



CITY OF HOUSTON, TEXAS
Texas Single Audit Report
Year Ended June 30, 2002
(With Independent Auditors' Reports Thereon)

CITY OF HOUSTON, TEXAS

Texas Single Audit Report

Year Ended June 30, 2002

Table of Contents

	Page
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance With Requirements Applicable to Each Major State Program, Internal Control Over Compliance in Accordance With the State of Texas Single Audit Circular, and the Schedule of Expenditures of State Awards	2
Schedule of Expenditures of State Awards	4
Notes to Schedule of Expenditures of State Awards	7
Schedule of Findings and Questioned Costs	9



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**Independent Auditors' Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit
of the Financial Statements Performed in
Accordance With *Government Auditing Standards***

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

We have audited the financial statements of the City of Houston, Texas (the City), as of and for the year ended June 30, 2002, and have issued our report thereon dated December 17, 2002, which included a reference to other auditors for certain blended and discretely presented component units and a paragraph concerning the adoption of certain new Governmental Accounting Standards Board statements. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of the City in a separate letter dated December 17, 2002.

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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated December 17, 2002.

This report is intended solely for the information and use of the Honorable Mayor, Members of City Council, the City Controller, management, and appropriate state awarding and pass-through agencies, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 17, 2002



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a member of KPMG International, a Swiss association.



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**Independent Auditors' Report on Compliance With Requirements
Applicable to Each Major State Program, Internal Control Over
Compliance in Accordance With the State of Texas Single Audit Circular,
and the Schedule of Expenditures of State Awards**

The Honorable Mayor, City Controller, and Members
of the City Council 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 State of Texas Single Audit Circular that are applicable to each of its major state programs for the year ended June 30, 2002. The City's 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 grants applicable to each of its 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; 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 Single Audit Circular (the Circular). Those standards and the Circular 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 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.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2002.

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 grants applicable to 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 state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Circular.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 grants that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of State Awards

We have audited the financial statements of the City as of and for the year ended June 30, 2002, and have issued our report thereon dated December 17, 2002, which included a reference to other auditors for certain blended and discretely presented component units and a paragraph concerning the adoption of certain new Government Accounting Standards Board statements. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the State of Texas Single Audit Circular and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Honorable Mayor, Members of City Council, the City Controller, management, and appropriate state awarding and pass-through agencies, and it is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 17, 2002

CITY OF HOUSTON, TEXAS
 Schedule of Expenditures of State Awards
 Year ended June 30, 2002

<u>Program Title</u>	<u>Grant Award Number</u>	<u>Expenditures</u>
<u>Texas State Comptroller</u>		
Tobacco Compliance Grant	010004TOBACC	\$ 25,000
Tobacco Compliance Grant	020005TOBACC	8,255
Total this grantor		33,255
<u>Office of the Governor, Criminal Justice Division</u>		
Shared Forfeited Property	N/A	1,145,098
Shared Forfeited Property	N/A	223,329
DNA Enhancement	SF01A1015614	337,085
Houston Drug Fire/5	SF01A1014724	6,681
Total this grantor		1,712,193
<u>Texas Commission on Environmental Quality, Houston-Galveston Area Council*</u>		
Household Hazardous Waste	00-16-G19	41,009
Solid Waste - Local Enforcement	01-16-G11	188,413
Household Hazardous Waste	01-16-G12	171,672
Solid Waste - Education and Training	01-16-G13	26,776
Source Reduction and Recycling	01-16-G14	40,849
Public Service Announcement	96-16-G29	220
2001 Clean Rivers Air and Lab	CR-0601-06	13,019
2001 Clean Rivers Air and Lab	CR-0601-06	46,679
Clean Burning Diesel Fuels	HGACCMAQ00T1	22,328
Diesel Emission Central Device	HGACCMAQ00T2	51,937
Diesel Emission Central Device	HGACCMAQ00T2	61,362
Total this grantor		664,264

*Designates an indirect award; all others are direct.
 See accompanying independent auditors' report and notes to the schedule of expenditures of state awards.

CITY OF HOUSTON, TEXAS
Schedule of Expenditures of State Awards
Year ended June 30, 2002

<u>Program Title</u>	<u>Grant Award Number</u>	<u>Expenditures</u>
<u>Texas Parks & Wildlife Commission</u>		
FY00 Allen's Landing	T0050-00155	204,860
Houston Outdoor Heritage Program	T0152000135	15,000
Total this grantor		219,860
<u>Texas Library & Archives Commission</u>		
Telecommunications Infrastructure 2001	QE2000LTA4C	26,943
Loan Star Libraries Grant 2002	442-02229	13,750
Total this grantor		40,693
<u>Texas Auto Theft Prevention Authority</u>		
Major Accessory Shop Enforcement/9	SA01T0409356	322,250
Major Accessory Shop Enforcement/10	SAT041005402	780,495
Total this grantor		1,102,745
<u>Texas Department of Public Safety</u>		
Click It or Ticket	020404DIBD	85,985
Total this grantor		85,985
<u>Texas Department of Health</u>		
2001 HIV/STD Prev(S)	00116400105	87,765
2001 Immunization State	00116400106	140,347
2001 Assoc Community HLTH PT B	001164001-07	26,312
2001 Tuberculosis Elimination	00116400108	275,461
2001 BRLHO Asthma Surveillance	001164001-11	31,483
2001 BRLHO Hepatitis C Innov	001164001-12	30,461
2001 HIV Hepatitis C Virus	001164001-13	36,877

See accompanying independent auditors' report and notes to the schedule of expenditures of state awards.

