

A Review of

Financial and Performance Audit Reports for Four Mass Transit Authorities

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Financial and Performance Audit Reports for Four Mass Transit Authorities

Overall Conclusion

The financial statements of all four mass transit authorities (MTA) received unqualified opinions from their independent auditors for fiscal year 2001. Although the financial reports indicate that the MTAs' financial statements presented their financial positions fairly, the independent auditors identified opportunities to improve operations and controls at Capital Metro and DART. These issues, which include the following, did not materially affect the fiscal year 2001 financial statements:

- Capital Metro can improve its inventory tracking system to make it more efficient. Additionally, Capital Metro needs to improve its process for recognizing bus revenue to ensure consistency and proper timing.
- DART should ensure that partial deliveries are recorded accurately in the maintenance inventory system. Also, DART should restrict outside programmers' access to its information systems and schedule regular monitoring of its information systems for security violations.

Independent Audits of MTAs Reviewed by the State Auditor's Office

The Texas Transportation Code requires the State Auditor's Office to review and report the financial and performance audits conducted by the outside auditors of four MTAs:

- Capital Metropolitan Transit Authority (Capital Metro) - Austin
- Dallas Area Rapid Transit (DART)
- Corpus Christi Regional Transit Authority (The B)
- Metropolitan Transit Authority of Harris County (Metro Houston)

In addition, Capital Metro and DART had previous audit findings. The March 1, 2002, independent auditors' *Letter on Internal Controls and Accounting Procedures for the Year Ended September 30, 2002* indicates that, as of that date, Capital Metro had partially implemented its 2000 and 1999 audit recommendations in the following areas: Information Systems, Procurement, Payroll Processing and Timekeeping, and Revenue of Third Party Transportation Providers. The independent auditors for DART indicate that DART has implemented all of its previous audit recommendations.

Of the four MTAs, only Capital Metro was scheduled to have a performance audit in fiscal year 2001. According to the independent auditor:

- Capital Metro is in substantial compliance with applicable legislative requirements.
- Capital Metro's data availability and accuracy improved for performance indicators. However, Capital Metro did not have the data it needed to calculate two state-mandated performance indicators related to the taxicab voucher program.
- Capital Metro achieved positive performance results, but opportunities exist to further improve the efficiency and effectiveness of transit operations.



Detailed Results

Chapter 1

Summary of Financial Audit Results

The four mass transit authorities (MTAs) that were required to submit the results of their independent financial audits to the State Auditor’s Office obtained unqualified opinions on their financial statements. Although the independent auditors found that the MTAs’ financial statements presented their respective financial positions fairly, the Capital Metropolitan Transit Authority (Capital Metro) of Austin and Dallas Area Rapid Transit (DART) had opportunities to improve operations and controls. The four MTAs and the year-ending dates of their financial statements are:

- Capital Metro – September 30, 2001
- DART – September 30, 2001
- Corpus Christi Regional Transit Authority (The B) – December 31, 2001
- Metropolitan Transit Authority of Harris County (Metro Houston) – September 30, 2001

Chapter 1-A

Capital Metro

The independent auditors noted in their March 1, 2002, *Letter on Internal Controls and Accounting Procedures for the Year Ended September 30, 2001* that Capital Metro could improve operations and controls (Table 1).

Table 1

Capital Metro Summary of Results, Recommendations, and Responses for Fiscal Year 2001 (Summarized by the State Auditor’s Office)	
Results and Recommendations	Management’s Response
Capital Metro records all inventory adjustments in one inventory account. As a result, reconciling the general inventory account to detail inventory is time consuming.	
Capital Metro should establish procedures to reconcile inventory accounts and to notify Accounting of the disposition of an inventory item.	Agree
Capital Metro recognized bus revenue too early. As a result, a supervisory correcting entry was necessary to reverse the error.	
Capital Metro should improve its process for recognizing bus revenue to ensure consistency and proper timing.	Agree
Capital Metro has not modified its Statement of Public Policy to address the new and/or modified Public Funds Investment Act (PFIA), effective September 1, 2001.	
Capital Metro should amend its Statement of Investment Policy to address the new and/or modified PFIA provisions.	Agree

Source: *Letter on Internal Controls and Accounting Procedures for the Year Ended September 30, 2001*, KPMG

Additionally, the independent auditors followed up on previous audit recommendations. Table 2 provides a list of audit recommendations from 2000 and 1999 that the independent auditors determined were partially implemented as of March 1 2002.

