

McGladrey & Pullen
Certified Public Accountants

CITY OF PROVIDENCE, RHODE ISLAND

**FEDERAL FINANCIAL AND COMPLIANCE REPORT
FISCAL YEAR ENDED JUNE 30, 2006**

CITY OF PROVIDENCE, RHODE ISLAND

FEDERAL FINANCIAL AND COMPLIANCE REPORT

TABLE OF CONTENTS

**REPORT REQUIRED BY THE FEDERAL SINGLE AUDIT ACT AND
OMB CIRCULAR A-133**

Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards	1-3
Schedule of Expenditures of Federal Awards	4-6
Notes to Schedule of Expenditures of Federal Awards.....	7
Schedule of Findings and Questioned Costs	8-9
Summary of Prior Year Audit Findings	10

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements in Accordance with Government Auditing Standards	11-12
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable Mayor and
Members of the City Council
City of Providence, Rhode Island

Compliance: We have audited the compliance of the City of Providence, Rhode Island 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 its major federal programs for the year ended June 30, 2006. The City of Providence, Rhode Island's major federal programs are identified in the summary of independent auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City of Providence, Rhode Island's management. Our responsibility is to express an opinion on the City of Providence, Rhode Island's compliance based on our audit.

The City of Providence, Rhode Island's basic financial statements include the operations of the Providence Public Building Authority, both a major fund and a blended component unit of the City. Our audit described below did not include the operations of the Providence Public Building Authority.

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 Providence, Rhode Island'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 on the City of Providence, Rhode Island's compliance with those requirements.

In our opinion, the City of Providence, Rhode Island 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, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 06-1.

Internal Control Over Compliance: The management of the City of Providence, Rhode Island 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 Providence, Rhode Island's 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 internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Providence, Rhode Island's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level risk that noncompliance with the 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. Our consideration of the internal control over compliance would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Schedule of Expenditures of Federal Awards: We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Providence, Rhode Island as of and for the year ended June 30, 2006, and have issued our report thereon, dated November 3, 2006. We did not audit the financial statements of the Providence Public Building Authority, which is both a major fund and a blended component unit of the City, which financial statements reflect 11%, 1% and 13%, respectively, of the assets, net assets and revenues of the business-type activities of the City. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Providence's basic financial statements. 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 the City Council, the management of the City of Providence, Rhode Island and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

New Haven, Connecticut
November 3, 2006

CITY OF PROVIDENCE, RHODE ISLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006 (in thousands)

Federal Grantor	Catalog of	
Pass-Through Grantor	Federal	Federal
Program Title	Domestic	Expenditures
	Assistance	(in thousands)
	Number	
U.S. Department of Agriculture:		
Passed Through the State of Rhode Island, Department of Education:		
Food Distribution	10.550	\$ 567
National School Breakfast Program	10.553	2,302
National School Lunch Program	10.555	8,193
Summer Food Services Program for Children	10.559	793
Total U.S. Department of Agriculture		11,855
U.S. Department of Housing and Urban Development:		
Direct Programs:		
Community Development Block Grant	14.218	9,156
Emergency Shelter Grant	14.231	242
Home Investment Partnerships Program	14.239	3,576
Housing Opportunities for Persons with AIDS	14.241	570
HUD - Neighborhood Initiative Project	14.246	597
Lead Based Paint Hazard Control	14.900	1,729
Total U.S. Department of Housing and Urban Development		15,870
U.S. Department of Justice:		
Public Safety Partnership and Community Policing Grants	16.710	583
Community Prosecution and Project Safe Neighborhood	16.609	94
Community Capacity Development Office	16.595	210
E. Byrne Memorial State Aid	16.580	731
Total U.S. Department of Justice		1,618
U.S. Department of Labor		
Passed Through the State of Rhode Island, Department of Labor:		
WIA Adult	17.258	955
WIA Youth Activities	17.259	688
WIA Dislocated Workers	17.260	985
Total U.S. Department of Labor		2,628
U.S. Department of Transportation:		
Direct Program:		
Highway Planning and Construction	20.205	8

See notes to schedule.

