

City of Houston, Texas

***Single Audit Report for the
Year Ended June 30, 2006***

CITY OF HOUSTON, TEXAS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor, Members of
City Council and City Controller of the
City of Houston, Texas

We have audited the basic financial statements of the City of Houston (the "City"), as of and for the year ended June 30, 2006, and have issued our report thereon dated June 6, 2007, which included a reference to other auditors for certain blended and discretely presented component units. 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, and the State of Texas *Uniform Grant and Contract Management Standards* ("UGCMS").

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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. However, we noted a certain matter involving the internal control over financial reporting 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 operations of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Responses as item 2006-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, 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 a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 noted certain matters that we have reported to management of the City, in a separate letter dated June 6, 2007.

This report is intended solely for the information and use of the Mayor, Members of City Council, the City Controller, management, 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.

Deloitte Touche LLP

June 6, 2007

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AND STATE AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

To the Honorable Mayor, Members of
City Council and City Controller of the
City of Houston, Texas

Compliance

We have audited the compliance of the City of Houston, Texas (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the State of Texas *Uniform Grant and Contract Management Standards* ("UGCMS") that are applicable to each of its major federal and state programs for the year ended June 30, 2006. The City's major federal programs and major state 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 grant agreements applicable to each of its major federal programs and major state programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and UGCMS. Those standards, OMB Circular A-133 and UGCMS 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 or state program occurred. An audit includes examining, on a test basis, evidence about the City'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's compliance with those requirements.

As described in items 2006-2, 2006-3, 2006-7, 2006-9, 2006-10, 2006-11, 2006-13, 2006-14, 2006-15, 2006-16 and 2006-17, in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with the compliance requirements related to the Hurricane Relief Fund, Immunization Grants, Public Assistance Grant, Immunization – State, 2006 HGAC Focused Care Workers, Acres Home Baseball Complex, Houston Herman Park Greenway and Major Shop Accessory Enforcement. Compliance with such requirement is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed

Circular A-133 and UGCMS and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-4, 2006-5, 2006-6, 2006-7, 2006-8, and 2006-12.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal and state programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program and major state 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 and UGCMS.

We noted certain matters involving the City's internal control over compliance and its operation that we consider to be reportable conditions. 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's ability to administer a major federal or state program in accordance with applicable requirements of laws, regulations, contracts, and grant agreements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-2, 2006-3, 2006-7, 2006-9, 2006-10, 2006-11, 2006-13, 2006-15, 2006-16 and 2006-17.

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 grant agreements 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 matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

Schedule of Expenditures of Federal and State Awards

We have audited the basic financial statements of the City, as of and for the year ended June 30, 2006, and have issued our report thereon dated June 6, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and UGCMS and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the City. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor, Members of City Council, the City Controller, management, 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.

DeWitte! Touche LLP

September 6, 2007

CITY OF HOUSTON, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Program Title			
Executive Office of the President			
Office of National Drug Policy—			
Houston High Intensity Drug Trafficking Area (HIDTA):			
Cpot-Tnet Operation Bluemarlin	07.XXX	I3PHNP999	\$ 99,655
DNA Capacity Enhancement FY05	07.XXX	2005DABXJ021	5,837
Houston Intell Support Center	07.XXX	I4PHNP501	4,307
Houston Intell Support Center/2	07.XXX	I5PHNP501	175,099
Major Drug Squad/7	07.XXX	I4PHNP500A	26,498
Major Drug Squad/7	07.XXX	I5PHNP500A	194,631
Major Drug Squad	07.999	IP6PHNP500A	26,336
Narcotics Operations Control Center/7	07.XXX	I3PHNP503	5,808
Narcotics Operations Control Center/8	07.XXX	I4PHNP503	154,189
Narcotics Operations Control Center/9	07.XXX	I5PHNP503	139,131
Drug Gang Network/8	07.XXX	I1PHNP505	8,006
Joint Drug Intelligence/8	07.XXX	I3PHNP501	1,914
Currency Narcotics Tranship/6	07.XXX	I2PHNP502	631
Narcotics Ops Control Initiat/6	07.XXX	I2PHNP503	32,328
Houston Money Laundering/7	07.XXX	I3PHNP520	(56,083)
Houston Money Laundering/8	07.XXX	I4PHNP520	44,824
Houston Money Laundering/9	07.XXX	I5PHNP520	345,683
Houston Money Laundering	07.999	IP6PHNP520	37,937
Gang & Non-Traditional Gang Squad	07.XXX	I2PHNP525	(38)
Gang & Non-Traditional Gang Squad/3	07.XXX	I4PHNP525	3,335
Gang & Non-Traditional Gang Squad/4	07.XXX	I5PHNP525	372,601
Gang & Non-Traditional Gang Squad	07.999	IP6PHNP525	153,070
Methamphetamine Initiative Group/3	07.XXX	I4PHNP529	1,990
Methamphetamine Initiative Group	07.XXX	I2PHNP529	254
Methamphetamine Initiative Group/4	07.XXX	I5PHNP529	16,352
Truck Air Rail and Port	07.XXX	I3PHNP502	433
Truck Air Rail and Port/2	07.XXX	I4PHNP502	70,209
Truck Air Rail and Port/3	07.XXX	I5PHNP502	501,099
Truck Air Rail and Port	07.999	IP6PHNP502	84,666
Targeted Narcotics Enforcement/2	07.XXX	I2PHNP533	228
Targeted Narcotics Enforcement	07.999	IP6PHNP533	112,507
Targeted Narcotics Enforcement/3	07.XXX	I5PHNP533	711,566
Targeted Narcotics Enforcement/3	07.XXX	I4PHNP533	(5,201)
Total Office of National Drug Policy			<u>\$ 3,269,802</u>

See Notes to Schedule of Expenditures of Federal and State Awards

(Continued)

CITY OF HOUSTON, TEXAS

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Program Title	FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Department of Agriculture Passed Through— Texas Department of Agriculture:				
Special Supplemental Nutrition Program—WIC		10.557	001164006-11	\$ 6,799,171
Special Supplemental Nutrition Program—WIC		10.557	0011640B0501	<u>2,810,261</u>
Total Texas Department of Agriculture				<u>\$ 9,609,432</u>
Department of Agriculture Passed Through— Texas Department of Human Services:				
Summer Food Program for Children		10.559	05TX101-1007	\$ 1,003,130
Summer Food Program for Children		10.559	06TX101-1007	<u>1,200,767</u>
Total Texas Department of Human Services				<u>\$ 2,203,897</u>
Department of Agriculture Passed Through— Texas Forestry Service:				
Cooperative Forestry Assistance		10.664	04-07-2002	\$ 12,040
Cooperative Forestry Assistance		10.664	50707	<u>17,880</u>
Total Texas Forestry Service				<u>\$ 29,920</u>
Total Department of Agriculture				<u>\$ 11,843,249</u>
Department of Commerce:				
Grants for Public Works and Economic Development Facilities		11.300	08-01-03113	<u>\$ 1,353,000</u>
Total Department of Commerce				<u>\$ 1,353,000</u>
Department of Housing and Urban Development:				
Community Development Block Grant	14.218		B82MC480018	\$ 2
Community Development Block Grant	14.218		B86MC480018	(4,896)
Community Development Block Grant	14.218		B89MC480018	(1,793)
Community Development Block Grant	14.218		B90MC480018	(5,977)
Community Development Block Grant	14.218		B91MC480018	(2,082)
Community Development Block Grant	14.218		B92MC480018	1,294
Community Development Block Grant	14.218		B93MC480018	94,587
Community Development Block Grant	14.218		B94MC480018	373,909
Community Development Block Grant	14.218		B95MC480018	(20,507)
Community Development Block Grant	14.218		B96MC480018	340,364
Community Development Block Grant	14.218		B97MC480018	728,314

See Notes to Schedule of Expenditures of Federal and State Awards

(Continued)

CITY OF HOUSTON, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Program Title			
Community Development Block Grant	14.218	B98MC480018	633,157
Community Development Block Grant	14.218	B99MC480018	989,276
Community Development Block Grant	14.218	B00MC480018	549,187
Community Development Block Grant	14.218	B01MC480018	1,549,412
Community Development Block Grant	14.218	B02MC480018	2,400,098
Community Development Block Grant	14.218	B03MC480018	3,558,353
Community Development Block Grant	14.218	B04MC480018	8,107,200
Community Development Block Grant	14.218	B05MC480018	<u>18,857,495</u>
Total Community Development Block Grant			<u>\$ 38,147,393</u>
Emergency Shelter Grants Program	14.231	S03MC480002	\$ 52,990
Emergency Shelter Grants Program	14.231	S04MC480002	610,093
Emergency Shelter Grants Program	14.231	S05MC480002	486,697
Emergency Shelter Grants Program	14.231	S90MC480002	894
Emergency Shelter Grants Program	14.231	S97MC480002	<u>9,106</u>
Total Emergency Shelter Grants Program			<u>\$ 1,159,780</u>
HOME Investment Partnerships Program	14.239	M00MC480206	\$ 75,000
HOME Investment Partnerships Program	14.239	M01MC480206	79,926
HOME Investment Partnerships Program	14.239	M02MC480206	1,099,092
HOME Investment Partnerships Program	14.239	M03MC480206	(5,412)
HOME Investment Partnerships Program	14.239	M04MC480206	2,657,350
HOME Investment Partnerships Program	14.239	M05MC480206	320,692
HOME Investment Partnerships Program	14.239	M92MC480206	4
HOME Investment Partnerships Program	14.239	M93MC480206	(112,890)
HOME Investment Partnerships Program	14.239	M95MC480206	<u>(3,747)</u>
Total HOME Investment Partnerships Program			<u>\$ 4,110,015</u>
Housing Opportunities for Persons with AIDS	14.241	TX21H00-F003	\$ 1,954
Housing Opportunities for Persons with AIDS	14.241	TX21H01-F003	111,384
Housing Opportunities for Persons with AIDS	14.241	TX21H02-F003	883,289
Housing Opportunities for Persons with AIDS	14.241	TX21H03-F003	1,094,911
Housing Opportunities for Persons with AIDS	14.241	TX21H04-F003	2,506,826
Housing Opportunities for Persons with AIDS	14.241	TX21H05-F003	1,074,536
Housing Opportunities for Persons with AIDS	14.241	TX21H98-F003	4,066
Housing Opportunities for Persons with AIDS	14.241	TX21H99-F003	<u>549</u>
Total Housing Opportunities for Persons with AIDS			<u>\$ 5,677,515</u>

See Notes to Schedule of Expenditures of Federal and State Awards

(Continued)

CITY OF HOUSTON, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Program Title			
CDBG/Brownfields Economic Development Initiative	14.246	B00SPTX0377	\$ 82,827
CDBG/Brownfields Economic Development Initiative	14.246	B01SPTX0607	124,520
CDBG/Brownfields Economic Development Initiative	14.246	B01SPTX0608	32,940
CDBG/Brownfields Economic Development Initiative	14.246	E95EZ480006	<u>1,235,935</u>
Total CDBG/Brownfields Economic Development Initiative			<u>\$ 1,476,222</u>
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	TXLHB0229-02	\$ 36,734
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	TXLB0310-05	<u>174,149</u>
Total Lead-Based Hazard Control in Privately-Owned Housing			<u>\$ 210,883</u>
Lead Hazard Reduction Demonstration Grant Program	14.905	TXLHD0031-04	<u>\$ 1,373,899</u>
Total Department of Housing and Urban Development			<u>\$ 52,155,707</u>
Department of Justice:			
Cultural Awareness and Diversity Training	16.XXX	2001DDVXK002	<u>\$ 130,199</u>
Creating a Culture Integrity	16.XXX	2002HSWX0031	<u>\$ 31,903</u>
Shared Forfeited Property	16.XXX		<u>\$ 1,050,188</u>
Anti-Violent Crime	16.XXX	6-15010004	<u>\$ 3,299</u>
Developing, Testing and Demonstrating Promising New Programs	16.541	1999MUMU0012	\$ 38,457
Developing, Testing and Demonstrating Promising New Programs	16.541	2005JRFX0002	<u>58,319</u>
Total Developing, Testing and Demonstrating Promising New Programs			<u>\$ 96,776</u>
Gang-Free Schools and Communities - Community -Based Gang Intervention	16.544	2001JDFX0001	<u>\$ 231,622</u>
Crime Laboratory Improvement Combined Offender	16.564	2004DNBXX114	\$ 239,914
Crime Laboratory Improvement Combined Offender	16.564	2004DNBXX193	<u>130,106</u>
Total Crime Laboratory Improvement Combined Offender			<u>\$ 370,020</u>

See Notes to Schedule of Expenditures of Federal and State Awards

(Continued)

