

City of Houston, Texas

*Single Audit Report as of and for the
Year Ended June 30, 2005*

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, 2005, and have issued our report thereon dated February 6, 2006, 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 2005-1.

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 not 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 February 6, 2006.

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's Touche LLP

February 6, 2006



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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, 2005. 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 item 2005-2 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding the proper preparation and recording of its Schedule of Expenditures of Federal and State Awards related to the Capitalization Grants for Clean Water State Revolving Funds and the Hazard Mitigation Grant Program. 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, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and UGCMS and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-3 through 2005-14.

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 programs 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 item 2005-2 and 2005-3.

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, 2005, and have issued our report thereon dated February 6, 2006. 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.

Deloitte & Touche LLP

June 15, 2006

CITY OF HOUSTON, TEXAS

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Program Title	FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Executive Office of the President				
Office of National Drug Policy:				
Cpot-Tnet Operation Bluemarlin		07.XXX	I3PHNP999	\$ 774
Houston Intell Support Center		07.XXX	I4PHNP501	114,211
Major Drug Squad/7		07.XXX	I4PHNP500A	134,704
Narcotics Operations Control Center/7		07.XXX	I3PHNP503	32,291
Narcotics Operations Control Center/8		07.XXX	I4PHNP503	29,674
Target Offenders Group/5		07.XXX	I0PHNP504	1,651
Drug Gang Network/8		07.XXX	I1PHNP505	6,101
Joint Drug Intelligence/8		07.XXX	I3PHNP501	4,164
Currency Narcotics Tranship/6		07.XXX	I2PHNP502	1,101
Houston Money Laundering/4		07.XXX	I0PHNP520	3,185
Houston Money Laundering/7		07.XXX	I3PHNP520	15,594
Houston Money Laundering/8		07.XXX	I4PHNP520	323,196
Violent Crime Initiative/3		07.XXX	I4PHNP523	10,964
Gang & Non-Traditional Gang Squad		07.XXX	I2PHNP525	12,713
Gang & Non-Traditional Gang Squad/2		07.XXX	I3PHNP525	8,877
Gang & Non-Traditional Gang Squad/3		07.XXX	I4PHNP525	264,749
Methamphetamine Initiative Group/3		07.XXX	I4PHNP529	12,578
Truck Air Rail and Port		07.XXX	I3PHNP502	23,352
Truck Air Rail and Port/2		07.XXX	I4PHNP502	452,224
Targeted Narcotics Enforcement/2		07.XXX	I3PHNP533	15,999
Targeted Narcotics Enforcement/3		07.XXX	I4PHNP533	<u>597,650</u>
Total Office of National Drug Policy				<u>\$ 2,065,752</u>
Department of Agriculture Passed Through—				
Texas Department of Agriculture:				
Special Supplemental Nutrition Program—WIC		10.557	001164004-09	\$ 3,327,076
Special Supplemental Nutrition Program—WIC		10.557	0011640B0501	<u>6,760,479</u>
Total Texas Department of Agriculture				<u>\$ 10,087,555</u>
Department of Agriculture Passed Through—				
Texas Department of Human Services:				
Summer Food Program for Children		10.559	05TX101-1007	\$ 1,293,087
Summer Food Program for Children		10.559	04TX101-1007	<u>1,441,254</u>
Total Texas Department of Human Services				<u>\$ 2,734,341</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, 2005

Program Title	FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Department of Agriculture Passed Through—				
Texas Forestry Service:				
Forestry Research		10.652	ASIANDODDER	\$ <u>10,199</u>
Cooperative Forestry Assistance		10.664	02-07-2007	\$ 10,000
Cooperative Forestry Assistance		10.664	04-07-2002	<u>7,960</u>
Total Cooperative Forestry Assistance				<u>\$ 17,960</u>
Total Texas Forestry Service				<u>\$ 28,159</u>
Total Department of Agriculture				<u>\$ 12,850,055</u>
Department of Commerce:				
Coastal Zone Management Administration Awards		11.419	02-033R	\$ <u>150,000</u>
Total Department of Commerce				<u>\$ 150,000</u>
Department of Housing and Urban Development:				
Community Development Block Grant		14.218	B94MC480018	\$ 11,992
Community Development Block Grant		14.218	B95MC480018	44,359
Community Development Block Grant		14.218	B96MC480018	213,082
Community Development Block Grant		14.218	B97MC480018	242,920
Community Development Block Grant		14.218	B98MC480018	637,666
Community Development Block Grant		14.218	B99MC480018	239,784
Community Development Block Grant		14.218	B00MC480018	577,896
Community Development Block Grant		14.218	B01MC480018	2,933,192
Community Development Block Grant		14.218	B02MC480018	3,743,524
Community Development Block Grant		14.218	B03MC480018	12,164,721
Community Development Block Grant		14.218	B04MC480018	<u>16,478,599</u>
Total Community Development Block Grant				<u>\$ 37,287,735</u>
Emergency Shelter Grants Program		14.231	S03MC480002	\$ 511,685
Emergency Shelter Grants Program		14.231	S04MC480002	<u>715,348</u>
Total Emergency Shelter Grants Program				<u>\$ 1,227,033</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, 2005

Program Title	FEDERAL AWARDS Federal CFDA Number	Grant Award Number	Expenditures
HOME Investment Partnerships Program	14.239	M00MC480206	\$ 121,124
HOME Investment Partnerships Program	14.239	M01MC480206	7,625
HOME Investment Partnerships Program	14.239	M02MC480206	2,387,936
HOME Investment Partnerships Program	14.239	M03MC480206	5,166,167
HOME Investment Partnerships Program	14.239	M95MC480206	(245,228)
HOME Investment Partnerships Program	14.239	M98MC480206	<u>18,746</u>
Total HOME Investment Partnerships Program			<u>\$ 7,456,370</u>
Housing Opportunities for Persons with AIDS	14.241	TX21H00-F003	172,498
Housing Opportunities for Persons with AIDS	14.241	TX21H01-F003	1,237,135
Housing Opportunities for Persons with AIDS	14.241	TX21H02-F003	1,403,365
Housing Opportunities for Persons with AIDS	14.241	TX21H03-F003	2,500,170
Housing Opportunities for Persons with AIDS	14.241	TX21H04-F003	896,623
Housing Opportunities for Persons with AIDS	14.241	TX21H99-F060	<u>28,126</u>
Total Housing Opportunities for Persons with AIDS			<u>\$ 6,237,917</u>
CDBG/Brownfields Economic Development Initiative	14.246	B00SPTX0377	\$ 471,420
CDBG/Brownfields Economic Development Initiative	14.246	B01SPTX0607	127,688
CDBG/Brownfields Economic Development Initiative	14.246	B01SPTX0608	141,675
CDBG/Brownfields Economic Development Initiative	14.246	B02SPTX0703	29,639
CDBG/Brownfields Economic Development Initiative	14.246	E95EZ480006	368,093
CDBG/Brownfields Economic Development Initiative	14.246	E95EZ480006	<u>25,961</u>
Total CDBG/Brownfields Economic Development Initiative			<u>\$ 1,164,476</u>
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	TXLHB0229-02	<u>\$ 1,077,092</u>
Lead Hazard Reduction Demonstration Grant Program	14.905	TXLHD0031-04	<u>\$ 54,873</u>
Total Department of Housing and Urban Development			<u>\$ 54,505,496</u>
Department of Interior:			
Migratory Bird	15.XXX	20020171003	<u>\$ 80,000</u>
Fish and Wildlife Management Assistance	15.608	982102G457	<u>\$ 25,673</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, 2005

FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Program Title			
Urban Park and Recreation Recovery Program	15.919	48CTY328001	\$ 450,800
Urban Park and Recreation Recovery Program	15.919	48CTY32800020	<u>800,000</u>
Total Urban Park and Recreation Recovery Program			<u>\$ 1,250,800</u>
Total Department of Interior			<u>\$ 1,356,473</u>
Department of Justice:			
Cultural Awareness and Diversity Training	16.XXX	2001DDVXK002	<u>\$ 149,706</u>
Creating a Culture Integrity	16.XXX	2002HSWX0031	<u>\$ 35,469</u>
Shared Forfeited Property	16.XXX		<u>\$ 1,097,694</u>
Anti-Violent Crime	16.XXX	6-15010004	<u>\$ 3,031</u>
Developing, Testing and Demonstrating Promising New Programs	16.541	1999MUMU0012	<u>\$ 76,764</u>
Gang-Free Schools and Communities - Community -Based Gang Intervention	16.544	2001JDFX0001	<u>\$ 244,584</u>
Local Law Enforcement Block Grants Program	16.592	2001LB BX2763	\$ 1,010,195
Local Law Enforcement Block Grants Program	16.592	2002LB BX2531	1,072,100
Local Law Enforcement Block Grants Program	16.592	2003LB BX2257	935,368
Local Law Enforcement Block Grants Program	16.592	2004LB BX1440	<u>71,460</u>
Total Local Law Enforcement Block Grants Program			<u>\$ 3,089,123</u>
Executive Office for Weed and Seed	16.595	2001WSQX0152	\$ 58,771
Executive Office for Weed and Seed	16.595	2001WSQX0153	66,977
Executive Office for Weed and Seed	16.595	2003WSQX0123	23,985
Executive Office for Weed and Seed	16.595	2004WSQ40157	102,558
Executive Office for Weed and Seed	16.595	2004WSQ40166	122,414
Executive Office for Weed and Seed	16.595	2004WSQ40167	<u>42,281</u>
Total Executive Office for Weed and Seed			<u>\$ 416,986</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, 2005

