

Harris County Hospital District
and Affiliates, a Component
Unit of Harris County, Texas

Reports on Federal and State Award Programs
for the Year Ended February 28, 2011

HARRIS COUNTY HOSPITAL DISTRICT AND AFFILIATES, A COMPONENT UNIT OF HARRIS COUNTY, TEXAS

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

Board of Managers
Harris County Hospital District and Affiliates
Houston, TX

We have audited the combined financial statements of Harris County Hospital District and Affiliates (the "District"), as of and for the year ended February 28, 2011, and have issued our report thereon dated June 17, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control 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 material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, Finding 2011-1, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

This report is intended solely for the information and use of the board of managers, 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 17, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Managers
Harris County Hospital District and Affiliates
Houston, TX

Compliance

We have audited Harris County Hospital District and Affiliates' (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the State of Texas *Uniform Grant Management Standards* ("UGMS") that could have a direct and material effect on each of the District's major federal programs and state programs for the year ended February 28, 2011. The District's major federal and state programs are identified in the summary of auditor's 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 federal and state programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and UGMS. Those standards, OMB Circular A-133, and UGMS 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 and state program occurred. An audit includes examining, on a test basis, evidence about the District'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 of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended February 28, 2011.

Internal Control Over Compliance

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

program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal and State Awards

We have audited the combined financial statements of the District as of and for the year ended February 28, 2011, and have issued our report thereon dated June 17, 2011. Our audit was performed for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards for the year ended February 28, 2011, is presented for purposes of additional analysis as required by OMB Circular A-133 and UGMS, and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

This report is intended solely for the information and use of the board of managers, 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 17, 2011

HARRIS COUNTY HOSPITAL DISTRICT AND AFFILIATES, A COMPONENT UNIT OF HARRIS COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED FEBRUARY 28, 2011

Federal Grantor/Pass-Through Grantor/ State Grantor/Federal Program Title	Catalog of Federal Domestic Assistance Number	Grantor Number	Grant Period	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease	93.918	5-H76-HA00128-19	01-01-10-12-31-10	\$ 694,453
	93.918	5-H76-HA00128-20	01-01-11-12-31-11	118,823
Consolidated Health Centers	93.224	6-H80-CS00038-09	11-01-09-10-31-10	1,915,952
	93.224	6-H80-CS00038-10	11-01-10-10-31-11	767,384
ARRA-Health Center Integrated Services Development Initiative	93.703	6-H8B-CS11567	03-27-09-03-26-11	270,033
	93.703	6-C81-CS14178	06-29-09-06-30-12	38,350
Health Care and Other Facilities	93.887	6-C76-HF10639	09-01-08-05-31-09	3,917
				3,808,912
<i>Passed Through Harris County Public Health and Environmental Services:</i>				
HIV Emergency Relief Project Grants (Fee-for-Service)	93.914	10GEN0181	03-01-10-02-28-11	6,257,189
				6,257,189
<i>Passed Through Houston Regional HIV/AIDS Resource Group:</i>				
Coordinated Services and Access to Research for Women, Infants, Children, and Youth (Women's Program)	93.153	10HCH00RWD	08-01-09-07-31-10	106,525
	93.153	11HCH00RWD	08-01-10-07-31-11	76,377
Coordinated Services and Access to Research for Women, Infants, Children, and Youth (Youth Program)	93.153	10HCH00RWDY	09-01-09-08-31-10	53,708
	93.153	11HCH00RWDY	09-01-10-08-31-11	67,856
				304,466
<i>Passed Through the Texas Department of State Health Services and the Regional Hospital Bio-Terrorism Task Force:</i>				
Public Health and Social Services Emergency Fund	93.003	N/A	08-01-09-07-31-10	85,531
<i>Passed Through The Baylor College of Medicine:</i>				
Centers for Research & Demonstration for Health Promotion and Disease Prevention	93.135	5600286044	09-28-09-09-27-10	111,803
	93.135	5600286044	09-28-10-09-27-11	87,424
Mental Health Research Grants	93.242	101125940	09-30-09-07-31-10	4,278
	93.242	5600494045	08-01-10-07-31-11	6,142
				209,647

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HARRIS COUNTY HOSPITAL DISTRICT AND AFFILIATES, A COMPONENT UNIT OF HARRIS COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED FEBRUARY 28, 2011

