



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

Single Audit

September 30, 2013

(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 Financial Statements Performed in Accordance With Government Auditing Standards

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

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Metropolitan Transit Authority of Harris County, Texas (the Authority) of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 27, 2014. Our report includes a reference to other auditors who 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, as described in note 4 on the Authority's 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 of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Houston, Texas
February 27, 2014



KPMG LLP
811 Main Street
Houston, TX 77002

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations

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

Compliance

We have audited Metropolitan Transit Authority's (the Authority) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on the Authority's major federal program for the year ended September 30, 2013. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. 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, 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Unmodified Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, 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 2013-001, 2013-002, and 2013-003. Our opinion on the major federal program is not modified with respect to these matters.



Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program 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 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. 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 or state 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2013-001, 2013-002, and 2013-003, respectively. Significant deficiencies 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Authority as of and for the year ended September 30, 2013, and have issued our report thereon dated February 27, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements 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 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.

KPMG LLP

Houston, Texas
March 17, 2014

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

Schedule of Expenditures of Federal Awards
Year ended September 30, 2013

<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-03-0259	Cypress, Fuqua, and Clear Lake P&R (Sect 5309 New Starts)	\$ 58,087
20.500	TX-03-0268	North Corridor PE (Sect. 5309 New Starts)	103,711,139
20.500	TX-03-0269	Southeast Corridor PE (Sect. 5309 New Starts)	99,362,042
20.500	TX-03-0288	FY 2003-2004-2005 Fixed Guideway Modernization	84,790
20.500	TX-04-0025	FY 2006-2008-2009 Bus and Bus Facilities	5,706,408
20.500	TX-04-0103	FY2012 Bus and Bus Facilities	632,749
20.500	TX-05-0138	FY 2007-2008-2009 Fixed Guideway Mod.	20,986,290
20.500	TX-56-0002	FY 2009 FGM ARRA	526,683
Total Direct Federal Transit Capital Improvement Grants			<u>231,068,188</u>
Federal Transit Capital and Operating Assistance Formula Grants:			
20.507	TX-90-0905	FY 2010 Urbanized Area POP – Bus Lease Payments, METROLift Vans, and Bus Shelters	(222,644)
20.507	TX-90-0926	FY 2011 Urbanized Area POP – Bus Lease Payments, METROLift Vans, and Bus Shelters	3,289,229
20.507	TX-95-0006	Bike Racks & New Service (Quickline, Cypress, & Katy Mills)	35
20.507	TX-90-Y002	FY 2012 Urbanized Area POP	21,999,364
20.507	TX-90-Y031	FY2013 Urbanized Area POP	39,457,397
20.507	TX-96-0017	FY 2009 Urbanized Area ARRA (LRVs, HOT Lanes, and Bus Shelters)	25,069,858
Total Federal Transit Capital and Operating Assistance Formula Grants			<u>89,593,239</u>
Total Federal Transit Cluster			<u>320,661,427</u>
Transit Services Programs Cluster:			
20.516	TX-37-0059	Job Access and Reverse Commute (JARC)	48,007
20.521	TX-57-0006	FY 2006 New Freedom	23,000
Funds passed to Subrecipients:			
20.516	TX-37-0059	Job Access and Reverse Commute (JARC)	892,662
20.521	TX-57-0006	FY 2006 New Freedom	591,937
20.521	TX-57-0038	FY 2010-2011 New Freedom	531,823
Total Transit Services Programs Cluster			<u>2,087,429</u>
Other Direct Federal Funds:			
20.519	TX-58-0003	FY 2008-2009 Clean Vehicles	801,153
Total Direct U.S. Department of Transportation			<u>323,550,009</u>
Highway Planning and Construction Cluster:			
Funds passed through from Texas Department of Transportation (TXDOT):			
20.205	0912-00-448	Regional Van Pool Program – STP	2,100,602
20.205	0912-00-461	Regional Van Pool Program – CMAQ	2,359,602
Total Highway Planning and Construction Cluster			<u>4,460,204</u>
Department of Homeland Security:			
97.075	2007-RL-T7-0011	Transit Security Grant – Law Enforcement	(607)
97.075	2008-RL-T8-0028	Transit Security Grant – Law Enforcement	750,851
97.075	EMW2011RA00021	Transit Security Grant – Law Enforcement	29,662
97.113	2009-RA-R1-0092	Rail and Transit Security Grant - Law Enforcement	(103,639)
Total Department of Homeland Security			<u>676,267</u>
Total Federal Awards			<u>\$ 328,686,480</u>

See accompanying independent auditors' report and notes.

