

CITY OF WORCESTER, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

CITY OF WORCESTER, MASSACHUSETTS
REPORTS ON INTERNAL CONTROL OVER
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FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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Certified Public Accountants

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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, 2011 (except for the Worcester Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2010), which collectively comprise the City of Worcester, Massachusetts' basic financial statements and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Worcester, Massachusetts' financial statements will not be prevented, or detected and corrected on a timely basis.

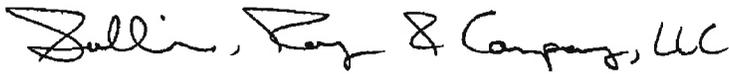
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Worcester, Massachusetts, in a separate letter dated October 31, 2011.

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

A handwritten signature in black ink that reads "Sullivan, King & Company, LLC". The signature is written in a cursive style.

October 31, 2011



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

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

Compliance

We have audited the compliance of the City of Worcester, Massachusetts (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2011. The City's 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's management. Our responsibility is to express an opinion on the City's 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 11-2, 11-3, 11-5, 11-11, 11-12, 11-13, and 11-14.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-1, 11-4, 11-6, 11-7, 11-8, 11-9, and 11-10 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, 2011 (except for the Worcester Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2010), and have issued our report thereon dated October 31, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

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

Sullivan, King & Company, LLC

October 31, 2011

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Food Distribution Program	10.550	14-348	\$ 635,210
<i>Child Nutrition Cluster</i>			
School Breakfast Program	10.553	14-348	2,755,633
National School Lunch Program	10.555	14-348	6,414,295
Summer Food Service Program for Children	10.559	14-348	23,062
ARRA - Child Nutrition Discretionary Grants	10.579	721-020-0-0348-K	236
Fruit and Vegetable Program	10.582	14-348	370,721
Total U.S. Department of Agriculture			10,199,157
U.S. Department of Commerce			
<u>Direct Programs:</u>			
Investments for Public Works and Economic Development Facilities	11,300	Not Applicable	571,819
Economic Development Administration Grant	11,302	Not Applicable	117,253
Total U.S. Department of Commerce			689,072
U.S. Department of Housing and Urban Development			
<u>Direct programs:</u>			
<i>CDBG - Entitlement Grants Cluster</i>			
Community Development Block Grant	14.218	Not Applicable	5,575,541
Community Development Block Grant Recovery (CDBG-R)	14.253	Not Applicable	238,533
Emergency Shelter Grants Program	14.231	Not Applicable	210,538
Supportive Housing Program	14.235	Not Applicable	1,790,488
Shelter Plus Care	14.238	Not Applicable	266,373
HOME Program	14.239	Not Applicable	2,406,827
Housing Opportunities for Persons with AIDS	14.241	Not Applicable	404,684
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	Not Applicable	498,161
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257	Not Applicable	2,492,739
<u>Passed through the State Department of Housing and Community Development:</u>			
Lead-Based Paint Hazard Control Grant	14.900	SCOCD542065605160000	1,351,836
Total U.S. Department of Housing and Urban Development			15,235,720
U.S. Department of the Interior			
<u>Direct Program:</u>			
Historic Preservation Fund Grants-In-Aid	15.904	Not Applicable	13,500
U.S. Department of Justice			
<u>Direct programs:</u>			
Title V Delinquency Prevention Program	16.548	Not Applicable	96,211
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	Not Applicable	73,465
<i>JAG Program Cluster</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Not Applicable	42,945
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	Not Applicable	1,040,501