Program Title	FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Public Safety Partnership and Community Policing Grants		16.710	98CLWX0180	\$ (134,700)
Public Safety Partnership and Community Policing Grants		16.710	2003CKWX0307	194,850
Public Safety Partnership and Community Policing Grants		16.710	2003INWX0003	<u>588,750</u>
Total Public Safety Partnership and Community Policing Grants				<u>\$ 648,900</u>
Department of Justice Passed Through—				
Gulfcoast Workforce Development—				
ASAP-Gulfcoast Workforce		16.259	04ASAPGCW	\$ 16,982
ASAP-Gulfcoast Workforce		16.259		<u>1,025</u>
Total Gulfcoast Workforce Development				<u>\$ 18,007</u>
Department of Justice Passed Through—				
Office of the Governor, Criminal Justice Division:				
Juvenile Accountability Incentive Block Grants		16.523	JB02J2013322	\$ 178,990
Juvenile Accountability Incentive Block Grants		16.523	JB03J2013322	<u>590,860</u>
Total Juvenile Accountability Incentive Block Grants				<u>\$ 769,850</u>
Crime Victim Assistance		16.575	VA04V3013592	<u>\$ 28,437</u>
Total Office of the Governor, Criminal Justice Division				<u>\$ 798,287</u>
Department of Justice Passed Through—				
Texas Department of Public Safety:				
Crime Laboratory Improvement Combined Offender		16.564	2002DNBXXK012	\$ 486,780
Crime Laboratory Improvement Combined Offender		16.564	2003DNBXXK024	93,985
Crime Laboratory Improvement Combined Offender		16.564	2004DNBXXK114	39,735
Crime Laboratory Improvement Combined Offender		16.564	2004DNBXXK193	<u>66,609</u>
Total Texas Department of Public Safety				<u>\$ 687,109</u>
Department of Justice Passed Through—				
Sam Houston State University:				
Community Prosecution and Project Safe Neighborhoods		16.609	32120SO29	\$ 51
Community Prosecution and Project Safe Neighborhoods		16.609	S04D77205	40,910

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, 2005

Program Title	FEDERAL AWARDS Federal CFDA Number	Grant Award Number	Expenditures
Community Prosecution and Project Safe Neighborhoods	16.609	S04D77206	<u>2,580</u>
Total Sam Houston State University			<u>\$ 43,541</u>
Total Department of Justice			<u>\$ 7,309,201</u>
Department of Labor Passed Through— Houston Works USA— Youth Offender Demonstration	17.XXX	FC55546	<u>\$ 104,291</u>
Total Department of Labor			<u>\$ 104,291</u>
Department of Transportation National Highway Traffic Safety Administration— NCBM-Buckle Up America	20.XXX	03NCBM	<u>\$ 1,777</u>
Total National Highway Traffic Safety Administration			<u>\$ 1,777</u>
Department of Transportation Highway Planning and Construction	20.205	TCSE004-Q69	\$ 8,411
Highway Planning and Construction	20.205	TCSE010	8,499
Highway Planning and Construction	20.205	TCSP2001-001	81,185
Highway Planning and Construction	20.205	TCSP-TX096	25,000
Highway Planning and Construction	20.205	TCSP-TX06	1,313
Highway Planning and Construction	20.205	CMAQ96(728)	<u>339,201</u>
Total Highway Planning and Construction			<u>\$ 463,609</u>
Department of Transportation Federal Aviation Administration: Hobby Airport: Airport Improvement Program	20.106	3-48-0110-22	\$ 39,204
Bush Intercontinental Airport: Airport Improvement Program	20.106	3-48-0111-45	16,571
Airport Improvement Program	20.106	3-48-0111-47	9,456,634
Airport Improvement Program	20.106	3-48-0111-48	2,595,578
Airport Improvement Program	20.106	3-48-0111-50	18,400,000
Airport Improvement Program	20.106	3-48-0111-51	14,568,184
Airport Improvement Program	20.106	3-48-0111-52	5,000,000

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, 2005

Program Title	FEDERAL AWARDS Federal CFDA Number	Grant Award Number	Expenditures
Ellington Field:			
Airport Improvement Program	20.106	3-48-0290-13	18,727
Airport Improvement Program	20.106	3-48-0290-15	956,003
Airport Improvement Program	20.106	3-48-0290-16	<u>3,190,781</u>
Total Federal Aviation Administration			<u>\$ 54,241,682</u>
Department of Transportation Passed Through—			
Texas Department of Highway and Public Transportation:			
State and Community Highway Safety	20.600	030202B1BM	\$ 49,988
State and Community Highway Safety	20.600	040101A1AG	48,475
State and Community Highway Safety	20.600	040101C1AB	82,194
State and Community Highway Safety	20.600	040202B1BC	6,496
State and Community Highway Safety	20.600	040402B1AA	87,912
State and Community Highway Safety	20.600	041301B1AA	179,992
State and Community Highway Safety	20.600	050101A1AM	173,072
State and Community Highway Safety	20.600	050101C1AB	220,698
State and Community Highway Safety	20.600	050202B1AC	62,436
State and Community Highway Safety	20.600	050402A1AA	228,127
State and Community Highway Safety	20.600	051301B1AA	254,440
State and Community Highway Safety	20.600	125XXM5001	<u>91,854</u>
Total Texas Department of Highway and Public Transportation			<u>\$ 1,485,684</u>
Department of Transportation Passed Through—			
Texas Parks & Wildlife Department—			
Recreational Trails Program	20.219	88594	<u>\$ 76,242</u>
Total Texas Parks & Wildlife Department			<u>\$ 76,242</u>
Total Department of Transportation			<u>\$ 56,268,994</u>
Department of Treasury:			
Shared Forfeited Property	21.XXX		<u>\$ 268,070</u>
Total Department of Treasury			<u>\$ 268,070</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, 2005

Program Title	FEDERAL AWARDS Federal CFDA Number	Grant Award Number	Expenditures
Institute of Museum and Library Services Passed Through—			
Texas State Library Commission:			
State Library Program	45.310	470-04008	\$ 463,506
State Library Program	45.310	470-05008	1,255,090
State Library Program	45.310	470-99008	69
State Library Program	45.310	476-04018	21,804
State Library Program	45.310	476-05018	61,859
State Library Program	45.310	771-04043	66,145
State Library Program	45.310	771-05043	<u>294,234</u>
Total Institute of Museum and Library Services			<u>\$ 2,162,707</u>
Environmental Protection Agency:			
Houston Brownfields	66.811	V996565010	<u>\$ 60,617</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	582-3-5581	452,559
Air Pollution Control Program Support	66.001	582-4-55827	<u>413,417</u>
Total Air Pollution Control Program Support			<u>\$ 870,203</u>
Environmental Protection - Consolidated Research	66.500	582-5-55899	<u>\$ 37,380</u>
Particulate Matter 2.5 Monitoring	66.606	582-5-55867	<u>\$ 24,667</u>
Total Texas Commission on Environmental Quality			<u>\$ 932,250</u>
Environmental Protection Agency Passed Through—			
Texas Water Development Board:			
Capitalization Grants for Clean Water State Revolving Funds	66.458		<u>\$ 30,310,601</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468	18003644SR	<u>\$ 330,477</u>
Total Texas Water Development Board			<u>\$ 30,641,078</u>
Total Environmental Protection Agency			<u>\$ 31,633,945</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, 2005**

