



**METROPOLITAN TRANSIT AUTHORITY
OF HARRIS COUNTY, TEXAS**

Single Audit

September 30, 2010

(With Independent Auditors' Reports Thereon)

**METROPOLITAN TRANSIT AUTHORITY
OF HARRIS COUNTY, TEXAS**

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KPMG LLP
811 Main Street
Houston, TX 77002

**Independent Auditors' Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an Audit of Basic
Financial Statements Performed in accordance with *Government Auditing Standards***

The Board of Directors
Metropolitan Transit Authority of
Harris County, Texas:

We have audited the basic financial statements of the Metropolitan Transit Authority of Harris County, Texas (the Authority) as of and for the years ended September 30, 2010 and 2009 and have issued our report thereon dated March 31, 2011. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Metropolitan Transit Authority Transport Workers Union Pension Plan Local 260, the Metropolitan Transit Authority Non-Union Pension Plan and Trust, and the Transport Workers Union Metropolitan Transit Authority Health and Welfare Trust in 2009 and 2008, as described in our report in note 4 to the basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

A deficiency in internal control over financial reporting 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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic 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 reported to management of the Authority in a separate letter dated March 31, 2011.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 31, 2011



KPMG LLP
811 Main Street
Houston, TX 77002

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control over Compliance in accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards

The Board of Directors
Metropolitan Transit Authority of
Harris County, Texas:

Compliance

We have audited the Metropolitan Transit Authority of Harris County, Texas (the Authority) with the types of compliance requirements described in OMB *Circular A-133 Compliance Supplement* that could have a direct or material effect on each of the Authority's major programs for the year ended September 30, 2010. The Authority's major federal 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 programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority'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*. Those standards and OMB Circular A-133 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 program occurred. An audit includes examining, on a test basis, evidence about the Authority'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 Authority's compliance with those requirements.

As described in item 10-05 in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding Procurement, Suspension, and Debarment that are applicable to its Federal Transit Cluster. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the requirements referred to above that could have a direct or material effect on each of its major federal programs for the year ended September 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-01, 10-02, and 10-04.

Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 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 reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 10-05 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-01, 10-02, 10-03, and 10-04 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Authority as of and for the year ended September 30, 2010, and have issued our report thereon dated March 31, 2011. Our report was modified to state that we did not audit the financial statements of the Metropolitan Transit Authority Transport Workers Union Pension Plan Local 260, the Metropolitan Transit Authority Non-Union Pension Plan and Trust, and the Transport Workers Union Metropolitan Transit Authority Health and Welfare Trust (the Retirement Plans) in 2009 or 2008. The financial information related to the Retirement Plans is included in note 4 to the basic financial statements. 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 awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 9, 2011, except as to the paragraph relating to the Schedule of Expenditures of Federal Awards, which is as of March 31, 2011

