

CITY OF WORCESTER, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CITY OF WORCESTER, MASSACHUSETTS
REPORTS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING, COMPLIANCE AND
FEDERAL AWARD PROGRAMS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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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, 2012 (except for the Worcester Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2011), which collectively comprise the City of Worcester, Massachusetts' basic financial statements and have issued our report thereon dated October 31, 2012. 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.

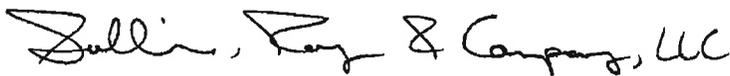
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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, 2012.

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



October 31, 2012



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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, 2012. 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.

As described in items 12-2 and 12-5 in the accompanying schedule of findings and questioned costs, the City did not comply with the requirements regarding eligibility and special tests and provisions that are applicable to its Child Nutrition Cluster and Community Development Block Grant Entitlement Cluster programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 12-6, 12-15, 12-16, 12-17, 12-18, 12-19, and 12-23.

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 12-1, 12-3, 12-4, 12-7, 12-8, 12-9, 12-10, 12-11, 12-12, 12-13, 12-14, 12-20, 12-21, and 12-22 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, 2012 (except for the Worcester Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2011), and have issued our report thereon dated October 31, 2012, 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, 2012

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Food Distribution Program	10.550	14-348	\$ 775,699
<i>Child Nutrition Cluster</i>			
School Breakfast Program	10.553	14-348	3,114,989
National School Lunch Program	10.555	14-348	7,439,423
<i>ARRA - Child Nutrition Discretionary Grants</i>			
Fruit and Vegetable Program	10.579	721-020-0-0348-K	18,232
	10.582	14-348	429,680
<u>Passed through the State Department of Career Services:</u>			
Supplemental Nutrition Assistance Program	10.561	CT EOL 3250 10OSCC01WORC02	10,477
Total U.S. Department of Agriculture			<u>11,788,500</u>
U.S. Department of Housing and Urban Development			
<u>Direct programs:</u>			
<i>CDBG - Entitlement Grants Cluster</i>			
Community Development Block Grant	14.218	Not Applicable	4,934,614
Community Development Block Grant Recovery (CDBG-R)	14.253	Not Applicable	237,774
<u>Passed through the State Department of Housing and Community Development:</u>			
Community Development Block Grant	14.218	SCOCD 3242 1059028 0000	84,063
Emergency Shelter Grants Program	14.231	Not Applicable	227,573
Supportive Housing Program	14.235	Not Applicable	1,806,463
Shelter Plus Care	14.238	Not Applicable	289,256
HOME Program	14.239	Not Applicable	1,480,275
Housing Opportunities for Persons with AIDS	14.241	Not Applicable	376,708
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	Not Applicable	75,067
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	Not Applicable	101,503
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257	Not Applicable	117,378
<u>Passed through the State Department of Housing and Community Development:</u>			
Lead-Based Paint Hazard Control Grant	14.900	SCOCD542065605160000	<u>2,104,552</u>
Total U.S. Department of Housing and Urban Development			<u>11,835,226</u>
U.S. Department of Justice			
<u>Direct programs:</u>			
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	Not Applicable	119,931
Coverdell Forensic Sciences Improvement Grant Program	16.742	Not Applicable	20,667

(continued)