Program Title	FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Department of Education:				
Fund for the Improvement of Education		84.215	Q215F031131	\$ <u>127,065</u>
Total Department of Education				\$ <u>127,065</u>
Department of Health and Human Services:				
Project Grants and Cooperative Agreements for TB Control		93.116	CCU600445-23	\$ 1,676,987
Project Grants and Cooperative Agreements for TB Control		93.116	CCU600445-24	<u>1,175,157</u>
Total Project Grants and Cooperative Agreements for TB Control				\$ <u>2,852,144</u>
Childhood Lead Poisoning Preventions Projects		93.197	CCU618506-03	\$ <u>25,627</u>
Immunization Grants		93.268	CCH622532-01	\$ (7)
Immunization Grants		93.268	CCH622532-02	1,833,886
Immunization Grants		93.268	CCH622532-03	932,343
Immunization Grants		93.268	CCH622532-03A	<u>5,930,219</u>
Total Immunization Grants				\$ <u>8,696,441</u>
Centers for Disease Control and Prevention		93.283	CCU622445-02	\$ 176,830
Centers for Disease Control and Prevention		93.283	CCU622445-03	314,596
Centers for Disease Control and Prevention		93.283	CCU623269-01	281,590
Centers for Disease Control and Prevention		93.283	CCU623272-01	804,315
Centers for Disease Control and Prevention		93.283	CCU623272-02	186,859
Centers for Disease Control and Prevention		93.283	2004-CMS-13	<u>29,767</u>
Total Centers for Disease Control and Prevention				\$ <u>1,793,957</u>
HIV Prevention Activities-Health Department Based		93.940	CCU023512-01	\$ 3,167,745
HIV Prevention Activities-Health Department Based		93.940	CCU023512-02	<u>2,666,729</u>
Total HIV Prevention Activities				\$ <u>5,834,474</u>
HIV / AIDS Surveillance		93.944	CCU606238-12	\$ 155,391
HIV / AIDS Surveillance		93.944	CCU623559-01	1,061,643
HIV / AIDS Surveillance		93.944	CCU623559-02	707,942

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, 2005

Program Title	FEDERAL AWARDS Federal CFDA Number	Grant Award Number	Expenditures
HIV / AIDS Surveillance	93.944	CCU624424-01	288,942
HIV / AIDS Surveillance	93.944	CCU624424-02	<u>26,572</u>
Total HIV / AIDS Surveillance			<u>\$ 2,240,490</u>
Department of Health and Human Services Passed Through— Harris County, Texas:			
HIV Emergency Relief	93.914	04GEN0181	<u>\$ 35,283</u>
Total Harris County, Texas			<u>\$ 35,283</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	2004-EAP-13	\$ 11,585
Special Programs for the Aging Title VII, Chapter 3	93.041	2005-EAP-13	<u>36,759</u>
Total Special Programs for the Aging Title VII, Chapter 3			<u>\$ 48,344</u>
Special Programs for the Aging Title VII, Chapter 2	93.042	2004-OAG-13	\$ 80,644
Special Programs for the Aging Title VII, Chapter 2	93.042	2005-OAG-13	<u>86,045</u>
Total Special Programs for the Aging Title VII, Chapter 2			<u>\$ 166,689</u>
Special Programs for the Aging Title III, Part D	93.043	2004-3D-13	\$ 66,998
Special Programs for the Aging Title III, Part D	93.043	2005-3D-13	<u>113,933</u>
Total Special Programs for the Aging Title III, Part D			<u>\$ 180,931</u>
Special Programs for the Aging Title III, Part B	93.044	2004-3B-13	\$ 683,678
Special Programs for the Aging Title III, Part B	93.044	2004-ADM-13	316,740
Special Programs for the Aging Title III, Part B	93.044	2005-3B-13	1,451,571
Special Programs for the Aging Title III, Part B	93.044	2005-ADM-13	508,420
Special Programs for the Aging Title III, Part B	93.044	ADM2003-011	<u>855</u>
Total Special Programs for the Aging Title III, Part B			<u>\$ 2,961,264</u>
Special Programs for the Aging Title III, Part C	93.045	2004-C1-013	\$ 727,746
Special Programs for the Aging Title III, Part C	93.045	2004-C2-014	1,499,463

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, 2005

Program Title	FEDERAL AWARDS Federal CFDA Number	Grant Award Number	Expenditures
Special Programs for the Aging Title III, Part C	93.045	2005-3C1-13	980,999
Special Programs for the Aging Title III, Part C	93.045	2005-3C2-13	<u>1,562,844</u>
Total Special Programs for the Aging Title III, Part C			<u>\$ 4,771,052</u>
National Family Caregiver Support	93.052	2004-3E-13	\$ 684,651
National Family Caregiver Support	93.052	3E-2003-011	8,851
National Family Caregiver Support	93.052	2005-3E-13	<u>872,607</u>
Total National Family Caregiver Support			<u>\$ 1,566,109</u>
Nutrition Services Incentive Program	93.053	2004-USD-12	\$ 32,361
Nutrition Services Incentive Program	93.053	2005-NSIP-13	<u>701,578</u>
Total Nutrition Services Incentive Program			<u>\$ 733,939</u>
Total Texas Department of Aging and Disability Services			<u>\$ 10,428,328</u>
Department of Health and Human Services Passed Through—			
Texas Department of State Health Services:			
Occupational Safety and Health Research Projects	93.262	001164004-05	8,925
Occupational Safety and Health Research Projects	93.262	001164005-06	<u>201,835</u>
Total Occupational Safety and Health Research Projects			<u>\$ 210,760</u>
Hansen's Disease National Ambulatory Care Program	93.215	001164005-01	\$ 12,701
Hansen's Disease National Ambulatory Care Program	93.215	001164006-03	<u>38,523</u>
Total Hansen's Disease National Ambulatory Care Program			<u>\$ 51,224</u>
Centers for Disease Control and Prevention	93.283	001164004-06	\$ 445,253
Centers for Disease Control and Prevention	93.283	001164004-07	1,556,744
Centers for Disease Control and Prevention	93.283	001164005-10	<u>1,090,230</u>
Total Centers for Disease Control and Prevention			<u>\$ 3,092,227</u>
HIV Prevention Activities-Health Department Based	93.940	001164005-02	\$ 39,576
HIV Prevention Activities-Health Department Based	93.940	001164005-03	71,229

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, 2005

Program Title	FEDERAL AWARDS Federal CFDA Number	Grant Award Number	Expenditures
HIV Prevention Activities-Health Department Based	93.940	001164006-01	45,785
HIV Prevention Activities-Health Department Based	93.940	001164006-04	<u>20,376</u>
Total HIV Prevention Activities Health Department Based			<u>\$ 176,966</u>
HIV/AIDS Surveillance	93.944	001164004-11	<u>\$ 26,717</u>
Preventive Health Services—Sexually Transmitted Diseases	93.977	001164005-04	\$ 791,333
Preventive Health Services—Sexually Transmitted Diseases	93.977	001164006-02	<u>653,012</u>
Total HIV/AIDS Surveillance			<u>\$ 1,444,345</u>
Preventative Health and Health Services Block Grant	93.991	001164004-13	\$ 29,373
Preventative Health and Health Services Block Grant	93.991	001164005-09	<u>291,148</u>
Total Preventative Health and Health Services Block Grant			<u>\$ 320,521</u>
Maternal and Child Health Services Block Grant to the States	93.994	0011640A0401	<u>\$ 338,610</u>
Total Texas Department of State Health Services			<u>\$ 5,661,370</u>
Total Department of Health and Human Services			<u>\$ 37,568,114</u>
Department of Homeland Security Passed Through— Texas Engineering Extension Service:			
Urban Area Security Initiative	16.011	2003EUT30043	\$ 1,578,514
Urban Area Security Initiative	16.011	2003TUTX0003	5,268,917
Urban Area Security Initiative	97.008	2004UASI3500	<u>58,178</u>
Total Texas Engineering Extension Service			<u>\$ 6,905,609</u>
Department of Homeland Security Passed Through— Texas Department of Public Safety:			
Hazard Mitigation Grant Program	83.548	1379-DR-TX	<u>\$ 9,400,513</u>
Emergency Management Performance Grants	97.042	EMT9-97-PA-005	<u>\$ 102,025</u>
Assistance to Firefighters Grant	97.044	EMW03FG18743	<u>\$ 469,695</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, 2005**

Program Title	FEDERAL AWARDS	Federal CFDA Number	Grant Award Number	Expenditures
Metropolitan Medical Response System		97.071	23-03-0067	\$ 50,412
Metropolitan Medical Response System		97.071	EMW04GR0559	<u>16,380</u>
Total Metropolitan Medical Response System				<u>\$ 66,792</u>
State Homeland Security Program		97.073	2004LETPP350	\$ 186,065
State Homeland Security Program		97.073	FC55357	<u>24,997</u>
Total State Homeland Security Program				<u>\$ 211,062</u>
Total Texas Department of Public Safety				<u>\$ 10,250,087</u>
Total Department of Homeland Security				<u>\$ 17,155,696</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 223,525,859
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, 2005**

