



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

Single Audit

September 30, 2008

(With Independent Auditors' Reports Thereon)

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

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KPMG LLP
700 Louisiana 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 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 year ended September 30, 2008 and 2007 and have issued our report thereon dated February 6, 2009, which included a paragraph concerning the adoption of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension*, and GASB Statement No. 50, *Pension Disclosures*, as of September 30, 2008. In addition our opinion stated that we did not audit the financial statements of the Authority's retirement plans in 2008 or 2007. The financial information related to the Employee Plans is included in footnote 4 of the notes to the financial statements. 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.

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that

might be 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 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 February 6, 2009.

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

February 6, 2009



KPMG LLP
700 Louisiana Street
Houston, TX 77002

**Independent Auditors' Report on Compliance With Requirements Applicable
to Each Major Federal Program, 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 compliance of 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 are applicable to each of its major federal programs for the year ended September 30, 2008. The Authority's major federal programs are identified in the summary of auditors' 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, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008. However, the results of our auditing procedures disclosed 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 item 08-01.

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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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, 2008, and have issued our report thereon dated February 9, 2009 which included a paragraph concerning the adoption of the provision of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employees for Postretirement Benefits Other than Pension* and GASB Statement No. 50, *Pension Disclosures*, as of September 30, 2008. In addition our opinion stated that we did not audit the financial statements of the Authority's retirement plans in 2008 or 2007. The financial information related to the Employee Plans is included in footnote 4 of the notes to the financial statements. 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. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole.

The Authority's response to the findings 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 it.

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

February 6, 2009

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

(In thousands)

Catalog of federal domestic number	Grant number	Program/project description	Expenditures
		U.S. Department of Transportation, Federal Transit Administration (Direct):	
		Federal Transit Capital Improvement Grants:	
20.500	* TX-05-0137	FY 2006 Fixed Guideway Modernization	\$ 4,542
20.500	* TX-03-0207	FY 1998/9 Fixed Guideway Modernization	40
20.500	* TX-03-0233	FY 2001/2 Discretionary Bus	701
20.500	* TX-03-0238	FY 2001 Fixed Guideway Modernization	882
20.500	* TX-03-0248	FY 2002 Fixed Guideway Modernization	(292)
20.500	* TX-03-0259	Cypress, Fuqua & Clear Lake P&R (Sect. 5309 New Starts)	126
20.500	* TX-03-0268	North Corridor PE (Sect. 5309 New Starts)	(238)
20.500	* TX-03-0269	Southeast Corridor PE (Sect. 5309 New Starts)	(311)
20.500	* TX-03-0288	FY 2003-2004-2005 Fixed Guideway Modernization	2,660
20.500	* TX-03-0025	FY 2006 & 2008 Bus & Bus Facilities	196
		Total Direct Federal Transit Capital Improvement Grants	8,306
		Federal Transit Capital and Operating Assistance Formula Grants:	
20.507	TX-95-0006	Bike Racks and New Service	110
20.507	* TX-90-0436	FY 1998 Urbanized Area Formula – RCTSS	70
20.507	* TX-90-0497	FY 2000 Urbanized Area Pop – MFRI, RCTSS & Shelter Enhancement	677
20.507	* TX-90-0603	FY 2003 Urbanized Area Pop – Purchase MetroLift Vans; Administration Building Construction; SmartCard; Shelter Enhancement; RCTSS and Small Business Develop Planning	5,507
20.507	* TX-90-0640	FY 2004 Urbanized Area Pop - Administration Building Construction; MFRI; Bus Shelters; SmartCard and RCTSS	4,598
20.507	* TX-90-0681	FY 2005 Urbanized Area Pop - MFRI, Smart Car, RCTSS, Shelter Enhancement	327
20.507	* TX-90-0708	FY 2006 Urbanized Area Pop - Smart Card, METRONet, Intermodal Terminal, Shelter Enhancement	744
20.507	* TX-90-0769	FY 2007 Urbanized Area Pop - Smart Card, METRONet, Intermodal Terminal, Shelter Enhancement	3,337
20.507	* TX-90-0805	FY 2008 Urbanized Area Pop - Smart Card, METRONet, Intermodal Terminal, Shelter Enhancement	3,218
		Total Direct Federal Transit Capital and Operating Assistance Formula Grants	18,588
		Funds treated as cost recovery funds:	
20.507	* TX-90-0564	Capital Bus Preventive Maintenance	127
20.507	* TX-90-0769	Capitalized Bus Preventive Maintenance; and Buffalo Bayou Capitalized Preventive Maintenance	226
20.507	* TX-90-0805	Capitalized Bus Preventive Maintenance; and Buffalo Bayou Capitalized Preventive Maintenance, and Paratransit Support	48,917
		Total funds treated as cost recovery	49,270
		Total Federal Transit Capital and Operating Assistance Operating Assistance Formula Grants	67,858