*Reports on IC over Financial Reporting,
Compliance and Federal Award Programs*

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Justice (continued)			
<i>JAG Program Cluster</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Not Applicable	125,460
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	Not Applicable	387,555
<u>Passed through the State Executive Office of Public Safety:</u>			
Violence Against Women Formula Grants	16.588	SCEPS 3001VAWA11WORC	29,650
Total U.S. Department of Justice			<u>683,263</u>
U.S. Department of Labor			
<u>Direct Program:</u>			
H-1B High Growth Job Training Grants	17.268	Not Applicable	595,216
<u>Passed through the State Department of Career Services:</u>			
Employment Service/Wagner-Peyser Funded Activities	17.207	CT EOL 3250 10OSCC01WORC02	159,611
Unemployment Insurance	17.225	CT EOL 3250 10OSCC01WORC02	49,653
ARRA - Unemployment Insurance	17.225	CT EOL 3250 09STIMWORC01	3,140
<u>WIA Cluster:</u>			
WIA Adult Program	17.258	CT EOL 3250 10OSCC01WORC02	1,026,069
WIA Adult Program - Admin Costpool	17.258	CT EOL 3250 10OSCC01WORC02	17,119
ARRA - WIA Adult Program	17.258	CT EOL 3250 09STIMWORC01	8,308
WIA Youth Activities	17.259	CT EOL 3250 10OSCC01WORC02	1,326,323
WIA Youth Activities - Admin Costpool	17.259	CT EOL 3250 10OSCC01WORC02	17,084
ARRA - WIA Dislocated Workers	17.260	CT EOL 3250 09STIMWORC01	4,318
WIA Rapid Response Grant	17.278	CT EOL 3250 10OSCC01WORC02	5,522
WIA Dislocated Workers - Admin Costpool	17.278	CT EOL 3250 10OSCC01WORC02	60
WIA Dislocated Workers	17.278	CT EOL 3250 10OSCC01WORC02	1,649,133
Workforce Investment Act (WIA) National Emergency Grants	17.277	CT EOL 3250 10OSCC01WORC02	63,786
Disabled Veterans' Outreach Program	17.801	CT EOL 3250 10OSCC01WORC02	2,133
Local Veterans' Employment Representative Program	17.804	CT EOL 3250 10OSCC01WORC02	15,660
<u>Passed through the Regional Employment Board of Hampden County, Inc.</u>			
ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	CT EOL 3250 10OSCC01WORC02	36,070
Total U.S. Department of Labor			<u>4,979,205</u>
U.S. Department of Transportation			
<u>Passed through the Massachusetts Department of Transportation:</u>			
Airport Improvement Program	20.106	3-25-0053	10,317
Environmental Protection Agency			
<u>Direct Programs:</u>			
Environmental Policy and Innovation Grants	66.811	Not Applicable	531
ARRA - Brownfields Cleanup and Assessment Cooperative Agreements	66.818	Not Applicable	631,361
Total Environmental Protection Agency			<u>631,892</u> (continued)

*Reports on IC over Financial Reporting,
Compliance and Federal Award Programs*

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education			
<u>Direct Programs:</u>			
Teaching American History Grant	84.215X	Not Applicable	441,209
Advanced Placement Incentive	84.330C	Not Applicable	444,591
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Adult Education (fiscal year 2011)	84.002	342-014-1-1512-L	8,892
Adult Education (fiscal year 2012)	84.002	342-006-2-1512-M	30,765
<i>Title I, Part A Cluster</i>			
Title I Distribution (fiscal year 2011)	84.010	305-320-1-0348-L	1,801,936
Title I Distribution (fiscal year 2012)	84.010	305-291-2-0348-M	8,557,403
Title I FY 11 Carryover Grant	84.010	305-555-1-0348-L	1,108,665
Title I FY 12 Carryover Grant	84.010	305-392-2-0348-M	458,893
Title I School Support (fiscal year 2011)	84.010	323-011-1-0348-L	10,031
Title I School Support (fiscal year 2011)	84.010	323-023-1-0348-L	2,585
Title I School Support (fiscal year 2012)	84.010	323-019-2-0348-M	4,755
Title I School Support (fiscal year 2012)	84.010	323-077-2-0348-M	1,800
Title I Academic Achievement (fiscal year 2011)	84.010	316-004-1-0348-M	55,873
Title I Academic Achievement (fiscal year 2012)	84.010	316-004-2-0348-M	17,333
Title I Academic Achievement (fiscal year 2012)	84.010	316-010-2-0348-M	9,226
Title I Supplemental Support (fiscal year 2012)	84.010	320-036-2-0348-M	315
ARRA - Title I Grants (fiscal year 2011)	84.389	770-027-1-0348-L	174,526
<i>Special Education Cluster</i>			
SPED 94-142 Allocation (fiscal year 2011)	84.027	240-267-1-0348-L	1,022,372
SPED 94-142 Allocation (fiscal year 2012)	84.027	240-198-2-0348-M	6,361,819
SPED Carryover Grant (fiscal year 2012)	84.027	240-393-2-0348-M	15,191
SPED Program Improvement	84.027	274-228-2-0348-M	74,282
SPED Mass Urban (fiscal year 2011)	84.027	240-266-1-0348-L	12,630
SPED Mass Urban (fiscal year 2012)	84.027	240-200-2-0348-M	25,784
Math and SPED Leadership	84.027	255-005-2-0348-M	150
<u>Passed through the State Department of Early Education and Care:</u>			
<i>Special Education Cluster (continued)</i>			
SPED Early Childhood Allocation (fiscal year 2011)	84.173	26211 Worcester Public	4,873
SPED Early Childhood Allocation (fiscal year 2012)	84.173	26212 Worcester Public	263,736
Kindergarten Curriculum Development (fiscal year 2011)	84.173	264-006-1-0348-L	1,486
Project Impact (fiscal year 2011)	84.173	297-051-1-0348-L	9,340
ARRA - SPED Early Childhood (fiscal year 2011)	84.392	76211 Worcester Public	141,141
<u>Passed through the State Department of Elementary & Secondary Education (continued):</u>			
Occupational Education-Vocational Skills (fiscal year 2011)	84.048	400-010-1-0348-L	159,485
Occupational Education-Vocational Skills (fiscal year 2012)	84.048	400-072-2-0348M	324,757
Safe and Drug-Free Schools (fiscal year 2011)	84.186	332-041-1-0348-L	51