STATE AWARDS	Grant Award Number	Expenditures
Program Title		
Harris County:		
Campo Del Sol	FC55359	\$ 53,995
United Minds Project	FC55360	18,917
Campo Del Sol	FC56178	18,317
HCFM Fire Setters	C0253959	<u>900</u>
Total Harris County		<u>\$ 92,129</u>
Office of the Attorney General— Hispanic Victims Outreach Project	04G01896	<u>\$ 57,250</u>
Total Office of the Attorney General		<u>\$ 57,250</u>
Office of the Governor, Criminal Justice Division: Shared Forfeited Property	N/A	<u>\$ 1,089,317</u>
Total Office of the Governor, Criminal Justice Division		<u>\$ 1,089,317</u>
Texas Commission on Environmental Quality:		
2004 Emission Reduction TCEQ	582248643051	\$ 109,200
The Bays & Bayous of Houston	582-4-65052	4,200
2003 TCEQ Interlocal Contract	582-3-51316	(4,800)
2004 TCEQ Interlocal Contract	582-4-64433	<u>1,371,976</u>
Total Texas Commission on Environmental Quality		<u>\$ 1,480,576</u>
Texas Commission on Environmental Quality Passed Through— Houston-Galveston Area Council:		
Recycling Handbook/TV Ads	04-16-G16	\$ 112,698
Houston-Galveston Area Council	05-16-G11	217,234
2003 HGAC Clean Rivers/Water/Lab	CR03-54709	10,629
Household Hazardous Waste Disposal	00-16-G19	360
Household Hazardous Waste Disposal	05-16-G06	17,503
2004 Clean River/Lab/Water	CR03-55625	64,438
2003 Emmissions Reduction HGAC	03-55017	<u>254,800</u>
Total Houston-Galveston Area Council		<u>\$ 677,662</u>
Texas Library & Archives Commission:		
2004 Lone Star Libraries Grant	442-04228	\$ 89,075
2005 Gates Staying Connected	431-05036	39,648

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, 2005**

Program Title	Grant Award Number	Expenditures
2005 Lone Star Libraries Grant	442-05228	<u>144,981</u>
Total Texas Library & Archives Commission		<u>\$ 273,704</u>
Texas Department of Transportation Passed Through—		
Texas Auto Theft Prevention Authority:		
Major Accessory Shop/11	SAT041005403	\$ (494)
Major Accessory Shop/12	SAT01005404	124,148
Major Accessory Shop/13	SAT041005405	432,615
Major Accessory Shop	SAT01T0409356	<u>24</u>
Total Texas Auto Theft Prevention Authority		<u>\$ 556,293</u>
Texas Comptroller of Public Accounts:		
Tobacco Compliance/7	004007TOBACC	<u>\$ 4,883</u>
Total Texas Comptroller of Public Accounts		<u>\$ 4,883</u>
Texas Department of State Health Services:		
2004 HIV/STD Prev(s)	001164004-12	\$ 111,511
2005 HIV/STD Prev(s)	001164005-07	73,007
2005 Tuberculosis State	001164005-08	1,144,196
2004 Tuberculosis State	001164004-10	205,424
2005 Title X Bureau of Women's Health	001164005-11	46,152
2004 Assoc Commissioner Family Health Planning	0011640A0402	47,714
2005 Assoc Commissioner Family Health Planning	0011640A0502	685,511
2005 Assoc Commissioner Family Health Planning	0011640A0503	216,752
2004 Immunization State	001164005-05	747,177
2005 Milk & Dairy	0011640A0501	22,466
2004 Milk & Dairy	0011640A4-03	<u>3,547</u>
Total Texas Department of State Health Services		<u>\$ 3,303,457</u>
Texas Department of Aging and Disability Services:		
2004 Assisted Living Advocacy	2004-ALP-13	\$ 29,067
2005 Assisted Living Advocacy	2005-ALP-13	44,605
2004 State General Revenue	2004-SGR-13	73,903
2005 State General Revenue	2005-SGR-13	367,315
2004 DPS Program Income Aging	2004-DPS-13	1,615
2005 Access Benefits Coalition	2005-ABC-13	9,205

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, 2005

Program Title	Grant Award Number	Expenditures
2005 Centers for Medicare & Medicaid State Highway Fund 0006	2005-CMS-13 2005-SHF-13	49,536 <u>35,105</u>
Total Texas Department of Aging and Disability Services		<u>\$ 610,351</u>
Texas Parks and Wildlife Department:		
MacGregor Park	5000317	\$ 126,900
Community Outdoor Outreach Program	52000310	27,743
Houston Willow Waterhole	53-00002	492,200
Urban Park and Recreation Recovery Program - Settegast Park	48CTY328002A	100,000
Urban Park and Recreation Recovery Program - Swiney Park	48CTY32800A	<u>56,350</u>
Total Texas Parks and Wildlife Department		<u>\$ 803,193</u>
TOTAL EXPENDITURES OF STATE AWARDS		<u>\$ 8,948,815</u>
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS		<u>\$ 232,474,674</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, 2005

- 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	\$ 127,868	\$ 7,860
Nonmajor Governmental Fund	1,366	1,089
Capital Projects Funds	9,739	
Enterprise Fund—Airport System Fund	54,242	
Enterprise Fund—Combined Utility System Fund	<u>30,311</u>	<u> </u>
Total	<u>\$ 223,526</u>	<u>\$ 8,949</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	\$ 5,930,219
Value of vaccines on hand		693,126

6. **Loans Outstanding**—The City had the following loan balances outstanding at June 30, 2005. 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	\$ 31,743,067
HOME Investment Partnerships Program	14.239	22,832,519
Section 108 Guaranteed Loan Program	14.248	22,223,461

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	\$ 9,241,922
Emergency Shelter Grants Program	14.231	1,227,033
Home Investment Partnerships Program	14.239	7,385,381
Housing Opportunities for Persons with AIDS	14.241	6,085,402
CDBG/Brownfields Economic Development Initiative	14.246	372,989
Juvenile Accountability Incentive Block Grants	16.523	65,231
Gang-Free Schools and Communities-Community-Based Gang Intervention	16.544	41,340
Executive Office for Weed and Seed	16.595	21,513
Public Safety Partnership and Community Policing Grants	16.710	421,072
Special Programs for the Aging Title VII, Chapter 3	93.041	48,344
Special Programs for the Aging Title VII, Chapter 2	93.042	166,689
Special Programs for the Aging Title III, Part D	93.043	180,931
Special Programs for the Aging Title III, Part B	93.044	1,697,375
Special Programs for the Aging Title III, Part C	93.045	4,676,833
National Family Caregiver Support	93.052	1,338,499
Nutrition Services Incentive Program	93.053	733,939
Immunization Grants	93.268	17,814
Centers for Disease Control and Prevention	93.283	1,216,029
HIV Prevention Activities Health Department Based	93.940	3,099,658
HIV/AIDS Surveillance	93.944	394,560
Preventative Health Services-Sexually Transmitted Diseases	93.977	78,161
Preventative Health and Health Services Block Grant	93.991	66,735
Maternal and Child Health Services Block Grant	93.994	<u>12,000</u>
Total		<u>\$ 38,589,450</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
United Minds Project	FC55360	\$ 240
HCFM Fire Setters	C0253959	900
2005 Tuberculosis State	001164005-08	15,200
2005 Assoc Commission Family Health Planning	0011640A0502	8,000
2004 DPS Program Income Aging	2004-DPS-13	1,590
2004 Assisted Living Advocacy	2004-ALP-13	29,068
2005 Assisted Living Advocacy	2005-ALP-13	44,605
2004 State General Revenue	2004-SGR-13	73,903
2005 State General Revenue	2005-SGR-13	367,315
State Highway Fund 0006	2005-SHF-13	35,105
Major Accessory Shop/12	SAT01005404	<u>21</u>
 Total		 <u>\$575,947</u>

* * * * *

CITY OF HOUSTON, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

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 weaknesses.
3. No 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 Capitalization Grants for Clean Water State Revolving Funds, Hazard Mitigation Grant Program and HOME Investment Partnerships Program, 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
Community Development Block Grant	14.218
HOME Investment Partnerships Program	14.239
Housing Opportunities for Persons with AIDS	14.241
Urban Area Security Initiative	16.011/97.008
Airport Improvement Program	20.106
Capitalization Grants for Clean Water State Revolving Funds	66.458
Hazard Mitigation Grant Program	83.548
Special Programs for the Aging Title III, Part B & C and Nutrition Services Incentive Program	93.044/93.045/93.053
Shared Forfeited Property	State
Major Accessory Shop	State
Tuberculosis State	State
Assoc Commissioners Health Family Plan	State
State General Revenue	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
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.