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Justice (continued)			
<u>Passed through the State Executive Office of Public Safety:</u>			
Violence Against Women Formula Grants	16.588	SCEPS 3001VAWA10WORC	20,373
Violence Against Women Formula Grants	16.588	SCEPS 3001VAWA11WORC	20,424
Total U.S. Department of Justice			<u>1,293,919</u>
U.S. Department of Labor			
<u>Direct Program:</u>			
H-1B High Growth Job Training Grants	17.268	Not Applicable	644,599
<u>Passed through the State Division of Career Services:</u>			
Employment Service/Wagner-Peyser Funded Activities	17.207	CT EOL 3250 06OSCC01WORC02	146,990
ARRA - Employment Service/Wagner-Peyser Funded Activities	17.207	CT EOL 3250 09STIMWORC01	6,242
Unemployment Insurance	17.225	CT EOL 3250 06OSCC01WORC01	37,249
ARRA - Unemployment Insurance	17.225	CT EOL 3250 09STIMWORC01	2,831
Trade Adjustment Assistance	17.245	CT EOL 3250 10OSCC01WORC02	18,793
<u>WIA Cluster:</u>			
WIA Adult Program	17.258	CT EOL 3250 06OSCC01WORC02	1,140,145
WIA Adult Incentive	17.258	CT EOL 3250 06OSCC01WORC02	18,890
WIA Adult Program - Admin Costpool	17.258	CT EOL 3250 06OSCC01WORC02	52,111
ARRA - WIA Adult Program	17.258	CT EOL 3250 09STIMWORC01	67,757
ARRA - WIA Adult Program Admin Costpool	17.258	CT EOL 3250 09STIMWORC01	11,193
WIA Youth Activities	17.259	CT EOL 3250 06OSCC01WORC02	1,431,103
WIA Youth Activities - Admin Costpool	17.259	CT EOL 3250 06OSCC01WORC02	51,629
ARRA - WIA Youth Activities	17.259	CT EOL 3250 09STIMWORC01	458,007
ARRA - WIA Youth Activities Admin Costpool	17.259	CT EOL 3250 09STIMWORC01	28,173
WIA Youth Incentive	17.259	CT EOL 3250 06OSCC01WORC02	596
WIA Rapid Response Grant	17.260	CT EOL 3250 06OSCC01WORC02	14,141
ARRA - WIA Rapid Response Grant	17.260	CT EOL 3250 10STIMWORC01	259,403
WIA Dislocated Workers (fiscal year 2010)	17.260	CT EOL 3250 06OSCC01WORC02	160,264
WIA Dislocated Workers - Admin Costpool	17.260	CT EOL 3250 06OSCC01WORC02	49,940
ARRA - WIA Dislocated Workers	17.260	CT EOL 3250 09STIMWORC01	267,031
ARRA - WIA Dislocated Workers Admin Costpool	17.260	CT EOL 3250 09STIMWORC01	15,450
WIA Dislocated Workers (fiscal year 2011)	17.278	CT EOL 3250 06OSCC01WORC02	1,063,136
<u>Passed through the Commonwealth Corporation:</u>			
WIA Adult Program	17.258	0714	37,485
WIA Youth Activities	17.259	0714	92,469
WIA Dislocated Workers (fiscal year 2010)	17.260	0714	69,118
<u>Passed through the State Division of Career Services:</u>			
ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.268	CT EOL 3250 06OSCC01WORC02	21,368
Disabled Veterans' Outreach Program	17.801	CT EOL 3250 06OSCC01WORC02	773
Local Veterans' Employment Representative Program	17.804	CT EOL 3250 06OSCC01WORC02	3,695
Total U.S. Department of Labor			<u>6,170,581</u>
U.S. Department of Transportation			
<u>Passed through the Massachusetts Department of Transportation:</u>			
Airport Improvement Program	20.106	3-25-0053	301,557
Environmental Protection Agency			
<u>Direct Programs:</u>			
Environmental Policy and Innovation Grants	66.811	Not Applicable	2
ARRA - Brownfields Cleanup and Assessment Cooperative Agreements	66.818	Not Applicable	127,194
Total Environmental Protection Agency			<u>127,196</u>
U.S. Department of Energy			
<u>Direct Program:</u>			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	Not Applicable	52,514