CITY OF HOUSTON, TEXAS

Schedule of Expenditures of State Awards

Year ended June 30, 2002

<u>Program Title</u>	<u>Grant Award Number</u>	<u>Expenditures</u>
2002 Tuberculosis State	001164002-05	1,467,730
2002 HIV Hepatitis C Virus	001164002-06	59,308
2002 HIV/STD Prev(S)	001164002-07	238,946
2002 Immunization State	001164002-10	353,512
2002 Immunization State/Direct Assist	001164002-10A	1,118,212
2002 Bioterrorism Preparedness Laboratory	001164002-13	3,430
2000 Milk & Dairy	0011640A0001	4,597
2001 Assoc Community HLTH PT A	0011640A0103	263,166
2002 Assoc Community HLTH PT A	0011640A0203	694,314
2002 Assoc Community Family Hlth – Family Plan	0011640A0204	593,862
Total this grantor		5,425,783
<u>Texas Department on Aging</u>		
2001 Assisted Living Advocacy	ALP014816B	15,285
2002 Assisted Living Advocacy	ALP200216B	38,636
2001 State Nutrition Aging	SGR200116B	25,814
2002 State Nutrition Aging	SGR200216B	360,519
2001 Special Initiative Funding	SIF200116B	15,000
Total this grantor		455,254
<u>Texas Commission on Environmental Quality</u>		
2000 Monitoring	582-0-34184	33,797
Two Bayous to the Bay Education Project	582-1-32236	22,769
2001 TNRCC Interlocal Contract	582-1-88031	143,688
2002 TNRCC Interlocal Contract	582-2-47341	750,179
2000 TNRCC HRM	CHPM-51684	33,797
Total this grantor		984,230
Total Expenditures of State Awards		\$ 10,724,262

See accompanying independent auditors' report and notes to the schedule of expenditures of state awards.

CITY OF HOUSTON, TEXAS

Notes to Schedule of Expenditures of State Awards

Year Ended June 30, 2002

(1) Reporting Entity

The Schedule of Expenditures of State Awards presents the activity of all State of Texas financial assistance programs of the City of Houston, Texas.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of State Awards is presented using the modified accrual basis of accounting, which is described in note 1 to the City's financial statements.

(3) Relationship to the Financial Statements

State financial expenditures are reported in the City's financial statements as follows (in thousands):

State Grant Funds	\$	9,356
Nonmajor Fund – State Asset Forfeiture		<u>1,368</u>
	\$	<u><u>10,724</u></u>

(4) Relationship to the State Financial Reports

Amounts reported in the Schedule of Expenditures of 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.

CITY OF HOUSTON, TEXAS

Notes to Schedule of Expenditures of State Awards

Year Ended June 30, 2002

(5) Subrecipients

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

<u>Program Title</u>	<u>Grant Award Number</u>	<u>Amount Provided to Subrecipients</u>
2001 Tuberculosis Elimination	00116400108	\$ 3,933
2002 Tuberculosis State	001164002-05	6,648
2002 Assoc Community Health PT A	0011640A0203	32,760
2000 Monitoring 2.5 TNRCC	582-0-34184	33,797
2001 Assisted Living Advocacy	ALP014816B	15,286
2002 Assisted Living Advocacy	ALP200216B	38,636
2000 TNRCC HRM Monitoring	CHPM-51684	33,797
2001 State Nutrition	SGR200116B	25,814
2002 State Nutrition Aging	SGR200216B	360,519
		<u>\$ 551,190</u>

CITY OF HOUSTON, TEXAS

Schedule of Findings and Questioned Costs

Year Ended June 30, 2002

(1) Summary of Auditors' Results

Financial Statements

- (a) The type of report issued on the financial statements: **Unqualified**
- (b) Reportable conditions in internal control disclosed by the audit of the financial statements: **None reported**
Material weaknesses: **No**
- (c) Non compliance which is material to the financial statements: **No**

State Awards

- (d) Reportable conditions in internal control over major programs: **None reported**
Material Weaknesses: **No**
- (e) The type of report issued on compliance for major programs: **Unqualified**
- (f) Any audit findings which are required to be reported under section 510(a) of the State of Texas Single Audit Circular: **No**
- (g) Major State Programs:

	<u>Grant Award Number(s)</u>
Major Accessory Shop Enforcement	SA01T0409356, SAT041005402
DNA Enhancement	SF01A1015614
Shared Forfeited Property	N/A
Assoc Community Family Health - Family Plan	0011640A0204

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$321,728**
- (i) Auditee qualified as a low-risk auditee under section .530 of State of Texas Single Audit Circular: **Yes**

(2) Findings Related to the Financial Statements Reported in Accordance with Government Auditing Standards:

No findings were reported for the year ended June 30, 2002.

(3) Findings and Questioned Costs relating to State Awards:

No findings or questioned costs were reported for the year ended June 30, 2002.