Corrective Action Plan of Management Steps have been taken to remedy this situation. The City’s Finance and Administration Department has employed an executive level individual to oversee a reorganized asset management division starting in June 2006 and recruited two new other staff members with fixed asset background from the private sector. As planned, we converted the General Fund and the Convention & Entertainment Fund departments to AIIMS in FY05 from GFAMS. The AIIMS system is currently being used to capture the fixed assets additions, retirements, capital improvements and real estate subledgers to the General Ledger. The Aviation Department continues to use the General Fixed Asset Management System (GFAMS).

For the fiscal year 2005 Comprehensive Annual Financial Report (CAFR) the Finance & Administration department was able to balance the AIIMS original cost amounts to the City’s Balance Sheet accounts without any problem. However, it was discovered that the accumulated depreciation amounts were being calculated incorrectly on the converted fiscal year 2004 data imported from GFAMS into the AIIMS system and additional time was needed to perform the calculations using Excel spreadsheets. Currently, depreciation for fiscal year 2006 new additions are being calculated correctly and will be merged with the fiscal year 2005 worksheets to obtain the final fiscal year 2006 CAFR amounts by departments and asset classifications.

After the fiscal year 2006 CAFR is prepared, both the AIIMS and GFAMS programs will no longer be used to capture capital asset information. An Asset Accounting Module will replace them, which will be under the integrated umbrella of an Enterprise Resource Planning system called SAP. SAP will enable all City departments to create and control their capital assets entries with automated business processes within one system. The asset cost and depreciation amounts will be tied to general ledger balance sheet accounts through the integrated subledgers. Implementation of SAP will

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

begin in July 2006 for fiscal year 2007 asset transactions. The F&A, Fixed Asset Division is assisting with the SAP conversion, preparing the June 30, 2006 balances and coordinating the fiscal year 2007 beginning balance asset data files for SAP simultaneously.

Estimated Completion Date: July 2006

City Contact Person: Ron Kissner

III. FEDERAL AND STATE AWARDS FINDINGS AND QUESTIONED COSTS SECTION

Program	Finding/Noncompliance	Questioned Cost
Finding 2005-2.		
Capitalization Grants for Clean Water State Revolving Funds – CFDA # 66.458	<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.	N/A
Hazard Mitigation Grant Program – CFDA # 83.548	In addition, certain other errors were identified as follows:	
Special Programs for the Aging Title III, Part D – CFDA # 93.043	<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; 	
Special Programs for the Aging Title III, Part B – CFDA # 93.044	<ul style="list-style-type: none"> • \$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 	
Community Development Block Grant – Section 108 Loan Guarantees – CFDA # 14.248	<ul style="list-style-type: none"> • \$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. 	
<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.		

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2005-2 (continued).

Corrective Action Plan of Management: The current process for developing the schedule of expenditures of federal and state awards has been reevaluated due to the citywide implementation of the SAP information system. City staff and consultants devised a process that has the Grant Management section of Finance and Administration as the central point for all grant applications and awards. This will allow Grant Management to review all grant information for consistency, completeness, accuracy and reasonableness. Certifications and audit requirements will also be reviewed. Citywide administrative procedures have been revised to instruct city departments to present all grant applications and grant awards to Grant Management for inclusion in the City's information system.

Estimated Completion Date: July 2006

City Contact Person: Harold Jackson, Finance & Administration

Program	Finding/Noncompliance	Questioned Cost								
Finding 2005-3.										
Community Development Block Grant – CFDA # 14.218; HOME Investment Partnerships Program – CFDA # 14.239;	<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								
Urban Area Security Initiative – CFDA # 16.011 / 97.008;	<table border="0"> <tr> <td>Community Development Block Grant</td> <td style="text-align: right;">\$ 194,885</td> </tr> <tr> <td>HOME Investment Partnerships Program</td> <td style="text-align: right;">\$ 536,988</td> </tr> <tr> <td>Urban Area Security Initiative</td> <td style="text-align: right;">\$ 25,608</td> </tr> <tr> <td>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									
Crime Laboratory Improvement Combined Offender – CFDA # 16.564	<u>Recommendation:</u> Policies and procedures need to be established to ensure that all expenditures are recorded in the proper fiscal year. <u>Corrective Action Plan of Management:</u> Under the current policies and procedures the department improved its internal controls. Funding request are accompanied by an internal RCA form, which requires grants management to assign the funding source by fund, year, activity and amount and financial services to verify fund availability. On July 1, the City will convert to a new financial reporting system. In response, the department is in the process of revising current policies and procedures to ensure that expenditures are properly recorded in the correct fiscal year under the new financial system.									
	<u>Estimated Completion Date:</u> June 30, 2005									
	<u>City Contact Person:</u> Jack Lippincott & Cheryl Murray									

Program	Finding/Noncompliance	Questioned Cost
<p>Community Development Block Grant – CFDA # 14.218;</p> <p>HOME Investment Partnerships Program – CFDA # 14.239;</p> <p>Housing Opportunities For Persons with AIDS – CFDA # 14.241</p>	<p style="text-align: center;">Finding 2005-4.</p> <p><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:</p> <p>(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.</p> <p>(2) The affordability start date and affordability period were not consistent between the divisions for the same sub-recipient / project.</p> <p>(3) Numerous projects were assigned to individual monitors and inspectors resulting in untimely and incomplete compliance reports for both monitoring and inspection.</p> <p>(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.</p> <p>(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.</p> <p><u>Recommendation:</u> 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.</p>	N/A

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2005-4 (continued).

Corrective Action Plan of Management: HCDD revised its policies and procedures and in May 2005, HUD approved the latest updates and revisions to the procedures. The Monitoring Division will cross-reference its project information with that of the Inspection and Planning Divisions to ensure that all of the applicable multi-family projects are identified and included on the Monitoring & Compliance Section's annual schedule and information is consistent among the Divisions. The Inspection Division will be provided a copy of Monitoring's annual schedule.

Both the Monitoring and Inspection Divisions have been working to complete the necessary compliance audits for all projects. The City has hired additional outside consultants to assist in the process.

The City is evaluating software that will provide all divisions of HCDD consistent information for each sub-recipient / project.

Estimated Completion Date: December 2006

City Contact Person: George Johnson & Jeff Gross

Program	Finding/Noncompliance	Questioned Cost
Community Development Block Grant – CFDA # 14.218	<p data-bbox="753 323 967 359">Finding 2005-5.</p> <p data-bbox="483 380 1219 478"><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="483 516 1219 814"><u>Background:</u> The City currently performs eligibility determinations by utilizing a radius mile of the actual project location depending upon the type of project involved. Census details are then obtained for all tracts of land falling under that radius mile and a determination is made based on an average census data as to whether the project falls under low / moderate area to be eligible for funding. A documented reasoning as to the use of such radius mile or why a certain radius mile is used for a particular project type was not produced by the City.</p> <p data-bbox="483 852 1219 1052"><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="483 1089 1219 1381"><u>Corrective Action Plan of Management:</u> HCDD will establish written procedures and guidelines for determining and documenting the “eligibility”. These policies will be written in accordance with 24 CFR 570.200(a) and Criteria or Eligibility for Projects That Qualify Under the Area National Objective discussed at 24 CFR 570.208 (a) (1) (i)-(vii). Once adopted a copy of the new policies will be distributed to all impacted employees (i.e. grants management, project managers, and intake)</p> <p data-bbox="483 1419 1019 1455"><u>Estimated Completion Date:</u> August 30, 2006</p> <p data-bbox="483 1486 889 1522"><u>City Contact Person:</u> Brenda Scott</p>	N/A

Program	Finding/Noncompliance	Questioned Cost
Community Development Block Grant – CFDA # 14.218	<p data-bbox="751 342 967 373" style="text-align: center;">Finding 2005-6.</p> <p data-bbox="483 415 1235 646"><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="483 678 1166 741"><u>Background:</u> Costs charged to federal programs should be actual and reasonable.</p> <p data-bbox="483 783 1230 982"><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="483 1014 1235 1717"><u>Corrective Action Plan of Management:</u> In order to streamline and expedite street overlay projects HCDD and Public Works (PWE) agreed under an LOA that PWE would perform the street overlay work with their in house staff and equipment. Thereby significantly reducing the time and cost equaling savings. Under the agreement, PWE charged HCDD the cost per lane mile overlayed at a determined rate plus overhead. The overhead rate charged is a percentage of the determined rate based on a formula used by PWE, which they have applied to similar jobs performed with Metro. HCDD determined – before approving any of the charges – that the total of the rate and the allocated overhead was reasonable, based on a comparison with per-mile costs paid under best-bid conditions to outside contractors for the same kind of work. Furthermore, we learned from PWE that the cost per lane mile of outsourcing this contract would have been twice the amount we expended using PWE. Current processes and procedures are being evaluated, and additional procedures will be developed if necessary, to ensure that costs charged to federal programs are based on actual costs; and, that any such costs and additional overhead charges are reasonable.</p> <p data-bbox="483 1749 1060 1780"><u>Estimated Completion Date:</u> September 30, 2006</p> <p data-bbox="483 1812 919 1843"><u>City Contact Person:</u> Jack Lippincott</p>	\$33,193