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Education			
<u>Direct Programs:</u>			
School Counseling Grant	84.215E	Not Applicable	31,464
Teaching American History Grant	84.215X	Not Applicable	535,596
Advanced Placement Incentive	84.330C	Not Applicable	385,924
Early Reading First	84.359	Not Applicable	59,116
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Adult Education	84.002	342-014-1-1512-L	30,968
<i>Title I, Part A Cluster</i>			
Title I Distribution (fiscal year 2010)	84.010	305-000-0-0348-K	1,793,027
Title I Distribution (fiscal year 2011)	84.010	305-320-1-0348-L	7,067,519
Title I FY 11 Carryover Grant	84.010	305-555-1-0348-L	26,893
Title I School Support (fiscal year 2010)	84.010	323-004-0-0348-K	172,356
Title I School Support (fiscal year 2011)	84.010	323-011-1-0348-L	19,226
Title I School Support (fiscal year 2011)	84.010	323-023-1-0348-L	190,853
Title I Academic Achievement (fiscal year 2010)	84.010	316-011-0-0348-K	64,610
Title I Academic Achievement (fiscal year 2011)	84.010	316-004-1-3048-L	435,276
Title I Program Improvement	84.010	322-025-1-0348-L	80,000
ARRA - Title I Grants (fiscal year 2010)	84.389	770-140-0-0348-K	1,396,282
ARRA - Title I Grants (fiscal year 2011)	84.389	770-027-1-0348-L	4,282,066
<i>Special Education Cluster</i>			
SPED 94-142 Allocation (fiscal year 2010)	84.027	240-051-0-0348-K	1,751,183
SPED 94-142 Allocation (fiscal year 2011)	84.027	240-267-1-0348-L	6,356,790
SPED Secondary Reading (fiscal year 2010)	84.027	267-003-0-0348-K	3,119
SPED Mass Urban (fiscal year 2010)	84.027	240-050-0-0348-K	12,986
SPED Mass Urban (fiscal year 2011)	84.027	240-266-0-0348-L	8,150,448
ARRA - SPED IDEA (fiscal year 2010)	84.391	760-283-0-0348-K	1,488,170
ARRA - SPED IDEA (fiscal year 2011)	84.391	760-042-1-0348-L	4,628,533
<u>Passed through the State Department of Early Education and Care:</u>			
<i>Special Education Cluster (continued)</i>			
SPED Early Childhood Allocation (fiscal year 2010)	84.173	26210 Worcester Public	266,322
SPED Early Childhood Allocation (fiscal year 2011)	84.173	26211 Worcester Public	268,942
Kindergarten Curriculum Development (fiscal year 2010)	84.173	264-008-0-0348-K	5,053
Kindergarten Curriculum Development (fiscal year 2011)	84.173	264-006-1-0348-L	10,514
Project Impact (fiscal year 2010)	84.173	297-160-0-0348-K	12,751
Project Impact (fiscal year 2011)	84.173	297-051-1-0348-L	3,600
ARRA - SPED Early Childhood (fiscal year 2010)	84.392	76210 Worcester Public	69,688
ARRA - SPED Early Childhood (fiscal year 2011)	84.392	76211 Worcester Public	43,300
<u>Passed through the State Department of Elementary & Secondary Education (continued):</u>			
Occupational Education-Vocational Skills (fiscal year 2010)	84.048	400-048-0-0348-K	142,626
Occupational Education-Vocational Skills (fiscal year 2011)	84.048	400-010-1-0348-L	251,658
State Leadership - Research Grants (fiscal year 2010)	84.048	411-029-0-0348-K	38,714
Safe and Drug-Free Schools (fiscal year 2010)	84.186	331-080-0-0348-K	139,073
Safe and Drug-Free Schools (fiscal year 2011)	84.186	332-041-1-0348-L	24,872

