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June 16, 2004

Gary E. Gray, CPA
Assistant Director
Finance and Administration
City of Houston
611 Walker
Houston, TX 77002

Dear Mr. Gray:

MAXIMUS, Inc. (MAXIMUS) has completed our limited review of the following cost allocation plans for fiscal year 2005 based upon actual expenditures for fiscal year ending June 30, 2003:

- Citywide Full Cost Allocation Plan
- Citywide OMB Circular A-87 Indirect Cost Allocation Plan
- Houston Police Department OMB Circular A-87 Indirect Cost Allocation Plan
- Houston Fire Department OMB Circular A-87 Indirect Cost Allocation Plan

In addition, MAXIMUS has reviewed the indirect cost rate calculations associated with both the Full Cost and the OMB Circular A-87 Cost Allocation plans. A summary of the rates MAXIMUS reviewed is attached to this letter.

Jane Kuo has answered all of our questions and addressed all outstanding issues sufficiently. In addition, we reviewed the adjustments she made to the cost allocation plans based upon our discussions. We believe that the cost allocation plans are acceptable for review by the federal negotiators for HUD, the Federal Aviation Administration and/or any other federal or state agencies that audit or review the City of Houston's Indirect Cost Allocation Plans. Based upon our review, we are not aware of any material modifications that should be made to the Citywide OMB Circular A-87 Plan, the Police OMB Circular A-87 Plan, the Fire OMB Circular A-87 Plan, or the rates associated with each plan, for them to be in conformity with OMB Circular A-87 guidelines.

We reviewed the Plans for reasonableness, consistency, and compliance with OMB Circular A-87. As you realize, the limited scope and budget in this project did not allow us to verify all financial data and allocation base information. However, we identified those areas where verification was needed and understand that the City has made adjustments, where needed. In summary, we believe that the allocation bases that are used in the final version provide for an equitable allocation to grant programs and all other citywide programs that receive service from the City of Houston's central service departments. Each basis reflects a quantitative presentation of the activity's cost of

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service. The allocated costs are allowable by the OMB Circular A-87, and the unallowable costs have been identified and disallowed.

Overall, the City of Houston's Full Cost and OMB Circular A-87 Cost Allocation Plans were prepared quite competently and are well documented. MAXIMUS appreciates the opportunity to assist the City of Houston with the review of the internally prepared indirect cost allocation plans.

Thank you again for the opportunity to assist the City of Houston with this important project.

Sincerely,

MAXIMUS, INC.

J. Mark Carpenter
Senior Manager

Attachment

JMC/snn

City of Houston

6/16/04
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FY 2005 Indirect Cost Rates

Alphabetical order	OMB Plan or FC Plan	FY 2005 Indirect Cost Rate as % of Total Personnel Costs	FY 2005 Indirect Cost Rate as % of Total Salaries	FY 2004 Indirect Cost Rate as % of Total Salaries
Aviation	OMB	2.66%	3.91%	7.50%
Building Svcs - Full Cost	FC	26.99%	35.01%	28.29%
Building Svcs - OMB	OMB	25.01%	32.45%	22.84%
Citywide - Full Cost	FC	24.87%	32.64%	32.28%
Citywide - OMB	OMB	21.04%	27.61%	24.60%
Finance & Administration	FC	44.93%	57.97%	65.46%
Health & Human Svcs	OMB	34.26%	44.93%	68.77%
Housing & Comm. Dev	OMB	9.06%	11.65%	13.16%
Legal Dept.	FC	36.65%	46.30%	47.24%
Library	OMB	13.12%	17.19%	36.57%
Parks & Recreation	OMB	20.74%	28.25%	38.12%
Planning & Development	OMB	156.16%	200.37%	181.09%
Police - Full Cost	FC	33.18%	41.75%	50.56%
Police - OMB	OMB	32.33%	40.68%	47.55%
PW & E - Fund 100	FC	74.98%	98.19%	97.07%
PW & E - Fund 118	FC	8.16%	10.71%	13.07%
PW & E - Fund 701	FC	6.89%	9.86%	5.36%