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
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 2011)	84.196	310-015-1-0348-L	41,112
Education for Homeless Children & Youth (fiscal year 2012)	84.196	310-021-2-0348-M	48,078
ARRA - Education for Homeless Children & Youth (fiscal year 2011)	84.387	755-010-1-0348-L	21,112
21st Century Community Learning Centers (fiscal year 2011)	84.287	647-010-1-0348-L	203,702
21st Century Community Learning Centers (fiscal year 2011)	84.287	647-011-1-0348-L	224,168
21st Century Community Learning Centers (fiscal year 2011)	84.287	647-033-1-0348-L	51,060
21st Century Community Learning Centers (fiscal year 2011)	84.287	647-035-1-0348-L	39,958
21st Century Community Learning Centers (fiscal year 2012)	84.287	647-033-2-0348-M	914,874
21st Century Community Learning Centers (fiscal year 2012)	84.287	647-034-2-0348-M	543,476
<i>Educational Technology State Grants Cluster</i>			
ARRA - Enhanced Education Through Technology (fiscal year 2011)	84.386	776-000-1-0348-L	90,564
ARRA - Enhanced Education Through Technology (fiscal year 2011)	84.386	777-005-1-0348-L	41,361
ARRA - Enhanced Education Through Technology (fiscal year 2012)	84.386	777-004-2-0348-M	1,276
ARRA - Enhanced Education Through Technology (fiscal year 2011)	84.386	777-006-2-0348-M	8,658
Title III - English Language Acquisition (fiscal year 2011)	84.365	180-014-1-0348-L	277,312
Title III - English Language Acquisition (fiscal year 2012)	84.365	180-113-2-0348-M	1,838
Title III - English Language Acquisition (fiscal year 2012)	84.365	180-039-2-0348-M	971,713
Title IIA - Improving Teacher Quality (fiscal year 2011)	84.367	140-073-1-0348-L	164,650
Title IIA - Improving Teacher Quality (fiscal year 2012)	84.367	140-294-2-0348-M	1,742,718
Title IIA - Improving Teacher Quality (fiscal year 2012)	84.367	140-334-2-0348-M	39,797
Title IIA - Improving Teacher Quality (fiscal year 2012)	84.367	143-022-2-0348-M	3,000
Streamline Data Management Systems (fiscal year 2011)	84.372	120-019-1-0348-L	6,309
ARRA - School Improvement Program (fiscal year 2012)	84.388	767-002-2-0348-M	912,816
<i>State Fiscal Stabilization Fund Cluster</i>			
ARRA - State Fiscal Stabilization Fund	84.394	780-017-2-0348-M	297
<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	595,796

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*Reports on IC over Financial Reporting,
Compliance and Federal Award Programs*