Program	Finding/Noncompliance	Questioned Cost
Community Development Block Grant – CFDA # 14.218	<p data-bbox="753 344 967 378" style="text-align: center;">Finding 2005-7.</p> <p data-bbox="483 415 1227 810"><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="483 848 1227 945">(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="483 982 1227 1045">(2) Houston Public Library: The agreement was effective from January 1, 1999 thru June 30, 2000 for various projects.</p> <p data-bbox="483 1083 1227 1209">(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="483 1247 1227 1478"><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 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="483 1516 1227 1877"><u>Corrective Action Plan of Management:</u> HCDD will develop policies and procedures to govern Letters of Agreements (LOAs) with other city departments (e.g., Parks and Recreation, Public Works Engineering, etc.). Procedures will require "sister" departments to fund activities in accordance with CDBG regulations. Prior to payment of invoices project managers will verify actual expenditures with department liaisons to ensure accuracy and items fall within the scope of services. Furthermore, the policy will outline "performance measures" that must be met before an LOA is renewed. Policies will also streamline the renewal process to</p>	N/A

Program	Finding/Noncompliance	Questioned Cost
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Finding 2005-7 (continued).

eliminate any gaps in services. Furthermore, under our new policy we track all active LOAs by fiscal year as well as perform random audits to ensure our payment process is sound.

Estimated Completion Date: October 30, 2006

City Contact Person: Rhonda R. Wimberly

Finding 2005-8.

**HOME
Investment
Partnerships
Program –
CFDA # 14.239**

Finding: 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.

N/A

Recommendation: 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.

Corrective Action Plan of Management: HCDD inspection of multi-family properties will be conducted on an annual basis in accordance with HUD guidelines and HCD policy during the period of affordability. HCD now has an internal auditor who will be responsible for periodic reviews of project files etc. to further ensure compliance with applicable regulations

Estimated Completion Date: December 31, 2006

City Contact Person: Luther Anderson

Program	Finding/Noncompliance	Questioned Cost
Hazard Mitigation Grant Program – CFDA # 83.548	<p data-bbox="748 344 959 371" style="text-align: center;">Finding 2005-9.</p> <p data-bbox="461 415 1243 510"><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 data-bbox="461 548 1243 940"><u>Background:</u> Expenditures are recorded to the general ledger by the Public Works Department. The Public Works Department provides a copy of invoices coded to the general ledger to an outside consultant utilized to assist the City with management of the Hazard Mitigation projects. The outside consultant provides the support to the City’s Hazard Mitigation Grant Officer. Together they review the expenditures incurred and determine which expenditures are eligible for reimbursement. The Hazard Mitigation Grant Officer prepares the reimbursement request based on that review, but does not compare the invoices received to the general ledger to ensure that the invoices provided by the outside consultant are all inclusive.</p> <p data-bbox="461 980 1243 1245"><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 data-bbox="461 1283 1243 1442"><u>Corrective Action Plan of Management:</u> Public Works and Engineering, Finance and Administration and the Houston Emergency Center will ensure that the Hazard Mitigation Grant Officer has all related project expenditure information for reimbursement reconciliation.</p> <p data-bbox="461 1480 930 1507"><u>Estimated Completion Date:</u> Completed</p> <p data-bbox="461 1547 862 1575"><u>City Contact Person:</u> Debra Wynn</p>	N/A

Program	Finding/Noncompliance	Questioned Cost
Urban Area Security Initiative – CFDA # 16.011 / 97.008	Finding 2005-10.	N/A
	<p data-bbox="461 417 1240 611"> <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 data-bbox="461 653 1240 779"> <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 data-bbox="461 821 1240 978"> <u>Corrective Action Plan of Management:</u> Staffing vacancies will be filled promptly to ensure adequate staffing to fulfill grant administrative reporting requirements. Policies will be instituted to ensure that reports are drafted and submitted for management review in advance of reporting deadlines. </p> <p data-bbox="461 1020 922 1047"> <u>Estimated Completion Date:</u> May 2006 </p> <p data-bbox="461 1089 886 1110"> <u>City Contact Person:</u> Cheryl Murray </p>	

Program	Finding/Noncompliance	Questioned Cost
Major Accessory Shop Enforcement	Finding 2005-11.	N/A
	<p data-bbox="459 411 1247 772"> <u>Finding:</u> 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. </p> <p data-bbox="459 814 1247 978"> <u>Recommendation:</u> 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. </p> <p data-bbox="459 1014 1247 1209"> <u>Corrective Action Plan of Management:</u> The ending amounts charged to the grant were correct. Supervisory oversight in preparation for program closeout provided for appropriate adjustments to be made. As new staff is hired, effort will made to ensure stipulated requirements are followed during the funding period. </p> <p data-bbox="459 1245 932 1276"> <u>Estimated Completion Date:</u> Completed </p> <p data-bbox="459 1312 927 1341"> <u>City Contact Person:</u> Sheryl Armstrong </p>	

Program	Finding/Noncompliance	Questioned Cost
Shared Forfeited Property	<p data-bbox="737 342 969 373" style="text-align: center;">Finding 2005-12.</p> <p data-bbox="459 411 1227 604"><u>Finding:</u> 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.</p> <p data-bbox="459 646 1227 741"><u>Recommendation:</u> Reconciliation of overtime expenses between internally generated reports and reports generated from the City's general ledger should be performed on a monthly basis.</p> <p data-bbox="459 783 1227 1010"><u>Corrective Action Plan of Management:</u> This issue will be resolved upon implementation of the new ERP system (SAP). As an interim measure, the department will attempt to periodically reconcile overtime amounts transferred between systems. Reports generated from the Police Employee Time (PET) system will sometimes vary due to technological limitations. The system only maintains an employee's current rate of pay.</p> <p data-bbox="459 1052 1000 1083"><u>Estimated Completion Date:</u> January 01, 2007</p> <p data-bbox="459 1115 1109 1146"><u>City Contact Person:</u> Paula Gerstle; SAP Change Team</p>	N/A

Program	Finding/Noncompliance	Questioned Cost
Houston Willow Waterhole	<p data-bbox="740 344 967 371" style="text-align: center;">Finding 2005-13.</p> <p data-bbox="461 415 1243 506"><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="461 548 1243 940"><u>Background:</u> The interlocal agreement between the City of Houston and the Harris County Flood Control District (the “District”) calls for the City serves as the lead sponsor for the project. Initially, all costs incurred by the District are requested for reimbursement from the City which than requests reimbursement from the Texas Parks and Wildlife Department. The City acts as a pass-through agency and has a subrecipient monitoring responsibility obligation for the project. However the City did not appear to fulfill this as the City did not make inquiries for compliance with Davis-Bacon Act, procurement, suspension and debarment requirements, equipment management were not made of the County.</p> <p data-bbox="461 982 1243 1444"><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="461 1486 1243 1778"><u>Corrective Action Plan of Management:</u> In order to comply with the sub recipient monitoring requirements as contained in OMB Circular A-133: The Department will evaluate the current processes and procedures. An assessment of the requirement of OMB Circular A-133 will be studied and the shortcomings of the sub recipient monitoring will be identified. The Department will develop and implement a procedure that will establish written criteria for the monitoring of all phases of current and future grants. This process will include setting milestones consistent with</p>	N/A

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2005-13 (continued).

the services to be performed; issuing reporting tools that provide sufficient information to determine if requirements are being met; and management review to ensure terms of compliance and remedies for non-compliance. A communication to outline the monitoring will become a standard document by Attachment to the contract. On future sub-recipient grants, we will develop a comprehensive checklist to ensure compliance in accordance with OMB Circular A-133.

Estimated Completion Date: June 30, 2006

City Contact Person: Willie Scott and Velma Wood

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

Background: The City is responsible for collecting co-payments for services rendered from select patients. Co-payments collected are to reduce the City's request for reimbursement from the Texas Department of State Health Services.