CITY OF HOUSTON, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Program Title	FEDERAL AWARDS Federal CFDA Number	Grant Award Number	Expenditures
Local Law Enforcement Block Grants Program	16.592	2002LBBX2531	\$ 35,173
Local Law Enforcement Block Grants Program	16.592	2003LBBX2257	1,377,502
Local Law Enforcement Block Grants Program	16.592	2004LBBX1440	<u>213,431</u>
Total Local Law Enforcement Block Grants Program			<u>\$ 1,626,106</u>
Executive Office for Weed and Seed	16.595	2003WSQX0123	\$ 636
Executive Office for Weed and Seed	16.595	2004WSQ40157	64,174
Executive Office for Weed and Seed	16.595	2004WSQ40166	82,126
Executive Office for Weed and Seed	16.595	2004WSQ40167	145,214
Executive Office for Weed and Seed	16.595	2005WSQ50269	107,928
Executive Office for Weed and Seed	16.595	2005WSQ50303	20,149
Executive Office for Weed and Seed	16.595	2005WSQ50304	<u>107,656</u>
Total Executive Office for Weed and Seed			<u>\$ 527,883</u>
Public Safety Partnership and Community Policing Grants	16.710	2003CKWX0307	\$ 3,850
Public Safety Partnership and Community Policing Grants	16.710	2003INWX0003	<u>265,341</u>
Total Public Safety Partnership and Community Policing Grants			<u>\$ 269,191</u>
Department of Justice Passed Through—			
Office of the Governor, Criminal Justice Division:			
Juvenile Accountability Incentive Block Grants	16.523	JB02J2013322	\$ (3)
Juvenile Accountability Incentive Block Grants	16.523	JB03J2013322	294,260
Juvenile Accountability Incentive Block Grants	16.523	JB04J2013322	<u>86,665</u>
Total Juvenile Accountability Incentive Block Grants			<u>\$ 380,922</u>
Crime Victim Assistance	16.575	VA04V3013592	\$ (389)
Crime Victim Assistance	16.575	2005DNBXX035	46,860
Crime Victim Assistance	16.575	VA05V3013592	<u>28,566</u>
Total Crime Victim Assistance			<u>\$ 75,037</u>
Edward Byrne Memorial Justice Assistance Grant Program - Hurricane Relief Fund	16.738	DH06A1018445	<u>\$ 3,601,708</u>
Total Office of the Governor, Criminal Justice Division			<u>\$ 4,057,667</u>

See Notes to Schedule of Expenditures of Federal and State Awards

(Continued)

CITY OF HOUSTON, TEXAS

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Program Title			
Department of Justice Passed Through—			
Texas Office of Attorney General:			
Crime Victim Assistance / Discretionary Grants	16.564	04G01896	\$ 6,638
Crime Victim Assistance / Discretionary Grants	16.564	06-01758	<u>23,420</u>
Total Texas Office of Attorney General			<u>\$ 30,058</u>
Department of Justice Passed Through—			
Sam Houston State University			
Community Prosecution and Project Safe Neighborhoods	16.609	32120SO27	\$ 104,176
Community Prosecution and Project Safe Neighborhoods	16.609	32120SO29	78,298
Community Prosecution and Project Safe Neighborhoods	16.609	S04D77205	42,518
Community Prosecution and Project Safe Neighborhoods	16.609	S04D77204	90,484
Community Prosecution and Project Safe Neighborhoods	16.609	S04D77206	<u>29,321</u>
Total Sam Houston State University			<u>\$ 344,797</u>
Total Department of Justice			<u>\$ 8,769,709</u>
Department of Labor Passed Through—			
Houston Works USA—			
Youth Offender Demonstration	17.XXX	FC55546	<u>\$ 18,639</u>
Total Department of Labor			<u>\$ 18,639</u>
Department of Transportation			
Federal Highway Administration:			
Highway Planning and Construction	20.205	TCSE004-Q69	\$ 124
Highway Planning and Construction	20.205	TCSE010	8,907
Highway Planning and Construction	20.205	TCSP2001-001	23,820
Highway Planning and Construction	20.205	TCSP-TX06	1,928
Highway Planning and Construction	20.205	TCSP-TX096	<u>279,178</u>
Total Highway Planning and Construction			<u>\$ 313,957</u>
Department of Transportation			
Federal Aviation Administration:			
Hobby Airport:			
Airport Improvement Program	20.106	3-48-0110-25	\$ 1,101,470
Airport Improvement Program	20.106	3-48-0110-27	13,128,110

See Notes to Schedule of Expenditures of Federal and State Awards

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CITY OF HOUSTON, TEXAS

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Program Title	FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Bush Intercontinental Airport:				
Airport Improvement Program		20.106	3-48-0111-47	2,544,359
Airport Improvement Program		20.106	3-48-0111-48	1,031,545
Airport Improvement Program		20.106	3-48-0111-53	17,500,000
Airport Improvement Program		20.106	3-48-0111-54	3,500,000
Airport Improvement Program		20.106	3-48-0111-55	12,023,728
Airport Improvement Program		20.106	3-48-0111-57	17,250,000
Airport Improvement Program		20.106	3-48-0111-58	8,700,000
Ellington Field:				
Airport Improvement Program		20.106	3-48-0290-15	375,021
Airport Improvement Program		20.106	3-48-0290-16	814,317
Airport Improvement Program		20.106	3-48-0290-17	<u>7,210,545</u>
Total Federal Aviation Administration				<u>\$ 85,179,095</u>
Department of Transportation Passed Through—				
Texas Department of Highway and Public Transportation:				
Highway Planning and Construction		20.205	027107249	<u>\$ 358,596</u>
State and Community Highway Safety		20.600	050101A1AM	\$ 33,166
State and Community Highway Safety		20.600	050101C1AB	76,877
State and Community Highway Safety		20.600	050204B1BU	64,062
State and Community Highway Safety		20.600	050402A1AA	121,873
State and Community Highway Safety		20.600	050404B1AA	94,991
State and Community Highway Safety		20.600	051301B1AA	127,358
State and Community Highway Safety		20.600	060202B1BB	25,218
State and Community Highway Safety		20.600	060505A1AA	158,085
State and Community Highway Safety		20.600	060504A1BR	89,379
State and Community Highway Safety		20.600	060702B1AA	206,353
State and Community Highway Safety		20.600	060705E1AA	146,419
State and Community Highway Safety		20.600	060801A1AE	<u>123,235</u>
Total State and Community Highway Safety				<u>\$ 1,267,016</u>
Total Texas Department of Highway and Public Transportation				<u>\$ 1,625,612</u>
Department of Transportation Passed Through—				
Texas Parks & Wildlife Department—				
Recreational Trails Program		20.219	88594	<u>\$ (183)</u>
Total Texas Parks & Wildlife Department				<u>\$ (183)</u>

See Notes to Schedule of Expenditures of Federal and State Awards

(Continued)

CITY OF HOUSTON, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Program Title	FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Total Department of Transportation				<u>\$ 87,118,481</u>
Department of Treasury:				
Shared Forfeited Property		21.XXX		<u>\$ 478,951</u>
Total Department of Treasury				<u>\$ 478,951</u>
Institute of Museum and Library Services Passed Through—				
Texas State Library and Archives Commission:				
Grants to States		45.310	470-05008	\$ 447,656
Grants to States		45.310	470-06008	1,070,345
Grants to States		45.310	470-99008	(69)
Grants to States		45.310	474-05002	55,926
Grants to States		45.310	476-05018	18,141
Grants to States		45.310	476-06018	49,979
Grants to States		45.310	771-04043	(66)
Grants to States		45.310	771-05043	43,280
Grants to States		45.310	771-06043	<u>259,757</u>
Total Institute of Museum and Library Services				<u>\$ 1,944,949</u>
Department of Veterans Affairs:				
Vocational and Educational Counseling for Service Members and Veterans		64.125	62-00227-43	<u>\$ 10,026</u>
Total Department of Veterans Affairs				<u>\$ 10,026</u>
Environmental Protection Agency:				
Surveys, Studies, Investigations and Special Purpose Grants within the Office of the Administrator		66.610	EPA-143LGR	<u>\$ 10,026</u>
Brownfield Pilots Cooperative Agreements		66.811	V996565010	<u>\$ 17,393</u>
Environmental Protection Agency Passed Through—				
Texas Commission on Environmental Quality:				
Air Pollution Control Program Support		66.001	582-2-89441	\$ (4,227)
Air Pollution Control Program Support		66.001	582-4-55827	191,651
Air Pollution Control Program Support		66.001	582-6-72619	<u>241,469</u>
Total Air Pollution Control Program Support				<u>\$ 428,893</u>

See Notes to Schedule of Expenditures of Federal and State Awards

(Continued)

CITY OF HOUSTON, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Program Title			
Environmental Protection - Consolidated Research	66.500	582-5-55899	\$ <u>198,459</u>
Surveys, Studies, Investigations and Special Purpose Grants	66.606	582-5-55867	\$ <u>53,085</u>
Total Texas Commission on Environmental Quality			\$ <u>680,437</u>
Environmental Protection Agency Passed Through— Texas Water Development Board:			
Capitalization Grants for Clean Water State Revolving Funds	66.458		\$ <u>11,698,009</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468	18003644SR	\$ <u>30,385</u>
Total Texas Water Development Board			\$ <u>11,728,394</u>
Environmental Protection Agency Passed Through— Gulf Coast Waste Disposal Authority			
Capitalization Grants for Clean Water State Revolving Funds	66.458	18503644	\$ <u>100,000</u>
Total Gulf Coast Waste Disposal Authority			\$ <u>100,000</u>
Total Environmental Protection Agency			\$ <u>12,536,250</u>
Department of Health and Human Services:			
Project Grants and Cooperative Agreements for TB Control	93.116	CCU600445-23	\$ (10)
Project Grants and Cooperative Agreements for TB Control	93.116	CCU600445-25	1,084,994
Project Grants and Cooperative Agreements for TB Control	93.116	CCU600445-24	<u>1,398,313</u>
Total Project Grants and Cooperative Agreements for TB Control			\$ <u>2,483,297</u>
Immunization Grants	93.268	CCH622532-02	\$ (2,500)
Immunization Grants	93.268	CCH622532-03	1,614,418
Immunization Grants	93.268	CCH62253204A	8,102,483
Immunization Grants	93.268	CCH622532-04	<u>1,156,043</u>
Total Immunization Grants			\$ <u>10,870,444</u>
Centers for Disease Control and Prevention	93.283	CCU622445-03	\$ 630,062
Centers for Disease Control and Prevention	93.283	CCU623269-01	(410)

See Notes to Schedule of Expenditures of Federal and State Awards

(Continued)

CITY OF HOUSTON, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Program Title			
Centers for Disease Control and Prevention	93.283	CCU623272-02	<u>809,578</u>
Total Centers for Disease Control and Prevention			<u>\$ 1,439,230</u>
State Pharmaceutical Assistance Programs	93.786	2006-KID-13	<u>\$ 13,521</u>
HIV Prevention Activities-Health Department Based	93.940	CCU023512-03	\$ 2,233,158
HIV Prevention Activities-Health Department Based	93.940	CCU023512-02	<u>2,586,798</u>
Total HIV Prevention Activities			<u>\$ 4,819,956</u>
HIV / AIDS Surveillance	93.944	CCU623559-02	\$ 867,872
HIV / AIDS Surveillance	93.944	CCU623559-03	597,166
HIV / AIDS Surveillance	93.944	CCU624424-01	(17,581)
HIV / AIDS Surveillance	93.944	CCU624424-02	<u>524,747</u>
Total HIV / AIDS Surveillance			<u>\$ 1,972,204</u>
Department of Health and Human Services Passed Through— Harris County, Texas:			
HIV Emergency Relief	93.914	05GEN0074	<u>\$ 47,946</u>
Total Harris County			<u>\$ 47,946</u>
Department of Health and Human Services Passed Through— Texas Department of Aging and Disability Services:			
Special Programs for the Aging Title VII, Chapter 3	93.041	2005-EAP-13	\$ 7,391
Special Programs for the Aging Title VII, Chapter 3	93.041	2006-EAP-13	<u>39,508</u>
Total Special Programs for the Aging Title VII, Chapter 3			<u>\$ 46,899</u>
Special Programs for the Aging Title VII, Chapter 2	93.042	2006-OAG-13	<u>\$ 68,256</u>
Special Programs for the Aging Title III, Part D	93.043	2005-3D-13	\$ 34,216
Special Programs for the Aging Title III, Part D	93.043	2006-3D-13	<u>126,789</u>
Total Special Programs for the Aging Title III, Part D			<u>\$ 161,005</u>

See Notes to Schedule of Expenditures of Federal and State Awards

(Continued)

CITY OF HOUSTON, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Program Title	FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Special Programs for the Aging Title III, Part B		93.044	2004-ADM-13	\$ 12
Special Programs for the Aging Title III, Part B		93.044	2005-3B-13	416,424
Special Programs for the Aging Title III, Part B		93.044	2005-ADM-13	260,176
Special Programs for the Aging Title III, Part B		93.044	2006-3B-13	1,119,845
Special Programs for the Aging Title III, Part B		93.044	2006-ADM-13	523,878
Special Programs for the Aging Title III, Part B		93.044	ADM2003-011	<u>(870)</u>
Total Special Programs for the Aging Title III, Part B				<u>\$ 2,319,465</u>
Special Programs for the Aging Title III, Part C		93.045	2006-3C1-13	\$ 939,257
Special Programs for the Aging Title III, Part C		93.045	2005-3C1-13	359,349
Special Programs for the Aging Title III, Part C		93.045	2006-3C2-13	1,483,918
Special Programs for the Aging Title III, Part C		93.045	2005-3C2-13	<u>361,109</u>
Total Special Programs for the Aging Title III, Part C				<u>\$ 3,143,633</u>
Alzheimer's Disease Demonstration Grants to States		93.051	2006-ALZ-13	<u>\$ 44,324</u>
National Family Caregiver Support		93.052	2006-3E-13	\$ 683,608
National Family Caregiver Support		93.052	3E-2003-011	(8,851)
National Family Caregiver Support		93.052	2005-3E-13	<u>145,769</u>
Total National Family Caregiver Support				<u>\$ 820,526</u>
Nutrition Services Incentive Program		93.053	2006-USD-13	\$ 603,764
Nutrition Services Incentive Program		93.053	2005-NSIP-13	<u>156,400</u>
Total Nutrition Services Incentive Program				<u>\$ 760,164</u>
Centers for Medicare and Medicaid Services (CMS) Research		93.779	2006-CMS-13	<u>\$ 25,827</u>
Total Texas Department of Aging and Disability Services				<u>\$ 7,390,099</u>
Department of Health and Human Services Passed Through—				
Texas Department of State Health Services:				
Family Planning Services		93.217	001164007-01	\$ 60,881
Family Planning Services		93.217	001164006-03	<u>16,739</u>
Total Family Planning Services				<u>\$ 77,620</u>