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education (continued)			
<u>Passed through the State Department of Elementary & Secondary Education (continued):</u>			
<i>State Fiscal Stabilization Fund - Race to the Top Incentive Grants</i>			
ARRA - Race to the Top (fiscal year 2011)	84.395	201-208-1-0348-L	20,137
ARRA - Race to the Top (fiscal year 2012)	84.395	201-036-2-0348-M	2,036,898
ARRA - Race to the Top - Innovation Schools Planning (ISP) (fiscal year 2011)	84.395	202-013-1-0348-L	19,449
ARRA - Race to the Top - Innovation Schools Planning (ISP) (fiscal year 2012)	84.395	202-007-2-0348-L	8,115
ARRA - Race to the Top - Innovation Implementation (fiscal year 2012)	84.395	203-011-2-0348-M	71,873
ARRA - Race to the Top - Science, Technology, Engineering, and Mathematics (STEM) (fiscal year 2011)	84.395	208-001-1-0348-L	4,694
ARRA - Race to the Top - Science, Technology, Engineering, and Mathematics (STEM) (fiscal year 2012)	84.395	208-006-2-0348-L	9,812
ARRA - Race to the Top - Wraparound Zone Initiative (fiscal year 2012)	84.395	209-005-2-0348-M	112,000
ARRA - Education Jobs Grant	84.410	206-191-2-0348-M	<u>3,644,432</u>
Total U.S. Department of Education			<u>34,418,950</u>
U.S. Department of Health and Human Services			
<u>Direct Programs:</u>			
Consolidated Knowledge Development and Application Program	93.230	Not Applicable	32,551
Head Start Program	93.600	Not Applicable	6,172,654
<u>Passed through the State Department of Social Services:</u>			
Promoting Safe and Stable Families	93.556	INTF0000009950719142	406,108
<u>Passed through the State Department of Public Health:</u>			
Public Health and Social Services Emergency Fund	93.003	INTF6207P01W97710925	6,941
Medical Reserve Corps Grant	93.008	4516-1010	85,402
Public Health Emergency Preparedness	93.069	4516-1021	295
Public Health Emergency Preparedness	93.069	4510-0404	496,555
Childhood Lead Poisoning Prevention Program	93.197	INTF7900MM3701516135	62,516
Centers for Disease Control & Prevention - Investigations and Technical Assistance	93.283	INTF6208P01RFR459031	154,938
Opioid Grants	93.450	INTF2354MM3900913011	97,353
National Bioterrorism Hospital Preparedness Program	93.889	INTF6207P01906110929	234,889
Block Grants for Prevention and Treatment of Substance Abuse	93.959	INTF2354MM3901115036	117,353
<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 TAG00000002	53,166
School-Based Medicaid Reimbursement Program	93.778	1950622	<u>1,051,325</u>
Total U.S. Department of Health and Human Services			<u>8,972,046</u>

(continued)

*Reports on IC over Financial Reporting,
Compliance and Federal Award Programs*

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Federal Expenditures</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 2011)	94.004	354-073-1-0348-L	<u>7,270</u>
U.S. Department of Homeland Security			
<u>Direct Programs:</u>			
Citizenship Education and Training	97.010	Not Applicable	49,165
Assistance to Firefighters Grant	97.044	Not Applicable	405,139
Metropolitan Medical Response System	97.071		
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	Not Applicable	1,224,855
<u>Passed through the State Executive Office of Public Safety & Homeland Security:</u>			
Homeland Security Grant Program	97.067	SCEPMMRS07WORCESTER	168,666
<u>Passed through the State Office of Emergency Management:</u>			
Public Assistance Grants	97.036	CT CDA 09FEMA1813WORC	933,780
Emergency Management Performance Grants	97.042	CT CDA FY 11EMPG0900WORC	1,885
Emergency Management Performance Grants	97.042	CT CDA FY 12EMPG09SUPWORC	<u>10,000</u>
Total U. S. Department of Homeland Security			<u>2,793,490</u>
Total			<u>\$ 76,120,159</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, ARRA - Child Nutrition Discretionary Grants, and Fruit and Vegetable Program represent cash receipts from federal reimbursements.

Note 3 – U.S. Department of Transportation

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

Note 4 – U.S. Department of 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 amounts reported for the Emergency Management Performance Grants and Public Assistance Grants represent federal cash receipts.

Note 6 - Sub-recipients

The City of Worcester, Massachusetts provided the following awards to sub-recipients for the fiscal year ended June 30, 2012:

Program Description	CFDA Number	Amount
Community Development Block Grant	14.218	\$ 2,231,774
Emergency Shelter Grants Program	14.231	216,741
Supportive Housing Program	14.235	1,575,834
Shelter Plus Care	14.238	289,256
HOME Program	14.239	1,232,329
Housing Opportunities for Persons with AIDS	14.241	352,268
Community Development Block Grant Recovery (CDBG-R)	14.253	28,593
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257	899,922
Lead-Based Paint Hazard Control Grant	14.900	403,096
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	46,197
Edward Byrne Memorial Justice Assistance Grant Program	16.738	21,268
WIA Adult Program	17.258	12,734
ARRA - WIA Adult Program	17.258	2,560
WIA Youth Activities	17.259	940,170
ARRA - WIA Dislocated Workers	17.260	4,318
WIA Dislocated Workers	17.278	46,822
Promoting Safe and Stable Families	93.556	378,977
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	33,570
Total		<u>\$ 8,716,429</u>

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Worcester, Massachusetts.
2. There were no significant deficiencies disclosed during the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements of the City of Worcester, Massachusetts, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Material weaknesses in internal control over major federal award programs disclosed during the audit are reported in the Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the City of Worcester, Massachusetts expresses a qualified opinion on the Child Nutrition Cluster and Community Development Block Grant - Entitlement Grants Cluster programs and an unqualified opinion on all other major federal award programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule on pages 17-29.

