

CITY OF WORCESTER, MASSACHUSETTS
REPORTS ON FEDERAL AWARD PROGRAMS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC
Corporate Place I, Suite 204 • 99 South Bedford Street
Burlington, Massachusetts 01803
P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

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 year ended June 30, 2005 (except for the Worcester Contributory Retirement System, which is as of and for the year ended December 31, 2004), which collectively comprise the City of Worcester, Massachusetts' basic financial statements and have issued our report thereon dated November 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The financial statements of the Upper Blackstone Water Pollution Abatement District, a discretely presented component unit, were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

However, we noted certain matters that we reported to management of the City of Worcester, Massachusetts in a separate letter dated November 10, 2005.

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

Sullivan, T. & Co., LLC

November 10, 2005



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P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Worcester, Massachusetts, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The City of Worcester, Massachusetts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Worcester, Massachusetts' management. Our responsibility is to express an opinion on the City of Worcester, Massachusetts' compliance based on our audit.

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

In our opinion, the City of Worcester, Massachusetts complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 05-1.

Internal Control Over Compliance

The management of the City of Worcester, Massachusetts, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Worcester, Massachusetts' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Worcester, Massachusetts, as of and for the year ended June 30, 2005 (except for the Worcester Contributory Retirement System, which is as of and for the year ended December 31, 2004), which collectively comprise the City of Worcester, Massachusetts' basic financial statements and have issued our report thereon dated November 10, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Worcester, Massachusetts' basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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



November 10, 2005

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| <u>Federal Grantor/ Pass-Through Grantor/ Program</u> | <u>Federal CFDA Number</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|---------------------------------|
| U.S. Department of Agriculture | | |
| <u>Passed through State Department of Education:</u> | | |
| Food Distribution Program | 10.550 | \$ 419,242 |
| School Breakfast Program | 10.553 | 1,301,055 |
| National School Lunch Program | 10.555 | <u>5,313,561</u> |
| Total U.S. Department of Agriculture | | <u>7,033,858</u> |
| U.S. Department of Commerce | | |
| <u>Direct Program:</u> | | |
| Economic Development Administration Grant | 11.302 | <u>74,588</u> |
| U.S. Department of Housing and Urban Development | | |
| <u>Direct programs:</u> | | |
| Housing Opportunities for Persons with AIDS | 14.141 | 187,834 |
| Transitional Housing | 14.178 | 393,136 |
| Community Development Block Grant | 14.218 | 5,631,267 |
| Emergency Shelter Grants Program | 14.231 | 221,707 |
| Supportive Housing Program | 14.235 | 1,083,395 |
| Shelter Plus Care | 14.238 | 233,365 |
| HOME Program | 14.239 | 2,295,991 |
| Brownfields Economic Development Initiative | 14.246 | <u>701,472</u> |
| Total U.S. Department of Housing and Urban Development | | <u>10,748,167</u> |
| U.S. Department of Justice | | |
| <u>Direct programs:</u> | | |
| Local Law Enforcement Block Grant | 16.592 | 249,531 |
| Weed and Seed Program | 16.595 | 147,712 |
| COPS Universal Hiring Grant | 16.710 | 1,769,233 |
| <u>Passed through the State Executive Office of Public Safety:</u> | | |
| Offender Reentry Program | 16.202 | 2,397 |
| Key Program | 16.450 | 313,570 |
| Title V Delinquency Prevention Program | 16.548 | 50,927 |
| Stop Violence Against Women | 16.588 | 21,982 |
| Project Safe Neighborhoods | 16.609 | <u>37,128</u> |
| Total U.S. Department of Justice | | <u>2,592,480</u> |
| U.S. Department of Labor | | |
| <u>Passed through Massachusetts Commonwealth Corporation:</u> | | |
| Employment Service | 17.207 | 158,627 |
| Unemployment Insurance | 17.225 | 227,476 |
| WIA Adult Program | 17.258 | 669,834 |
| WIA Youth Activities | 17.259 | 1,063,953 |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| <u>Federal Grantor/ Pass-Through Grantor/ Program</u> | <u>Federal CFDA Number</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|---------------------------------|
| U.S. Department of Labor (continued) | | |
| WIA Dislocated Workers | 17.260 | 1,428,573 |
| Employment and Training Administration Pilots, Demonstrations and Research Projects | 17.261 | 1,274,907 |
| Metro South/West REB Comm | 17.280 | 619,617 |
| Disabled Veterans' Outreach Program | 17.801 | 10 |
| Veterans' Employment Program | 17.802 | 85,118 |
| Local Veterans' Employment Representative Program | 17.804 | 10 |
| <u>Passed through National Council of Senior Citizens:</u> Senior Community Service Employment Program | 17.235 | 545,248 |
| Total U.S. Department of Labor | | <u>6,073,373</u> |
| U.S. Department of Transportation | | |
| <u>Passed through Massachusetts Aeronautics Commission:</u> Airport Improvement Program | 20.106 | 457,644 |
| <u>Passed through the State Highway Department:</u> Highway Planning and Construction Program | 20.205 | 19,410 |
| Total U.S. Department of Transportation | | <u>477,054</u> |
| National Endowment for the Humanities | | |
| <u>Direct Program:</u> Our Living Past | 45.167 | 280 |
| Environmental Protection Agency | | |
| <u>Direct Programs:</u> Performance Partnership Grants | 66.605 | 31,452 |
| Environmental Policy and Innovation Grants | 66.811 | 13,991 |
| Total Environmental Protection Agency | | <u>45,443</u> |
| U.S. Department of Education | | |
| <u>Direct Programs:</u> Safe & Drug Free Schools and Communities - National Program | 84.184 | 1,848,844 |
| Research in Special Education | 84.324 | 262,944 |
| <u>Passed through the State Department of Education:</u> Title I Distribution | 84.010 | 12,549,778 |
| SPED 94-142 | 84.027 | 6,390,965 |
| SPED Curriculum Frameworks | 84.027 | 62,068 |
| SPED Mental Health | 84.027 | 67,910 |
| SPED Autistic Program | 84.027 | 72,734 |