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

Corrective Action Plan of Management: Training sessions will be held with Administrative Supervisors, Medical Social Workers (eligibility screeners), registrations clerks and cashiers with emphasis on being more diligent in calculating the co-payments from clients. This will be accomplished for the registration clerks and cashiers during regular health center bi-weekly staff meeting times at all sites, at the monthly meeting with medical social workers and with special sessions for the administrative supervisors.

Estimated Completion Date: August 2006

City Contact Person: Tracy M. Howard, Administration Manager

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

Program	Finding/Noncompliance	Questioned Cost
Finding 2004-1.		
<p>Community Development Block Grant – CFDA# 14.218;</p>	<p><u>Finding:</u> A number of significant audit adjustments related to the Housing and Community Development Department (“HCDD”) notes receivable grant funds were required to be recorded during the 2004 audit for various items, including the following:</p>	N/A
<p>HOME Investment Partnerships Program – CFDA# 14.239;</p>	<ul style="list-style-type: none"> • Notes receivable balances that were recorded on the general ledger of the City had not been evaluated and written down to their appropriate balance as of year-end resulting in a material write-down of such balances; 	
<p>Housing Opportunities for Persons with AIDS – CFDA# 14.241;</p>	<ul style="list-style-type: none"> • Some notes receivables that should have been reflected on the City’s general ledger were not included on the books of the City, which resulted in such notes receivables having to be added to the general ledger for financial reporting purposes. • It did not appear that the HCCD loan servicing division and the HCCD accounting division regularly communicated related to the status of notes receivable balances. 	
	<p><u>Recommendation:</u> HCCD should investigate balances that are, or should be, reflected in the general ledger of the City to ensure that such balances are properly represented for financial reporting purposes.</p>	
	<p><u>Status:</u> HUD has reviewed the City’s response and considered the finding closed.</p>	

Program	Finding/Noncompliance	Questioned Cost
N/A	Finding 2004-2.	N/A
	<p><u>Finding:</u> The City’s accounting for property transactions does not appear to be a coordinated effort which has led to material adjustments being made during the annual audit process. We noted instances in which property balances were not reconciled to the appropriate property sub-ledgers and property transactions were not properly reflected in the City’s general ledger system.</p>	
	<p><u>Recommendation:</u> The City should perform a critical review of the information flowing in and out of the various sub-ledger systems and evaluate how this information should be reconciled to the general ledger of the City.</p>	
<p><u>Status:</u> The finding has been repeated in fiscal year 2005 as finding 2005-1.</p>		
HOME Investment Partnerships Program – CFDA# 14.239	Finding 2004-3.	N/A
	<p><u>Finding:</u> In August 2004, the U.S. Department of Housing and Urban Development (“HUD”) conducted a monitoring review of the City’s HOME program that included twenty-five findings, and required that the City suspend all disbursements of HOME funds, except to pay the City’s administrative costs. It was HUD’s belief that the City has failed to manage the HOME program to ensure that HOME funds were used in accordance with HOME program requirements and to take action to address any findings. The findings also included, among other things, that the City could not demonstrate that HOME funds were being utilized to ensure that housing met the HUD property standards, that families receiving assistance were low-income as defined by HUD, that all costs and activities were eligible and reasonable and that housing met the affordability requirements for the affordability period. In addition, HUD determined that the City was not performing the following required activities:</p>	
	<ul style="list-style-type: none"> • Monitoring subrecipients adequately • Completing environmental reviews • Inspecting properties to ensure compliance with HOME property standards 	

Program

Finding/Noncompliance

**Questioned
Cost**

Finding 2004-3 (continued).

- Requiring written agreements between the homebuyers and the City or its subrecipients
- Determining the income of HOME program beneficiaries
- Accounting for program income properly
- Ensuring that owners of the City’s HOME-assisted rental housing projects adopted and followed written tenant selection criteria and complied with the City’s affirmative marketing procedures

The City is currently in discussions with HUD related to action that is being taken to resolve these matters.

Recommendation: Continue to reevaluate all procedures and operational processes to ensure that corrective actions will be taken to ensure compliance with HUD HOME requirements.

Status: Additional procedures have been developed to ensure continued compliance with all HUD HOME requirements. The results of an independent review of departmental policies and procedures have been implemented to improve compliance with HUD requirements. In addition, the City continues to work toward clearance of all HUD finding.

Finding 2004-4.

**HOME
Investment
Partnerships
Program –
CFDA# 14.239;**

Finding: It was noted that out of thirty-one selections subject to testing one selection totaling \$46,215 was initially recorded twice in fiscal year 2004. The expenditure, however, was correctly reported in the grantor’s fiscal year grant period. The recoding of the expenditure was properly reflected in the City’s Schedule of Federal and State Awards as of June 30, 2004.

N/A

Recommendation: Policies and procedures need to be established to ensure that all expenditures are properly recorded.

Status. The Schedule of Federal and State Awards as of June 30, 2004 was properly adjusted. In addition, HUD has reviewed the City’s response and considered the finding closed.

Program	Finding/Noncompliance	Questioned Cost																
Finding 2004-5.																		
Houston Money Laundering – CFDA# 7.XXX;	<u>Finding:</u> It was noted that out of thirty-one selections subject to testing, a total of \$611,274 representing ten selections, were initially recorded in the wrong fiscal year. The expenditures were recorded as fiscal year 2005 expenditures when they should have been charged as fiscal year 2004 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 federal and state grant is as follows:	N/A																
Summer Food Program for Children – CFDA# 10.559;	<table border="0"> <tr> <td data-bbox="464 814 797 844">Houston Money Laundering</td> <td data-bbox="1052 814 1170 844" style="text-align: right;">\$ 4,964</td> </tr> <tr> <td data-bbox="464 848 894 877">Summer Food Program for Children</td> <td data-bbox="1073 848 1170 877" style="text-align: right;">119,269</td> </tr> <tr> <td data-bbox="464 882 922 911">Community Development Block Grant</td> <td data-bbox="1084 882 1170 911" style="text-align: right;">57,636</td> </tr> <tr> <td data-bbox="464 915 732 945">State Library Program</td> <td data-bbox="1127 915 1170 945" style="text-align: right;">549</td> </tr> <tr> <td data-bbox="464 949 1024 978">Special Programs for the Aging Title III, Part C</td> <td data-bbox="1084 949 1170 978" style="text-align: right;">54,695</td> </tr> <tr> <td data-bbox="464 982 651 1012">HIV Prevention</td> <td data-bbox="1084 982 1170 1012" style="text-align: right;">41,880</td> </tr> <tr> <td data-bbox="464 1016 764 1045">Lone Star Libraries Grant</td> <td data-bbox="1084 1016 1170 1045" style="text-align: right;">74,481</td> </tr> <tr> <td data-bbox="464 1050 748 1079">Willow Waterhole Park</td> <td data-bbox="1068 1050 1170 1079" style="text-align: right;">257,800</td> </tr> </table>	Houston Money Laundering	\$ 4,964	Summer Food Program for Children	119,269	Community Development Block Grant	57,636	State Library Program	549	Special Programs for the Aging Title III, Part C	54,695	HIV Prevention	41,880	Lone Star Libraries Grant	74,481	Willow Waterhole Park	257,800	
Houston Money Laundering	\$ 4,964																	
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Community Development Block Grant – CFDA# 14.218;																		
State Library Program – CFDA# 45.310;																		
Special Programs for the Aging Title III, Part C – CFDA# 93.045;	<u>Recommendation:</u> Policies and procedures need to be established to ensure that all expenditures are recorded in the proper fiscal year.																	
HIV Prevention – CFDA# 93.940;	<u>Status:</u> The expenditures were properly reflected in the Schedule of Federal and State Awards as of June 30, 2004, however the finding will be repeated as certain costs incurred during fiscal year 2005 were not properly accrued for. See finding 2005-2.																	
Lone Star Libraries Grant – 442-04228;																		
Willow Waterhole Park – 53-00002																		

Program	Finding/Noncompliance	Questioned Cost
Special Supplemental Nutrition Program – WIC – CFDA# 10.557	Finding 2004-6.	N/A
	<u>Finding:</u> The programmatic reports related to “Program of Operations” and “Performance Measures” for the months of July and August could not be located.	
	<u>Recommendation:</u> Policies and procedures need to be established to ensure that all reports prepared for the program are maintained in accordance with the record retention policy of the program.	
<u>Status:</u> Policies and procedures have been established to ensure that all reports prepared for the program are maintained in accordance with the record retention policy of the program.		
CDC and Prevention Investigations and Technical Assistance – CFDA# 93.283	Finding 2004-7.	N/A
	<u>Finding:</u> The programmatic report for the Online Infectious Disease program for the period September 20, 2003 through March 31, 2004 could not be located.	
	<u>Recommendation:</u> Policies and procedures need to be established to ensure that all reports prepared for the program are maintained in accordance with the record retention policy of the program.	
<u>Status:</u> The grant was closed on 04/29/05. Policies and procedures are being established to ensure that all reports prepared for current programs are maintained in accordance with the record retention policy of the program.		