**METROPOLITAN TRANSIT AUTHORITY
OF HARRIS COUNTY, TEXAS**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2010

<u>CFDA number</u>	<u>Grant number</u>	<u>Program/project description</u>	<u>Expenditures</u>
		Federal Transit Cluster:	
		U.S. Department of Transportation, Federal Transit Administration (Direct):	
		Federal Transit Capital Improvement Grants:	
20.500	TX-03-0232	FY 2001/2 New Starts (2025 Studies)	\$ 11
20.500	TX-03-0233	FY 2001/2 Bus & Bus Facilities	2
20.500	TX-03-0238	FY 2001 Fixed Guideway Modernization	264,580
20.500	TX-03-0259	Cypress, Fuqua & Clear Lake P&R (Sect 5309 New Starts)	197,771
20.500	TX-03-0268	North Corridor PE (Sect. 5309 New Starts) – Gross Amount	31,463,912
20.500	TX-03-0268	North Corridor PE (Sect. 5309 New Starts) – 2009 Adjustment	(628,250)
20.500	TX-03-0269	Southeast Corridor PE (Sect. 5309 New Starts) – Gross Amount	30,610,825
20.500	TX-03-0269	Southeast Corridor PE (Sect. 5309 New Starts) – 2009 Adjustment	(672,000)
20.500	TX-03-0288	FY 2003-2004-2005 Fixed Guideway Modernization	474,819
20.500	TX-04-0025	FY2006-2008-2009 Bus & Bus Facilities	5,836,516
20.500	TX-05-0138	FY2007-2008-2009 Fixed Guideway Mod.	6,385,784
20.500	TX-56-0002	FY2009 FGM ARRA	1,440,353
		Total Direct Federal Transit Capital Improvement Grants	75,374,323
		Federal Transit Capital and Operating Assistance Formula Grants:	
20.507	TX-90-0603	FY 2003 Urbanized Area POP – Smart Card and Capitalized Bus Preventive Maintenance	526
20.507	TX-90-0805	FY2008 Urbanized Area POP – Shelter Enhancement	5,160,499
20.507	TX-90-0843	FY2009 Urbanized Area POP – Radio, Shelter Enhancement and Capitalized Rail Preventive Maintenance	13,746,797
20.507	TX-90-0905	FY2010 Urbanized Area POP – Bus Lease Payments, METROLift Vans, and Bus Shelters	56,002,427
20.507	TX-95-0006	CMAQ & STP: Quickline Infrastructure, and New Service (Grand Parkway, Cypress, and Bellaire)	2,009,680
20.507	TX-96-0017	FY2009 Urbanized Area ARRA (LRVs, HOT Lanes, and Bus Shelters) – Gross Amount	12,441,932
20.507	TX-96-0017	FY2009 Urbanized Area ARRA (LRVs, HOT Lanes, and Bus Shelters) – 2010 Adjustment	(10,493,700)
20.507	TX-96-0017	FY2009 Urbanized Area ARRA (LRVs, HOT Lanes, and Bus Shelters) – 2009 Adjustment	(8,977,500)
		Total Federal Transit Capital and Operating Assistance Formula Grants	69,890,661
		Total Federal Transit Cluster	145,264,984
		Transit Services Programs Cluster:	
20.516	TX-37-0059	Job Access and Reverse Commute (JARC)	1,348,579
20.521	TX-57-0006	New Freedom	8,261
		Funds passed to Subrecipients:	
20.516	TX-37-0059	Job Access and Reverse Commute (JARC)	69,738
20.521	TX-57-0006	New Freedom	323,455
		Total Transit Services Programs Cluster	1,750,033
		Other Direct Federal Funds:	
20.519	TX-58-0003	FY2008-2009 Clean Vehicles	1,652,560
		Total U.S. Department of Transportation	148,667,577
		Highway Planning and Construction Cluster:	
		Funds passed through from Federal Highway Administration (FHWA) and treated as cost recovery funds:	
20.205	0912-00-389	Regional Van Pool Program - STP	878,116
20.205	0912-00-371	Regional Van Pool Program - CMAQ	2,124,084
		Total Highway Planning and Construction Cluster	3,002,200
		Department of Homeland Security:	
97.075	2005-GB-T5-0022	Transit Security Grant – Law Enforcement	1,855,965
97.075	2006-RL-T6-0014	Transit Security Grant – Law Enforcement	484,872
97.075	2007-RL-T7-0011	Transit Security Grant – Law Enforcement	1,406,713
97.075	2009-RA-T9-0087	Transit Security Grant – Law Enforcement	618,908
97.113	2009-RA-R1-0092	Rail and Transit Security Grant – Law Enforcement – ARRA	580,165
		Total Department of Homeland Security	4,946,623
		Total Federal Awards	\$ 156,616,400

See accompanying independent auditors' report.

**METROPOLITAN TRANSIT AUTHORITY
OF HARRIS COUNTY, TEXAS**

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2010

(1) Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Metropolitan Transit Authority of Harris County, Texas (the Authority).

(2) Basis of Accounting

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

(3) Relationship to the Basic Financial Statements

Federal financial assistance revenue is reported in the Authority's basic financial statements as capital grant proceeds and nonoperating grant proceeds in the amount of approximately \$155.8 million.

**METROPOLITAN TRANSIT AUTHORITY
OF HARRIS COUNTY, TEXAS**

Schedule of Findings and Questioned Costs
Year ended September 30, 2010

Section I – Summary of Auditors’ Results

Financial Statements

The type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance that is material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
The type of auditors’ report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes

Identification of Major Programs:

Name of program or cluster	CFDA numbers
Federal Transit Cluster-ARRA	20.500 and 20.507
Rail and Transit Security Grant – Law Enforcement – ARRA	97.113
Transit Security Grant – Law Enforcement	97.075

Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000
Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133:	Yes

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Schedule of Findings and Questioned Costs

Year ended September 30, 2010

Section II – Financial Statements Findings

No current year findings.