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>Title I, Part A Cluster</i>	
Title I Distribution	84.010
Title I FY 11 Carryover Grant	84.010
Title I FY 12 Carryover Grant	84.010
Title I School Support	84.010
Title I Academic Achievement	84.010
Title I Supplemental Support	84.010
ARRA - Title I Grants	84.389
<i>Special Education Cluster</i>	
SPED 94-142 Allocation	84.027
SPED Carryover Grant	84.027
SPED Program Improvement	84.027
SPED Mass Urban	84.027
Math and SPED Leadership	84.027
SPED Early Childhood Allocation	84.173
Kindergarten Curriculum Development	84.173
Project Impact	84.173
ARRA - SPED Early Childhood	84.392
<i>State Fiscal Stabilization Fund - Race to the Top Incentive Grants</i>	
ARRA - Race to the Top	84.395
ARRA - Race to the Top - Innovation Schools Planning (ISP)	84.395
ARRA - Race to the Top - Innovation Implementation	84.395
ARRA - Race to the Top - Science, Technology, Engineering, and Mathematics (STEM)	84.395
ARRA - Race to the Top - Wraparound Zone Initiative	84.395
ARRA - Education Jobs Grant	84.410
Head Start Program	93.600

8. The threshold used for distinguishing between Type A and B programs was \$2,283,605.

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*

12-1 Child Nutrition Cluster – CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2012

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

Cause: Internal controls are not in place to ensure that the required lunch applications and income documentation obtained through the verification summary process are maintained for all students.

Effect: Noncompliance with the federal award program's eligibility and special tests and provisions requirements occurred and was not detected and corrected timely.

Auditors' Recommendation: Internal controls surrounding the federal award program must be implemented to ensure that lunch applications are maintained in the student files for all students receiving free and reduced lunches. Controls must also be implemented to maintain the income documentation obtained as part of the verification process in the students' files.

Grantee Response: A yearly meal application training session for school based staff involved in the initial determination process will occur prior to the start of the new school year. Required documentation and required follow through with the central school nutrition office as the final determination official will be emphasized.

Material Noncompliance Related to Major Programs

12-2 Child Nutrition Cluster – CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2012

Condition and Criteria: Six of the 60 student files tested were either missing the original applications filed or did not have their eligibility status updated based on the results of the verification summary process.

Cause: Procedures are not in place to maintain the required lunch applications and to update eligibility status determined through the verification summary process for all students.

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

Questioned Costs: Questioned costs related to this finding total \$4,992.

Auditors' Recommendation: Procedures must be implemented to ensure that all student files include the lunch applications, as well as any income documentation obtained, to support the eligibility statuses determined for the students each school year. Procedures must also be implemented to update the students' eligibility statuses to reflect the results of the verification summary process.

Grantee Response: A second review of the student eligibility data base by a person other than the verification official will occur after the verification process is completed to ensure correct follow through on eligibility status and changes if warranted.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Material Weaknesses in the Internal Control over Major Programs

- 12-3 Community Development Block Grant - Entitlement Grants Cluster - CFDA No.'s 14.218 and 14.253; Fiscal year ended June 30, 2012

Condition and Criteria: The City did not comply with the reporting compliance requirements of the program related to sub-recipients.

Cause: Internal controls are not in place to file the required Federal Funding Accountability and Transparency Act (FFATA) Subaward Reports with the U.S. Department of Housing and Urban Development.

Effect: Noncompliance with the federal award program's reporting compliance requirements occurred and was not detected and corrected timely.

Auditors' Recommendation: Internal controls surrounding the federal award program must be implemented to submit the required FFATA reports.

Grantee Response: The City was not aware of the FFATA reporting requirements for sub-recipients with contracts greater than \$25,000. The City has implemented revised procedures to ensure that upon executing any sub-recipient contracts, FFATA reporting of said contracts will occur.

- 12-4 Community Development Block Grant - Entitlement Grants Cluster - CFDA No.'s 14.218 and 14.253; Fiscal year ended June 30, 2012

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

Cause: Internal controls are not in place to perform, prepare and maintain copies of pre-inspection checklists and final inspection reports for all rehabilitation projects related to the grant program.

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

Auditors' Recommendation: Internal controls surrounding the federal award program must be implemented to perform, prepare and maintain pre-inspection checklists and final inspection reports in all the rehabilitation projects files to ensure that the work performed is reasonable and allowable.