Program	Finding/Noncompliance	Questioned Cost
Airport Improvement Program – CFDA# 20.106	<p data-bbox="756 380 971 407" style="text-align: center;">Finding 2004-8.</p> <p data-bbox="466 447 1243 842"><u>Finding:</u> Direct costs are billed by the City’s Police and Fire Departments and the 311 Citizen Assistance Line to the Aviation System for those portions of the police and fire functions that directly serve the airports. These direct costs are billed monthly to Aviation based on budgeted amounts provided as of the beginning of the year. Aviation procedures anticipate that an adjustment should be made to record the difference between actual costs and budgeted costs once actual direct costs of the Police and Fire Departments are computed. Aviation properly settled up with the Fire Department during fiscal year 2004, but has not settled upon direct costs with the Police Department or the 311 Citizen Assistance Line during fiscal year 2004.</p> <p data-bbox="466 884 1243 974"><u>Background:</u> OMB costs circular require that costs charged to federal programs represent actual costs incurred; such costs should not be based on budgeted or estimated amounts.</p> <p data-bbox="466 1016 1243 1209"><u>Recommendation:</u> Implement procedures to ensure the budgeted direct costs of the Police and Fire Departments charged to the Aviation System are adjusted to reflect actual costs once those costs are calculated. Individual responsibility for ensuring this adjustment is properly recorded should be assigned in all three departments.</p> <p data-bbox="466 1251 1243 1474"><u>Status:</u> With the assistance of the auditors from the City’s Finance & Administration Department the Aviation System and the Police Department and 311 Citizen Assistance Line were able to reconcile and adjust expenditures from fiscal year 2001 through 2005. The auditors from the City’s Finance & Administration Department will continue to review the reconciliations and verify the accuracy of the information presented.</p>	Unknown

Program	Finding/Noncompliance	Questioned Cost
<p>CDC and Prevention Investigations and Technical Assistance – CFDA# 93.283</p>	<p>Finding 2004-9.</p>	<p>N/A</p>
	<p><u>Finding:</u> During our physical verification of selected assets, it was noted that of the seven assets physically inspected five did not have tags adhered to the asset for identification purposes. The assets that were not tagged were all laboratory assets.</p>	
	<p><u>Recommendation:</u> All assets purchased with federal or state moneys should be tagged to ensure proper safeguarding and tracking of such assets.</p>	
<p><u>Status:</u> Policies and procedures are in place to ensure that assets purchased with federal or state moneys are tagged to allow proper safeguarding and tracking of such assets.</p>	<p>Finding 2004-10.</p>	<p>N/A</p>
<p>HIV Prevention Activities Health Department Based – CFDA# 93.940</p>	<p><u>Finding:</u> The January 2004 – March 2004 quarterly Financial Status Report (“FSR”) for HIV Surveillance was submitted after the April 30, 2004 due date and the July 2003- September 2003 quarterly FSR for HIV Unique was submitted after the October 31, 2003 due date.</p>	
	<p><u>Recommendation:</u> Policies and procedures need to be established to ensure that all reporting requirements are met.</p>	
	<p><u>Status:</u> Policies and procedures have been established to ensure that reports are completed and filed by their due dates.</p>	

Program	Finding/Noncompliance	Questioned Cost
HIV Prevention Activities Health Department Based – CFDA# 93.940	<p data-bbox="748 344 976 375" style="text-align: center;">Finding 2004-11.</p> <p data-bbox="467 415 1263 741"><u>Finding:</u> Through a review of the sub-recipient contract, it was noted that Community Level Interventions (“CLI”) - CDC is a minimum of 1.5 hour activity where a minimum of 30 clients should be reached. Similarly, it was noted that Individual Level Interventions (“ILI”) requires a minimum of 30 minutes. As a result of test work performed for CLI - CDC, one instance was noted where the number of people that services were provided to was only 28. Four instances were noted where the session time for ILIs was only 15 minutes. It was noted that one of the ILI was disallowed but the remaining three were reimbursed.</p> <p data-bbox="467 783 1263 877"><u>Recommendation:</u> Policies and procedures need to be established to ensure that all sessions are conducted according to the minimum standards.</p> <p data-bbox="467 919 1263 1108"><u>Status:</u> Quality Assurance policies and procedures have been implemented to ensure that all minimum requirements are met for each Community Level and Individual level activity. Monthly Activity Report Forms submitted by sub-contractors are reviewed by an assigned programmatic liaison to ensure that these standards are being achieved.</p>	N/A

Program	Finding/Noncompliance	Questioned Cost
HIV Prevention Activities Health Department Based – CFDA# 93.940	<p data-bbox="748 344 980 375" style="text-align: center;">Finding 2004-12.</p> <p data-bbox="464 415 1252 678"><u>Finding:</u> Through a review of sub-recipient contract, it was noted that Targeted Street Outreach is a minimum of 1.5 hour activity where a minimum of 30 clients should be reached. However, through a review of the activity report form, it was noted that there were two instances noted where time spent for the activity was not reported by the sub-recipient. Further, there were two instances where the number of clients reached was not identified in the Standard Activity form.</p> <p data-bbox="464 716 1252 810"><u>Recommendation:</u> Policies and procedures need to be established to ensure that all sessions are conducted according to the minimum standards.</p> <p data-bbox="464 848 1252 1043"><u>Status:</u> Quality Assurance policies and procedures have been implemented to ensure that all minimum requirements are met for each Community Level and Individual level activity. Monthly Activity Report Forms submitted by sub-contractors are reviewed by an assigned programmatic liaison to ensure that these standards are being achieved.</p>	N/A

Program	Finding/Noncompliance	Questioned Cost
HIV Prevention Activities Health Department Based – CFDA# 93.940	Finding 2004-13.	N/A
	<p data-bbox="464 415 1252 709"> <u>Finding:</u> For contract year 2003, the program is required to provide an average of 1,653 Prevention Case Management (“PCM”) interventions per client to an estimated 90 unduplicated clients who are women of child-bearing age for Harris County. For contract year 2004, the program is required to provide an average of 700 PCM interventions per client to an estimated 45 unduplicated clients who are women of child-bearing age for Harris County. While the City performs some PCM interventions, the majority are performed by sub-contractors. </p> <p data-bbox="464 747 1252 1146"> The number of PCM interventions for contract year 2003 per the performance measure report was 1446, thus the City did not initially appear to meet the level of effort requirement. Upon further investigation we noted that the number of sessions reported included only the PCM sessions performed by sub-contractors as the sessions conducted directly by the City were neither being tracked nor reported. Thus to prove compliance with this requirement, the City then reviewed the client’s medical charts to determine the number of sessions directly conducted by the City. Such review identified an additional 400 PCM interventions, resulting in the total number of PCM interventions exceeding the 1,653 requirement and thus meeting the compliance requirement. </p> <p data-bbox="464 1184 1252 1310"> <u>Recommendation:</u> Policies and procedures need to be established to ensure that all sessions conducted directly by the City are tracked and included in the numbers reported to ensure that the level of effort compliance requirement is met. </p> <p data-bbox="464 1348 1252 1442"> <u>Status:</u> Policies and procedures for Prevention Case Management activities conducted by City staff have been established to ensure accurate tracking of compliance requirements. </p>	

Program	Finding/Noncompliance	Questioned Cost
Finding 2004-14.		
State Nutrition Aging	<p><u>Finding:</u> One of the 25 invoices tested, dated in June 2003 was incorrectly reported as an expenditure in fiscal year 2004. The expenditure was included in the July 2003 reimbursement request form.</p> <p><u>Recommendation:</u> Policies and procedures need to be established to ensure that all expenditures are properly recorded in the correct period.</p> <p><u>Status:</u> Policies and procedures have been established to ensure that expenditures are either accrued or paid in the appropriate City fiscal year.</p>	\$45,197
Finding 2004-15.		
Housing Opportunities for Persons with AIDS	<p><u>Finding:</u> It was noted that an electronic fund transfers totaling \$117,261 which was initiated in July 2004 was initially recorded in June 2004 which resulted in a double recording of expenditures. The reversal of the expenditure was properly reflected in the City's Schedule of Federal and State Awards as of June 30, 2004.</p> <p><u>Recommendation:</u> Policies and procedures need to be established to ensure that all expenditures are properly recorded in the correct period.</p> <p><u>Status:</u> HUD has reviewed the City's response and considered the finding closed.</p>	N/A