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Schedule of Findings and Questioned Costs

Year ended September 30, 2010

Section III – Federal Award Findings and Questioned Costs

Reference No. 10-01

Allowable Cost/Allowable Activities

Cash Management

ARRA Grant – Rail and Transit Security Grant – Law Enforcement: CFDA # 97.113

Award Year – August 1, 2009 to July 31, 2012

Award Number – 2009-RA-R1-0092

Type of Finding – Significant Deficiency and Noncompliance

Questioned Cost: \$15,200

Criteria

In accordance with Office of Management and Budget Circular A-87, all charges to payroll for grant-funded personnel must be based on either time and effort records or a certification.

Employees who work under multiple grants or cost objectives must prepare time and effort reports, at least monthly, to coincide with pay periods. Such reports must reflect an after-the-fact distribution of 100% of the actual time spent on each activity and must be signed by the employee.

Where employees are expected to work solely on a single federal award or cost objective, charges for salaries and wages should be supported by semiannual certifications that the employee worked solely on that program for the period covered by the certification. These certifications are to be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

In addition, the grant is structured as a reimbursement-type grant. When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. The grant recipient is also required to establish procedures to ensure the accuracy of the amounts requested for reimbursement. One effective preventative control is a review of the drawdown and supporting documentation to ensure propriety and accuracy by someone other than the preparer of the drawdown.

Condition

A total of 10 employees charged payroll expenses to the grant in fiscal year 2010. For these 10 employees, we noted the following:

- Time and effort reporting, which consisted of time sheets signed by a supervisor, was available for employee salaries charged to the program for the first 10 months of the year. However, the Authority did not provide the time and effort support for the last two months of 2010.
- The Authority used an established formula based on budgeted employee salaries of \$580,000 to submit the request for reimbursement to the grantor. The actual salary amount paid to the employees, including fringe benefits, was different from the amount calculated using the established formula. However, the Authority did not reconcile the actual amounts paid to the officers with the calculated amounts charged to the grant.

**METROPOLITAN TRANSIT AUTHORITY
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Schedule of Findings and Questioned Costs

Year ended September 30, 2010

- Additionally, we noted the individual responsible for preparing the request for reimbursement is also the person responsible for submission. As a result, there was no secondary review of the submission to ensure the accuracy of the funds being requested.
- During fiscal 2010, the Authority's Internal Audit Department completed a review of the program. The results of the review questioned the use of approximately \$15,200 for officer uniforms. Subsequent to September 30, 2010, the grantor determined the uniform costs were unallowable. Consequently, the Authority has adjusted subsequent requests for reimbursement by the amount of the disallowed costs.

Effect

The Authority's payroll and fringe benefit activities could result in disallowed cost to the grant. The activities related to uniform purchases have resulted in disallowed cost.

In addition, The Authority is not in compliance with the time and effort reporting requirements promulgated by OMB Circular A-87.

Inaccuracies in drawdown requests could potentially not be identified due to a lack of segregation of duties. Lastly, the Authority charged unallowable costs to the grant.

Cause

An internally developed formula by the Authority's budget office was used to calculate the fringe benefit for the grant personnel and a true-up to actual was not completed in a timely manner.

The Authority converted to a new payroll system on August 1, 2010. As currently configured, the new payroll system only has exception reporting and does not report actual time incurred.

The department responsible for preparing the drawdown requests only had one employee assigned to the program.

The department believed the officer uniforms were an allowable cost.

Recommendation

The Authority should ensure that all charges incurred by its federally funded programs comply with grant-related guidelines. The Authority should also consider providing training to individuals responsible for managing grants to ensure they are aware of the various compliance requirements.

The Authority should develop grant guidelines for individuals working with grants to help ensure appropriate internal control procedures are established and followed.

Management Response and Corrective Action Plan

Response: The Authority agrees with the recommendation and is working to implement the recommendation.

Implementation Date: March 31, 2011 (Supervisor certification); September 30, 2011 (true-up costs)

Responsible Person: Budget and Grants Analyst

Metro Police Department

**METROPOLITAN TRANSIT AUTHORITY
OF HARRIS COUNTY, TEXAS**

Schedule of Findings and Questioned Costs

Year ended September 30, 2010

Reference No. 10-02

Reporting and 1512 Reporting

ARRA Grant – Rail and Transit Security Grant – Law Enforcement: CFDA # 97.113

Award Year – August 1, 2009 to July 31, 2012

Award Number – 2009-RA-R1-0092

Type of Finding – Significant Deficiency and Noncompliance

Questioned Cost: None

Criteria

The Authority must adhere to reporting requirements throughout the life of the grant. Any reports or documents prepared as a result of this grant shall be in compliance with federal policies, directives, etc.

Per the grant document, the program is required to submit the following two types of reports:

- FSR 425 Federal Financial Report
- ARRA Form 1512

These reports are required to be prepared on the accrual basis of accounting and should present many fields of information, including expenditure activity under the grant.