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| <u>Federal Grantor/ Pass-Through Grantor/ Program</u> | <u>Federal CFDA Number</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|---------------------------------|
| U.S. Department of Education (continued) | | |
| SPED Professional Development | 84.027 | 44,471 |
| SPED Secondary Reading | 84.027 | 720 |
| SPED Mass Urban | 84.027 | 34,640 |
| SPED Electronic Portfolio | 84.027 | 1,492 |
| SPED ASOST Disabilities | 84.027 | 10,757 |
| Vocational Education - Grants to States | 84.048 | 749,630 |
| Title IV | 84.151 | 264,457 |
| SPED Early Childhood | 84.173 | 413,186 |
| Safe and Drug-Free Schools | 84.186 | 301,274 |
| Training for all Teachers | 84.195 | 224,368 |
| Education for Homeless Children & Youth | 84.196 | 61,812 |
| Fund for Improvement of Education | 84.215 | 826,809 |
| Title I School Support | 84.218 | 282,337 |
| Technical Preparation Education | 84.243 | 170,563 |
| Eisenhower Professional Development - State Grants | 84.281 | 43,705 |
| 21st Century Community Learning Centers | 84.287 | 1,157,494 |
| Model Technology | 84.318 | 66,557 |
| Title IID | 84.318 | 359,583 |
| Tech Enhancement | 84.318 | 143,924 |
| Advanced Placement Program | 84.330 | 22,950 |
| Reading First | 84.357 | 891,887 |
| Title III - English Language Acquisition | 84.365 | 730,217 |
| Mathematics and Science Partnerships | 84.366 | 23,412 |
| Title II - Improving Teacher Quality | 84.367 | 1,648,417 |
| | | <hr/> |
| Total U.S. Department of Education | | 29,729,905 |
| U.S. Department of Health and Human Services | | |
| <u>Direct Program:</u> | | |
| Head Start | 93.600 | 5,546,556 |
| <u>Passed through the State Department of Social Services:</u> | | |
| Consolidated Knowledge Development & Application Program | 93.230 | 244,469 |
| Promoting Safe and Stable Families | 93.556 | 136,493 |
| <u>Passed through the State Department of Public Health:</u> | | |
| Public Health and Social Services Emergency Fund | 93.003 | 7,239 |
| Centers for Disease Control & Prevention - Investigations and Technical Assistance | 93.283 | 891,679 |
| HIV Care Formula Grants | 93.917 | 707,817 |
| | | <hr/> |
| Total U.S. Department of Health and Human Services | | 7,534,253 |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| <u>Federal Grantor/ Pass-Through Grantor/ Program</u> | <u>Federal CFDA Number</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|---------------------------------|
| Corporation for National and Community Service | | |
| <u>Direct Program:</u> | | |
| Retired and Senior Volunteer Program | 94.002 | 214,839 |
| <u>Passed through the State Department of Education:</u> | | |
| Learn and Serve America - School and Community Based Programs | 94.004 | <u>7,193</u> |
| Total Corporation for National and Community Service | | <u>222,032</u> |
| U.S. Department of Homeland Security | | |
| <u>Direct Program:</u> | | |
| Metropolitan Medical Response System | 97.071 | 311 |
| <u>Passed through the State Office of Public Safety:</u> | | |
| State Domestic Preparedness Program | 97.004 | 1,079,434 |
| Homeland Security Grant Program | 97.067 | 9,515 |
| <u>Passed through the State Office of Emergency Management:</u> | | |
| Certified Emergency Response Team | 97.004 | 6,998 |
| Public Assistance Grants | 97.036 | <u>690,996</u> |
| Total U. S. Department of Homeland Security | | <u>1,787,254</u> |
| Total | | <u>\$ 66,318,687</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 included in the schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - U.S. Department of Agriculture Programs

The amount reported for the Food Distribution Program represents non-monetary assistance and is reported in the schedule at the fair market value of the commodities received. The amounts reported for the School Breakfast Program and National School Lunch Program represent cash receipts from federal reimbursements.