Federal Grantor/Pass-Through Grantor/ State Grantor/Federal Program Title	Catalog of Federal Domestic Assistance Number	Grantor Number	Grant Period	Expenditures
<i>Passed Through The City of Houston</i>				
HIV Prevention Activities — Health Department Based	93.940	C10-001-7	09-30-09-09-29-10	\$ 37,937
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	C11-001-7	09-30-10-09-29-11	<u>73,412</u>
				<u>111,349</u>
<i>Passed Through The University of Texas M.D. Anderson Cancer Center:</i>				
Innovations in Applied Public Health Research	93.061	29625/98110488	09-01-09-08-31-10	41,516
	93.061	32475/98110488	09-01-10-08-31-11	48,518
Cancer Cause and Prevention Research	93.393	26161/98010570	09-01-09-08-31-10	19,935
	93.393	33110/98010570	09-01-10-08-31-11	<u>20,095</u>
				<u>130,064</u>
<i>Passed Through The Texas Department of State Health Services:</i>				
Center for Disease Control and Prevention Investigations and Technical Assistance (Fee-for-service)	93.283	2009-031575	07-01-09-06-30-10	62,517
	93.283	2010-035693	07-01-10-06-30-11	124,067
Maternal and Child Health Services Block Grant to the States (Fee-for-Service)	93.994	2010-031725	09-01-09-08-31-10	23,674
	93.994	2011-037079	09-01-10-08-31-11	6,123
Maternal and Child Health Services Block Grant to the States (Fee-for-Service)	93.994	2011-036629	09-01-10-08-31-11	12,660
Demonstration to Maintain Independence and Employment	93.769	2010-032565	09-01-09-12-31-10	157,510
HIV Prevention Activities — Health Department Based	93.940	2011-037433	01-01-11-12-31-11	14,511
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	2010-034329	01-01-10-12-31-10	<u>144,200</u>
				<u>545,262</u>
<i>Passed Through The Dallas County Hospital District</i>				
AIDS Education and Training Centers	93.145	Other - 659	07-01-09-06-30-10	28,725
	93.145	Other - 1477	07-01-10-06-30-11	<u>24,257</u>
				<u>52,982</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				<u>11,505,402</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>11,505,402</u>

(Continued)

A COMPONENT UNIT OF HARRIS COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED FEBRUARY 28, 2011

Federal Grantor/Pass-Through Grantor/ State Grantor/Federal Program Title	Catalog of Federal Domestic Assistance Number	Grantor Number	Grant Period	Expenditures
TEXAS DEPARTMENT OF STATE HEALTH SERVICES:				
CHS-Breast and Cervical Cancer (Fee-for-service)		2009-031575	07-01-09-06-30-10	\$ 15,157
		2010-035693	07-01-10-06-30-11	42,696
Maternal and Child Health Services Block Grant to the States (Fee-for-services)		2010-031725	09-01-09-08-31-10	39,444
		2011-037079	09-01-10-08-31-11	34,495
SHS Case Management		2010-032541	09-01-09-08-31-10	73,762
		2011-035932	09-01-10-08-31-11	60,000
TB-Prevention and Control-Hospital (Fee-for-service)		2010-032296	09-01-09-08-31-10	11,480
		2011-035127	09-01-10-08-31-11	17,220
CHS-Primary Health Care		2011-036914	09-01-10-08-31-11	48,860
CHS-Epilepsy Services		2010-033075	09-01-09-08-31-10	31,554
		2011-035530	09-01-10-08-31-11	74,679
CHS-Fee for Service		2011-036629	09-01-10-08-31-11	905
<i>Passed Through The City of Houston</i>				
HIV Testing to Clients Accessing Clinical Services Rapid Testing		D10-024-1	03-01-10-08-31-10	457,747
		D11-001-2	09-01-10-08-31-11	<u>176,737</u>
Total Texas Department of State Health Services				<u>1,084,736</u>
CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS (CPRIT)				
<i>Passed Through The Baylor College of Medicine</i>				
Community Collaboration to Empower the Medically Underserved for Cancer Prevention and Control		101400766	08-01-10-07-31-11	<u>70,344</u>
TEXAS COMMISSION ON ENVIRONMENTAL QUALITY				
<i>Passed Through Harris County, Texas</i>				
Low Income Repair and Assistance Program - Local Initiatives Project		N/A	06-01-08-08-31-10	<u>340,192</u>
TOTAL EXPENDITURES OF STATE AWARDS				<u>1,495,272</u>
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS				<u>\$13,000,674</u>
See notes to schedule of expenditures of federal and state awards.				(Concluded)

HARRIS COUNTY HOSPITAL DISTRICT AND AFFILIATES, A COMPONENT UNIT OF HARRIS COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED FEBRUARY 28, 2011

1. GENERAL

The schedule of expenditures of federal and state awards presents expenditures for all federal and state programs that were in effect during the year ended February 28, 2011.