The grant recipient is also required to establish procedures to ensure the accuracy of the amounts reported to the federal government. One effective preventative control is a review of the reports and supporting documentation to ensure propriety and accuracy by someone other than the preparer of the drawdown.

Condition

We selected a sample of two federal financial reports (FSR 425) and one Section 1512 Report and noted the following:

- The FSR 425 reported no amounts expended for the period ended December 31, 2009. However, we noted that the program had 5 to 10 dedicated employees for the months of October, November, and December 2009. The reported expenditures were not reconciled to actual expenditures.
- For the quarter ending September 30, 2010, the FSR 425 reported total salary and fringe benefit expenditures utilizing an established formula based on budgeted expenditures but the expenditures reported were not reconciled to actual results.
- The June 30, 2010 Section 1512 report should include expenditures for the period from October 1, 2009 to June 30, 2010. However, The Authority only reported expenditures for the period from October 1, 2009 to March 31, 2010. Expenditures for the period from April 1, 2010 through June 30, 2010 were not included in the report.

Effect

The Authority filed inaccurate reports, including expenditures.

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Schedule of Findings and Questioned Costs

Year ended September 30, 2010

Cause

The Authority only included expenditures on its federal reports once it had received a reimbursement from the federal government. Expenditures incurred but not yet reimbursed were not included on the reports. This is inconsistent with the accrual accounting basis utilized to prepare the reports. In addition, the amounts reported to the federal government for salary and fringes were based on an established formula, which will differ from the actual amounts incurred.

Recommendation

The Authority should ensure that all reports filed for its federally funded programs comply with grant reporting guidelines. The Authority should also consider providing training to individuals responsible for managing grants to ensure they are aware of the various reporting requirements.

Management Response and Corrective Action Plan

Response: The Authority agrees with the recommendation and is working to implement the recommendation.

Implementation Date: June 7-9, 2011 and August 2-4, 2011 (Grant Management training)

Responsible Person: Manager of Budget and Grants

Metro Police Department

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OF HARRIS COUNTY, TEXAS**

Schedule of Findings and Questioned Costs

Year ended September 30, 2010

Reference No. 10-03

Cash Management

Transit Security Grant – Law Enforcement: CFDA # 97.075

Award Year – January 1, 2006 to August 15, 2010; May 9, 2007 to September 30, 2010; August 10, 2007 to August 9, 2010; August 1, 2008 to July 31, 2011; and June 1, 2009 to May 31, 2012

Award Number – 2005-GB-T5-0022; 2006-RL-T6-0014; 2007-RL-T7-0011; 2008-RL-T8-0028; 2009-RA-T9-0087

Type of Finding – Significant Deficiency

Questioned Cost: None

Criteria

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. The grant recipient is also required to establish procedures to ensure the accuracy of the amounts requested for reimbursement. One effective preventative control is a review of the drawdown and supporting documentation to ensure propriety and accuracy by someone other than the preparer of the drawdown.

Condition

During our testing of cash management and reporting, we noted total draws of \$3,635,970 during 2010. Expenses were incurred during the time frame from October 2006 through September 30, 2010. However, we noted no review of the submitted requests for reimbursement. The individual responsible for preparing the request for reimbursement is also the person responsible for submission.

Effect

Inaccuracies in drawdown requests could potentially not be identified.

Cause

The department responsible for preparing the drawdown requests only had one employee assigned to the program.

Recommendation

The Authority should develop grant guidelines for individuals working with grants to help ensure appropriate internal control procedures are established and followed.

Management Response and Corrective Action Plan

Response: The Authority agrees with the recommendation and is working to implement the recommendation.

Implementation Date: Completed

Responsible Person: Manager of Budget and Grants

Metro Police Department

**METROPOLITAN TRANSIT AUTHORITY
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Year ended September 30, 2010

Reference No. 10-04

Reporting

Transit Security Grant – Law Enforcement: CFDA # 97.075

Award Year – January 1, 2006 to August 15, 2010; May 9, 2007 to September 30, 2010; August 10, 2007 to August 9, 2010; August 1, 2008 to July 31, 2011; and June 1, 2009 to May 31, 2012

Award Number – 2005-GB-T5-0022; 2006-RL-T6-0014; 2007-RL-T7-0011; 2008-RL-T8-0028; 2009-RA-T9-0087

Type of Finding – Significant Deficiency and Noncompliance

Questioned Cost: None

Criteria

The Authority must adhere to reporting requirements throughout the life of the grant. Any reports or documents prepared as a result of this grant shall be in compliance with federal policies, directives, etc.