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

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2013

(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 \$329 million.

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2013

Section I – Summary of Auditors’ Reports

Financial Statements

Type of auditors’ report issued:	Unmodified
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:	Unmodified
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
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, 2013

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, 2013

Section III – Federal Award Findings and Questioned Costs

Reference No. 2013-001

Davis-Bacon Act

Federal Transit Cluster – ARRA: CFDA #20.500 and 20.507

Award Year – Various

Award Number – Various

Type of Finding – Significant Deficiency and Noncompliance

Questioned Cost: None

Criteria

When required by the Davis-Bacon Act, the Department of Labor's (DOL) government wide implementation of the Davis-Bacon Act, ARRA, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 3141-3144, 3146, and 3147 (formerly 40 USC 276a to 276a-7)).

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (OMB No. 1215-0149).

Condition

The Authority includes the applicable provisions for construction contracts that are subject to the Davis-Bacon Act (Act), to require contractors and subcontractors to comply with requirements of the Act and DOL regulations, as well as requires contractors and subcontractors to submit certified payrolls. We selected a sample of 25 open construction contracts over \$2,000 and requested the certified payroll documentation for two periods during the fiscal year (a total of 50 payrolls). For 16 samples related to 10 contractors and subcontractors, the certified payrolls were submitted from 8 to 60 days late.

Cause

The Authority did not implement appropriate procedures to ensure that the contractor or subcontractor submitted certified payroll documentation timely.

Effect

The Authority is not in compliance with the Act and DOL regulations with respect to the 16 payrolls tested.

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2013

Recommendation

The Authority should ensure that all required contractors and subcontractors submit certified payroll documentation timely.

Management Response and Corrective Action Plan

Procurement concurs and will implement the following procedures:

- 1) The compliance officer will communicate to both the prime vendors and their subcontractors weekly reminding that the reports are due with appropriate follow-up to ensure compliance;
- 2) The Director of Procurement and compliance officer will meet with project management personnel to discuss the importance of Davis Bacon compliance;
- 3) The Director of Procurement will participate in pre-construction meetings with the compliance officer and project management to ensure compliance;
- 4) Additional training will be provided to procurement staff, compliance officer, and project managers regarding the Davis Bacon requirements, Davis Bacon compliance and adherence to the guidelines identified in METRO's Procurement Manual.

Implementation Date:

Items 1-3 became effective March 4, 2014. Item 4 will be completed by June 30, 2014.

Responsible Person:

Michael Kyme

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2013

Reference No. 2013-002

Equipment and Real Property Management

Federal Transit Cluster – ARRA: CFDA #20.500 and 20.507

Award Year – Various

Award Number – Various

Type of Finding – Significant Deficiency and Noncompliance

Questioned Cost: None

Criteria

49 CFR Subtitle A Section 18.32(d)3: “A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property.”

Condition

Metropolitan Transit Authority of Harris County Texas, (the Authority) has seven bus operating facilities. The Authority has various security measures in place to safeguard equipment including security guards (and random police patrol), fenced in facility and training for security guards and bus operators. The West Bus Operating Facility (BOF) was selected to visit to ensure equipment purchased with grant funds are properly safeguarded to prevent loss, damage or theft. It was noted that the facility is open 7 days a week, 24 hours a day and a security guard (contracted personnel) is on duty during this time. The facility has nine security cameras and perimeter fencing. The cameras are monitored from the on-site guard booth. We were also informed that the BOF cameras can be monitored from the Administration Building (1900 Main). The guard monitors the entrance to the property, but does not require visitors to sign in or present proper identification (driver’s license, etc.) prior to entering the premises. When the security guard has to leave the booth, the gates remain open and the entrance is not monitored.

