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December 12, 2013

The Management of the City of Houston, Texas
901 Bagby Street
Houston, TX 77002

Dear Members of Management:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the City of Houston, Texas (the "City") as of and for the year ended June 30, 2013 (on which we have issued our report dated December 12, 2013, which contains a reference to other auditors and an emphasis of a matter paragraph related to the adoption of GASB No. 63), in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix, deficiencies related to the City's internal control over financial reporting as of June 30, 2013, that we wish to bring to your attention.

We have also issued a separate report to City Council and management, also dated December 12, 2013, which includes certain matters involving the City's internal control over financial reporting that we consider to be a significant deficiency under standards established by the American Institute of Certified Public Accountants.

The definition of a deficiency is also set forth in the attached Appendix.

This report is intended solely for the information and use of management, City Council, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Yours truly,

Deloitte & Touche LLP

SECTION I — DEFICIENCIES

We identified, and have included below, deficiencies involving the City's internal control over financial reporting as of June 30, 2013, that we wish to bring to your attention:

I. Allowance for Doubtful Accounts

Condition and Criteria — The City records an allowance for various receivables deemed to be uncollectible, including amounts relating to liens and ambulatory services. Our testing indicated the historical collectability percentage related to ambulance receivables was significantly higher than the recorded allowance represented. Regarding liens receivable, our confirmation procedures indicated that the expected allowance should be greater than the amount recorded by management.

Effect - As result, there was an (1) understatement of ambulance receivables – net and deferred revenues of \$30.5 million and (2) overstatement of liens receivable and deferred revenues of \$7.7 million. These misstatements have been corrected in the 2013 financial statements.

Cause - The adjustments result from a deficiency in the implementation of the control related to management's review of the allowance for doubtful accounts.

Recommendation — In addition to the procedures already in place, we recommend management perform retrospective reviews to assess the adequacy of the recorded allowances for uncollectible receivables. Based on the various analyses performed, management may develop a range of reasonable estimates and adjust their general ledger to reflect an amount within the range. A second level, independent management review of the analysis and related journal entry should also be performed prior to the posting of the journal entry.

II. Work in Progress (WIP) Transfers

Condition and Criteria – The City has a large number of ongoing capital projects. As construction projects are completed, the costs are transferred to capital assets and depreciation is subsequently recorded. Alternatively, WIP costs related to discontinued projects are expensed. In testing the City's WIP accounts, we noted approximately 80 completed projects remained in WIP as of the June 30, 2013 and for which no depreciation was recorded.

Effect – As a result, the WIP balance was overstated by \$35.8 million and capital assets was understated by the corresponding amount. Additionally, depreciation expense and accumulated depreciation were understated by \$1.1 million. These misstatements have been corrected in the 2013 financial statements.

Cause – The adjustments result from a deficiency in the implementation of the City's control related to the timely review and transfer of WIP costs to capital assets.

Recommendation – We recommend that the City perform a more detailed/in-depth review of projects that are in WIP. Such detailed reviews may include comparing prior year costs of projects at the project level and project phase level (line item) to the current year to determine whether the project is ongoing or complete. Management may also filter the WIP detail to identify projects 3-5 years in length and review if there are capital expenditures incurred in the current fiscal year. Based on such reviews, management should transfer the WIP costs to capital assets or expense such costs. For idle projects, we recommend that finance management corroborate with the project manager whether the project is on-going or complete and whether the costs should be transferred to capital assets or expensed. Management may also consider lowering the threshold applied to these reviews and their existing reviews in order to identify projects that may, in the aggregate, be material.

SECTION II — DEFINITION

The definition of a deficiency is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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