

May 25, 2005

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 the preparation of the following cost allocation plans for fiscal year 2006 based upon actual expenditures for the fiscal year ended June 30, 2004:

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

In addition, MAXIMUS has prepared the indirect cost rate calculations associated with both the Full Cost and the OMB Circular A-87 Cost Allocation plans. The FY 2006 Indirect Cost Rates are presented as an addendum to this letter.

All of the Plans have been prepared in conformity with Generally Accepted Accounting Principles applied on a consistent basis. The OMB A-87 Plans adhere to principles and standards as established within OMB Circular A-87 (Revised 05/04/95, and further amended 08/29/97). A consistent approach has been followed in the treatment of costs as indirect and direct costs. Statistics used to allocate costs are from full base years or a representative sample period's data.

MAXIMUS appreciates the opportunity to assist the City of Houston with the preparation of the indirect cost allocation plans and the corresponding indirect cost rates.

Sincerely,



J. Mark Carpenter
Senior Manager

JMC/jtb