An FFR is required quarterly. Obligations and expenditures must be reported on a quarterly basis through the FFR (SF-425), which is due within 30 days of the end of each calendar quarter. A report must be submitted for every quarter of the period of performance, including partial calendar quarters, as well as for periods where no grant activity occurs. Future awards and fund drawdowns may be withheld if these reports are delinquent. The final FFR is due 90 days after the end date of the performance period.

The grant recipient is also required to establish procedures to ensure the accuracy of the amounts reported to the federal government. One effective preventative control is a review of the reports and supporting documentation to ensure propriety and accuracy by someone other than the preparer of the drawdown.

Condition

We selected a sample of two SF-425 financial status reports for test work and noted the following:

- The Authority reported no expenditures for the period ended December 31, 2009. However, we noted that the program had \$618,908 of expenditures through December 31, 2009.
- The report for the quarter ended September 30, 2010 reported accrual basis expenditures of \$618,908. However, the total cash disbursements reported per line 10B of the SF-425 report was \$948,427, which represents the amount budgeted, not the amount of cash disbursements.
- The individual responsible for preparing the report for is also the person responsible for submission.

Effect

The Authority filed inaccurate reports regarding its expenditure activities.

Cause

The Authority only included expenditures on its federal reports once it had received a reimbursement from the federal government. Expenditures incurred but not yet reimbursed were not included on the reports. This is

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Schedule of Findings and Questioned Costs

Year ended September 30, 2010

inconsistent with the accrual accounting basis utilized to prepare the reports. The department responsible for preparing the drawdown requests only had one employee assigned to the program.

Recommendation

The Authority should ensure that all reports filed for its federally funded programs comply with grant reporting guidelines. The Authority should also consider providing training to individuals responsible for managing grants to ensure they are aware of the various reporting requirements.

Management Response and Corrective Action Plan

Response: The Authority agrees with the recommendation and is working to implement the recommendation.

Implementation Date: In progress

Responsible Person: Manager of Budget and Grants

Metro Police Department

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Schedule of Findings and Questioned Costs

Year ended September 30, 2010

Reference No. 10-05

Procurement and Suspension and Debarment

ARRA and Non-ARRA – Federal Transit Cluster: CFDA # 20.500 and 20.507

Award Year – Various

Award Number – Various

Type of Finding – Material Weakness and Material Noncompliance

Questioned Costs: \$20,771,450

Criteria

To the extent applicable, the grant recipient must comply with applicable Federal Transit Authority (FTA) procurement requirements and with other applicable federal regulations. Specifically, in accordance with 49 U.S.C. § 5325(a), the grant recipient agrees to conduct all procurement transactions in a manner that provides full and open competition. The recipient agrees to comply with Buy America provisions and all steel, iron, and manufactured products used in the project must be manufactured in the United States, as demonstrated by a Buy America certificate, or, in the case of rolling stock, the cost of components produced in the United States is more than 60% of the cost of all components and final assembly of the vehicle takes place in the United States (49 CFR part 661).

Condition

During fiscal 2010, the FTA initiated an investigation into the Authority's purchase of light rail cars from Construcciones y Auxiliar de Ferrocarriles (CAF). The FTA issued a report on September 3, 2010, which concluded that the Authority violated the FTA's Buy America provisions, the Authority violated the FTA's competitive procurement rules, and the Authority's light rail car procurement was flawed due to a number of issues.

Effect

As a result of the investigation and as a condition to pursue the full funding grant agreement, the Authority elected to terminate the contract with CAF and to conduct a new procurement process for the purchase of light rail cars. The Authority agreed to repay \$20,771,450 to the FTA in connection with this procurement.

Recommendation

The Authority should ensure that it adheres to FTA procurement guidelines and implements the corrective action plans as noted within the FTA issued report.

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Year ended September 30, 2010

Cause

The Authority violated the FTA's competitive procurement rules and Buy America provisions.

Management Response and Corrective Action Plan

Response: The Authority has resolved the issues identified by the FTA report. The contract with CAF has been terminated and a new procurement of the rail cars is in process. The FTA has informed the Authority that all findings have been addressed to their satisfaction by letter dated February 14, 2011. As a matter of practice, procurement personnel will review the FTA report on a regular basis and continue to use tools such as the revised Internal Routing Document and the Contract Checklist to ensure full compliance.

Implementation Date: Completed

Responsible Person: Paul Como – Vice President Procurement and Materials