Grantee Response: The City has revised its procedures to ensure that pre inspection checklists and reports are conducted and incorporated into the respective construction contracts. Additionally, the city's procedures have been revised to ensure that final inspections, to include Department of Inspectional Services inspections, are conducted prior to the release of any retainage withheld.

Material Noncompliance Related to Major Programs

- 12-5 Community Development Block Grant - Entitlement Grants Cluster - CFDA No.'s 14.218 and 14.253; Fiscal year ended June 30, 2012

Condition and Criteria: None of the rehabilitation project files tested contained evidence of any pre-inspections being performed. Additionally, one of the project files tested did not contain a final inspection report prior to making payments, but rather an interim fieldwork report documenting that none of the work had actually been performed and the project materials were not located at the job site. As stated in the federal compliance supplement, the City is required to identify the deficiencies determined through pre-rehabilitation inspections conducted in the rehabilitation contracts, and perform final inspections of the rehabilitation work done to verify that the work is in accordance with the contract specifications, prior to making payments.

Cause: Procedures are not in place to ensure that pre-inspection checklists and final inspection reports are performed and documented for all rehabilitation projects.

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

Questioned Costs: Questioned costs incurred during fiscal year 2012 related to this finding total \$201,163.

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

Grantee Response: The City has revised its procedures to ensure that pre inspection checklists and reports are conducted and incorporated into the respective construction contracts. Additionally, the city's procedures have been revised to ensure that final inspections, to include Department of Inspectional Services inspections, are conducted prior to the release of any retainage withheld.

Other Noncompliance Related to Major Programs

- 12-6 Community Development Block Grant - Entitlement Grants Cluster - CFDA No.'s 14.218 and 14.253; Fiscal year ended June 30, 2012

Condition and Criteria: The City did not file the required "FFATA Subaward Reports" with the U.S. Department of Housing and Urban Development during the program year for the City's sub-recipients receiving more than \$25,000 of Community Development Block Grant funds.

Cause: Procedures are not in place to submit the required reports related to its sub-recipients.

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

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

Auditors' Recommendation: Procedures must be implemented to ensure that the "FFATA Subaward Reports" are filed with the U.S. Department of Housing and Urban Development in a timely manner and in accordance with federal grant requirements.

Grantee Response: The City was not aware of the FFATA reporting requirements for sub-recipients with contracts greater than \$25,000. The City has implemented revised procedures to ensure that upon executing any sub-recipient contracts, FFATA reporting of said contracts will occur.

DEPARTMENT OF EDUCATION

Material Weaknesses in the Internal Control over Major Programs

12-7 Title I, Part A Cluster – CFDA No.’s 84.010 and 84.389; Fiscal year ended June 30, 2012

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 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. The Worcester School Committee and Administration contends that pursuant to M.G.L. 44-53A, 71-26C, and 71-34A, grant spending must be authorized by the School Committee. Contrary opinions from the City’s Law Department and the Massachusetts Department of Elementary and Secondary Education (DESE) have been referred to the Office of Management and Budget (OMB) for final determination.

12-8 Title I, Part A Cluster – CFDA No.’s 84.010 and 84.389; Fiscal year ended June 30, 2012

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 and the Worcester Public Schools (WPS) will independently verify the eligibility of a vendor's status from the *Excluded Party List System*.

12-9 Special Education Cluster - CFDA No.'s 84.027, 84.173 and 84.392; Fiscal year ended June 30, 2012

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 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. The Worcester School Committee and Administration contends that pursuant to M.G.L. 44-53A, 71-26C, and 71-34A, grant spending must be authorized by the School Committee. Contrary opinions from the City's Law Department and the Massachusetts Department of Elementary and Secondary Education (DESE) have been referred to the Office of Management and Budget (OMB) for final determination.

12-10 ARRA - Race to the Top - CFDA No. 84.395; Fiscal year ended June 30, 2012

Condition and Criteria: Ten of the 42 federal grant invoices tested did not contain any evidence of the Grant Administrator's (or other supervisory personnel) review and approval prior to payment. While evidence (i.e., signature) of such approval is not required by City policy in order to process invoice payments, this additional control provides enhanced assurance over the allowability of expenses paid from grant funding.

Cause: Internal controls are not in place to require signature evidence that all federal grant invoices are reviewed and approved for allowability and accuracy prior to payment.

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 provide signature evidence that all federal grant invoices are reviewed and approved by the Grant Administrator, or other supervisory official, prior to payment.

Grantee Response: The WPS will review and revise our procedures to make certain that all invoices are appropriately reviewed and approved by supervisory staff prior to payment.

