



OFFICE OF THE STATE AUDITOR

TWO COMMODORE PLAZA
206 EAST NINTH STREET, SUITE 1900
AUSTIN, TEXAS 78701

LAWRENCE F. ALWIN, CPA
State Auditor

August 26, 1998

RE: A Review of the Metropolitan
Transit Authorities

Members of the Legislative Audit Committee:

We reviewed the financial audit reports and related management letters for four mass transit authorities. No material weaknesses were reported in the accounting controls for these entities:

- Capital Metropolitan Transportation Authority (Austin)
- Dallas Area Rapid Transit (Dallas)
- Metropolitan Transit Authority of Harris County, Texas (Houston)
- Corpus Christi Regional Transit Authority (Corpus Christi)

However, the management letters of the independent accounting firms contained findings and recommendations for improving the controls at the mass transit authorities. A summary of the independent auditors' recommendations and related management responses are presented in the Attachment.

The Austin and Houston mass transit authorities submitted performance audit reports. The report for the Austin authority, dated July 1998, included a review of the board structure, ethics, internal audit, management and financial responsibility, human resources, transit operations, procurement, facilities, and customer service. The report revealed significant problems that indicated a historical need for the board and management to be accountable for their actions and decisions. The report did note that the new board was making progress toward resolving the problems.

The performance report for the Houston authority, dated August 1997, included examinations of compliance with state law, state-defined performance indicators, and system maintenance. The report did not reveal any significant problems and management was already implementing the recommendations.

Our objective was to review and comment on the annual financial audits of the Austin, Corpus Christi, Dallas, and Houston mass transit authorities. The Transportation Code, Sections 451.452 and 452.452, require the mass transit authorities' boards to deliver a copy of their annual financial audits to the State Auditor's Office (Office). The Office is to file any comments about the audits with the Legislative Audit Committee and the boards. Sections 451.457 and 452.457 of the Transportation Code direct the authorities to deliver a copy of the required performance audit reports to the Office.

Members of the Legislative Audit Committee
August 26, 1998
Page 2

We would like to thank the management of the mass transit authorities for their cooperation and assistance in compiling this information.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

rmn

Attachment

cc: General Managers of the Authorities

Capital Metropolitan Transportation Authority Fiscal Year Ended September 30, 1997

Current Year Comments

Auditor's Recommendation	Management Response
<p><u>Investments</u> - Management should provide quarterly cash flow reports to the Board of Directors. Also, management should revise their investment policy to comply with the Public Funds Investment Act.</p>	<p>Management will present to the Board, not less than quarterly, a written report of investment transactions for the preceding reporting period. Management will revise their investment policy to agree with the Public Funds Investment Act.</p>
<p><u>Fixed Assets</u> - Management should implement formal control procedures to provide assurance that any unlocated inventory will be reported timely.</p>	<p>A new method for tracking and reconciling inventory is being planned.</p>
<p><u>Employee Evaluation</u> - Managers should be given a timeline in which to process employee evaluations and pay increases.</p>	<p>Human Resources staff will send out evaluation notices to supervisors prior to the evaluation dates of all employees and follow up for those not received.</p>
<p><u>Contracts and Procurement</u> - All solicitations, requests for proposals, and purchases should follow the proper procedures.</p>	<p>We concur that purchase orders should be completed and approved by the proper department prior to the goods and services being delivered, completed, and invoiced.</p>
<p><u>Department of Immigration and Naturalization</u> - Management should obtain completed I-9 forms from all employees, prepare a checklist of items required to be included in each employee file, and periodically review the files for completeness.</p>	<p>The Human Resources Manager will direct staff to check all current employee files to ensure that all current employees have completed an I-9 form.</p>
<p><u>National Transit Database (NTD) Program</u> - Management should hire a qualified statistician to determine if the Program's alternate sampling technique meets FTA guidelines. In addition, management should complete the Chief Executive Officer Certification attesting to the validity and reliability of the data in the NTD report.</p>	<p>Management is preparing a Request for Proposal for the statistical certification required. The Federal Transit Administration has issued a closeout letter for the NTD report and no federal funds will be withheld.</p>

Prior Year Comments

Prior year comments related to “Other Deposits,” “Other Receivables,” “Other Operating Expenses,” fare polices, and the Disadvantaged Business Enterprise Progress Report were reviewed and resolved in the current year. Prior year comments related to investment policies and contracts and procurement were not completely resolved so these are discussed in the current year comments presented above. A comment on indirect costs will be revisited when Capital Metro’s level of capital requirements is near the level of grant funding available. The review of a prior year comment related to the National Transit Database Program could not be completed so the auditor could not report if Capital Metro had complied with the maintenance data requirements.