See Notes to Schedule of Expenditures of Federal and State Awards

(Continued)

CITY OF HOUSTON, TEXAS

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Program Title	FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Occupational Safety and Health Research Projects		93.262	001164006-05	\$ 192,715
Occupational Safety and Health Research Projects		93.262	001164005-06	<u>5,364</u>
Total Occupational Safety and Health Research Projects				<u>\$ 198,079</u>
Centers for Disease Control and Prevention		93.283	001164006-09	\$ 163,385
Centers for Disease Control and Prevention		93.283	001164005-10	1,502,744
Centers for Disease Control and Prevention		93.283	001164006-10	1,640,139
Centers for Disease Control and Prevention		93.283	001164005-12	<u>698,460</u>
Total Centers for Disease Control and Prevention				<u>\$ 4,004,728</u>
HIV Prevention Activities-Health Department Based		93.940	001164003-01	\$ 117
HIV Prevention Activities-Health Department Based		93.940	001164006-01	94,904
HIV Prevention Activities-Health Department Based		93.940	001164006-04	26,201
HIV Prevention Activities-Health Department Based		93.940	001164007-03	19,525
HIV Prevention Activities-Health Department Based		93.940	001164007-04	<u>\$ 20,090</u>
Total HIV Prevention Activities Health Department Based				<u>\$ 160,837</u>
Preventive Health Services—Sexually Transmitted Diseases		93.977	001164007-02	\$ 622,890
Preventive Health Services—Sexually Transmitted Diseases		93.977	001164006-02	<u>931,219</u>
Total HIV/AIDS Surveillance				<u>\$ 1,554,109</u>
Preventative Health and Health Services Block Grant		93.991	001164005-09	<u>\$ 102,837</u>
Maternal and Child Health Services Block Grant to the States		93.994	0011640A0601	<u>\$ 669,392</u>
Total Texas Department of State Health Services				<u>\$ 6,767,602</u>
Total Department of Health and Human Services				<u>\$ 35,804,299</u>
Department of Homeland Security Passed Through— Texas Engineering Extension Service:				
Urban Area Security Initiative		16.011	2003EUT30043	\$ 6,330,167
Urban Area Security Initiative		16.011	2003TUTX0003	2,106,466
Urban Area Security Initiative		16.011	FC55357	81,629
Urban Area Security Initiative		97.008	2005GET54025	97,373

See Notes to Schedule of Expenditures of Federal and State Awards

(Continued)

CITY OF HOUSTON, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Program Title			
Urban Area Security Initiative	97.008	2004UASI3500	<u>4,125,990</u>
Total Urban Area Security Initiative			<u>\$ 12,741,625</u>
State Domestic Preparedness Equipment Support Program	97.004	2004LETPP350	<u>\$ 732,629</u>
Total Texas Engineering Extension Service			<u>\$ 13,474,254</u>
Department of Homeland Security Passed Through—			
Texas Department of Public Safety:			
Public Assistance Grants	97.036	FEMA-1606-DR	\$ 7,286,848
Public Assistance Grants	97.036	FEMA-3216-EM	<u>279,391,482</u>
Total Public Assistance Grants			<u>\$ 286,678,330</u>
Hazard Mitigation Grant	83.548	FEMA-1379-DR-T	<u>\$ 21,483,580</u>
Emergency Management Performance Grants	97.042	06TX-EMPG-0026	<u>\$ 128,100</u>
Assistance to Firefighters Grant	97.044	EMW05FG17849	<u>\$ 786,268</u>
Metropolitan Medical Response System	97.071	233-03-0067	\$ (23,207)
Metropolitan Medical Response System	97.071	EMW04GR0599	<u>73,653</u>
Total Metropolitan Medical Response System			<u>\$ 50,446</u>
Total Texas Department of Public Safety			<u>\$ 309,126,724</u>
Total Department of Homeland Security			<u>\$ 322,600,978</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 537,904,040
See Notes to Schedule of Expenditures of Federal and State Awards			(Concluded)

CITY OF HOUSTON, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2006

STATE AWARDS	Grant Award Number	Expenditures
Program Title		
Harris County:		
United Minds Project	FC55360	\$ 1,223
United Minds Project	FC57219	9,989
Campo Del Sol	FC56178	55,353
Campo Del Sol	FC57220	<u>39,024</u>
Total Harris County		<u>\$ 105,589</u>
Office of the Governor, Criminal Justice Division— Shared Forfeited Property	N/A	<u>\$ 1,738,288</u>
After School Achievement Program (ASAP)	04J211806101	<u>\$ 170,631</u>
Total Office of the Governor, Criminal Justice Division		<u>\$ 1,908,919</u>
Texas Commission on Environmental Quality:		
The Bays & Bayous of Houston	582-4-65052	\$ 20,800
2004 TCEQ Interlocal Contract	582-4-64433	<u>246,276</u>
Total Texas Commission on Environmental Quality		<u>\$ 267,076</u>
Texas Commission on Environmental Quality Passed Through— Houston-Galveston Area Council:		
Recycling Handbook/TV Ads	04-16-G16	\$ 2,424
Solid Waste Local Enforce-Supply	05-16-G01	20,230
Solid Waste Local Enforce	05-16-G14	116,928
2003 HGAC Clean Rivers/Water/Lab	CR03-54709	(68)
2004 Clean River/Lab/Water	CR04-55625	55,164
2006 HGAC Clean Rivers/Lab	CR06-60931	1,138
2006 HGAC Focused Care Worker	FC06-60179	401,295
Local Enforcement	06-16-G19	61,601
Solid Waste Implementation Grant	05-16-G11	41,403
Household Hazardous Waste Disposal	00-16-G19	(360)
Household Hazardous Waste Disposal	05-16-G06	11,754
2003 Emissions Reduction	03-55017	<u>18,200</u>
Total Houston-Galveston Area Council		<u>\$ 729,709</u>
Texas Library & Archives Commission:		
2005 Lone Star Libraries Grant	442-05228	\$ 79,495
2006 Lone Star Libraries Grant	442-06228	<u>138,205</u>
Total Texas Library & Archives Commission		<u>\$ 217,700</u>

See Notes to Schedule of Expenditures of Federal and State Awards

(Continued)

CITY OF HOUSTON, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Program Title	STATE AWARDS Grant Award Number	Expenditures
Texas Department of Transportation Passed Through—		
Texas Auto Theft Prevention Authority:		
Major Accessory Shop Enforcement	SA01T0409356	\$ (24)
Major Accessory Shop/13	SAT041005405	218,251
Major Accessory Shop/14	SAT041005406	<u>473,710</u>
Total Texas Auto Theft Prevention Authority		<u>\$ 691,937</u>
Texas Comptroller of Public Accounts:		
Tobacco Compliance/8	005008TOBACC	\$ 25,000
Tobacco Compliance/9	006009TOBACC	<u>15,989</u>
Total Texas Comptroller of Public Accounts		<u>\$ 40,989</u>
Texas Department of State Health Services:		
2005 Tuberculosis State	001164005-08	\$ 333,537
2006 Tuberculosis State	001164006-07	1,058,471
2005 Title X Bureau of Women's Health	001164005-11	21,766
2005 Assoc Commissioner Family Health Planning	0011640A0502	213,133
2005 Assoc Commissioner Family Health Planning	0011640A0503	99,532
2004 Immunization State	001164005-05	143,463
2005 Milk & Dairy	0011640A0501	6,061
2006 Milk & Dairy	0011640A0602	6,860
Katrina Contractor Services	2006-KAT-13	155,203
2006 Community Health Services	0011640A0604	92,415
2006 Local Public Health Services	001164006-06	85,384
2006 State Immunization P/I Program	001164006-08	<u>429,924</u>
Total Texas Department of State Health Services		<u>\$ 2,645,749</u>
Texas Department of Aging and Disability Services:		
2005 Assisted Living Advocacy	2005-ALP-13	\$ 9,581
2005 State General Revenue	2005-SGR-13	11,746
2006 State General Revenue	2006-SGR-13	416,802
2005 DPS Program Income Aging	2005-DPS-13	210
2006 State Highway Fund	2006-SHF-13	35,341
2005 State Highway Fund	2005-SHF-13	<u>2,925</u>
Total Texas Department of Aging and Disability Services		<u>\$ 476,605</u>
Texas Parks and Wildlife Department:		
Houston Herman Park Greenway	5000331	\$ 429,698
Acres Home Baseball Complex	50-000365	90,420
Acres Home Baseball Complex	5000344	275,104

See Notes to Schedule of Expenditures of Federal and State Awards

(Continued)

CITY OF HOUSTON, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Program Title	Grant Award Number	Expenditures
Houston ER and Ann Taylor Park	50-00293	<u>61,336</u>
Total Texas Parks and Wildlife Department		<u>\$ 856,558</u>
Gulfcoast Workforce Development After School Achievement Program (ASAP) - Local Match	04ASAPGCW	<u>14,805</u>
Total Gulfcoast Workforce Development		<u>\$ 14,805</u>
TOTAL EXPENDITURES OF STATE AWARDS		<u>\$ 7,955,636</u>
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS		<u>\$ 545,859,676</u>
See Notes to Schedule of Expenditures of Federal and State Awards		(Concluded)

CITY OF HOUSTON, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

- The accompanying schedule of expenditures of federal and state awards includes the federal grant activity and state grant activity of the City of Houston, Texas (the "City") and is presented on the modified accrued basis of accounting for the governmental funds and the accrual basis of accounting for the enterprise funds, which is described in Note 1 to the City's financial statement. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas *Uniform Grant and Contracts Management Standards ("UGCMS")*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Federal and state awards provided to subrecipients are treated as an expenditure when paid to the subrecipient.

- Federal and State Awards are reported in the City's Comprehensive Annual Financial Report ("CAFR") as follows (in thousands):

	Federal	State
Grants Funds	\$ 407,718	\$ 6,218
General Fund	9,938	
Nonmajor Governmental Fund	1,529	1,738
Capital Projects Funds	21,842	
Enterprise Fund—Airport System Fund	85,179	
Enterprise Fund—Combined Utility System Fund	<u>11,698</u>	<u> </u>
Total	<u>\$ 537,904</u>	<u>\$ 7,956</u>

- Amounts reported in the Schedule of Federal and State Awards may not agree with the amounts reported in the related financial reports filed with grantor agencies because of accruals which would be included in the next report filed with the agencies.
- Contingencies**—The City receives various grants to cover costs of specified programs. Final determination of eligibility of costs will be made by the grantors. Should any costs be found ineligible, the City will be responsible for reimbursing the grantors for these amounts.
- Noncash Awards**—Certain federal financial award programs do not involve cash awards to the City. These programs include donated vaccines as follows:

U.S. Department of Health and Human Services

	CFDA Number	Amount
Value of vaccines issued	93.268	\$ 8,102,483
Value of vaccines on hand		861,827

6. **Loans Outstanding**—The City had the following loan balances outstanding at June 30, 2006. Loans made during the year are included in the federal expenditures presented in the schedule.

Program Title	CFDA Number	Amount Outstanding
Community Development Block Grant	14.218	\$ 23,188,194
HOME Investment Partnerships Program	14.239	33,403,557
Section 108 Guaranteed Loan Program	14.248	22,188,981
Housing Opportunities for Persons with AIDS	14.241	2,446,494

7. The following is the Federal Subrecipient Awards:

Federal Subrecipients

Of the federal awards presented in the schedule, the City of Houston provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 9,924,145
Emergency Shelter Grants Program	14.231	1,158,886
Home Investment Partnerships Program	14.239	2,440,301
Housing Opportunities for Persons with AIDS	14.241	5,439,609
CDBG/Brownfields Economic Development Initiative	14.246	248,640
Anti-Violent Crime	16.XXX	2,082
Juvenile Accountability Incentive Block Grants	16.523	45,140
Gang-Free Schools and Communities-Community-Based Gang Intervention	16.544	54,476
Executive Office for Weed and Seed	16.595	52,486
Public Safety Partnership and Community Policing Grants	16.710	27,080
Special Programs for the Aging Title VII, Chapter 3	93.041	46,890
Special Programs for the Aging Title VII, Chapter 2	93.042	68,256
Special Programs for the Aging Title III, Part D	93.043	161,005
Special Programs for the Aging Title III, Part B	93.044	1,168,284
Special Programs for the Aging Title III, Part C	93.045	3,134,633
Alzheimer's Disease Demonstration Grants to States	93.051	25,773
National Family Caregiver Support	93.052	733,956
Nutrition Services Incentive Program	93.053	760,164
Immunization Grants	93.268	65,240
Centers for Disease Control and Prevention	93.283	637,599
HIV Prevention Activities-Health Department Based	93.940	2,235,309
HIV/AIDS Surveillance	93.944	111,882
Preventative Health Services-Sexually Transmitted Diseases	93.977	268,161
Preventative Health and Health Services Block Grant	93.991	6,257
Total		<u>\$ 28,816,254</u>

8. The following is the State Subrecipient awards:

Of the state expenditures presented in the schedule, the City of Houston provided state awards to subrecipients as follows:

Program Title	Grant Award Number	Amount Provided to Subrecipients
2005 Tuberculosis State	001164005-08	\$ 12,000
2006 Tuberculosis State	001164006-07	41,900
After School Achievement Program (ASAP)	04J211806101	170,631
2005 Assisted Living Advocacy	2005-ALP-13	9,581
2005 DPS Program Income Aging	2005-DPS-13	210
2005 State General Revenue	2005-SGR-13	11,746
2006 State General Revenue	2006-SGR-13	416,802
2005 State Highway Fund	2005-SHF-13	2,925
2006 State Highway Fund	2006-SHF-13	35,341
Major Accessory Shop/13	SAT041005405	1,125
Katrina Contractor Services	2006-KAT-13	<u>60,516</u>
Total		<u>\$ 762,778</u>

9. Intergovernmental revenues from reimbursable grants and capital projects are recognized when the related expenditures are incurred. However; in the case of Tropical Storm Allison, related reimbursements were received in fiscal year 2006 although the related storm damage recovery expenditures occurred in prior years. Similarly, reimbursements were received related to construction agreements for Spur 527 and I-10 in fiscal year 2006 in which the expenditures were incurred in prior years.

