



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

Single Audit

September 30, 2011

(With Independent Auditors' Reports Thereon)

**METROPOLITAN TRANSIT AUTHORITY  
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 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, 2011 and 2010, and have issued our report thereon dated March 9, 2012. 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 2010 and 2009, 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**

April 2, 2012



KPMG LLP  
Suite 1900  
111 Congress Avenue  
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**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 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 programs for the year ended September 30, 2011. 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, 2011. 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 2011-01.

**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 2011-01. 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, 2011, and have issued our report thereon dated March 9, 2012. 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 2010 or 2009. 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 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**

April 2, 2012, except as to the paragraph relating to the Schedule of Expenditures of Federal Awards, which is as of March 9, 2012

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2011

<b>CFDA number</b>	<b>Grant number</b>	<b>Program/project description</b>	<b>Expenditures</b>
		Federal Transit Cluster:	
		U.S. Department of Transportation, Federal Transit Administration (Direct):	
		Federal Transit Capital Improvement Grants:	
20.500	TX-03-0207	FY 1998/9 Fixed Guideway Modernization	\$ 781,794
20.500	TX-03-0238	FY 2001 Fixed Guideway Modernization	197,623
20.500	TX-03-0259	Cypress, Fuqua, and Clear Lake P&R (Sect 5309 New Starts)	177,913
20.500	TX-03-0268	North Corridor PE (Sect. 5309 New Starts) – Gross Amount	—
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	—
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	8,180,481
20.500	TX-04-0025	FY 2006-2008-2009 Bus and Bus Facilities	1,354,876
20.500	TX-05-0138	FY 2007-2008-2009 Fixed Guideway Mod.	3,811,013
20.500	TX-56-0002	FY 2009 FGM ARRA	(750,496)
		Total Direct Federal Transit Capital Improvement Grants	15,053,454
		Federal Transit Capital and Operating Assistance Formula Grants:	
20.507	TX-90-0805	FY 2008 Urbanized Area POP – Shelter Enhancement	8,310
20.507	TX-90-0843	FY 2009 Urbanized Area POP – Radio, Shelter Enhancement, and Capitalized Rail Preventive Maintenance	3,946,505
20.507	TX-90-0905	FY 2010 Urbanized Area POP – Bus Lease Payments, METROLift Vans, and Bus Shelters	5,229,816
20.507	TX-95-0006	CMAQ & STP: Quickline Infrastructure, and New Service (Grand Parkway, Cypress, and Bellaire)	9,195,849
20.507	TX-90-0926	FY 2011 Urbanized Area POP – Bus Lease Payments, METROLift Vans, and Bus Shelters	55,898,138
20.507	TX-96-0017	FY 2009 Urbanized Area ARRA (LRVs, HOT Lanes, and Bus Shelters) – Gross Amount	29,304,420
20.507	TX-96-0017	FY 2009 Urbanized Area ARRA (LRVs, HOT Lanes, and Bus Shelters) – 2010 Adjustment	10,493,700
20.507	TX-96-0017	FY 2009 Urbanized Area ARRA (LRVs, HOT Lanes, and Bus Shelters) – 2009 Adjustment	8,977,500
		Total Federal Transit Capital and Operating Assistance Formula Grants	123,054,238
		Total Federal Transit Cluster	138,107,692
		Transit Services Programs Cluster:	
20.516	TX-37-0059	Job Access and Reverse Commute (JARC)	174,976
20.521	TX-57-0006	New Freedom	5,683
		Funds passed to Subrecipients:	
20.516	TX-37-0059	Job Access and Reverse Commute (JARC)	1,895,170
20.521	TX-57-0006	New Freedom	643,478
		Total Transit Services Programs Cluster	2,719,307
		Other Direct Federal Funds:	
20.519	TX-58-0003	FY 2008-2009 Clean Vehicles	4,597,743
		Total U.S. Department of Transportation	145,424,742
		Highway Planning and Construction Cluster:	
		Funds passed through from Federal Highway Administration (FHWA):	
20.205	0912-00-389	Regional Van Pool Program – STP	1,863,324
20.205	0912-00-371	Regional Van Pool Program – CMAQ	1,977,710
		Total Highway Planning and Construction Cluster	3,841,034
		Department of Homeland Security:	
97.075	2006-RL-T6-0014	Transit Security Grant – Law Enforcement	142,471
97.075	2007-RL-T7-0011	Transit Security Grant – Law Enforcement	11,707
97.075	2008-RL-T8-0028	Transit Security Grant – Law Enforcement	768,182
		Total Transit Security	922,360
97.113	2009-RA-R1-0092	Rail and Transit Security Grant – Law Enforcement – ARRA	865,884
		Total Department of Homeland Security	1,788,244
		Total Federal Awards	\$ 151,054,020

See accompanying independent auditors' report.

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

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2011

**(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 \$151 million.



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

Schedule of Findings and Questioned Costs

Year ended September 30, 2011

**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
Highway Planning and Construction Cluster	20.205
Clean Vehicles	20.519

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, 2011

**Section II – Financial Statement Findings**

No current year findings.

**Section III – Federal Award Findings and Questioned Costs**

**Reference No. 2011-01**

**Allowable Cost/Allowable Activities**

**Federal Transit Cluster: CFDA # 20.500 and 20.507**

**Award Year – Various**

**Award Number – Various**

**Type of Finding – Significant Deficiency and Noncompliance**

**Questioned Cost: \$28,154**

***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.

***Condition***

From a sample of 40 employees charged to the FTA Cluster, we noted the following for bus and rail maintenance related charges:

- Time and effort reporting, which consisted of time sheets signed by a supervisor, were available for hourly employee time charged to the program.
- For employees on salary, the Authority transferred cost by responsibility center rather than reporting time and effort on timesheets and formal periodic certifications were not appropriately documented.
- We noted 11 employees did not have time and effort documentation (timesheet or periodic certification) and the amount charged to the program for the selected sample totaled \$28,154. We noted total charges for the selected sample of 40 employees of \$54,316. Additionally, we noted total employee charges to the program for bus and rail maintenance personnel of approximately \$45,500,000.

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

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2011

***Cause***

The Authority charged costs for the sample of 11 salaried employees using responsibility center reports, not time sheets and did not maintain formal periodic certifications.

***Recommendation***

The Authority should ensure that all personnel charges incurred for its federally funded programs comply with grant-related documentation guidelines. Specifically, salary based employees should complete semi-annual certifications.

***Management Response and Corrective Action Plan***

***Response:*** The Authority uses budget and headcount reports to monitor costs charged to grants for salaried employees assigned to certain cost centers. These certifications will be formalized to meet the requirements of OMB Circular A-87.

***Implementation Date:*** March 30, 2012 and September 30, 2012

***Responsible Person:*** Charles Berkshire