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Education (continued)			
<u>Passed through the State Department of Elementary & Secondary Education (continued):</u>			
<i>Education of Homeless Children and Youth Cluster</i>			
Education for Homeless Children & Youth (fiscal year 2010)	84.196	310-006-0-0348-K	39,624
Education for Homeless Children & Youth (fiscal year 2011)	84.196	310-015-1-0348-L	37,907
ARRA - Education for Homeless Children & Youth (fiscal year 2010)	84.387	755-007-0-0348-K	24,052
ARRA - Education for Homeless Children & Youth (fiscal year 2011)	84.387	755-010-1-0348-L	87,356
21st Century Community Learning Centers (fiscal year 2010)	84.287	647-053-0-0348-K	118,380
21st Century Community Learning Centers (fiscal year 2010)	84.287	647-017-0-0348-K	11,519
21st Century Community Learning Centers (fiscal year 2010)	84.287	647-037-0-0348-K	229,940
21st Century Community Learning Centers (fiscal year 2010)	84.287	647-079-0-0348-K	1,127
21st Century Community Learning Centers (fiscal year 2010)	84.287	647-109-0-0348-K	401
21st Century Community Learning Centers (fiscal year 2011)	84.287	647-010-1-0348-L	698,271
21st Century Community Learning Centers (fiscal year 2011)	84.287	647-011-1-0348-L	261,952
21st Century Community Learning Centers (fiscal year 2011)	84.287	647-033-1-0348-L	111,440
21st Century Community Learning Centers (fiscal year 2011)	84.287	647-035-1-0348-L	160,042
<i>Educational Technology State Grants Cluster</i>			
Enhanced Education Through Technology (fiscal year 2010)	84.318	160-107-0-0348-K	81,228
Integrated Technology Models (fiscal year 2010)	84.318	165-006-0-0348-K	
Technology Enhancement - Options (fiscal year 2010)	84.318	170-010-0-0348-K	54,243
ARRA - Enhanced Education Through Technology (fiscal year 2010)	84.386	776-026-0-0348-K	57,726
ARRA - Enhanced Education Through Technology (fiscal year 2011)	84.386	776-000-1-0348-L	70,335
ARRA - Enhanced Education Through Technology (fiscal year 2011)	84.386	777-005-1-0348-L	141,700
Reading First (fiscal year 2010)	84.357	728-006-0-0348-K	32,027
Reading First (fiscal year 2011)	84.357	728-002-1-0348-L	75,507
Title III - English Language Acquisition (fiscal year 2010)	84.365	180-044-0-0348-K	701,437
Title III - English Language Acquisition (fiscal year 2011)	84.365	180-014-1-0348-L	865,278
LEP - Professional Development (fiscal year 2011)	84.365	184-001-1-0348-L	15,000
Title IIA - Improving Teacher Quality (fiscal year 2010)	84.367	140-196-0-0348-K	1,905,845
Title IIA - Improving Teacher Quality (fiscal year 2011)	84.367	140-073-1-0348-L	1,819,061
Streamline Data Management Systems (fiscal year 2010)	84.372	120-005-0-0348-K	19,923
Streamline Data Management Systems (fiscal year 2011)	84.372	120-019-1-0348-L	3,772
School Design and Restructuring Program (fiscal year 2010)	84.377	510-013-0-0348-K	43,723
School Design and Restructuring Program (fiscal year 2010)	84.377	510-024-0-0348-K	248,125
<i>State Fiscal Stabilization Fund Cluster</i>			
ARRA - State Fiscal Stabilization Fund (fiscal year 2010)	84.394	780-093-0-0348-K	382,381
ARRA - State Fiscal Stabilization Fund (fiscal year 2011)	84.394	780-005-1-0348-L	801,625
ARRA - State Fiscal Stabilization Fund (fiscal year 2011)	84.394	780-269-1-0348-L	1,008,399
<u>Passed through the State Executive Office of Public Safety & Homeland Security:</u>			
<i>State Fiscal Stabilization Fund Cluster (continued)</i>			
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services	84.397A	S397A090022	1,120,110
<u>Passed through the State Department of Elementary & Secondary Education (continued):</u>			
Race to the Top	84.395	201-208-1-0348-L	172
Race to the Top - Innovation Schools Planning (ISP)	84.395	202-013-1-0348-L	44,925
Race to the Top - Science, Technology, Engineering, and Mathematics (STEM)	84.395	208-001-1-0348-L	41
ARRA - Education Jobs Grant	84.410	206-087-1-0348-L	933,623
Total U.S. Department of Education			52,447,735

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services			
<u>Direct Programs:</u>			
Consolidated Knowledge Development and Application Program	93.230	Not Applicable	29,133
<i>Head Start Cluster</i>			
Head Start Program	93.600	Not Applicable	6,057,928
ARRA - Head Start Program	93.708	Not Applicable	113,160
<u>Passed through the State Department of Social Services:</u>			
Promoting Safe and Stable Families	93.556	INTF0000009950719142	379,790
<u>Passed through the State Department of Public Health:</u>			
Public Health and Social Services Emergency Fund	93.003	INTF6207P01W97710925	17,426
Public Health Emergency Preparedness	93.069	4516-1021	8,179
Public Health Emergency Preparedness	93.069	4510-0404	692,174
Childhood Lead Poisoning Prevention Program	93.197	INTF7900MM3701516135	3,260
Centers for Disease Control & Prevention - Investigations and Technical Assistance	93.283	INTF6208P01RFR459031	134,097
National Bioterrorism Hospital Preparedness Program	93.889	INTF6207P01906110929	250,240
Block Grants for Prevention and Treatment of Substance Abuse	93.959	INTF2354MM3901115036	273,146
<u>Passed through the State Department of Health and Human Services:</u>			
School-Based Medicaid Reimbursement Program	93.778	1950622	769,025
Total U.S. Department of Health and Human Services			<u>8,727,558</u>
Corporation for National and Community Service			
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Learn and Serve America - School and Community Based Programs (fiscal year 2010)	94.004	354-058-0-0348-K	1,019
Learn and Serve America - School and Community Based Programs (fiscal year 2010)	94.004	354-030-0-0348-K	2,750
Learn and Serve America - School and Community Based Programs (fiscal year 2011)	94.004	354-073-1-0348-L	230
Total Corporation for National and Community Service			<u>3,999</u>
U.S. Department of Homeland Security			
<u>Direct Programs:</u>			
Citizenship Education and Training	97.010	Not Applicable	26,138
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	Not Applicable	726,162
<u>Passed through the State Executive Office of Public Safety & Homeland Security:</u>			
Homeland Security Grant Program	97.067	SCEPSMMRS07WORCESTER	85,190
<u>Passed through the State Office of Emergency Management:</u>			
Emergency Management Performance Grants	97.042	CT CDA 09EMPG0900WORC	67,716
Total U. S. Department of Homeland Security			<u>905,206</u>
Total			<u>\$ 96,167,714</u>