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued

For the Year Ended June 30, 2006 (in thousands)

Federal Grantor	Catalog of	
Pass-Through Grantor	Federal	
Program Title	Domestic	Federal
	Assistance	Expenditures
	Number	(in thousands)
U.S. Department of Environmental Protection:		
Direct Program:		
Water Infrastructure Security Grant - From U.S. EPA	66.476	115
Chemical Emergency Preparedness and Prevention (CEPP)		
Tech Assistance Grant	66.811	3
		<u>118</u>
U.S. Department of Education:		
Direct Programs:		
Teacher Leadership Program in Literacy	84.215	472
Passed Through the State of Rhode Island, Department of Education:		
Title I - Grants to Local Educational Agencies	84.010	23,853
Special Education Grants to State	84.027	8,746
Vocational Education - Basic State Grants	84.048	1,279
Special Education Preschool Grant - Project Expand (Section 619)	84.173	223
Safe and Drug-Free Schools and Communities State Grants	84.186	526
Innovative Education Program Strategies	84.298	456
Technology - Literacy Challenge Fund Grant	84.318	654
Comprehensive School reform Demonstration	84.332	222
Reading First State Grant	84.357	1,647
School Renovation	84.352	91
Title III LEP - English Language Acquisition Grant	84.365	1,273
Title II - Improving Teacher Quality	84.367	5,617
Hurricane Education Recovery	84.938	37
Early Reading First	84.359	42
Total U.S. Department of Education		<u>45,138</u>

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued

For the Year Ended June 30, 2006 (in thousands)

Federal Grantor	Catalog of	
Pass-Through Grantor	Federal	
Program Title	Domestic	Federal
	Assistance	Expenditures
	Number	(in thousands)
U.S. Department of Homeland Security:		
Direct Programs:		
State Domestic Preparedness Equipment Support Program	97.004	1,555
State And Local Homeland Security Training Program	97.005	94
Metropolitan Medical Response System	97.071	165
Citizens Corps	97.053	21
State and Local Homeland Security Exercise Support	97.006	94
Port Security Grant Program	97.056	200
Assistance to Firefighters Grant	97.044	385
Total U.S. Department of Homeland Security		2,514
Total Federal Expenditures		\$ 79,749

CITY OF PROVIDENCE, RHODE ISLAND

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006 (in thousands)**

Notes to Schedule of Expenditures of Federal Awards

Expenditures

Expenditures are recognized on the modified accrual basis of accounting.

U.S.D.A. Contributions

The United States Department of Agriculture makes available commodities for donations to schools. The amount of \$567 represents the market value of such commodities used during the period.

CITY OF PROVIDENCE, RHODE ISLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006**

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes No

Identification of Major Programs

CFDA Numbers	Program Name or Cluster
Title I - Grants to Local Educational Agencies	84.010
Home Investment Partnership	14.239
Dollar threshold used to distinguish between type A and type B programs	<u>\$ 2,392,000</u>

Auditee qualified as low-risk auditee? Yes No

CITY OF PROVIDENCE, RHODE ISLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the Year Ended June 30, 2006**

**II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

A. Reportable Conditions in Internal Control

None reported.

B. Compliance

None reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

**Finding 06-1. Home Investment Partnerships - Special Tests Program and
Provisions -- 14.239**

Criteria

During the period of affordability for home assisted rental/housing, the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify information submitted to owners.

Condition

The on-site inspections were not performed.

Questioned Cost

None.

Effect

There is no assurance that property standards have been met, and a potential loss of future funding.

Cause

The department was lacking personnel to perform such inspections.

Recommendation

The proper on-site inspections need to be performed in compliance with the requirements for housing quality standards.

**CITY OF PROVIDENCE, RHODE ISLAND
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2006**

There were no findings relative to federal awards disclosed in the prior year's federal single audit.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE BASIC FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council
City of Providence, Rhode Island

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Providence, Rhode Island as of and for the year ended June 30, 2006, and have issued our report thereon dated November 3, 2006. We did not audit the financial statements of the Providence Public Building Authority (PPBA), which is both a major fund and a blended component unit of the City, which represents 11%, 1% and 13%, respectively, of the assets, net assets and revenues of the business-type activities of the City. 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 Providence, Rhode Island's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of 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 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 operations that we consider to be material weaknesses.

Compliance and Other Matters: As part of obtaining reasonable assurance about whether the City of Providence, Rhode Island's 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 also noted other matters involving the internal control over financial reporting which are not deemed to be reportable conditions which we have reported to management of the City of Providence, Rhode Island in a separate letter dated November 3, 2006.

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

McGladrey & Pullen, LLP

New Haven, Connecticut
November 3, 2006