CFDA Number	Description	Grantor Number	Amount
83.544	Tropical Storm Allison	FEMA-1379DR	\$ 525,385
20.205	Department of Transportation		1,928,738

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CITY OF HOUSTON, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

I. SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report on the basic financial statements expressed an unqualified opinion.
2. A reportable condition in internal control over financial reporting was identified, which is considered to be a material weakness.
3. Instances of noncompliance considered material to the basic financial statements were disclosed in the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified and are considered to be material weaknesses.
5. The independent auditors' report on compliance with requirements applicable to major federal and state award programs expressed an unqualified opinion for all major programs except for the Hurricane Relief Fund, Immunization Grants, Public Assistance Grant, Immunization – State, 2006 HGAC Focused Care Workers, Acres Home Baseball Complex , Houston Herman Park Greenway and Major Accessory Shop Enforcement, which was qualified.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The City's major programs were:

Name of Major Federal/State Program	CFDA Number
High Intensity Drug Trafficking Area (HIDTA)	7.999; 7.XXX
HOME Investment Partnerships Programs	14.239
Hurricane Relief Fund	16.738
Immunization Grants	93.268
Public Assistance Grants	97.036
Shared Forfeited Property	State
Immunization	State
2006 HGAC Focused Care Worker	State
Acres Home Baseball Complex	State
Houston Herman Park Greenway	State
Major Accessory Shop Enforcement	State

8. For federal awards and state awards, a dollar threshold of \$3,000,000 and \$300,000, respectively, was used to distinguish between Type A and Type B programs, as defined in OMB Circular A-133.
9. The City did not qualify as a low-risk auditee, as defined in OMB Circular A-133.

II. FINANCIAL STATEMENT FINDINGS SECTION

Program	Finding/Noncompliance	Questioned Cost
Financial Reporting	Finding 2006-1.	N/A

Finding: The City’s financial accounting and reporting process is not adequate to ensure that accounting transactions are being properly captured and recorded by the City in its financial statements.

Cause: Due to the City’s diverse operations, there are a number of complex accounting and financial reporting transactions that are entered into each year. The City was required to record a significant number of material auditor proposed adjustments to properly reflect the financial operations of the City. Included within these audit adjustments were items related to accounts payables, deferred revenues, capital assets, federal and state grant activities, revenues and debt.

Effect: Without changes being made to the City’s current financial reporting process, the City may produce financial statements that are materially misstated.

Recommendations for corrective action: The City should evaluate its current financial accounting and reporting process. Within the evaluation there should be a critical review of the way in which financial information flows to and from departments and the City Controller’s Office. The City should also evaluate the current financial accounting and reporting structure to assure that there are adequate resources in place to limit the likelihood of future accounting errors.

Corrective Action Plan of Management: The City of Houston is currently conducting financial management literacy courses for City department heads and executive staff. These courses are intended to emphasis accounting and internal controls in the financial management of City department activities. Upon completion of these courses, a review of the current financial accounting policies and procedures should determine the proper distribution of resources to limit future accounting errors.

Estimated Completion Date: December 2007

City Contact Person: Jim Locke, F&A Assistant Director

III. FEDERAL AND STATE AWARDS FINDINGS AND QUESTIONED COSTS SECTION

Program	Finding/Noncompliance	Questioned Cost
	Finding 2006-2.	
Public Assistance Grant - CFDA # 97.036	<u>Finding:</u> Of the 75 FEMA evacuees selected for testing we noted that certain evacuees lacked a valid FEMA or Voucher Number or had multiple FEMA or Voucher Numbers as noted below. In addition, we tested 25 apartment complexes and noted that one apartment complex had a different address in the FEMA database, one apartment complex was not on file, and for three apartment complexes' the specific unit selected for testing was not on file as noted below.	\$175,583

<u>Issue</u>	<u># Selections</u>	<u>Amount</u>
Lack of valid FEMA or Voucher Number		
- Individuals	7	\$ 9,148
Multiple FEMA or Voucher numbers		
- Individuals	9	\$ 4,536
Apartment complex not in database	1	\$ 103,759
Apartment complex in database:		
- Specific Unit not in database	3	\$ 5,234
- Specific Unit in City database; but not in FEMA	1	\$ 419
- Different addresses on file with FEMA	<u>1</u>	<u>\$ 52,487</u>
Total	<u>22</u>	<u>\$ 175,583</u>

Criteria: In accordance with FEMA guidance, the City was responsible for ensuring that payments made were for valid FEMA evacuees who had a valid FEMA or Voucher Number.

In addition, the City was responsible for ensuring that not only the FEMA evacuee was valid, but that the apartment complex and specific unit of the apartment complex was valid.

Cause: For the remaining issues surrounding the FEMA and/or Voucher numbers, there were no proper verification procedures.

Effect: Non-compliance with the City of Houston's internal control procedures and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments" ("OMB A-87"), with regard to obtaining adequate supporting documentation. In addition, without appropriate verification of a FEMA/Voucher number, funds may have been disbursed inappropriately.

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2006-2 (continued).

Recommendation: Employees responsible for authorizing payment on invoices should verify that all evacuees listed have valid FEMA and Voucher numbers. In addition, not only the apartment complex should also be reviewed for validity, but also the specific unit. Policies and procedures related to verification of data should be reviewed and enhanced to ensure an adequate review is performed.

Corrective Action Plan of Management: A FEMA official has explained, “Section 403 assistance is provided to State and local government for emergency circumstances; therefore, the evacuees housed in the Section 403 program did not have to initially apply or qualify for assistance to receive the emergency shelter.”¹ To serve hurricane victims expeditiously, OMB directions were to “waive, as allowable under law and regulation, traditional enrollment criteria.”² The Interim Housing Program for Hurricane Katrina evacuees was a one-time, never-previously-done emergency disaster response program, established by the City of Houston at the request of FEMA to handle the 150,000 evacuees coming to Houston.

FEMA numbers were issued by FEMA to evacuees who applied for assistance from FEMA. FEMA issued many evacuees multiple FEMA numbers; multiple FEMA numbers did not make an evacuee ineligible.

Many evacuees “swam” out or were retrieved from rooftops, and did not have identification with them at the time they arrived in Houston. Consistent with the OMB memo, the City used flexible criteria to validate evacuees. Originally, the FEMA permitted the City access to its records to verify the validity of a presented FEMA number. FEMA later caused the City of Houston to stop the procedure of crosschecking the applicants and their FEMA vouchers against the FEMA records as they withdrew the City’s access to the appropriate FEMA records due to Privacy Act, 5 U.S.C. 552a. The City’s revised confirmation procedure was communicated to FEMA’s District VI management in a letter dated November 8, 2005 from the Mayor’s Deputy Chief of Staff for Neighborhoods and Housing. The City generally required two proofs that the evacuee resided in the disaster area at the time of the disaster—that was the relevant eligibility standard.

Some apartment complexes had assumed or “doing business as” names which varied from the legal name of the ownership entity. Some apartment complexes may have different addresses for billing purposes. Mid-program changes in ownership of apartment complexes could also result in a new or different address for billing purposes. Some apartment units in the same complexes had mailing addresses on different streets, or

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2006-2 (continued).

in different blocks of the same street. We are unable to confirm that any of the apartment address discrepancies noted in the finding are valid.

¹ Declaration of Donna Dannels, Director, Individual Assistance Division, FEMA, in Ridgely v. FEMA, (June 27, 2007), at fn 8.

² Memo from Clay Johnson III, Deputy Director for Management, Office of Management and Budget, Subject: eligibility Verification Requirements for Delivery of Benefits to Victims of Hurricanes Katrina and Rita, (Oct. 13, 2005),

http://www.whitehouse.gov/omb/financial/fia/hurricanes_katrina_rita_10-13-05.pdf.

Estimated Completion Date: Complete

City Contact Person: Jim Locke, F&A Assistant Director

Program	Finding/Noncompliance	Questioned Cost
Public Assistance Grant - CFDA # 97.036	<p style="text-align: center;">Finding 2006-3.</p> <p><u>Finding:</u> Of 278 selections tested, we noted two invoices totaling \$936,187 related to an accrual of furniture purchase orders that were properly accrued but paid outside the normal procedures for the three-way match resulting in expenditures being recorded twice – once through the goods receipt and again by the actual payment as the accrual had not been reversed. Upon further investigation, we noted that \$3,934,037 of purchase orders had been paid outside the normal procedures resulting in an overstatement of the expenditures in Schedule of Expenditures of Federal and State Awards (SEFA) and an overstatement of the accrual and expenditures in the financial statements.</p> <p><u>Criteria:</u> In accordance with OMB Circular No. A-87, <i>Cost Principles for State, Local, and Indian Tribal Government</i>, cost must be reasonable and recorded in accordance with generally accepted accounting principles.</p> <p><u>Cause:</u> The City’s Financial Accounting System allowed for the overriding of controls surrounding the three-way matching of invoices.</p> <p><u>Effect:</u> An adjustment of \$3,934,037 was recorded to the SEFA schedule and financial statements.</p> <p><u>Recommendation:</u> Review existing policies and procedures related to proper recording of purchase orders, receipt of goods, payment of invoices and system controls related to the circumvention of controls around the three-way match.</p> <p><u>Corrective Action Plan of Management:</u> The City’s SAP System, as well as the City’s AFMS System, is designed to allow for miscellaneous direct payments that are not associated with a purchase order or a contract. This feature is necessary, but unfortunately makes it possible to by-pass processing payments against purchase orders and contracts. A mitigating control is that every department must submit adequate support for all miscellaneous direct payments. An authorized department representative must sign all miscellaneous direct pay vouchers submitted to the Controller’s Office. As an additional enhancement to the City’s year-end policies and procedures, we will generate a list of all vouchers payable outstanding associated with three-way match purchase orders. We will send this list to each department and ask them to determine and confirm that the liability is still valid and has not been paid with a direct payment voucher thus by-passing the normal procedures for purchase orders.</p> <p><u>Estimated Completion Date:</u> September 2007</p> <p><u>City Contact Person:</u> Rudy Garcia, Deputy City Controller</p>	N/A

Program	Finding/Noncompliance	Questioned Cost
<p>HIDTA – CFDA # 07.999 & 07.XXX</p> <p>Immunization – State</p>	<p style="text-align: center;">Finding 2006-4.</p> <p><u>Finding:</u> For four out of 13 payroll selections for HIDTA and for five out of nine payroll selections for Immunization – State, the employee’s current salary authorization form (Form 201 or Stencil) was not located in the employee’s personnel file either in the department or central records of Human Resources resulting in unsupported payroll amounts totaling \$7,061 and \$2,644 for HIDTA and Immunization – State, respectively.</p> <p><u>Criteria:</u> In accordance with OMB Circular No. A-87, <i>Cost Principles for State, Local, and Indian Tribal Government</i>, cost must be reasonable and recorded in accordance with generally accepted accounting principles.</p> <p><u>Cause:</u> Lack of approved supporting documentation maintained in employee’s personnel files.</p> <p><u>Effect:</u> Potential incorrect payment of amount for the respective employee. Potential disallowance of employee’s salary amount due to lack of proper authorization and documentation of salary amount.</p> <p><u>Recommendation:</u> Enforce the existing procedure relating to the maintenance of personnel files for all employees in all departments.</p> <p><u>Corrective Action Plan of Management:</u> Management for the Houston Police Department and the Houston Department of Health and Human Services will ensure that department staff review and follow City of Houston policies and procedures for maintenance of personnel records for all City employees and that properly supported documentation is maintained in those files. The Finance and Administration Grant Management staff will assist the departments in securing additional training in grant administrative requirements for their staffs.</p> <p><u>Estimated Completion Date:</u> August 2007</p> <p><u>City Contact Person:</u> Sheryal Armstrong, Police / Bob Bowers, Health</p>	<p>\$9,705</p>

Program	Finding/Noncompliance	Questioned Cost
Finding 2006-5.		
Immunization Grants– CFDA # 93.268	<u>Finding:</u> For Immunization Grants – CFDA# 93.268, the City was unable to provide supporting documentation related to two program income selections out of 15. The two selections were from the City’s Acres Homes MSC clinic. The selections totaled \$26 and \$18, respectively.	\$9,657
Immunization – State Houston Herman Park Greenway – State	For Immunization – State program, for two out of 23 selections totaling \$1,340 we noted that the City maintained an agreement with the vendor, however the agreement did not specify a rate for the position of Medical Social Worker. Therefore we were unable to verify that the rate charged was in accordance with the agreement.	
	For Houston Herman Park Greenway - State, for two out of 14 selections we noted that only a portion of the invoice was related to the program. Upon review of the invoice from the Houston Park Conservancy we noted that the invoice contained a hand-written comment stating how much was to be allocated to the program. However, the City was unable to provide further justification to support the allocation method. The total amount from these two invoices totaled \$8,317.	
	<u>Criteria:</u> In accordance with OMB Circular No. A-87, <i>Cost Principles for State, Local, and Indian Tribal Government</i> , cost must be adequately documented and supported.	
	<u>Cause:</u> Lack of supporting documentation maintained for selections for program income and expenditures.	
	<u>Effect:</u> Expenditures may be disallowed based on lack of adequate documentation.	
	<u>Recommendation:</u> The City should review its policy and procedures related to the retention of documentation.	
	<u>Corrective Action Plan of Management:</u> The Department of Health and Human Services will review its processes and procedures and instruct departmental staff in securing and maintaining supporting documentation for program income and temporary personnel in its programs. The Parks and Recreation Department will review its process and procedures and instruct departmental staff in securing and maintaining supporting documentation on contracts and invoices.	
	<u>Estimated Completion Date:</u> September 2007	
	<u>City Contact Person:</u> Bob Bowers, Health / Cheryl Johnson, Parks	