(concluded)

See notes to schedule of expenditures of federal awards.

Note 1 - Basis of Presentation

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

Note 2 - U.S. Department of Agriculture

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

Note 3 - U.S. Department of Commerce

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

Note 4 - U.S. Department of Transportation

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

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

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

Note 6 - U.S. Department of Homeland Security

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

Note 7 - Sub-recipients

The City of Worcester, Massachusetts provided the following awards to sub-recipients for the fiscal year ended June 30, 2011:

Program Description	CFDA Number	Amount
Community Development Block Grant	14.218	\$ 2,611,337
Emergency Shelter Grants Program	14.231	134,258
Supportive Housing Program	14.235	1,752,847
Shelter Plus Care	14.238	266,373
HOME Program	14.239	1,069,242
Housing Opportunities for Persons with AIDS	14.241	317,075
Community Development Block Grant Recovery (CDBG-R)	14.253	81,222
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257	450,638
Lead-Based Paint Hazard Control Grant	14.900	501,960
Violence Against Women Formula Grants	16.588	18,610
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	26,502
Edward Byrne Memorial Justice Assistance Grant Program	16.738	49,836
WIA Youth Activities	17.259	995,766
Environmental Policy and Innovation Grants	66.811	94,000
ARRA - Brownfields Cleanup and Assessment Cooperative Agreements	66.818	32,705
Promoting Safe and Stable Families	93.556	364,521
Total		\$ 8,766,892

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Worcester, Massachusetts.
2. There were no significant deficiencies disclosed during the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements of the City of Worcester, Massachusetts, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Material weaknesses in internal control over major federal award programs disclosed during the audit are reported in the Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the City of Worcester, Massachusetts expresses 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 16-23.

7. The programs tested as major programs were:

Program Description	CFDA Number
<i>Child Nutrition Cluster</i>	
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559
<i>CDBG - Entitlements Grants Cluster</i>	
Community Development Block Grant	14.218
Community Development Block Grant Recovery (CDBG-R)	14.253
<i>WIA Cluster</i>	
WIA Adult Program	17.258
WIA Adult Incentive	17.258
WIA Adult Program - Admin Costpool	17.258
ARRA - WIA Adult Program	17.258
ARRA - WIA Adult Program Admin Costpool	17.258
WIA Youth Activities	17.259
WIA Youth Activities - Admin Costpool	17.259
ARRA - WIA Youth Activities	17.259
ARRA - WIA Youth Activities Admin Costpool	17.259
WIA Youth Incentive	17.259
WIA Rapid Response Grant	17.260
ARRA - WIA Rapid Response Grant	17.260
WIA Dislocated Workers	17.260
WIA Dislocated Workers - Admin Costpool	17.260
ARRA - WIA Dislocated Workers	17.260
ARRA - WIA Dislocated Workers Admin Costpool	17.260
WIA Dislocated Workers	17.278
<i>Title I, Part A Cluster</i>	
Title I Distribution	84.010
Title I FY 11 Carryover Grant	84.010
Title I School Support	84.010
Title I Academic Achievement	84.010
Title I Program Improvement	84.010
ARRA - Title I Grants	84.389
<i>Special Education Cluster</i>	
SPED 94-142 Allocation	84.027
SPED Secondary Reading	84.027
SPED Mass Urban	84.027
SPED Early Childhood Allocation	84.173
Kindergarten Curriculum Development	84.173
Project Impact	84.173
ARRA - SPED IDEA	84.391
ARRA - SPED Early Childhood	84.392
Title IIA - Improving Teacher Quality	84.367
<i>State Fiscal Stabilization Fund Cluster</i>	
ARRA - State Fiscal Stabilization Fund	84.394
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services	84.397A
<i>Head Start Cluster</i>	
Head Start Program	93.600
ARRA - Head Start Program	93.708

8. The threshold used for distinguishing between Type A and B programs was \$2,885,031.
9. The City of Worcester, Massachusetts did not qualify as a low-risk auditee.