Note 3 - U.S. Department of Transportation

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

Note 4 - Subrecipients

The City provided the following awards to subrecipients for the fiscal year ended June 30, 2005:

| Program Description | CFDA Number | Amount |
|---|----------------|----------------------|
| Housing Opportunities for Persons with AIDS | 14.141 | \$ 178,575 |
| Transitional Housing | 14.178 | 230,953 |
| Community Development Block Grant | 14.218 | 3,290,849 |
| Emergency Shelter Grants Program | 14.231 | 212,176 |
| Supportive Housing Program | 14.235 | 1,056,472 |
| Shelter Plus Care | 14.238 | 233,365 |
| HOME Program | 14.239 | 2,048,493 |
| Brownfields Economic Development Initiative | 14.246 | 701,472 |
| Key Program | 16.450 | 307,717 |
| Title V Delinquency Prevention Program | 16.548 | 50,418 |
| Stop Violence Against Women | 16.588 | 21,762 |
| Local Law Enforcement Block Grant | 16.592 | 248,528 |
| Weed and Seed Program | 16.595 | 124,624 |
| Project Safe Neighborhoods | 16.609 | 36,860 |
| WIA Youth Activities | 17.259 | 845,627 |
| Senior Community Service Employment Program | 17.235 | 527,870 |
| Public Health and Social Services Emergency Fund | 93.003 | 7,059 |
| Consolidated Knowledge Development & Application Program | 93.230 | 117,320 |
| Promoting Safe and Stable Families | 93.556 | 133,369 |
| HIV Care Formula Grants | 93.917 | 709,132 |
| Retired and Senior Volunteer Program | 94.002 | 220,315 |
| State Domestic Preparedness Program | 97.004 | 821,285 |
| Homeland Security Grant Program | 97.067 | 9,515 |
| | | <u>\$ 12,133,756</u> |

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Worcester, Massachusetts.
2. There were no reportable conditions disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the City of Worcester, Massachusetts, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the City of Worcester, Massachusetts expresses an unqualified opinion on all major federal award programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule beginning on page 12.
7. The programs tested as major programs were:

| <u>Program Description</u> | <u>CFDA Number</u> |
|-----------------------------------|------------------------|
| <i>Child Nutrition Cluster:</i> | |
| School Breakfast Program | 10.553 |
| National School Lunch Program | 10.555 |
| | |
| Community Development Block Grant | 14.218 |
| HOME Program | 14.239 |
| | |
| <i>WIA Cluster:</i> | |
| WIA Adult Program | 17.258 |
| WIA Youth Activities | 17.259 |
| WIA Dislocated Workers | 17.260 |
| | |
| Title I Distribution | 84.010 |
| | |
| <i>Special Education Cluster:</i> | |
| SPED 94-142 | 84.027 |
| SPED Curriculum Frameworks | 84.027 |
| SPED Mental Health | 84.027 |
| SPED Autistic Program | 84.027 |
| SPED Professional Development | 84.027 |
| SPED Secondary Reading | 84.027 |
| SPED Mass Urban | 84.027 |
| SPED Electronic Portfolio | 84.027 |
| SPED ASOST Disabilities | 84.027 |
| SPED Early Childhood | 84.173 |
| | |
| Head Start Program | 93.600 |

8. The threshold used for distinguishing between Type A and B programs was \$1,989,561.
9. The City of Worcester, Massachusetts qualified as a low-risk auditee.

B. Findings - Financial Statement Audit

None.

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

DEPARTMENT OF EDUCATION

Findings

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

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

Cause: Policies and procedures are not in place to ensure that the student applications and appropriate income eligibility documentation is maintained for all of the student files.

Effect: As a result, program management is not in compliance with federal grant requirements.

Questioned Costs: Questioned costs related to this finding total \$413.

Auditor's Recommendation: Procedures must be implemented to maintain the appropriate student applications and income eligibility documentation for each student receiving free and/or reduced lunches.

Grantee Response: Commencing with the 2005 - 2006 fiscal year, the meal application process has been changed from a school-based to a central office approval process. Centralized review and income eligibility approval procedures as overseen by the Business Division will minimize the number of incorrect approvals and eligibility listings.

D. Summary of Prior Audit Findings**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

2004-01 HOME Investment Partnership Program – CFDA No. 14.239; Fiscal year ended June 30, 2004

Condition: The City of Worcester assigns the responsibility of income eligibility redeterminations to their various subrecipients. During test work, it was noted that approximately 40% of the entire population of income eligibility redeterminations had not been performed as of June 30, 2004.

Current Status: This finding has been resolved.

2004-02 CDBG – Entitlement Grants – CFDA No. 14.218; Fiscal year ended June 30, 2004
HOME Investment Partnership Program – CFDA No. 14.239; Fiscal Year Ended June 30, 2004

Condition: One of 23 (4%) subrecipients did not undergo the proper audit in accordance with OMB Circular A-133.

Current Status: This finding has been resolved.