

MANAGEMENT LETTER

To the Management of the City of Houston, Texas:

In planning and performing our audit of the financial statements of the City of Houston, Texas (the City) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously communicated to you about the City's internal control in our letter dated December 17, 2019, which contains our communication of significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated December 17, 2019, on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendation.

This communication is intended solely for the information and use of management, and others within the City, and is not intended to be, and should not be, used by anyone other than those specified parties.

December 17, 2019





MEMORANDUM ON OPPORTUNITIES FOR STRENGTHENING INTERNAL CONTROLS AND OPERATING EFFICIENCY

IMPLEMENTATION OF PROCESS TO CAPITALIZE TIRZ PROJECT PLAN COST

The City has 26 (twenty-six) Tax Increment Reinvestment Zones (TIRZs) within specific geographical areas of the City to help finance the costs of redevelopment and encourage development. For the TIRZs, tax revenues collected by the City are set aside in a fund to finance public improvements within the boundaries of the zones. These tax revenues, along with other sources of financing are used for public improvements which increase the value of the related property. The public improvements, which include infrastructure, land acquisition and the cost of certain purchased and constructed facilities are required to be conveyed to the City upon completion and/or incurrence of cost. Many of the TIRZs projects are only recently beginning to accomplish their intended objectives based upon the project plan and consequently, the conveyance on these assets to the City and the recording on its books and records is expected annually. In 2019, the City recorded more than \$141.6 million in land and construction in progress from TIRZ No. 16 Uptown Redevelopment Authority.

Recommendation: We recommend the City establish processes to evaluate all TIRZs projects annually, and throughout the term of their existence until the completion of TIRZ project plans, to ensure that all related capital assets are timely and accurately reflected in the accounting records and reported in the financial statements.