B. Findings – Financial Statement Audit

None.

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

DEPARTMENT OF AGRICULTURE

Material Weakness in the Internal Control over Major Programs

- 11-1 Child Nutrition Cluster – CFDA No.’s 10.553 and 10.555; Fiscal year ended June 30, 2011

Condition and Criteria: There was no evidence to support that the Food Services Director (or other supervisory personnel) reviewed and approved the claims for reimbursement and supporting documentation (i.e., “FP-9 Forms” and daily lunch records) prior to submission to the Massachusetts Department of Elementary and Secondary Education (DESE).

Cause: Internal controls are not in place to ensure that all the claims for reimbursement are reviewed for allowability and accuracy.

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

Auditors’ Recommendation: Internal controls surrounding the federal award program must be implemented to ensure that the claims for reimbursement and supporting documentation are reviewed by the Food Services Director, or other supervisory official, prior to submission to the DESE. Controls must also be implemented to document the review procedures and authorization of the claims.

Grantee Response: All FP-9’s and daily lunch records are reviewed for allowability and accuracy by the School Nutrition Director and financial analyst prior to entry into the Massachusetts Department of Elementary and Secondary Education (DESE) data portal.

Confirming signatures are no longer formally required on electronically derived documents as submission into the DESE data portal is considered, by DESE, an electronic version of confirming review. However, for improved internal controls, the Department of Child Nutrition will implement the auditor’s recommendation.

Noncompliance Related to Major Programs

- 11-2 Child Nutrition Cluster – CFDA No.’s 10.553 and 10.555; Fiscal year ended June 30, 2011

Condition and Criteria: Two of the 60 student files tested as part of the Verification Summary process had the eligibility status incorrectly changed based on the results of the verification. One eligibility status was erroneously changed from reduced to free, and one was erroneously changed from reduced to paid.

Cause: Procedures were not in place to appropriately review and evaluate eligibility statuses resulting from the verification performed.

Effect: Program management is not in compliance with federal grant eligibility and special tests and provisions requirements.

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

Auditors' Recommendation: Procedures must be implemented to ensure that any changes resulting from the verification process are appropriately applied.

Grantee Response: The Department of Child Nutrition will implement a secondary review of the verification files as part of standard verification procedure prior to confirming outcome.

11-3 Child Nutrition Cluster – CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2011

Condition and Criteria: Program management did not file the fiscal year 2011 Verification Summary report by the deadline date of January 8, 2011.

Cause: Policies and procedures are not in place to submit the required documentation in accordance with program requirements.

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

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

Auditors' Recommendation: Procedures must be implemented to ensure that the Verification Summary report is filed timely.

Grantee Response: A secondary effort to ensure date/deadline compliance will occur to avoid late submission of the Verification Summary Report.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Material Weakness in the Internal Control over Major Programs

11-4 Community Development Block Grant - Entitlement Grants Cluster – CFDA No.'s 14.218 and 14.253; Fiscal year ended June 30, 2011

Condition and Criteria: The City did not comply with the sub-recipient monitoring compliance requirements related to the program.

Cause: Internal controls are not in place to obtain OMB Circular A-133 audit reports as part of the monitoring activities performed for the City's sub-recipients.

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

Auditors' Recommendation: Internal controls surrounding the federal award program must be implemented to obtain copies of OMB Circular A-133 audit reports for the City's sub-recipients.

Grantee Response: Neighborhood Services shall expand its sub-recipient monitoring protocols to include the inclusion of A-133 audit reports from sub-recipients.

Noncompliance Related to Major Programs

- 11-5 Community Development Block Grant - Entitlement Grants Cluster - CFDA No.'s 14.218 and 14.253; Fiscal year ended June 30, 2011

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

Cause: Procedures are not in place to ensure that the required OMB Circular A-133 audit reports are obtained for the sub-recipients.

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

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

Auditors' Recommendation: Procedures should be implemented to ensure that the required OMB Circular A-133 audit reports are obtained as part of the monitoring process and are maintained in the sub-recipients' files to verify the sub-recipients' compliance with A-133 audit requirements.