Dallas Area Rapid Transit Fiscal Year Ended September 30, 1997

Auditor Recommendations	Management Response
<p><u>Old Outstanding Checks</u> - Implement procedures that would require the periodic investigation and resolution of old outstanding checks.</p>	<p>Management agrees with the recommendation and is currently researching the status of old outstanding checks. We will adopt a procedure, which will address the review of these items.</p>
<p><u>Payroll Automation</u> - Consider researching the automating of all employees timesheets.</p>	<p>Management is implementing a new client/server software system, which includes the conversion of all accounting systems, including payroll. Management is evaluating the use of additional time management applications to further automate payroll processing.</p>
<p><u>Lease Leaseback Transaction</u> - Consider performing periodic risk assessments to assess any changes in law or other relevant matters that might affect the basis for the transaction.</p>	<p>Management has already developed a compliance checklist and will review changes in the law on an annual basis to ensure compliance with the agreement.</p>
<p><u>Internal Audit Department</u> - Management should develop an internal audit program that is structured around the review of high-risk areas. An EDP auditor or an outside EDP consultant should be obtained to assist with the internal audit function. Also, have periodic performance reviews of the internal audit function.</p>	<p>The Board is committed to building a world class Internal Audit Department. This process includes hiring a new Internal Audit Director and an EDP auditor, and periodic performance reviews.</p>
<p><u>Deferred Compensation Plan</u> - Review the change in Internal Revenue Code Section 457 and revise the deferred compensation plan and the financial statements to ensure compliance with the law.</p>	<p>The changes required by the Code 457 were reviewed with the plan administrator. By January 1999, management will exclude the reporting of all assets held under the compensation plan.</p>
<p><u>Management Information Systems Policies and Procedures</u> - Management should establish formal change control procedures for all system maintenance and development projects. Also, formal security policies should be updated to include key areas such as remote access security and internet access and use.</p>	<p>Management is currently converting to a client/server system and is using standard software applications supplied and supported by vendors. Vendors will supply application modifications and changes to core applications. All end-users of core computing systems and equipment are required to sign a Security Directive that outlines their security responsibilities.</p>
<p><u>Virus Protection</u> - Improve virus protection procedures by updating virus protection software regularly, scanning all attached files on incoming e-mail for virus content, and running virus detection software on each user's computer start up process.</p>	<p>Management agrees and is providing an automatic computer virus check when each individual signs on the network. The information systems department is investigating the best solution to virus protection in an internet environment.</p>
<p><u>Continuing Preparation for the Year 2000</u> - Management should continue to consider the risks associated with the Year 2000 issue and take immediate steps to address these risks.</p>	<p>Management is replacing its entire core financial and operations software with new Year 2000 compliant software. Management is committed to full implementation of all applications by 1999.</p>

Metropolitan Transit Authority of Harris County, Texas
Fiscal Year Ended September 30, 1997

Auditor Recommendations	Management Response
<p><u>Investments</u> – Management should ensure outside portfolio managers comply with contract provisions and investment guidelines.</p> <p><u>Cash</u> – The Human Resources Department should review the check disbursement listings for complete check number sequences before submitting the logs to the Accounting Department.</p> <p><u>Budgeting</u> – Management should reconcile the budget to the financial system to allow for monitoring of budget to actual information.</p> <p><u>System Access Controls</u> – A security officer should be designated with the responsibility for developing, implementing, administering, and monitoring logical access controls. In addition, management should use audit testing to supplement the normal system access testing. The Office of Audit should gain the necessary knowledge and experience to conduct these tests.</p> <p><u>Non-Union Health Benefits</u> – Management should reconcile the third-party administrator’s statements to their accounting records to ensure accurate contributions rates.</p> <p><u>Title 49 Reporting</u> - To reduce math errors, management should use an electronic spreadsheet and have reviewers recompute calculations on a test basis.</p> <p>In addition, management should use database capabilities to calculate the cost of service information used in Title 49 reporting. Also, the formulas used to allocate expenses for reporting should be reviewed to ensure consistency with those used internally and in preparation of the financial statements.</p>	<p>The contract with the portfolio manager in question will not be renewed and the investments will be managed in-house.</p> <p>The Human Resources Department agrees with the comment and corrective action has been taken.</p> <p>The difference was minor and appeared in only one report. Accounting will ensure that the budget detail report is revised to include all the information from the financial system.</p> <p>Management agrees with the recommendation to create a Security Officer position and a request will be made for this position. Security checks using key personnel from the respective areas of responsibility are regularly performed. Security reports are generated periodically to ensure compliance in tracking intrusions, terminations, non-use, and other things. The Office of Audit is currently recruiting an EDP Auditor.</p> <p>Procedures are being developed to reconcile Health Plan Contributions with the Third Party claims administration expenses on a quarterly basis.</p> <p>Electronic spreadsheets will be used to calculate passenger miles and totals. In addition, supervisors will increase the number of items being tested.</p> <p>Management will shortly be converting the database and the Cost Allocation Model to an automated system, which will achieve the objectives of the audit comments.</p>

Corpus Christi Regional Transportation Authority
Fiscal Year Ended December 31, 1997

There were no findings reported to management for the 1997 fiscal year and prior year findings were resolved.

Fiscal Year Ended December 31, 1996

Current Year Comments

Auditor Recommendation	Management Response
<p><u>Employee Evaluation Process</u> – Management should implement pay rate increases in a more timely manner.</p>	<p>Human Resources will review and update the performance evaluation process to improve or eliminate its current drawbacks, including timeliness.</p>
<p><u>Employee Personnel Files</u> – All employee withholding authorizations should be maintained within the employee’s personnel file at the Human Resources Department.</p>	<p>A copy of all employee withholding authorizations will be maintained within the employee’s personnel file at the Human Resources Department.</p>
<p><u>Disbursement Procedures</u> –All cash disbursement packages should have a copy of the properly authorized purchase orders, the invoices properly canceled, and the purchase order number indicated on the invoice.</p>	<p>The staff handling disbursements have been briefed to ensure that all invoices paid indicate the purchase order number. The managers who sign the checks will verify this.</p>
<p><u>Accounts Payable Subsidiary</u> – Management should obtain the knowledge for generating this report from the software provider. For future reference, management should document the procedures necessary to abstract the information from the computer system.</p>	<p>Further review of the accounts payable showed that amounts due by vendor were available; however, the information has to be manually sorted. Management will continue to look for a software package that can generate the required information.</p>

Prior Year Comments

Accounts Receivable Reconciliation – It appears that management is performing timely reconciliation of the accounts receivable subsidiary to the general ledger and no unresolved difference existed between the two at December 31, 1996.

Fixed Asset Inspection – Management plans to perform an inspection of the non-federal assets in conjunction with the review conducted by the federal government for fixed assets acquired with federal funds.