12-11 ARRA - Race to the Top - CFDA No. 84.395; Fiscal year ended June 30, 2012

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 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. The Worcester School Committee and Administration contends that pursuant to M.G.L. 44-53A, 71-26C, and 71-34A, grant spending must be authorized by the School Committee. Contrary opinions from the City's Law Department and the Massachusetts Department of Elementary and Secondary Education (DESE) have been referred to the Office of Management and Budget (OMB) for final determination.

12-12 ARRA - Race to the Top - CFDA No. 84.395; Fiscal year ended June 30, 2012

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 and the WPS will independently verify the eligibility of a vendor's status from the *Excluded Party List System*.

12-13 ARRA - Education Jobs Grant - CFDA No. 84.410; Fiscal year ended June 30, 2012

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 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. The Worcester School Committee and Administration contends that pursuant to M.G.L. 44-53A, 71-26C, and 71-34A, grant spending must be authorized by the School Committee. Contrary opinions from the City's Law Department and the Massachusetts Department of Elementary and Secondary Education (DESE) have been referred to the Office of Management and Budget (OMB) for final determination.

Material Weakness in the Internal Control over Non-Major Programs

12-14 Title IIA - Improving Teacher Quality - CFDA No. 84.367; Fiscal year ended June 30, 2012

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 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. The Worcester School Committee and Administration contends that pursuant to M.G.L. 44-53A, 71-26C, and 71-34A, grant spending must be authorized by the School Committee. Contrary opinions from the City's Law Department and the Massachusetts Department of Elementary and Secondary Education (DESE) have been referred to the Office of Management and Budget (OMB) for final determination.

Noncompliance Related to Major Programs

12-15 Title I, Part A Cluster - CFDA No.'s 84.010 and 84.389; Fiscal year ended June 30, 2012

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 \$215,411.

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 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. The Worcester School Committee and Administration contends that pursuant to M.G.L. 44-53A, 71-26C, and 71-34A, grant spending must be authorized by the School Committee. Contrary opinions from the City's Law Department and the Massachusetts Department of Elementary and Secondary Education (DESE) have been referred to the Office of Management and Budget (OMB) for final determination.

12-16 Special Education Cluster - CFDA No.'s 84.027, 84.173, and 84.392; Fiscal year ended June 30, 2012

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 \$155,469.

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 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. The Worcester School Committee and Administration contends that pursuant to M.G.L. 44-53A, 71-26C, and 71-34A, grant spending must be authorized by the School Committee. Contrary opinions from the City's Law Department and the Massachusetts Department of Elementary and Secondary Education (DESE) have been referred to the Office of Management and Budget (OMB) for final determination.

12-17 ARRA - Race to the Top - CFDA No. 84.395; Fiscal year ended June 30, 2012

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 \$38,112.

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 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. The Worcester School Committee and Administration contends that pursuant to M.G.L. 44-53A, 71-26C, and 71-34A, grant spending must be authorized by the School Committee. Contrary opinions from the City's Law Department and the Massachusetts Department of Elementary and Secondary Education (DESE) have been referred to the Office of Management and Budget (OMB) for final determination.

12-18 ARRA - Education Jobs Grant - CFDA No. 84.410; Fiscal year ended June 30, 2012

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 \$72,889.

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 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. The Worcester School Committee and Administration contends that pursuant to M.G.L. 44-53A, 71-26C, and 71-34A, grant spending must be authorized by the School Committee. Contrary opinions from the City's Law Department and the Massachusetts Department of Elementary and Secondary Education (DESE) have been referred to the Office of Management and Budget (OMB) for final determination.

Noncompliance Related to Non-Major Programs

12-19 Title IIA - Improving Teacher Quality – CFDA No. 84.367; Fiscal year ended June 30, 2012

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 \$36,652.

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 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. The Worcester School Committee and Administration contends that pursuant to M.G.L. 44-53A, 71-26C, and 71-34A, grant spending must be authorized by the School Committee. Contrary opinions from the City's Law Department and the Massachusetts Department of Elementary and Secondary Education (DESE) have been referred to the Office of Management and Budget (OMB) for final determination.

DEPARTMENT OF HEALTH AND HUMAN SERVICES***Material Weaknesses in the Internal Control over Major Programs***

12-20 Head Start Program - CFDA No. 93.600; Fiscal year ended June 30, 2012

Condition and Criteria: Nine of the twelve federal grant invoices tested did not contain any evidence of the Grant Administrator's (or other supervisory personnel) review and approval prior to payment.

Cause: Internal controls are not in place to provide signature evidence that all federal grant invoices are reviewed and approved for allowability and accuracy prior to payment.