Grantee Response: Neighborhood Services shall expand its sub-recipient monitoring protocols to include the inclusion of A-133 audit reports from sub-recipients.

DEPARTMENT OF EDUCATION

Material Weaknesses in the Internal Control over Major Programs

- 11-6 Title I, Part A Cluster - CFDA No.'s 84.010 and 84.389; Fiscal year ended June 30, 2011

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

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

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

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

Grantee Response: Consistent with the Office of Management and Budget (OMB) Circular A-87, the City of Worcester began assessing all grants a 1% indirect cost rate reimbursement after obtaining approval from the City's federal cognizant agent, 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 to 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. The Worcester School Committee and Administration contends that pursuant to Massachusetts General Law 44-53A, grant spending must be authorized by the School Committee.

11-7 Title I, Part A Cluster – CFDA No.'s 84.010 and 84.389; Fiscal year ended June 30, 2011

Condition and Criteria: The City does not have internal controls in place to fully comply with the procurement, suspension and debarment compliance requirements related to the program.

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

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

Auditors' Recommendation: Internal controls 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 *Excluded Parties List System* website. Internal controls must also be implemented to maintain documentation supporting the debarment checks performed.

Grantee Response: The City of Worcester Purchasing department shall assume the responsibility of verifying the eligibility of vendors contracted for grants.

11-8 Special Education Cluster - CFDA No.'s 84.027, 84.173, 84.391, 84.392; Fiscal year ended June 30, 2011

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

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

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

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

Grantee Response: Consistent with the Office of Management and Budget (OMB) Circular A-87, the City of Worcester began assessing all grants a 1% indirect cost rate reimbursement after obtaining approval from the City's federal cognizant agent, 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 to 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. The Worcester School Committee and Administration contends that pursuant to Massachusetts General Law 44-53A, grant spending must be authorized by the School Committee.

11-9 Title IIA – Improving Teacher Quality – CFDA No. 84.367; Fiscal year ended June 30, 2011

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

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

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

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

Grantee Response: Consistent with the Office of Management and Budget (OMB) Circular A-87, the City of Worcester began assessing all grants a 1% indirect cost rate reimbursement after obtaining approval from the City's federal cognizant agent, 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 to 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. The Worcester School Committee and Administration contends that pursuant to Massachusetts General Law 44-53A, grant spending must be authorized by the School Committee.

11-10 State Fiscal Stabilization Fund Cluster – CFDA No.'s 84.394 and 84.397A; Fiscal year ended June 30, 2011

Condition and Criteria: The City did not obtain and maintain contracts for all vendors providing professional services related to the program.

Cause: The City's internal controls surrounding the program did not require the execution of contracts for all vendors providing professional services related to the program.

Effect: The ability to substantiate the reasonableness of all professional services costs charged to the program is inhibited.

Auditors' Recommendation: Internal controls surrounding the federal award program must be implemented to require contracts with all professional service providers related to the program.

Grantee Response: The Worcester Public Schools' grants division shall obtain contracts for all professional service related activities arising from grant funding.

Noncompliance Related to Major Programs

11-11 Title I, Part A Cluster - CFDA No.'s 84.010 and 84.389; Fiscal year ended June 30, 2011

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

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

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

Questioned Costs: Questioned costs related to this finding total \$273,132.

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

Grantee Response: Consistent with the Office of Management and Budget (OMB) Circular A-87, the City of Worcester began assessing all grants a 1% indirect cost rate reimbursement after obtaining approval from the City's federal cognizant agent, 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 to 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. The Worcester School Committee and Administration contends that pursuant to Massachusetts General Law 44-53A, grant spending must be authorized by the School Committee.

11-12 Special Education Cluster - CFDA No.'s 84.027, 84.173, 84.391, and 84.392; Fiscal year ended June 30, 2011

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

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

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

Questioned Costs: Questioned costs related to this finding total \$187,486.

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

Grantee Response: Consistent with the Office of Management and Budget (OMB) Circular A-87, the City of Worcester began assessing all grants a 1% indirect cost rate reimbursement after obtaining approval from the City's federal cognizant agent, 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 to 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. The Worcester School Committee and Administration contends that pursuant to Massachusetts General Law 44-53A, grant spending must be authorized by the School Committee.