While touring the West BOF property, it was noted that the guard booth was empty for a period of time. Additionally, during the site observation, the security guard was not able to monitor the cameras at the West BOF as he was unable to log on to the monitoring system. We inquired as to the level of camera monitoring at 1900 Main to see if it was adequate to compensate for the on-site monitoring. However, per inquiry of the 1900 Main security supervisor, it was noted that he does not monitor the West BOF on a regular basis and only monitors the site on an as needed basis when requested.

Cause

The Authority did not implement appropriate procedures to ensure that employees responsible for monitoring the camera system and maintaining adequate security over equipment and real property were properly trained and supervised when performing their assigned tasks.

Effect

Federally purchased equipment may not have been properly safeguarded.

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2013

Recommendation

The Authority should update procedures which will include adequate training, supervision and assignment of tasks to ensure safeguarding of equipment and real property.

Management Response and Corrective Action Plan

- 1) All vendors, visitors, and employees that enter at security post will be required to show identification which will be recorded on the security log along with license plate numbers.
- 2) A security log will reflect that each camera is monitored each hour during duration of shift.
- 3) Security Supervisor will be notified by the guard any time post is to be left unmanned.
- 4) All security guards, police officers and civilians will be properly trained on equipment function and the proper method of operating the equipment.

Implementation Date:

Items 1-3 became effective March 5, 2014. Item 4 will be completed by June 1, 2014.

Responsible Person:

Victor Rodriguez

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2013

Reference No. 2013-003

Allowable Cost/Allowable Activities

Federal Transit Cluster – ARRA: CFDA #20.500 and 20.507

Award Year – Various

Award Number – Various

Type of Finding – Significant Deficiency and Noncompliance

Questioned Cost: \$22,238

Criteria

In accordance with Office of Management and Budget Circular A-87, all charges to payroll for grant-funded personnel must be based on time and effort records or a certification. Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

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 approved by someone other than 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.

Condition

For a sample of 40 employees charged to the FTA Cluster, we noted the following for related payroll charges:

- Time and effort reporting, which consisted of time sheets signed by a supervisor, were available for hourly employee time charged to the program. No exceptions were noted for the 25 hourly employees tested.
- For salaried employees, the Authority utilizes exception payroll reporting which does not require a supervisor/manager approval. As part of our audit, we selected 15 salary employees that charged time directly to the federal grants and identified the following:
 - For bus and rail maintenance salary employees (sample size 11), a manager other than the direct supervisor approved the monthly time distribution report. This manager does not directly supervise the staff and thus would not have adequate knowledge of the employee's work activities.

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2013

- While Capital Programs Management reviews time charged to grant activity, there was no formal approval of time by a supervisor/manager for salary employees (sample size 4).
- The amount charged to the Federal Transit Cluster for the selected sample of 15 employees totaled \$22,238. The total payroll expense charged by salaried employees to the Federal Transit Cluster in fiscal 2013 was \$10,185,149.

Cause

The Authority did not implement appropriate procedures to ensure that for salaried employees, time and effort reports are submitted, time is approved by a responsible official and periodic certification for those employees working on one grant are obtained.

Recommendation:

The Authority should ensure that all personnel charges incurred directly or indirectly for its federally funded programs comply with grant-related documentation guidelines. Employees who work on a single cost objective should have their time certified by their supervisor/manager at least semi-annually. Employees who work on multiple cost objectives should complete and sign a personal activity report (time sheet) which should be approved by their supervisor/manager.

Management Response and Corrective Action Plan

The Human Resource, Information Technology and Finance Departments are working on implementing positive time sheet reporting with manager approval for salaried employees.

Implementation Date:

June 30, 2014

Responsible Person:

William McHale