Program	Finding/Noncompliance	Questioned Cost
Finding 2006-6.		
Immunization Grants – CFDA # 93.268 HIDTA – CFDA # 07.999 & 07.XXX	<p data-bbox="418 363 1287 527"><u>Finding:</u> For two out of nine selections and one out of six selections, for the Immunization – CFDA # 93.268 and HIDTA CFDA # 07.XXX, respectively, the City was unable to provide evidence of a cancelled check, however, we were able to verify that the check had properly cleared the bank, but could not verify the payee.</p> <p data-bbox="418 562 1287 657"><u>Criteria:</u> In accordance with OMB Circular No. A-87, <i>Cost Principles for State, Local, and Indian Tribal Government</i>, cost must be adequately documented.</p> <p data-bbox="418 693 1287 825"><u>Cause:</u> The City receives a CD from the financial institution which contains a copy of cleared checks. The CD for the month of January 2006 was corrupt which prevented the City from providing evidence of the cancelled check.</p> <p data-bbox="418 861 1287 955"><u>Effect:</u> Inability to verify payee, however the City utilizes positive pay with its financial institution, which provides the City an additional mitigating control.</p> <p data-bbox="418 991 1287 1085"><u>Recommendation:</u> The City should check all CD’s upon arrival to verify and validate the accuracy of the data and request a replacement CD if necessary.</p> <p data-bbox="418 1121 1287 1190"><u>Corrective Action Plan of Management:</u> The City will start to validate all CD’s upon arrival and obtain replacement CD’s as necessary.</p> <p data-bbox="418 1226 1287 1295"><u>Estimated Completion Date:</u> The City began validating CD’s beginning July 2007.</p> <p data-bbox="418 1331 1287 1394"><u>City Contact Person:</u> Lloyd Waguespack, Deputy City Controller, Operations & Technical Services Division</p>	\$151

Program	Finding/Noncompliance	Questioned Cost
Finding 2006-7.		
Immunization Grants – CFDA # 93.268	<u>Finding:</u> For the programs noted below, we identified expenditures reflected in the Schedule of Expenditures of Federal and State Awards that pertained to prior fiscal years.	N/A
HIDTA – CFDA # 07.999 & 07.XXX	Immunization Grants: One out of nine selections totaling \$186 which represented copier service for the period of March through May 2005.	
Immunization – State	HIDTA: Four out of 19 selections totaling \$4,014 which represented payroll transactions including two salary transactions dated 12/31/04 and 2/25/05, an overtime transaction dated 3/31/05 and an expenditure for workers compensation dated 6/17/05.	
Acres Home Baseball Complex – State	Immunization State: One out of two selections totaling \$2,597 which represented chairs received on 6/27/05.	
Houston Herman Park Greenway – State	Acres Home Baseball Complex: Although not selected for testing, we noted \$71,204 of the expenditures was incurred during the City’s fiscal year 2004 and 2005 by reviewing through the detail of expenditures.	
Major Shop Accessory Enforcement – State	Houston Herman Park Greenway: Two out of 14 selections totaling \$8,318 related to professional services were dated in August 2004 and March 2005 and related to design of the project.	
	Major Shop Accessory Enforcement: Although not selected for testing, we noted \$1,821 of expenditures were incurred during the City’s fiscal year 2005 by reviewing other payroll reports attached to the support for our selections.	
	<u>Criteria:</u> The City’s Schedule of Expenditures of Federal and State Awards (SEFA) is prepared on a modified accrual and accrual basis, and as such, expenditures should be reflected when incurred not when paid or reimbursed by the funding agency.	
	<u>Cause:</u> For the Federal and State Immunization programs, the lack of proper cutoff of accruals was noted as the cause. For HIDTA, Acres Home Baseball Complex and Houston Herman Park Greenway the expenditures were initially recorded as an expenditure when paid, however the expenditure was not coded in the general ledger system to the respective grant. As these grants are on a reimbursement basis, upon receipt of the reimbursement, an expenditure correction was recorded which reclassified the expenditure in the general ledger system from a non grant expenditure to the appropriate grant by use of the City’s federal grant ID and appropriation code. The City utilizes such codes to derive its Schedule of Expenditures of Federal and State Awards, thus only including these expenditures in the Schedule of Expenditures of Federal	

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2006-7 (continued).

and State Awards when coded as such.

Effect: Expenditures are being reflected in the wrong fiscal year in the Schedule of Expenditures of Federal and State Awards.

Recommendation: The City should review its policy and procedures related to the recording of transactions related to federal and state awards and provide adequate training for all departments receiving federal and state awards to ensure that expenditures are coded to the respective grant when incurred.

Corrective Action Plan of Management: Additional instructions on the automatic and manual accruals process and their respective cutoff dates were included in the year end procedures that was distributed by the City Controller's Office to City departments for 2007 to help reduce the negative affect of improper accruals on the Schedule of Expenditure of Federal and State Awards. The City of Houston has adjusted its procedures so that departments do not have to receive reimbursements for eligible grant program expenditures from the sponsoring agency prior to posting grant program expenditures into the grant ledger. City departments have been asked to identify for Finance and Administration Grant Management grant program activity not located in the grant ledger. Finance and Administration Grant Management will assist in securing administrative and financial management grant training for City department staffs.

Estimated Completion Date: September 2007

City Contact Person(s): Bob Bowers, Health / Cheryl Johnson, Parks / Sheryal Armstrong, Police / Harold Jackson, F&A Grants Division Manager

Program	Finding/Noncompliance	Questioned Cost
HOME Program – CFDA # 14.239	Finding 2006-8.	N/A
	<p data-bbox="418 396 1279 632"> <u>Finding:</u> We noted for one out of 10 projects selected, we were unable to verify the actual period monitored. In addition, for three out of 10 projects, we did not notice any evidence of follow-up, such as a response from the apartment complex, additional correspondence from the City regarding any remedial action that should have been addressed by the apartment complex and/or the status of the remediation process of the findings from the apartment complexes. </p> <p data-bbox="418 663 1235 760"> Through discussions a City employee it was noted that approximately 50% of the properties tested did not have annual monitoring reports prepared. </p> <p data-bbox="418 800 1247 995"> <u>Criteria:</u> Monitoring is a requirement of the Housing and Urban Development (“HUD”) Department and encompasses that the City periodically monitor all properties that receive funding assistance. The monitoring includes the inspection of qualifying income of tenants, appropriate lease agreements on file, audits of rent rolls for each of the properties, and other audit tenant-landlord documentation. </p> <p data-bbox="418 1035 1279 1199"> <u>Cause:</u> During 2005, the City of Houston’s funding for the HOME and other housing grants was temporarily suspended, and no monitoring of subrecipients was performed. In addition, the City’s Housing and Community Development (“HCD”) Department had inadequate staff during the year, which made the monitoring of all properties not possible. </p> <p data-bbox="418 1236 1170 1297"> <u>Effect:</u> Non-compliance with OMB Circular A-133 compliance requirements. </p> <p data-bbox="418 1337 1284 1501"> <u>Recommendation:</u> An increase in staffing and adequate training for the employees in relation to performing monitoring activities. In addition, the Manager of Monitoring and Compliance should better track the progress and activities of all housing properties that are required to have inspections performed. </p> <p data-bbox="418 1539 1263 1669"> <u>Corrective Action Plan of Management:</u> The monitoring division of the HCD Department has been adequately staffed. The monitoring division had a number of opportunities for improvement, including assignment scheduling, workload distribution and execution of follow up. </p> <p data-bbox="418 1707 1260 1799"> In April of 2007, the HCD department was reorganized along business lines to improve efficiencies. In the course of the reorganization, it was decided that the monitoring function would no longer be </p>	

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2006-8 (continued).

centralized. The staff members were assigned to the functional units.

The reorganization will improve the quality of monitoring efforts. In addition, a tracking tool has been developed that includes all relevant project data fields including project completion dates, inspection dates, monitoring dates and follow up dates. This allows the department to have consistent information for reporting purposes. The tool has been fully implemented for the HOME projects and a copy has been submitted to HUD. The tracking tool is being populated for the other funding sources as well.

Estimated Completion Date: Complete

City Contact Person: Christine Cuddeback, HCD

Finding 2006-9.

**Capitalization
Grants for
Clean Water
State Revolving
Funds – CFDA
66.458**

Finding: In accordance with OMB Circular A-133, the City is responsible for preparing the Schedule of Expenditures of Federal and State Awards (SEFA). At a minimum the schedule is to include federal programs by federal agency. During our review of the SEFA Schedule, we noted certain errors as follows:

**Hazard
Mitigation
Grant Program
– CFDA #
83.548**

Capitalization Grants for Clean Water State Revolving Funds: The initial SEFA Schedule included approximately \$3 million of Tier I type State-Funded expenditures related to costs not subject to single audit testing, thus overstating expenditures in the SEFA Schedule. In addition, the expenditures were reflected under the wrong CFDA number. In the final SEFA Schedule, expenditures totaling \$11 million were excluded from the SEFA Schedule.

**Public
Assistance
Grants – CFDA
97.036**

Hazard Mitigation Grant Program: The initial SEFA Schedule included approximately \$1 million of expenditures primarily due to the inclusion of retainage as retainage is not an allowable cost until such amounts have been paid in accordance with the grant award.

**Edward Byrne
Memorial
Justice
Assistance
Grant Program
-Hurricane
Relief Fund –
CFDA # 16.738**

Public Assistance Grants: The City did not include \$9 million of expenditures reflected in the general fund in its SEFA Schedule.

Hurricane Relief Fund: The SEFA Schedule included the Hurricane Relief Funds totaling \$3.6 million as state expenditures instead of federal expenditures.

Program	Finding/Noncompliance	Questioned Cost
Finding 2006-9 (continued).		
Highway Planning and Construction – CFDA # 20.205	<p data-bbox="418 363 1219 428">Highway Planning and Construction: The SEFA Schedule excluded expenditures \$358 thousand of expenditures.</p> <p data-bbox="418 464 1252 529">All items noted above have been corrected in the SEFA Schedule as of June 30, 2006.</p> <p data-bbox="418 564 1284 630"><u>Criteria:</u> Management of the City is responsible for proper preparation of the SEFA Schedule.</p> <p data-bbox="418 665 1260 730"><u>Cause:</u> Lack of understanding of the preparation of the SEFA Schedule by including ineligible costs.</p> <p data-bbox="418 766 1170 831"><u>Effect:</u> Non-compliance with OMB Circular A-133 compliance requirements.</p> <p data-bbox="418 867 1284 1100"><u>Recommendation:</u> The City's Financial and Administration Department should continue its efforts to improve the overall quality of the process of consolidating and reviewing the awards received. The City should continue to review the information for completeness, accuracy and reasonableness and monitor new grants or awards. In addition, the City should ensure that it is aware of each new grant or award's compliance requirements including any audit requirements.</p> <p data-bbox="418 1136 1284 1264">A more thorough training should be provided to personnel when preparing the SEFA Schedule. In addition, there should be at least two employees that are knowledgeable with regard to the SEFA Schedule and its preparation.</p> <p data-bbox="418 1299 1284 1669"><u>Corrective Action Plan of Management:</u> The City has implemented its new information system and has revised its process and procedures to focus citywide grant activity in Finance and Administration. In this review of the grant activity process, it was determined that a reconciliation of all grant related capital project expenditures was needed to accurately report the grant expenditures for capital project programs. This request has been made to Public Works and Engineering, has been included in the annual review process and should be available for the 2007 Single Audit Report. Two additional staff members along with the Grant Management Manager will receive additional training in Single Audit Report preparation, which should be completed by December 2007.</p> <p data-bbox="418 1705 1000 1740"><u>Estimated Completion Date:</u> December 31, 2007</p> <p data-bbox="418 1776 1243 1799"><u>City Contact Person:</u> Harold Jackson, F&A Grants Division Manager</p>	N/A

