

Auditors' Recommendation: Policies and procedures must be implemented to, at the time of hire, obtain and file education documentation for all employees providing instructional services in the Special Education program, and to ensure that all salaries and wages charged to the grant funds are allowable and for teachers and paraprofessionals who contain the required education to be considered highly qualified.

Views of Responsible Officials and Corrective Action:

Explanation of disagreement with audit finding: The Worcester Public Schools hiring process does include documentation of highly qualified status for instructional assistants. In some cases verification of information from third party sources takes a period of time. As noted above, a review of the files tested did not reveal any employees who were not highly qualified. Our review of the files noted in this finding leads us to agree that three of the employees had documentation dated in 2014. Of the remainder, one appears to have been dated in 2008, and one was not dated.

Actions planned in response to finding: The Worcester Public Schools will establish a protocol to review human resources files to ensure that all required documentation is obtained in a timely fashion, including verification of highly qualified status.

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Responsible Party: The Human Resources department of the Worcester Public Schools

Planned completion date for corrective action plan: Revised procedures will be in place by June 30 of the current fiscal year.

Plan to monitor completion of corrective action plan: Staff of the Worcester Public Schools Human Resources department with assistance from the Grants Management department will review the new protocol to ensure that procedures are in place and being implemented appropriately.

Corrective Action Plan: New procedures will be implemented to ensure timely documentation of highly qualified status. A review of the personnel file of each new employee will be conducted within 60 days of hiring to ensure that all required evidence of highly qualified status has been received. This change will be implemented by the Human Resources Instructional Support Personnel Director and support staff. Employees whose files are missing required documentation will be contacted within 72 hours requesting that the required information be sent to the Human Resources department within ten business days.

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

2014-009 ARRA – Race to the Top Incentive Grants Program - CFDA No. 84.395; Fiscal year ended June 30, 2014

Noncompliance and Significant Deficiency in Internal Control Over Major Programs

Compliance Requirement: Allowable Costs/Cost Principles

Criteria: In order to be in compliance with all grant program requirements, grantees are required to adhere to the terms and budgets included in the approved grant contracts from the awarding agencies, as well all Federal guidelines stated in the OMB A-133 Compliance Supplement.

Condition: 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.

Context: All grant indirect costs

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.

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.

Questioned Costs: \$31,056 (indirect costs charged to the grant in excess of the rate in the approved grant contracts)

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.

Views of Responsible Officials and Corrective Action:

Explanation of disagreement with audit finding:

Worcester Public Schools/Worcester School Committee

The Worcester School Committee holds that under MGL Chapter 44-53A, 71-26C, and 71-37A, all grant spending must be authorized by the School Committee, and has authorized a 1% indirect cost rate on grant awards. The Massachusetts Department of Elementary and Secondary Education (DESE) has issued a legal opinion supporting the position of the Worcester School Committee and noting that education funds received through the DESE are subgrants, with the indirect cost rate subject to approval by DESE and the U.S. Department of Education. Contracts submitted by the school department and approved by the awarding agency reflect a 1% indirect cost rate. Neither the Worcester School Committee nor the DESE has authorized the higher amount withheld by the city finance office.

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

City Administration and Finance

Consistent with the Office of Management and Budget (OMB) Circular A-87, the City of Worcester began assessing all federal grants a 1% indirect cost rate reimbursement, after obtaining approval from the City's federal cognizant agent, the U.S. Department of Housing and Urban Development, in fiscal year 1992. For fiscal year 2010, the City submitted and obtained a revised Administrative Cost Allocation plan from its federal cognizant agent, the U.S. Department of Housing and Urban Development, and were approved an increase, from 1% to 3%, to the City's indirect cost rate reimbursement.

Actions planned in response to finding:

Worcester Public Schools/Worcester School Committee

The Worcester Public Schools will continue to budget 1% as long as this is the maximum amount authorized by the Worcester School Committee.

City Administration and Finance

OMB has promulgated revised guidance relative to the administration of federal grants. The administration is currently reviewing said guidance as it relates to indirect cost rates.

Responsible Party: The Worcester Public Schools grants department as part of the Finance and Operations Division will continue to follow the directives of the School Committee as well as grantor limits on indirect costs.

Planned completion date for corrective action plan: Any change to the maximum indirect cost rate will be implemented as soon as directed by the Worcester School Committee, or as required by the responsible grantor agency.

Plan to monitor completion of corrective action plan: Grant budgets are monitored by the Administration of the Worcester Public Schools, as well as the Worcester School Committee, which accepts grant funds.

Corrective Action Plan: Should the Worcester School Committee adjust the maximum indirect cost rate allowed to be charged on grants, future grant budgets will reflect the new rate(s).

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

D. Summary of Prior Audit Findings

MAJOR FEDERAL AWARD PROGRAMS AUDIT

Department of Agriculture

Noncompliance and Significant Deficiency in the Internal Control over Major Programs

2013-001 Child Nutrition Cluster – CFDA No.’s 10.553 and 10.555; Fiscal year ended June 30, 2013

Compliance Requirement: Eligibility

Condition: The City did not comply with the eligibility and special tests and provisions compliance requirements.

Current Status: The status remains unchanged. Please see current year finding 2014-001.

Department of Housing and Urban Development

Material Noncompliance and Material Weaknesses in the Internal Control over Major Programs

2013-002 CDBG - Entitlement Grants Cluster – CFDA No.’s 14.218 and 14.253; Fiscal year ended June 30, 2013

Compliance Requirement: Sub-recipient Monitoring

Condition: The City did not comply with the sub-recipient compliance requirements.

Current Status: The status remains unchanged. Please see current year finding 2014-003.