2. BASIS OF ACCOUNTING

Expenditures are reported on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Texas Single Audit Circular. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements. Because the schedule presents only a selected portion of the operations of Harris County Hospital District and Affiliates, it is not intended to and does not present the financial position, changes in net assets or cash flows of Harris County Hospital District and Affiliates.

3. FEE-FOR-SERVICE PROGRAMS

Certain grants are noted as fee-for-service programs on the schedule of expenditures of federal and state awards. The expenditures shown for these grants actually represent amounts paid for particular services performed by the Harris County Hospital District and Affiliates (the "District") during fiscal year 2011.

4. SCHEDULE MAY NOT AGREE WITH OTHER FEDERAL AND STATE AWARD REPORTING

The information included in the SEFA may not fully agree with other federal award reports that the auditee submits directly to federal granting agencies because, among other reasons, the award reports (a) may be prepared for a different fiscal period and (b) may include cumulative (from prior years) data rather than data for the current year only.

5. SUBRECIPIENTS

Of the federal award expenditures presented in the schedule, the District provided federal awards to subrecipients as follows:

Program Title	Catalog of Federal Domestic Assistance Number	Amount Provided to Subrecipient 2011
AIDS Education and Training Centers	93.145	\$ 17,000
Coordinated Services and Access to Research for Women, Infants, Children, and Youth (Youth Program)	93.153	29,854
Consolidated Health Centers	93.224	386,483
Demonstration to Maintain Independence & Employment	93.769	92,254
HIV Emergency Relief Project Grants (Fee-for-Service)	93.914	1,241,819
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	116,781
HIV Prevention Activities-Health Department Based	93.940	6,713
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups	93.943	<u>56,941</u>
Total		<u>\$1,947,845</u>

**HARRIS COUNTY HOSPITAL DISTRICT AND AFFILIATES,
A COMPONENT UNIT OF HARRIS COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS — FEDERAL AND STATE PROGRAMS
FOR THE YEAR ENDED FEBRUARY 28, 2011**

PART I — SUMMARY OF AUDITOR’S RESULTS

Financial Statement Section:

Type of auditor’s report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified, but not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal and State Awards Section:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified, but not considered to be material weakness(es)	None reported
Type of auditor’s report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (Section .510(a))?	No
Any audit findings disclosed that are required to be reported in accordance with State of Texas Single Audit Circular (Section .505)?	No

Identification of major programs:

CFDA Numbers	Name of Federal and State Program or Cluster
93.914	HIV Emergency Relief Project Grants (Fee for Service)
93.703	ARRA-Health Care Integrated Services Development Initiative
93.918	Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease
STATE	HIV Testing to Clients Accessing Clinical Services
STATE	Low Income Repair and Assistance Program Local Initiatives Project

Dollar threshold used to determine Type A programs:

Federal: \$345,162

State: \$300,000

Auditee qualified as low-risk auditee?

Yes

PART II — FINANCIAL STATEMENT FINDINGS SECTION

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in an OMB Circular A-133 audit.

Significant Deficiency — Finding 2011-1

Internal Control over the Preparation of the Cash Flow Statement

Criteria — Management is responsible for establishing internal controls to ensure the cash flow statement is free of material misstatement. These controls include policies and procedures that detail the financial reporting review process over the cash flow statement.

Condition and Cause — Financial accounting and reporting is very complex, it requires not only an understanding of the internal processes and the general business of the District, but also a strong accounting knowledge and ability to analyze transactions and determine their impact on the financial statements. During our audit of the financial statements, we noted various classification errors within the cash flow statement. Specifically, certain control activities designed to ensure the accurate reporting of the cash flow statement amounts were not operating effectively.

Effect — The prior year cash flow statement has been corrected for the errors identified, however, we have determined that a significant deficiency exists in internal control over financial reporting due to the aggregation of the presentation errors. This control deficiency relates to the annual preparation of the cash flow statement; which is prepared on an annual basis, and is not related to the District's monthly close process.

Recommendation — As part of the year-end process for the preparation of the financial statements for external reporting purposes, we recommend that a detailed review of the cash flow statement be performed.

Corrective Action Plan of Management — The District is often dependent on designated individuals as the sole subject matter expert in various areas; however, we agree that it would be beneficial to have an independent detailed review prior to finalization and submission of the annually prepared report to verify the continuing reasonableness of internal calculations and approach.

PART III — FEDERAL AND STATE AWARD FINDINGS AND QUESTIONED COSTS SECTION

This section identifies the audit findings required to be reported by OMB Circular A-133 Section .510(a) (e.g., significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

None noted in the current year.

PART IV — FOLLOW UP ON PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No findings or questioned costs on prior year federal awards.