Program	Finding/Noncompliance	Questioned Cost																														
Finding 2006-10.																																
Public Assistance Grant – CFDA # 97.036	<u>Finding:</u> It was noted that out of 144 selections subject to testing, a net total of \$19,227,649 were initially recorded in the wrong fiscal year. The expenditures were recorded as fiscal year 2007 expenditures when they should have been charged as fiscal year 2006 expenditures or the expenditure amount charged was incorrect. The expenditures, however, were corrected in City’s Schedule of Federal and State Awards as of June 30, 2006. The breakdown of expenditure amount by grant is as follows:	N/A																														
Grants for Public Works & Economic Development Activities – CFDA # 11.300	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th data-bbox="431 632 548 667">Program</th> <th data-bbox="1117 632 1230 667">Amount</th> </tr> </thead> <tbody> <tr> <td data-bbox="431 667 727 703">Public Assistance Grants</td> <td data-bbox="1078 667 1247 703" style="text-align: right;">\$ 17,004,288</td> </tr> <tr> <td data-bbox="431 703 760 739">Public Works Construction</td> <td data-bbox="1143 703 1247 739" style="text-align: right;">423,173</td> </tr> <tr> <td data-bbox="431 739 889 774">Community Development Block Grant</td> <td data-bbox="1143 739 1247 774" style="text-align: right;">546,365</td> </tr> <tr> <td data-bbox="431 774 971 810">Housing Opportunities for Persons with AIDS</td> <td data-bbox="1143 774 1247 810" style="text-align: right;">217,626</td> </tr> <tr> <td data-bbox="431 810 971 867">CDGB/Brownsfields Economic Development Initiative</td> <td data-bbox="1143 837 1247 873" style="text-align: right;">187,267</td> </tr> <tr> <td data-bbox="431 867 824 903">Lead-Based Paint Hazard Control</td> <td data-bbox="1143 867 1247 903" style="text-align: right;">100,006</td> </tr> <tr> <td data-bbox="431 903 613 938">Grants to States</td> <td data-bbox="1143 903 1247 938" style="text-align: right;">67,974</td> </tr> <tr> <td data-bbox="431 938 938 974">Center for Disease Control and Prevention</td> <td data-bbox="1143 938 1247 974" style="text-align: right;">29,670</td> </tr> <tr> <td data-bbox="431 974 1068 1010">HIV Prevention Activities – Heath Department Based</td> <td data-bbox="1143 974 1247 1010" style="text-align: right;">45,981</td> </tr> <tr> <td data-bbox="431 1010 1052 1045">Special Programs for the Aging Title III, Part B & C</td> <td data-bbox="1143 1010 1247 1045" style="text-align: right;">262,722</td> </tr> <tr> <td data-bbox="431 1045 792 1081">Urban Area Security Initiative</td> <td data-bbox="1143 1045 1247 1081" style="text-align: right;">144,291</td> </tr> <tr> <td data-bbox="431 1081 1003 1117">Special Supplemental Nutrition Program – WIC</td> <td data-bbox="1143 1081 1247 1117" style="text-align: right;">(16,253)</td> </tr> <tr> <td data-bbox="431 1117 824 1152">Houston Herman Park Greenway</td> <td data-bbox="1143 1117 1247 1152" style="text-align: right;">163,210</td> </tr> <tr> <td data-bbox="431 1152 954 1188">After School Achievement Program (ASAP)</td> <td data-bbox="1143 1152 1247 1188" style="text-align: right;">51,329</td> </tr> </tbody> </table>	Program	Amount	Public Assistance Grants	\$ 17,004,288	Public Works Construction	423,173	Community Development Block Grant	546,365	Housing Opportunities for Persons with AIDS	217,626	CDGB/Brownsfields Economic Development Initiative	187,267	Lead-Based Paint Hazard Control	100,006	Grants to States	67,974	Center for Disease Control and Prevention	29,670	HIV Prevention Activities – Heath Department Based	45,981	Special Programs for the Aging Title III, Part B & C	262,722	Urban Area Security Initiative	144,291	Special Supplemental Nutrition Program – WIC	(16,253)	Houston Herman Park Greenway	163,210	After School Achievement Program (ASAP)	51,329	
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Community Development Block Grant – CFDA # 14.218																																
Housing Opportunities for Persons with AIDS – CFDA # 14.241	<u>Recommendation:</u> Policies and procedures need to be established to ensure that all expenditures are recorded in the proper fiscal year.																															
CDBG/ Brownsfield Economic Development Initiative – CFDA # 14.246	<u>Corrective Action Plan of Management:</u> The City’s Year-End Closing Accounting & Reporting Instruction for the fiscal year end June 30 th , 2007 included instructions to the departments on properly recording accruals for the current fiscal year end (2007). All departments were instructed to pull reports of departmental payments during the months of July and August 2007 and to review each payment to determine whether or not the payment should have been properly accrued. As it relates to grants, the grant analysts have been instructed to reconcile fiscal year 2007 revenues and expenses on a form developed by Finance and Administration and the Controller's Office.																															
Lead-Based Paint Hazard Control – CFDA # 14.900																																
Grants to States – CFDA # 45.310																																
Center for Disease Control & Prevention – CFDA # 93.283	<u>Estimated Completion Date:</u> September 30, 2007																															
	<u>City Contact Person:</u> Lloyd Waguespack, Deputy City Controller, Operations & Technical Services Division																															

Program	Finding/Noncompliance	Questioned Cost
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Finding 2006-10 (continued).

**Special
Programs for
the Aging, Title
III, Part B & C
– CFDA #
93.043& 93.044**

**Urban Area
Security
Initiative –
CFDA # 97.008**

**Special
Supplemental
Nutrition
Program –
WIC CFDA #
10.557**

**Houston
Herman Park
Greenway –
State**

**After School
Achievement
Program –
State**

Program	Finding/Noncompliance	Questioned Cost
Edward Byrne Memorial Justice Assistance Grant Program -Hurricane Relief Fund – CFDA # 16.738	<p data-bbox="737 331 967 365" style="text-align: center;">Finding 2006-11.</p> <p data-bbox="418 401 1203 468"><u>Finding:</u> The City reported in its June 2006 Quarterly Expenditure Report that no expenditures had been incurred during that quarter.</p> <p data-bbox="418 506 1260 667"><u>Criteria:</u> According to the Office of the Governor – Criminal Justice Division Financial Status Report Instructions, the reports are to contain the actual expenditures and unliquidated obligations as incurred (at the lowest funding level) for the reporting period (calendar quarter) and cumulative for the award.</p> <p data-bbox="418 705 1279 1066"><u>Cause:</u> Due to the timing of the grant award, the grant was not established in the City’s general ledger system prior to the City completing its June Quarterly Expenditure Report. The grant was established in August 2006 in the City’s general ledger system and at that time the City reclassified the expenditures incurred from April 1, 2006 to June 30, 2006 from a general fund to a grant fund. Because the City had not reflected the expenditures in the “grant fund” the City claimed that no expenditures had been incurred in the grant general ledger and communicated such to the granting agency. In turn, the granting agency agreed that no expenditures should be reported in the June Quarterly Expenditure Report.</p> <p data-bbox="418 1104 1279 1371">In reviewing the September Quarterly Expenditure Report, we noted that the expenditures incurred from April to June 2006 were reported, however, the expenditures incurred during July to September 2006 were not included in the year-to date total expenditure amount. The City did, however, footnote in the report that the year to date expenditures reported only included the cost transferred to the grant fund, thus excluding an additional \$3.56 million as these additional expenditures had not been booked to the grant fund.</p> <p data-bbox="418 1409 1260 1539"><u>Effect:</u> Improper reporting of expenditures. Expenditures are not being reported for the period in which the expenditures are being incurred due to the grant fund being the only “fund” in which the expenditures are taken into consideration.</p> <p data-bbox="418 1577 1260 1770"><u>Recommendation:</u> The City should review its policies and procedures related to the reporting of expenditures as expenditures should be reported when incurred irrespective of which fund the expenditure is recorded in the general ledger. In addition, the City should consult with the granting agency to determine if the quarterly reports should be amended.</p> <p data-bbox="418 1808 1243 1906"><u>Corrective Action Plan of Management:</u> The Police Department made contact with the Governor’s Criminal Justice Division for guidance on appropriate reporting prior to preparing an Expenditure Report for the</p>	N/A

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2006-11 (continued).

period ending 6/30/06. There were approximately \$3.6 million in program expenditure in the City's non-grant general ledger for Fiscal year 2006 that were related to this program. The grant funds had only been received prior to close of business the day before June 30, 2006. At this time, there was no cost reflected on the City's grant ledgers. The City requested to reflect no cost on the quarterly report for the period referenced because detailed documentation supporting the \$3.6 million in program expenditures were not available prior to submitting the quarterly report. The request was granted. The quarterly report reflected the grant ledger since no funds were expended prior to 7/1/06 on the City's grant financial ledger. Cost was first reflected on grant ledgers with a transaction dated 8/30/2006. The Expenditure Report for the period ending 9/30/06 reflected cost of \$3.6 million. This cost reconciled to the City's financial system. The request to show no costs on the initial quarterly report was made to facilitate the reporting process and not to mislead or misrepresent financial information regarding this program.

The City of Houston understands that there was a timing difference from the supporting documentation on the overtime and the initial quarterly report to the Criminal Justice Division and that amended quarterly reports would be in order. The Houston Police Department recognized that the circumstances with this grant program was unique and was in constant contact with the Criminal Justice Division on guidance on financial reporting matters. The Criminal Justice Division agreed to the quarterly financial reporting arrangement. This program has been reviewed by Criminal Justice Division and this matter was not an issue.

Estimated Completion Date: Complete

City Contact Person: Sheryal Armstrong, Police Department

Program	Finding/Noncompliance	Questioned Cost
Immunization Grants – CFDA # 93.268	<p data-bbox="737 331 967 365" style="text-align: center;">Finding 2006-12.</p> <p data-bbox="418 396 1260 594"><u>Finding:</u> The City utilizes certain vendors to provide temporary employees to its immunization program. We noted for one of 19 selections for Immunization Grants – CFDA # 93.268 and two of 23 for Immunization – State that the rate charged for these services performed did not agree to the underlying agreement between the City and the respective vendor.</p> <p data-bbox="418 632 1284 728"><u>Criteria:</u> In accordance with OMB Circular No. A-87, <i>Cost Principles for State, Local, and Indian Tribal Government</i>, cost must be adequately documented and supported.</p> <p data-bbox="418 766 1170 829"><u>Cause:</u> Lack of review and comparison between actual invoices submitted and contractual agreement.</p> <p data-bbox="418 867 943 900"><u>Effect:</u> Overpayment of services performed.</p> <p data-bbox="418 938 1252 1064"><u>Recommendation:</u> Review existing policy and procedures related to review and approval of invoices to ensure that invoices are being reviewed for accuracy in accordance with terms and conditions established by contracts / agreements between the City and its vendors.</p> <p data-bbox="418 1102 1281 1266"><u>Corrective Action Plan of Management:</u> The Department of Health and Humans Services will review its process and procedures and instruct departmental staff in reviewing invoices and vendor contracts agreements related to grant activities for accuracy and in maintaining supporting documentations in its immunization programs.</p> <p data-bbox="418 1304 959 1337"><u>Estimated Completion Date:</u> September 2007</p> <p data-bbox="418 1375 1062 1409"><u>City Contact Person:</u> Bob Bowers, Health Department</p>	\$377

Program	Finding/Noncompliance	Questioned Cost
Public Assistance Grant – CFDA # 97.036	<p data-bbox="729 331 959 365" style="text-align: center;">Finding 2006-13.</p> <p data-bbox="402 396 1284 762"><u>Finding:</u> We noted that for three out of 20 rental payments selected, the rent amounts paid was based on the actual invoice amount which exceeded either the amount disclosed in the lease agreement between the tenant and the apartment complex and/or the contract agreement between the City and the apartment complex. In addition, we noted that for one of the 20 selections, the rent amount paid was pro-rated as the evacuee’s lease began mid-month, however the pro-rated amount differed from what a straight-line pro-rated amount calculated. In addition, we noted that rental overpayments identified by the City as of June 30, 2006 totaled \$1,272,252. The Schedule of Expenditures of Federal and State Awards (SEFA) has been adjusted for the overpayment identified.</p> <p data-bbox="402 800 1273 898"><u>Criteria:</u> In accordance with OMB Circular No. A-87, <i>Cost Principles for State, Local, and Indian Tribal Government</i>, cost must be adequately documented and supported.</p> <p data-bbox="402 936 1222 995"><u>Cause:</u> Lack of review and oversight of rental payments against lease agreement or contract.</p> <p data-bbox="402 1033 1284 1131"><u>Effect:</u> Overpayment of \$265 and potential for other overpayments to have occurred and an adjustment of \$1.2 million related to the identified overpayment was made to the financial statements and the SEFA schedule.</p> <p data-bbox="402 1169 1279 1268"><u>Recommendation:</u> Review of policies and procedures to ensure that rental amounts per invoices are compared against lease agreements and contracts to ensure proper lease amount is paid.</p> <p data-bbox="402 1306 1268 1566"><u>Corrective Action Plan of Management:</u> The City’s Interim Housing Program rent payment procedure was to pay a landlord the rental amount in their approved Housing Assistance Payments (HAP) contract, which was the lesser of the published scheduled rate (based on HUD fair market rental rates for the Houston area) or the unsubsidized rate charged by the apartment complex. In certain special instances, the City agreed to pay above the scheduled fair market rental rate to obtain housing for special needs families; e.g. disabled, autistic, etc.</p>	\$265
<p>This audit finding states under that three items out of the audit’s total test sample “were reimbursed inappropriate amounts”. We have analyzed the exceptions and found that an amendment was made to the HAP contract with the Landlord for two of the selection, but we have not retrieved the actual source documents to confirm if the amendments affect the actual selected units. (Note: housing records occupy about 900 boxes in offsite storage.) We agree that there was a \$65 overpayment for the third selection.</p>		

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2006-13 (continued).

The City operated its Interim Housing Program at the request of FEMA, and FEMA provided funds for the program management activities, including invoice verification and payment processing. Pursuant to the directions of the Office of Management and Budget,¹ the City engaged in post-payment reviews to confirm the accuracy of payments. Following a review of the City's activities by the Department of Homeland Security, Office of Inspector General, FEMA, by letter dated June 21, 2006, directed the City to cease further post payment reviews.