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

(In thousands)

Catalog of federal domestic number	Grant number	Program/project description	Expenditures
Operating Assistance Formula Grants			
Funds passed through Federal Highway Administration (FHWA) and treated as cost recovery funds:			
U.S. Department of Transportation:			
Funds passed through the FHWA			
The Texas Department of Transportation and the Houston-Galveston Area Council (HGAC)			
20.205	*	HGAC Highway Planning and Construction	4,125
Other Federal Funds			
20.519	*	TX-58-0001 FY2006-2007 Clean Fuel Program	4,648
97.036	*	FEMA Tropical Storm Allison - FEMA	28
Total Federal Awards			<u>\$ 84,965</u>

* Major federal assistance program

See accompanying auditors report and notes to the schedule of expenditures of federal awards.

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

Notes to the Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

(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. The negative expenditure balances represent fiscal year 2007 accruals that were reversed in fiscal year 2008.

(3) Relationship to the Basic Financial Statements

Federal financial assistance revenue is reported in the Authority's financial statements as capital contributions in the amount of \$84,965,586.

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

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)? **None reported**

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? **None reported**

The 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:

<u>Name of program or cluster</u>	<u>CFDA number</u>
Federal Transit Cluster	20.500 and 20.507
Highway Planning and Construction	20.205
Clean Fuel Program	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 0.530 of OMB Circular A-133: **Yes**

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

Section II - Financial Statements Findings

None Reported.

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

Section III - Federal Award Findings and Questioned Costs

Reference No. 08-01

Equipment and Real Property Management

Federal Transit Cluster

Award year - Various

Award number - Various

Type of finding – Non-compliance

Per 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..." Metropolitan Transit Authority of Harris County, Texas (METRO) has 7 bus operating facilities. METRO 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 Polk Bus Operating Facility (BOF) was selected to visit to ensure equipment purchased with grant funds are properly safeguard to prevent loss, damage or theft. It was noted that the main components of security at the facility are security cameras and employee awareness. The monitors for the cameras are located in the security guard booth at the entrance to the property. While touring the property, it was noted that there are several cameras around the building and property. However while observing the guard booth, it was noted that none of the monitors for the security cameras were working and some of the cameras were not working.

Questioned Cost: \$ 0

Federal Transit Authority

Recommendation:

METRO should ensure that cameras and monitors installed for security and safeguarding of equipment are in proper working order.

Management Response and Corrective Action Plan:

The regulation under this item requires: "A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated." METRO maintains highly effective control measures which include, facility fencing, adequate lighting, posted security guards, random police patrols and employee awareness training. The cameras mentioned are just one component of our overall security plan.

METRO is aware that the cameras are not working at the Polk BOF. In FY 08 METRO's Information Technology Department completed work to upgrade the system elements and of the facility CCTV system. This work allowed for full diagnostic testing to be done of the camera systems. Several camera units were identified as needing to be replaced or upgraded. A project was funded in the FY09 Capital Budget to upgrade facility security cameras. This project is in the Department of Public Safety budget and is being managed by the Operations Department's Facility Maintenance Division. All cameras will be upgraded as part of the project by the end of this year.

Implementation Date: September 30, 2009

Responsible Person: Rocky Marrero

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