11-13 Title IIA - Improving Teacher Quality - CFDA No. 84.365; Fiscal year ended June 30, 2011

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

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

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

Questioned Costs: Questioned costs related to this finding total \$79,102.

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

Grantee Response: Consistent with the Office of Management and Budget (OMB) Circular A-87, the City of Worcester began assessing all grants a 1% indirect cost rate reimbursement after obtaining approval from the City's federal cognizant agent, 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 to 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. The Worcester School Committee and Administration contends that pursuant to Massachusetts General Law 44-53A, grant spending must be authorized by the School Committee.

DEPARTMENT OF HEALTH AND HUMAN SERVICES*Noncompliance Related to Major Programs*

11-14 Head Start Cluster - CFDA No.'s 93.600 and 93.708; Fiscal year ended June 30, 2011

Condition and Criteria: The documentation maintained did not support the salaries and wages charged to the grant program for all grant employees. Procedures to ensure accountability for authorization of federal grant charges must be in place to determine allowable costs.

Cause: Procedures are not in place to maintain the salary documentation in a manner that reflects the actual activities for all grant employees and the grants that their time is charged to.

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

Questioned Costs: Questioned salary costs charged to the Head Start Cluster program total \$266,868.

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

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

Grantee Response: The employee salaries in question would have been allowable under either the federal Head Start grant or state grant funds that were received later in the fiscal year. We are implementing procedures to more clearly define position descriptions and duties, which will reduce the need to make account adjustments in the future.

D. Summary of Prior Audit Findings**MAJOR FEDERAL AWARD PROGRAMS AUDIT****Department of Housing and Urban Development***Material Weaknesses in the Internal Control over Major Programs*

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

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

Current Status: This finding has been resolved.

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

Condition: The City did not comply with the sub-recipient monitoring compliance requirements related to the program.

Current Status: The status remains unchanged. Please see current year finding 11-4.

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

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

Current Status: This finding has been resolved.

Material Noncompliance Related to Major Programs

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

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

Current Status: This finding has been resolved.

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

Condition: The sub-recipient files tested did not contain documentation of monitoring activities performed, and did not contain OMB Circular A-133 audit reports for the sub-recipients that were subject to such an audit.

Current Status: Procedures have been implemented to maintain documentation of the monitoring activities performed; however A-133 audit reports are not being obtained. Please see current year finding 11-5.

Other Noncompliance Related to Major Programs

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

Condition: None of the rehabilitation project files tested contained evidence of any final inspections being performed. Additionally, one of the project files tested did not contain a contract or scope of services detailing the required rehabilitation work based on the pre-rehabilitation inspection.

Current Status: This finding has been resolved.

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

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

Current Status: This finding has been resolved.

Department of Education

Material Weaknesses in the Internal Control over Major Programs

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

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

Current Status: The status remains unchanged. Please see current year finding 11-6.

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

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

Current Status: The status remains unchanged. Please see current year finding 11-8.

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

Condition: The City did not comply with the Davis-Bacon Act compliance requirements related to the program.

Current Status: This finding has been resolved.

Noncompliance Related to Major Programs

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

Condition: 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.

Current Status: The status remains unchanged. Please see current year finding 11-11.

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

Condition: Program management did not maintain the required documentation related to the support of salaries and wages for one employee whose salary was charged to the grant program as prescribed in OMB Circular A-87.

Current Status: This finding has been resolved.

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

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.

Current Status: The status remains unchanged. Please see current year finding 11-12.

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

Condition: Program management did not maintain the required documentation related to the support of salaries and wages for three employees whose salaries were charged to the grant program, as prescribed in OMB Circular A-87.

Current Status: This finding has been resolved.

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

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

Current Status: This finding has been resolved.

Department of Health and Human Services***Material Weaknesses in the Internal Control over Major Programs***

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

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

Current Status: This finding has been resolved.

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

Condition: The City did not comply with the Davis-Bacon Act compliance requirements related to the program.

Current Status: This finding has been resolved.

Noncompliance Related to Major Programs

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

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

Current Status: This finding has been resolved.

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

Condition: Program management did not maintain the required documentation related to the support of salaries and wages for two employees whose salaries were charged to the grant program, as prescribed in OMB Circular A-87.

Current Status: The status remains unchanged. Please see current year finding 11-14.

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

Condition: The City contracted with a vendor for a construction project related to the grant program, and the employees performing the construction work were not paid in accordance with the federal prevailing wage rate.

Current Status: This finding has been resolved.