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 provide signature evidence that all federal grant invoices are reviewed and approved by the Grant Administrator, or other supervisory official, prior to payment.

Grantee Response: The WPS will review and revise our procedures to make certain that all invoices and appropriately reviewed and approved by supervisory staff prior to payment.

12-21 Head Start Program - CFDA No. 93.600; Fiscal year ended June 30, 2012

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

Cause: Internal controls are not in place to ensure that the income verifications are calculated correctly for every student.

Effect: Noncompliance with the federal award program's eligibility requirements occurred and was not detected and corrected timely.

Auditors' Recommendation: Internal controls surrounding the federal award program must be implemented to ensure that the eligibility determinations are calculated correctly and that only eligible students participate in the federal Head Start Program.

Grantee Response: WPS Child Development Head Start Program will revise and implement procedures that will ensure that family income for each potential enrollee is calculated correctly. At the time the initial intake is completed, the income verification is reviewed, calculated and documented on the Head Start Eligibility Verification Form by the Head Start Intake Specialist. Prior to determining eligibility status, the income documentation and calculation shall be reviewed and initialed by the supervisor responsible to oversee Eligibility, Recruitment, Selection, Enrollment and Attendance (ERSEA).

In accordance with the Head Start Act, section 645(a) and the related Federal Performance Standard, 1305.4 (b) (3) - "Up to ten percent (10%) of the children who are enrolled may be children from families that exceed the low-income guidelines but who meet the criteria that the program has established for selecting such children and who would benefit from Head Start services."

The systems currently in place for on-going monitoring of the number of over income families are written monthly reports submitted to the ERSEA Supervisor by the Intake Specialist and the Family Service Advocates. There are also random record reviews conducted by the ERSEA Supervisor. The total number of over income families does not exceed ten percent (10%) of the program's total funded enrollment.

12-22 Head Start Program - CFDA No. 93.600; Fiscal year ended June 30, 2012

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 and the WPS will independently verify the eligibility of a vendor's status from the *Excluded Party List System*.

Noncompliance Related to Major Programs

12-23 Head Start Program - CFDA No. 93.600; Fiscal year ended June 30, 2012

Condition and Criteria: One of the 40 student files tested contained the incorrect income verification calculation, and the student was ineligible to participate in the federal Head Start program.

Cause: Procedures were not in place to appropriately review and evaluate the income eligibility calculations for all students.

Effect: The City is not in compliance with the grant's federal eligibility requirements.

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

Auditors' Recommendation: Procedures must be implemented to ensure that all income verifications are calculated correctly and that only expenditures for eligible students are charged to the grant program.

Grantee Response: WPS Child Development Head Start Program will revise and implement procedures that will ensure that family income for each potential enrollee is calculated correctly. At the time the initial intake is completed, the income verification is reviewed, calculated and documented on the Head Start Eligibility Verification Form by the Head Start Intake Specialist. Prior to determining eligibility status, the income documentation and calculation shall be reviewed and initialed by the supervisor responsible to oversee Eligibility, Recruitment, Selection, Enrollment and Attendance (ERSEA).

In accordance with the Head Start Act, section 645(a) and the related Federal Performance Standard, 1305.4 (b) (3) - "Up to ten percent (10%) of the children who are enrolled may be children from families that exceed the low-income guidelines but who meet the criteria that the program has established for selecting such children and who would benefit from Head Start services."

The systems currently in place for on-going monitoring of the number of over income families are written monthly reports submitted to the ERSEA Supervisor by the Intake Specialist and the Family Service Advocates. There are also random record reviews conducted by the ERSEA Supervisor. The total number of over income families does not exceed ten percent (10%) of the program's total funded enrollment.

D. Summary of Prior Audit Findings**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: 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).

Current Status: This finding has been resolved.

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: 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.

Current Status: This finding has been resolved.

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

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

Current Status: This finding has been resolved.

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

Current Status: This finding has been resolved.

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: 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.

Current Status: This finding has been resolved.

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

Current Status: The status remains unchanged. Please see current year finding 12-7.

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

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

Current Status: The status remains unchanged. Please see current year finding 12-8.

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

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

Current Status: The status remains unchanged. Please see current year finding 12-9.

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

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

Current Status: The status remains unchanged. Please see current year finding 12-14.

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

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

Current Status: This finding has been resolved.

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: 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 12-15.

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

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 12-16.

11-13 Title IIA - Improving Teacher Quality – CFDA No. 84.367; Fiscal year ended June 30, 2011

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 12-19.

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.

Current Status: This finding has been resolved.