2013-003 CDBG - Entitlement Grants Cluster – CFDA No.’s 14.218 and 14.253; Fiscal year ended June 30, 2013

Compliance Requirement: Special Tests and Provisions

Condition: The City did not comply with the special tests and provisions compliance requirements.

Current Status: Based on our audit of compliance for the fiscal year ended June 30, 2014, this finding has been resolved.

2013-004 HOME Investment Partnerships Program - CFDA No. 14.239; Fiscal year ended June 30, 2013

Compliance Requirement: Sub-recipient Monitoring

Condition: The City did not comply with the sub-recipient compliance requirements.

Current Status: While this program did not meet the criteria of a major program in fiscal year 2014, compliance testing was performed to follow up on this prior year audit finding. Based on our follow up procedures, the status of the prior year audit finding remains unchanged.

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Noncompliance and Significant Deficiency in the Internal Control over Major Programs

2013-005 HOME Investment Partnerships Program - CFDA No. 14.239; Fiscal year ended June 30, 2013

Compliance Requirement: Eligibility

Condition: The City did not comply with the eligibility compliance requirements.

Current Status: While this program did not meet the criteria of a major program in fiscal year 2014, compliance testing was performed to follow up on this prior year audit finding. Based on our follow up procedures, this finding has been resolved.

Significant Deficiency in the Internal Control over Major Programs

2013-006 CDBG - Entitlement Grants Cluster - CFDA No.'s 14.218 and 14.253; Fiscal year ended June 30, 2013

Compliance Requirement: Procurement and Suspension and Debarment

Condition: The City did not have procedures in place to document compliance with the procurement and suspension and debarment compliance requirements.

Current Status: The status remains unchanged. Please see current year finding 2014-004.

2013-007 HOME Investment Partnerships Program - CFDA No. 14.239; Fiscal year ended June 30, 2013

Compliance Requirement: Procurement and Suspension and Debarment

Condition: The City did not have procedures in place to document compliance with the procurement and suspension and debarment compliance requirements.

Current Status: While this program did not meet the criteria of a major program in fiscal year 2014, compliance testing was performed to follow up on this prior year audit finding. Based on our follow up procedures, the status of the prior year audit finding remains unchanged.

Department of Education

Noncompliance and Significant Deficiency in the Internal Control over Major Programs

2013-008 Title I, Part A Cluster - CFDA No. 84.010; Fiscal year ended June 30, 2013

Compliance Requirement: Allowable Costs/Cost Principles (Indirect Costs)

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

Current Status: The status remains unchanged. Please see current year finding 2014-006.

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

2013-009 Special Education Cluster Program - CFDA No.'s 84.027 and 84.173; Fiscal year ended June 30, 2013

Compliance Requirement: Allowable Costs/Cost Principles (Indirect Costs)

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

Current Status: The status remains unchanged. Please see current year finding 2014-007.

2013-010 ARRA – Race to the Top Incentive Grants Program - CFDA No. 84.395; Fiscal year ended June 30, 2013

Compliance Requirement: Allowable Costs/Cost Principles

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

Current Status: The status remains unchanged. Please see current year finding 2014-009.

2013-011 ARRA – Race to the Top Incentive Grants Program - CFDA No. 84.395; Fiscal year ended June 30, 2013

Compliance Requirement: Cash Management

Condition: The City did not comply with the cash management compliance requirements.

Current Status: Based on our audit of compliance for the fiscal year ended June 30, 2014, this finding has been resolved.

2013-012 Title IIA – Improving Teacher Quality - CFDA No. 84.367; Fiscal year ended June 30, 2013

Compliance Requirement: Allowable Costs/Cost Principles

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

Current Status: While this program did not meet the criteria of a major program in fiscal year 2014, compliance testing was performed to follow up on this prior year audit finding. Based on our follow up procedures, the status of the prior year audit finding remains unchanged.

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Significant Deficiency in the Internal Control over Major Programs

2013-013 Title I, Part A Cluster - CFDA No. 84.010; Fiscal year ended June 30, 2013

Compliance Requirement: Procurement and Suspension and Debarment

Condition: The City did not have procedures in place to document compliance with the procurement and suspension and debarment compliance requirements.

Current Status: Based on our audit of compliance for the fiscal year ended June 30, 2014, this finding has been resolved.

2013-014 Special Education Cluster Program - CFDA No.'s 84.027 and 84.173; Fiscal year ended June 30, 2013

Compliance Requirement: Procurement and Suspension and Debarment

Condition: The City did not have procedures in place to document compliance with the procurement and suspension and debarment compliance requirements.

Current Status: Based on our audit of compliance for the fiscal year ended June 30, 2014, this finding has been resolved.

2013-015 ARRA - Race to the Top Incentive Grants Program - CFDA No. 84.395; Fiscal year ended June 30, 2013

Compliance Requirement: Procurement and Suspension and Debarment

Condition: The City did not have procedures in place to document compliance with the procurement and suspension and debarment compliance requirements.

Current Status: Based on our audit of compliance for the fiscal year ended June 30, 2014, this finding has been resolved.

Department of Health and Human Services

Noncompliance and Significant Deficiency in the Internal Control over Major Programs

2013-016 Head Start Program - CFDA No. 93.600; Fiscal year ended June 30, 2013

Compliance Requirement: Allowable Costs/Cost Principles

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

Current Status: Based on our audit of compliance for the fiscal year ended June 30, 2014, this finding has been resolved.

CITY OF WORCESTER, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Significant Deficiency in the Internal Control over Major Programs

2013-017 Head Start Program - CFDA No. 93.600; Fiscal year ended June 30, 2013

Compliance Requirement: Procurement and Suspension and Debarment

Condition: The City did not have procedures in place to document compliance with the procurement and suspension and debarment compliance requirements.

Current Status: Based on our audit of compliance for the fiscal year ended June 30, 2014, this finding has been resolved.