“The City has expended great effort in determining that the monies distributed to landlords were proper and complete. This effort has effectively completed the post-payment review as required by the OMB memorandum dated October 13, 2005. Based on our limited review and that performed by the DHS-OIG, we have found that the payments to landlords comply with the terms of the contracts and leases. Further efforts to verify the veracity of payments through a post-payment audit procedure would yield little benefit at a significant cost to taxpayers. Given that, FEMA will not reimburse the City on a Project Worksheet for expenditures associated with [additional] post-payment review/audit.”

The grantor, FEMA, was satisfied that landlord payments were in substantial compliance with the terms of the contracts.

¹ Memo from Clay Johnson III, Deputy Director for Management, Office of Management and Budget, Subject: eligibility Verification Requirements for Delivery of Benefits to Victims of Hurricanes Katrina and Rita, (Oct. 13, 2005), http://www.whitehouse.gov/omb/financial/fia/hurricanes_katrina_rita_10-13-05.pdf.

Estimated Completion Date: Complete

City Contact Person: Jim Locke, F&A Assistant Director

Program	Finding/Noncompliance	Questioned Cost
Finding 2006-14.		
State HGAC Focused Care Workers	<p data-bbox="418 396 1286 493"><u>Finding:</u> For two out of 18 selections we noted that the ‘Sign-in-Sheet’ utilized to track days and hours employees were working under the program did not contain the actual hours worked by the two employees.</p> <p data-bbox="418 531 1286 630"><u>Criteria:</u> In accordance with OMB Circular No. A-87, <i>Cost Principles for State, Local, and Indian Tribal Government</i>, cost must be adequately documented and supported.</p> <p data-bbox="418 667 1286 766"><u>Cause:</u> A 'Sign-in Sheet' was utilized to track the days and hours when employees worked. However, based on the Sign-in Sheet used, there were no hours recorded by the employees.</p> <p data-bbox="418 804 1286 863"><u>Effect:</u> Potential disallowance of expenditures for unsupported expenditures.</p> <p data-bbox="418 900 1286 999"><u>Recommendation:</u> Review of policies and procedures to ensure that rental amounts per invoices are compared against lease agreements and contracts to ensure proper lease amount is paid.</p> <p data-bbox="418 1037 1286 1136"><u>Corrective Action Plan of Management:</u> Beginning in February 2006, time sheets were utilized by the program containing the necessary information.</p> <p data-bbox="418 1173 1286 1203"><u>Estimated Completion Date:</u> Complete</p> <p data-bbox="418 1241 1286 1266"><u>City Contact Person:</u> Sally Switek, Health Division Manager</p>	\$265
Finding 2006-15.		
Immunization Grants – CFDA # 93.268	<p data-bbox="418 1400 1286 1633"><u>Finding:</u> Count sheets for 10 of the 19 clinics did not agree to the Summary Inventory Information due to the timing of when the inventory counts were performed or errors in the spreadsheets used to maintain the inventory. Differences were noted in vaccines received, used and ending inventory resulting in an adjustment to vaccines received totaling \$641,136, vaccines used totaling \$569,465 and ending inventory of \$74,671.</p> <p data-bbox="418 1671 1286 1764"><u>Criteria:</u> In accordance with OMB Circular No. A-87, <i>Cost Principles for State, Local, and Indian Tribal Government</i>, cost must be adequately documented and supported.</p>	N/A

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2006-15 (continued).

Cause: Inventory counts were performed at different times resulting in variances in inventory values received, used and on-hand from the date of the count versus June 30th balances in addition mathematical errors were made when obtaining amounts from the supporting documentation (i.e. amounts were summed incorrectly).

Effect: Significant adjustments were necessary to properly state the ending inventory balance, values received and values used. .

Recommendation: Review policies and procedures to ensure that inventory counts are performed as of year end and that data captured in the inventory counts are properly summarized in the inventory summary schedule.

Corrective Action Plan of Management: The City's Health Department Immunization Bureau has taken the following actions to ensure that inventory counts are performed as of year end and that data captured in the inventory counts are properly summarized in the inventory summary schedule:

- The staff has been retrained on report preparation
- A copy of the vaccine shipment advice is now sent to the main office as well as being kept at the clinic site.
- CDC revises the price listing on a quarterly basis. The clinic personnel have been instructed to use the most current price listing when valuing the inventory,
- Nurses prepare a daily inventory sheet based on doses on hand and doses administered. The daily inventories are used to prepare a monthly report which is then forwarded to the Immunization Bureau. The Bureau combines reports from all locations into one report. This report indicates the reorder amount for the month and is forwarded to Austin for replenishing the vaccine. The number of vaccine doses shipped to each clinic is based on the "reorder" amount indicated in the report.
- Instructions will be issued to conduct the annual inventory count at the end of the business day at each clinic.

Estimated Completion Date: September 2007

City Contact Person: Sally Switek, Health Division Manager

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2006-16.

**Major Shop
Accessory
Enforcement –
State**

Finding: The financial report for the quarter ended March 31, 2006 failed to include expenditures incurred during the period totaling \$210,405.

Criteria: Financial reports should reflect expenditures incurred during the date specified in the financial report.

Cause: Expenditures are initially recorded in the City’s general fund then reclassified to the grant fund. The reclassification entries are not being made timely. For reporting purposes, only the expenditures in the grant funds are being captured resulting in an understatement of expenditures being reported.

Effect: Improper reporting of expenditures. Expenditures are not being reported for the period in which the expenditures are being incurred due to the grant fund being the only “fund” in which the expenditures were considered.

Recommendation: The City should review its policies and procedures related to the reporting of expenditures as expenditures should be reported when incurred irrespective of which fund the expenditure is recorded in the general ledger. In addition, the City should consult with the granting agency to determine if the quarterly reports should be amended.

Corrective Action Plan of Management: The Police Department will be able to streamline the process relating to expenditure reporting due to the implementation of the City’s new ERP/SAP system. The Police Department will implement a process to transfer allowable grant related payroll expenditures to the correct funding source on a monthly basis. This will help to ensure that costs are captured in the proper reporting period for which it was incurred.

The Police Department will contact the granting agency (ATPA) to determine if any reports require amendment.

In an effort to better manage grant financial activities, the Police Department is committing additional personnel resources for increased supervisory oversight of daily grant financial activities.

Estimated Completion Date: September 2007

City Contact Person: Sheryal Armstrong, Police Department

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2006-17.

**Major Shop
Accessory
Enforcement –
State**

Finding: According to the approved budget for the grant year 2006, a Lieutenant's salary was to be charged 70% to the City and 30% to the grant. For one of our selections, the percentages were inadvertently switched, and the grant was charged 70% of a Lieutenant's salary for the period 9/16/05 through 4/28/06 resulting in an overstatement a cost to the grant of \$21,654. The Schedule of Expenditures of Federal and State Awards as of June 30, 2006 has been corrected.

Criteria: According to the ATPA Administrative Guide, costs should be recorded to the grant based on the approved budget and budget guidelines.

Cause: Expenditures are initially recorded in the City's general fund then reclassified to the grant fund. The reclassification entries are not being made timely. The amount recorded in the journal entry to reclassify the expenditure picked up with wrong amount and was not caught in the review and approval of the journal entry.

Effect: Inappropriately charging the grant for cost that are not allowed according to the approved budget and budget guidelines.

Recommendation: The City should review its policies and procedures to ensure adequate controls are in place to review and monitor expenditures charged to a grant.

Corrective Action Plan of Management: The City's Police Department has now made the correcting entries in the City's fiscal year 2007 financial system to reflect the grantors allowable percentage. Implementation of the City's new ERP/SAP system will enable the Police Department to reclassify allowable expenditures in more timely and accurate manner. The Police Department will contact the granting agency (ATPA) to determine if any reports should be amended.

In an effort to better manage grant financial activities, the Police Department is committing additional personnel resources for increased supervisory oversight of daily grant financial activities.

Estimated Completion Date: September 2007

City Contact Person: Sheryal Armstrong, Police Department

IV. STATUS OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Program	Finding/Noncompliance	Questioned Cost
PROPERTY	Finding 2005-1.	N/A

Finding: The City's accounting for property transactions does not appear to be a coordinated effort which has led to significant delays during the annual audit process. We noted instances in which the property subledger contained incorrect information, depreciation expense was incorrectly calculated and the property subledger was not reconciled to the City's general ledger system.

Recommendation: The City should perform a critical review of the information flowing in and out of the property subledger system and evaluate how this information should be reconciled to the general ledger of the City.

Status: Personnel as planned have been hired. In the following year of fiscal year 2007, the separate stand alone fixed assets have been combined and converted into SAP. This new combined system has helped maintain the asset capital sub ledger match the General Ledger balances. There weren't any major problems with depreciation calculations for the General Fund & Convention Departments for the fiscal year ending June 30, 2006. The SAP conversion was completed in July 24, 2006 for fiscal year 2007 online transaction activity to begin for the City of Houston. The fiscal year ending June 30, 2006 balance worksheet for the Comprehensive Annual Financial Report (CAFR) was prepared at concurrent with the SAP beginning upload for fiscal year 2007. There will be a few audit item adjustments required to complete the fiscal year 2006 CAFR and will be reconciled with the SAP upload for fiscal year 2007 beginning balance for system reports.

Program	Finding/Noncompliance	Questioned Cost
Finding 2005-2.		
<p>Capitalization Grants for Clean Water State Revolving Funds – CFDA # 66.458</p> <p>Hazard Mitigation Grant Program – CFDA # 83.548</p>	<p><u>Finding:</u> In accordance with Circular A-133, the City is responsible for preparing the Schedule of Expenditures of Federal and State Awards. At a minimum the schedule is to include federal programs by federal agency. The City’s Schedule of Expenditures of Federal and State Awards excluded two major federal programs including the Capitalization Grants for Clean Water State Revolving Funds for \$30,310,601 and the Hazard Mitigation Grant Program for \$9,400,513. The exclusion of these two major programs amounted to the federal awards being understated by \$39,711,114 or 18% of the total federal awards.</p>	N/A
<p>Special Programs for the Aging Title III, Part D – CFDA # 93.043</p>	<p>In addition, certain other errors were identified as follows:</p> <ul style="list-style-type: none"> • \$180,931 of expenditures for Special Programs for the Aging Title III, Part D were included in CFDA # 93.044 instead of being properly reported under CFDA # 93.043; • \$86,045 of expenditures related to Special Programs for the Aging Title III, Part D were originally reported as State Awards instead of Federal Awards under CFDA # 93.043 • \$2,750,781 of expenditures were incorrectly included as expenditures under the Community Development Block Grants – Section 108 Loan Guarantees – CFDA # 14.248 as the amount reported represented the repayment of principal and interest from the City to the Department of Housing and Development and not new loans or continuing loan commitment balances. 	
<p>Special Programs for the Aging Title III, Part B – CFDA # 93.044</p>		
<p>Community Development Block Grant – Section 108 Loan Guarantees – CFDA # 14.248</p>	<p><u>Recommendation:</u> The City’s Financial and Administration Department should continue its efforts to improve the overall quality of the process of consolidating and reviewing the awards received. The City should continue to review the information for completeness, accuracy and reasonableness and monitor new grants or awards. In addition, the City should ensure that it is aware of each new grant or award’s compliance requirements including any audit requirements.</p>	
	<p><u>Status:</u> Errors were identified in the current year’s Schedule of Expenditures of Federal and State Awards, therefore the finding will be repeated in the current year’s Federal and State Awards Finding and Questions Costs Section of the report.</p>	

Program	Finding/Noncompliance	Questioned Cost								
Finding 2005-3.										
Community Development Block Grant – CFDA # 14.218	<u>Finding:</u> It was noted that out of thirty-seven selections subject to testing, a total of \$784,138 representing six selections, were initially recorded in the wrong fiscal year. The expenditures were recorded as fiscal year 2006 expenditures when they should have been charged as fiscal year 2005 expenditures. The expenditures, however, were correctly reported in the grantor’s fiscal year grant period. The recoding of the expenditures was properly reflected in the City’s Schedule of Federal and State Awards as of June 30, 2005. The breakdown of expenditure amount by grant is as follows:	N/A								
HOME Investment Partnerships Program – CFDA # 14.239	<table border="0" style="width: 100%;"> <tr> <td style="padding-left: 20px;">Community Development Block Grant</td> <td style="text-align: right;">\$ 194,885</td> </tr> <tr> <td style="padding-left: 20px;">HOME Investment Partnerships Program</td> <td style="text-align: right;">\$ 536,988</td> </tr> <tr> <td style="padding-left: 20px;">Urban Area Security Initiative</td> <td style="text-align: right;">\$ 25,608</td> </tr> <tr> <td style="padding-left: 20px;">Crime Laboratory Improvement Combined Offender</td> <td style="text-align: right;">\$ 26,657</td> </tr> </table>	Community Development Block Grant	\$ 194,885	HOME Investment Partnerships Program	\$ 536,988	Urban Area Security Initiative	\$ 25,608	Crime Laboratory Improvement Combined Offender	\$ 26,657	
Community Development Block Grant	\$ 194,885									
HOME Investment Partnerships Program	\$ 536,988									
Urban Area Security Initiative	\$ 25,608									
Crime Laboratory Improvement Combined Offender	\$ 26,657									
Urban Area Security Initiative – CFDA # 16.011 / 97.008										
Crime Laboratory Improvement Combined Offender – CFDA # 16.564	<p><u>Recommendation:</u> Policies and procedures need to be established to ensure that all expenditures are recorded in the proper fiscal year.</p> <p><u>Status:</u> The expenditures were properly reflected in the Schedule of Federal and State Awards as of June 30, 2005; however the finding will be repeated as certain costs incurred during fiscal year 2006 were not properly accrued for. See finding 2006-10.</p>									

Finding 2005-4.

