



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

OMB Circular A-133 Single Audit

September 30, 2014

(With Independent Auditors' Reports Thereon)

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

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KPMG LLP  
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**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), as of and for the year ended September 30, 2014, which comprise the statement of net position and the related statement of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 27, 2015. 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 and the Metropolitan Transit Authority Non-Union Pension Plan and Trust, as described in note 4 of 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  
March 27, 2015



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:

**Report on Compliance for Each Major Federal Program**

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 each of the Authority's major federal programs for the year ended September 30, 2014. The Authority's major federal programs are 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 each of the Authority's major federal programs 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

***Opinion on Each 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 each of its major federal programs for the year ended September 30, 2014.



## **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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 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. 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.

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 a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, 2014, and have issued our report thereon dated March 27, 2015, 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Houston, Texas  
April 14, 2015

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

<b>CFDA number</b>	<b>Grant number</b>	<b>Program/project description</b>	<b>Expenditures</b>
		U.S. Department of Transportation, Federal Transit Administration (Direct):	
		Federal Transit Capital Improvement Grants:	
20.500	TX-03-0259	Cypress, Fuqua & Clear Lake P&R (Sect 5309 New Starts)	\$ 710,493
20.500	TX-03-0268	North Corridor PE (Sect. 5309 New Starts)	29,481,765
20.500	TX-03-0269	Southeast Corridor PE (Sect. 5309 New Starts)	58,234,701
20.500	TX-03-0288	FY 2003-2004-2005 Fixed Guideway Modernization	54,874
20.500	TX-04-0025	FY 2006-2008-2009 Bus and Bus Facilities	460,652
20.500	TX-04-0103	FY2012 Bus and Bus Facilities	5,209,088
20.500	TX-05-0138	FY 2007-2008-2009 Fixed Guideway Mod.	12,374,707
		Total Direct Federal Transit Capital Improvement Grants	106,526,280
		Federal Transit Capital and Operating Assistance Formula Grants:	
20.507	TX-95-0006	Bike Racks & New Service (Quickline, Cypress, & Katy Mills)	(449,924)
20.507	TX-90-Y002	FY2012 Urbanized Area POP	(64,570)
20.507	TX-90-Y031	FY2013 Urbanized Area POP	24,335,631
20.507	TX-90-Y121	FY2014 Urbanized Area POP	29,357,746
		Total Federal Transit Capital and Operating Assistance Formula Grants	53,178,883
20.525	TX-54-0003	FY2014 State of Good Repair	5,121,991
		Total Federal Transit Cluster	164,827,154
		Transit Services Programs Cluster:	
20.516	TX-37-0059	Job Access and Reverse Commute (JARC)	17,124
20.516	TX-37-0103	FY2011 FY2012 JARC	365,047
20.521	TX-57-0006	FY2006 New Freedom	23,796
		Funds passed to Subrecipients:	
20.516	TX-37-0059	Job Access and Reverse Commute (JARC)	644,450
20.516	TX-37-0103	FY2011 FY2012 JARC	384,052
20.521	TX-57-0006	FY2006 New Freedom	432,984
20.521	TX-57-0038	FY2010-2011 New Freedom	1,907,269
		Total Transit Services Programs Cluster	3,774,722
		Total Direct U.S. Department of Transportation	168,601,876
		Highway Planning and Construction Cluster:	
		Funds passed through from Texas Department of Transportation (TXDOT):	
20.205	0912-00-461	Regional Van Pool Program – CMAQ	2,524,924
20.205	0912-00-448	Regional Van Pool Program – STP	2,114,293
		Total Highway Planning and Construction Cluster	4,639,217
97.075	EMW2011RA00021	Transit Security Grant – Law Enforcement	7,623
97.075	EMW-2012-RA	Transit Security Grant – Law Enforcement	22,555
		Total Department of Homeland Security	30,178
		Total Federal Awards	\$ 173,271,271

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, 2014

**(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 \$173,271,271 million.

**(4) Subrecipients**

<u>Program title</u>	<u>Federal CFDA #</u>	<u>Amount</u>
Job Access and Reverse Commute (JARC)	20.516	\$ 1,028,502
New Freedom	20.521	2,340,253
		<u>\$ 3,368,755</u>

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2014

**Section I – Summary of Auditors’ Reports**

***Financial Statements***

Type of auditors’ report issued:	<b>Unmodified</b>
Internal control over financial reporting:	
• Material weakness(es) identified?	<b>No</b>
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<b>No</b>
Noncompliance material to the financial statements noted?	<b>No</b>

***Federal Awards***

Internal control over major programs:	
• Material weakness(es) identified?	<b>No</b>
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<b>Yes</b>
Type of auditors’ report issued on compliance for major programs:	<b>Unmodified</b>
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	<b>Yes</b>

***Identification of Major Programs***

Name of program or cluster	CFDA numbers
Federal Transit Cluster	20.500, 20.507 and 20.525
Transit Services Programs Cluster	20.516 and 20.521
Highway Planning and Construction Cluster	20.205
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:	<b>Yes</b>

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2014

**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, 2014

**Reference No. 2014-001**

**Allowable Cost/Allowable Activities**

**Highway Planning and Construction Cluster: CFDA #20.205**

**Award Year – 2014**

**Award Number – CSJ # 0912-00-477, CSJ # 0912-00-465**

**Type of Finding – Significant Deficiency**

**Questioned Cost: None**

**Criteria: OMB No. A-87 Attachment b. 8 H (4)**

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

**Condition**

All hours that are charged to the program are tracked by the program director, and reconciled to the billings from the Authority to the Texas Department of Transportation (TxDOT).

KPMG noted that for December 2013 and April 2014 (two TxDOT billings in December and two in April) there was a total of 4 Authority employees and 308 Hours in April 2014 TxDOT billings, and a total of 4 Authority employees and 179.5 hours in December 2013 TxDOT billings that were not signed off by the employee that performed the services. The program director supervised these employees directly and their hours were communicated verbally for the periods of December 2013 and April 2014. The program director then populated these hours into a tracking spreadsheet and reconciled to the TxDOT billings.

The program director signs off on the submissions prior to invoicing TxDOT as well as their personal timesheets.

**Cause**

Proper controls were not implemented to meet the requirements of OMB A-87 until July 2014.

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2014

***Recommendation***

Any employees charging time to the program are now required to sign off on their timesheets. The control was implemented in July 2014. Management should continue to monitor that the control is implemented and operating effectively.

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

Management has implemented controls which include employees updating and signing their time-sheets to reflect time spent on the grant programs.

***Implementation Date:***

July 2014

***Responsible Person:***

David McMaster