



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

Single Audit

September 30, 2012

(With Independent Auditors' Reports Thereon)

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

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KPMG LLP
811 Main Street
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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, 2012 and 2011, and have issued our report thereon dated March 22, 2013. 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 2011 and 2010, 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

Management of the Authority is responsible for establishing and maintaining effective 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*.

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 22, 2013



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) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct or material effect on each of the Authority's major federal programs for the year ended September 30, 2012. 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.

In our opinion, Metropolitan Transit Authority of Harris County 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 programs for the year ended September 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-01.

Internal Control over Compliance

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 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.



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 a 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.

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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-01. A significant deficiency in internal control over compliance is a deficiency, or a 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.

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, 2012, and have issued our report thereon dated March 22, 2013. 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 2011 or 2010. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

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 22, 2013

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

<u>CFDA number</u>	<u>Grant number</u>	<u>Program/project description</u>	<u>Expenditures</u>
		U.S. Department of Transportation, Federal Transit Administration (Direct):	
		Federal Transit Cluster:	
		Federal Transit Capital Improvement Grants:	
20.500	TX-03-0207	FY 1998/9 Fixed Guideway Modernization	\$ 40,534
20.500	TX-03-0259	Cypress, Fuqua, and Clear Lake P&R (Sect 5309 New Starts)	2,808,354
20.500	TX-03-0268	North Corridor PE (Sect. 5309 New Starts)	156,599,064
20.500	TX-03-0269	Southeast Corridor PE (Sect. 5309 New Starts)	166,182,541
20.500	TX-03-0288	FY 2003-2004-2005 Fixed Guideway Modernization	6,223,748
20.500	TX-04-0025	FY 2006-2008-2009 Bus and Bus Facilities	1,765,724
20.500	TX-05-0138	FY 2007-2008-2009 Fixed Guideway Mod.	10,730,163
20.500	TX-56-0002	FY 2009 FGM ARRA	1,092,127
		Total Direct Federal Transit Capital Improvement Grants	<u>345,442,255</u>
		Federal Transit Capital and Operating Assistance Formula Grants:	
20.507	TX-90-0843	FY 2009 Urbanized Area POP – Radio, Shelter Enhancement, and Capitalized Rail Preventive Maintenance	952,522
20.507	TX-90-0905	FY 2010 Urbanized Area POP – Bus Lease Payments, METROLift Vans, and Bus Shelters	1,145,113
20.507	TX-90-0926	FY 2011 Urbanized Area POP – Bus Lease Payments, METROLift Vans, and Bus Shelters	3,705,490
20.507	TX-90-Y002	FY 2012 Urbanized Area POP	38,200,000
		CMAQ & STP: Quickline Infrastructure, and New Service (Grand Parkway, Cypress, and Bellaire)	1,937,688
20.507	TX-96-0017	FY 2009 Urbanized Area ARRA (LRVs, HOT Lanes, and Bus Shelters)	11,031,407
		Total Federal Transit Capital and Operating Assistance Formula Grants	<u>56,972,220</u>
		Total Federal Transit Cluster	<u>402,414,475</u>
		Transit Services Programs Cluster:	
20.516	TX-37-0059	Job Access and Reverse Commute (JARC)	3,212,330
20.521	TX-57-0006	FY 2006 New Freedom	19,223
		Funds passed to Subrecipients:	
20.516	TX-37-0059	Job Access and Reverse Commute (JARC)	966,701
20.521	TX-57-0006	FY 2006 New Freedom	559,688
20.521	TX-57-0038	FY 2010-2011 New Freedom	1,726
		Total Transit Services Programs Cluster	<u>4,759,668</u>
		Other Direct Federal Funds:	
20.519	TX-58-0003	FY 2008-2009 Clean Vehicles	510,361
		Total U.S. Department of Transportation	<u>407,684,504</u>
		Highway Planning and Construction Cluster:	
		Funds passed through from Federal Highway Administration (FHWA):	
20.205	0912-00-448	Regional Van Pool Program – STP	2,575,674
20.205	0912-00-461	Regional Van Pool Program – CMAQ	1,640,504
		Total Highway Planning and Construction Cluster	<u>4,216,178</u>
		Department of Homeland Security:	
97.075	2007-RL-T7-0011	Transit Security Grant – Law Enforcement	(32,609)
97.075	2008-RL-T8-0028	Transit Security Grant – Law Enforcement	(12,094)
97.075	2009-RA-T9-0087	Transit Security Grant – Law Enforcement	163,011
97.075	EMW2011RA00021	Transit Security Grant – Law Enforcement	13,911
		Total Transit Security	<u>132,219</u>
97.113	2009-RA-R1-0092	Rail and Transit Security Grant – Law Enforcement – ARRA	781,081
		Total Department of Homeland Security	<u>913,300</u>
		Total Federal Awards	<u>\$ 412,813,982</u>

See accompanying independent auditors' report.

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

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

(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 \$413 million.

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

Section I – Summary of Auditors’ Reports

Financial Statements

Type of auditors’ report issued: **Unqualified**

Internal control over financial reporting:

- Material weakness(es) identified? **No**
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? **No**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? **No**
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? **Yes**

Type of auditors’ report issued on compliance for major programs: **Unqualified**

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
Transit Services Programs Cluster	20.516 and 20.521
Rail and Transit Security Grant-ARRA	97.113

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: **No**

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

Section II – Financial Statement Findings

No current year findings.

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

Section III – Federal Award Findings and Questioned Costs

Reference No. 2012-01

Subrecipient Monitoring

Transit Services Programs Cluster: CFDA # 20.516 and 20.521

Award Year – Various

Award Number – Various

Type of Finding – Significant Deficiency and Noncompliance

Questioned Cost: \$0

Criteria

In accordance with 2 CFR section 25.110 and Appendix A to 2 CFR part 25, for subawards made on or after October 1, 2010 a pass-through entity is responsible for determining whether an applicant for a non-ARRA subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award.

Condition

For all five subrecipients awarded grants related to programs in the Transit Services Programs Cluster since October 1, 2010, we noted that a DUNS number was not obtained as part of the subaward application or before the award. The Authority is not in compliance with the subrecipient monitoring requirements required by 2 CFR section 25.110. The application process includes submittal and review of two years of audited financials from all applicants to ensure financial stability. In addition, a Federal Identification number is also requested. The DUNS number was obtained as part of the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) process which is to be completed for all awards over \$25,000 by the end of the month following the month of the grant subaward. Subrecipients receive grant funds on a reimbursement basis only. In all cases a DUNS number was obtained within one month of the award and prior to any expenditures being reimbursed.

Cause

The Authority does not have an established process for obtaining DUNS numbers as part of the subaward application or before the award to a subrecipient.

Effect

The Authority is not complying with the subaward application requirement of obtaining a DUNS number.

Recommendation

The Authority should obtain DUNS numbers as part of the subaward application to a subrecipient.

Management Response and Corrective Action Plan

Response: The subrecipient application form will be modified to include the DUNS number.

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

Implementation Date: March 2013

Responsible Person: Mary B. Fay, Director of Grant Programs