Community Development Block Grant – CFDA # 14.218	<u>Finding:</u> In accordance with grant compliance requirements, the City is required to perform periodic quality monitoring and on-site inspections to ensure that the sub-recipient / project is in compliance with the property standards. Through a review of monitoring and on-site inspection files and discussions , we noted the following:	N/A
HOME Investment Partnerships Program – CFDA # 14.239	(1) Periodic monitoring or on-site inspections of all sub-recipients / projects was either not done or not performed timely. Out of the 27 projects selected for testing, the Monitoring Division had not monitored 4 projects and 4 projects were not monitored timely. For the Inspection Division, 9 projects were not inspected timely.	
Housing Opportunities For Persons with AIDS – CFDA # 14.241	(2) The affordability start date and affordability period were not consistent between the divisions for the same sub-recipient / project.	

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2005-4 (continued).

(3) Numerous projects were assigned to individual monitors and inspectors resulting in untimely and incomplete compliance reports for both monitoring and inspection.

(4) Certain monitoring and inspection files were not well organized, contained inconsistent or missing information, and lacked an audit trail to support the conclusions related to the monitoring performed.

(5) A list of projects subject to monitoring was provided, however the list of projects was created based on ad hoc reports or informal conversations with other departments.

Recommendation: The Monitoring and Inspection Division of the Housing and Community Development Department should develop comprehensive policies and procedures. Such policies and procedures should establish a formal process of communicating consistent information between the divisions, ensure that both the Monitoring and Inspection Division maintain accurate and updated project list, and address the frequency of monitoring and inspections. The HCDD should evaluate the resources available to perform the monitoring and inspections functions. Basic guidelines, reporting formats and audit programs should be developed for monitoring and inspection and all project managers should be adequately trained to perform work consistently. Periodic quality reviews of monitoring and inspection files should be performed.

Status: The Monitoring Division is cross referencing its project information with that of the Inspection Division to ensure that all of the applicable multi-family projects are identified and included on the Monitoring & Compliance Section's annual schedule and that the information is consistent. Since the time of the 2005 year-end audit, an Assistant Director was appointed over the Multi-Family Division, which includes inspectors. The inspectors are in the process of coordinating their annual inspections with the scheduled monitoring visits. Findings related to monitoring and inspection activities were identified in the current year's audit, therefore aspects of the finding have been repeated in the Federal and State Awards Finding and Questions Costs Section of the report.

Program	Finding/Noncompliance	Questioned Cost
Community Development Block Grant – CFDA # 14.218	Finding 2005-5.	N/A
	<p data-bbox="446 367 1209 472"><u>Finding:</u> The City could not support how the method currently being utilized to achieve the program objective of benefiting low and moderate income persons was being achieved.</p> <p data-bbox="446 504 1209 703"><u>Recommendation:</u> Written procedures and guidelines should be established for determining project eligibility to receive grant funds and communicated to all personnel involved in project eligibility determination process. Project requests initiated from other City of Houston departments should be reviewed to ensure that they are within the established guidelines and procedures.</p> <p data-bbox="446 735 657 766"><u>Status:</u> Complete</p> <p data-bbox="446 808 1209 1008">The City wrote procedures and guidelines for determining Area National Objective Eligibility. HUD reviewed and approved the documents. All newly funded CDBG projects are reviewed according to the procedures and a checklist is completed. The completed checklist and the supporting documentation are included in the project file.</p>	
Community Development Block Grant – CFDA # 14.218	Finding 2005-6.	\$33,193
	<p data-bbox="446 1144 1226 1375"><u>Finding:</u> Interdepartmental costs charged for street overlays done by the Right of Way Fleet Maintenance Division of Public Works Engineering Department was based on budgeted expenditures and did not represent actual costs incurred. Further, a 30% overhead charge was applied in addition to the base cost / lane mile which was not sufficiently supported in order to determine the reasonableness of such charges.</p> <p data-bbox="446 1417 1209 1617"><u>Recommendation:</u> Procedures should be developed in order to ensure that costs charged to federal programs are actual and not budgeted costs. Further, the City should determine the reasonableness of costs charged to programs, including interdepartmental overhead charges, before a reimbursement request for expended funds is approved.</p> <p data-bbox="446 1648 1226 1848"><u>Status:</u> PWE analyzed the data in question and determined that for the 2005 and 2006 funding years, \$659,482.85 was overcharged to CDBG. HUD has stated that the City will need to reimburse the CDBG account for overcharged amounts. PWE has determined an appropriate overhead amount for the services performed and will utilize the new percentage in future projects.</p>	

Program	Finding/Noncompliance	Questioned Cost
Community Development Block Grant – CFDA # 14.218	<p data-bbox="732 338 948 371" style="text-align: center;">Finding 2005-7.</p> <p data-bbox="464 407 1211 804"><u>Finding:</u> The City has executed interdepartmental letter of agreements (called "LOAs") between various City of Houston's departments to obligate beneficiary departments to perform specific project activities in accordance with Community Development Block Grant's regulations and program standards. It appears that too much reliance is made on such LOA's and personnel at the Housing and Community Development Department do not appear to require sufficient details of actual costs incurred. Further, LOA's executed with following departments expired in prior fiscal years but were never renewed despite the fact that project costs were incurred in the current year:</p> <p data-bbox="464 842 1211 940">(1) Department of Health and Human Services: The agreement was effective from June 1, 1997 thru June 30, 2000 for the Design of Southwest Multi-Service Center.</p> <p data-bbox="464 978 1211 1041">(2) Houston Public Library: The agreement was effective from January 1, 1999 thru June 30, 2000 for various projects.</p> <p data-bbox="464 1079 1211 1205">(3) Building Services Department and Houston Fire Department: The joint agreement was effective from July 1, 2001 thru December 30, 2003 for construction of Fire Station No. 27.</p> <p data-bbox="464 1243 1211 1476"><u>Recommendation:</u> Interdepartmental letter of agreements executed between departments should be renewed promptly to ensure that the beneficiary department remains accountable for expenses incurred. The Housing and Community Development ("HCD") Department replace costs charged under LOA's with actual costs, when known to ensure that program requirements were met by those departments.</p> <p data-bbox="464 1514 1211 1707"><u>Status:</u> Policies and procedures for Letters of Agreement were approved in August 2006. The HCD Department reviewed all Letters of Agreements and updated their status. The policies are being followed and the Letters of Agreement are current. The HCD Department continues to look for ways to improve the process.</p>	N/A

Program	Finding/Noncompliance	Questioned Cost
HOME Investment Partnerships Program – CFDA # 14.239	<p data-bbox="737 338 951 369" style="text-align: center;">Finding 2005-8.</p> <p data-bbox="464 407 1224 674"><u>Finding:</u> In order to determine compliance with property standards the City is required to perform on-site inspections during the period of affordability. Periodic on-site inspections for HOME assisted rental housing projects were not performed frequently and on a consistent basis. Instances were noted where inspection files were either incomplete or not available for our review. It was also noted that previous findings were not always followed up on properly.</p> <p data-bbox="464 709 1224 1041"><u>Recommendation:</u> The inspections department should periodically inspect HOME assisted rental housing projects in line with the frequency of inspections laid out in the compliance requirements. Appropriate guidelines and protocols for intra and inter departmental coordination should be developed in the written policies and procedures to ensure proper control of inspection procedures. A process for annual quality review of inspection files should also be initiated to ensure that related inspection workpapers are complete, cohesive and follow-ups have been made for identified findings.</p> <p data-bbox="464 1077 1224 1304"><u>Status:</u> The Housing and Community Development (“HCD”) Department is conducting multi-family inspections on an annual basis. There are two inspectors dedicated to the multi-family projects. The Multi-Family Division of the HCD Department is ensuring that all files are well documented and consistent. Certain aspects of this finding were identified in the current audit and are identified in Finding 2006-8.</p>	N/A

Program	Finding/Noncompliance	Questioned Cost
Finding 2005-9.		
Hazard Mitigation Grant Program – CFDA # 83.548	<p><u>Finding:</u> A reconciliation between the expenditures reported in the general ledger and the expenditures requested for reimbursement had not been performed by the City.</p> <p><u>Recommendation:</u> A reconciliation should be performed at least quarterly to ensure that all expenditures for the projects are being captured for reimbursement. In addition, the City should establish policies and procedures whereby the information pertaining to the Hazard Mitigation projects is provided directly to the Hazard Mitigation Grant Officer and then the Hazard Mitigation Grant Officer should provide the information to the outside consultant and work with the consultant to determine eligible costs.</p> <p><u>Status:</u> A reconciliation was performed for the expenditures as of June 30, 2005. However, in reviewing the status of such reconciliation for fiscal year 2006, it was noted that such reconciliation had not been performed. Upon completion, it was determined that the Schedule of Expenditures of Federal and State Awards was overstated by approximately \$1 million. See finding in 2006-9.</p>	N/A
Finding 2005-10.		
Urban Area Security Initiative – CFDA # 16.011 / 97.008	<p><u>Finding:</u> Quarterly Financial Status Reports for the quarters October - December 2004 and April - June 2005 that were due within 45 days of the end of the quarter and the semi-annual Progress Reports for the period July - December 2004 and January - June 2005 that were due within 30 days of the end of the period under were not submitted on a timely basis.</p> <p><u>Recommendation:</u> All reports required to be submitted under the grant agreement should be filed with the funding agency on a timely basis. Adequate procedures should be developed to complete and review the report before the reporting deadlines.</p> <p><u>Status:</u> Delay in hiring staff coupled with grant expiration created delay in executing the plan of action as aggressively as we hoped. This grant expired March 31, 2007. The City, however, is still in negotiation to extend the close out period.</p>	N/A

Program	Finding/Noncompliance	Questioned Cost
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Finding 2005-11.

Major Accessory Shop Enforcement

Finding: Grant expenditures are incurred and initially charged to the general fund. These expenditures are then charged to the program as the funding is made available. However, we noted that expenditure match percentages specified in the grant agreement are not necessarily followed throughout the year. Currently 60% of the salaries for grant personnel are charged to the program versus the current requirement of 50%. Although adjustments are made at the end of the program year to remain in compliance with the grant agreement, the City is actually getting advances from the funding agency that is not expressly allowed for in the agreement as this is a reimbursement grant.

N/A

Recommendation: Expenditures should be transferred / charged to the program based on the specified match percentage in the grant agreement. Adequate supervision of staff in the Budget & Finance Division should be done to ensure that requirements that are prescribed in grant agreements are followed.

Status: Complete

Finding 2005-12.

Shared Forfeited Property

Finding: Total overtime expenses for selected divisions on internally generated report identified as report PET109P2 did not agree to the expense budget summary inquiry report from the City's general ledger system from December 2004 through June 2005 and periodic reconciliations between the two systems were not performed.

N/A

Recommendation: Reconciliation of overtime expenses between internally generated reports and reports generated from the City's general ledger should be performed on a monthly basis.

Status: The City went live with the new SAP payroll system March 24, 2007. Therefore, fiscal year 2006 and for the first three quarters of overtime for 2007 information has been based on the information per the PET system. Only expenditures in the last quarter of 2007 have been based on the SAP system. Therefore, there are reconciliation problems in 2006 and for part of the year for 2007. However, as of July 1, 2007 the Police Department will be using the SAP system exclusively for tracking and maintaining overtime records, and in FY2008 this issue will be resolved.

Program	Finding/Noncompliance	Questioned Cost
Houston Willow Waterhole	<p data-bbox="711 302 948 338" style="text-align: center;">Finding 2005-13.</p> <p data-bbox="435 373 1221 472"><u>Finding:</u> The City did not comply with subrecipient monitoring compliance requirements in accordance with OMB Circular A-133 requirements.</p> <p data-bbox="435 506 1221 974"><u>Recommendation:</u> The City should develop a comprehensive monitoring and inspection policy that includes criteria and evaluation of risk assessment for the subrecipient/project, criteria to evaluate the ability of the subrecipient to carry-on program activities and policies for frequency of audits and inspections to be done. Such policies should identify ways and means of monitoring based on the risk assessment for the subrecipient and project and clearly identifies coordination of different personnel/departments to achieve effective monitoring and inspection goals. Basic guidelines, reporting formats and audit programs should be developed for monitoring audits and project manager should be adequately trained to perform work consistently. Periodic quality reviews of inspections and monitoring work should also be performed.</p> <p data-bbox="435 1008 1105 1075"><u>Status:</u> Monitoring procedures have been developed and implemented.</p>	N/A

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2005-14.

**Associate
Commissioner
for Family
Health**

Finding: Two instances were noted where co-payments for services provided were not correctly calculated which resulted in the City obtaining reduced co-payments.

N/A

Recommendation: The City should take appropriate steps to ensure that co-payments due from program participants are calculated correctly.

Status: The City of Houston Department of Health and Human Services conducts in-service trainings for health center (clinic) and administrative staff.

The Patient Access and Services Unit has conducted training with the Medical Social Workers (eligibility screeners) at the Third Ward Multi Service Center. This training was specifically addressing calculating client co-payments.

Training was also hosted for Administrative Supervisors to address correctly calculating client co-payments. This training focused on making sure that registration staff along with eligibility staff were using the correct co-payment scale and documents that are included in the client medical record that the client co-payment fee for services.

The Patient Access & Services unit participated in training at the Fifth Ward Multi-Service Center that included the clinic registration staff, the administrative supervisors, the data entry operators and the appointment clerks. This training covered how to access a co-pay and where to look in the electronic patient management system to find a client's correct co-payment.

Audits of medical records and patient fee tickets were conducted and staff was observed interviewing clients at all health centers from April 2006 to present day as part of the on going monitoring of eligibility screening services. Mock audits of medical records were conducted which included auditing the co-payment assessment.