Table 2

Capital Metro Partially Implemented Recommendations From Fiscal Years 1999 and 2000 (Summarized by the State Auditor's Office)
Capital Metro should strongly consider centralizing the IS support functions in one department. (1999)
Capital Metro should upgrade and test the Disaster Recovery Plan and Emergency Response Plan. (2000)
Capital Metro's Procurement Department should update the procurement manual, approve policies and procedures for blanket purchase orders, and develop procedures for the selection of users authorized to add approved vendors to the Oracle vendor list. (2000)
Capital Metro should reconcile cash collected to the trip logs maintained by the demand response department. (2000)
Capital Metro should require all employees and supervisors to review Kronos time reports and document sign-off of reviews, prepare custom reports that include dollar totals to reconcile the import to Trapeze payroll information into Oracle, and use prenumbered check stocks with separate signature endorsement. (2000)
Capital Metro should perform periodic test counts of revenue collections from third-party transportation providers Capital Area Rural Transportation (CARTS) and Greater Austin Transportation Corporation (GATC). (2000)

Source: *Letter on Internal Controls and Accounting Procedures for the Year Ended September 30, 2001*, KPMG

Chapter 1-B

DART

For the fiscal year 2001 audit, the independent auditors reported matters regarding internal controls (Table 3). Additionally, the auditors noted that DART had completely implemented all prior year audit recommendations.

Table 3

DART Summary of Results, Recommendations, and Responses for Fiscal Year 2001 (Summarized by the State Auditor's Office)	
Results and Recommendations	Management's Response
The automated accounts payable system and maintenance inventory system did not integrate completely. As a result, there is a risk of over- or underpayment of maintenance inventory invoices.	
DART should monitor partial receipt and rejected quantities transactions to ensure that the systems record these items equally.	Agree
Non-company programmers have access to the test and production environments and migrate their own changes. As a result, there is an increased risk of unauthorized changes to the production source code.	
DART should allow programmers access to the test environment only. A manager or change control officer within the organization should be the only user with the capability to modify production source code.	Agree
UNIX administrator or staff does not monitor UNIX production on a regular basis for security violations or suspicious activity. As a result, unauthorized activity may go undetected.	
DART should implement a formal schedule to review the security violation and other reports. UNIX logs should be activated to record each security violation. The logs should be regularly reviewed to determine possible patterns of violations. Suspicious activity should be followed up on immediately.	Agree

Source: *Report to Management for the Year Ended September 30, 2001*, Deloitte and Touche

Summary of Performance Audit Results (Capital Metro)

According to Capital Metro's independent auditor:

- Capital Metro is in substantial compliance with applicable legislative requirements.
- Capital Metro's data availability and accuracy improved for performance indicators. However, Capital Metro did not have the data it needed to calculate two state-mandated performance indicators related to the taxicab voucher program.
- Capital Metro achieved positive performance results, but opportunities exist to further improve the efficiency and effectiveness of transit operations.

The performance audit is required to assess Capital Metro's:

- Compliance with applicable legislative requirements.
- Collection and compilation of the base statistics and measurement of specified performance indicators.
- Performance in one of three areas (transit operations, administration and management, or system administration).

Chapter 2-A

Compliance with Legislative Audit Requirements

The independent auditors found Capital Metro in full compliance with all but three of the 131 legislative requirements:

- Capital Metro had one appraisal when acquiring a facility priced at \$695,000. The Transportation Code (Section 451.054 [d]) requires two independent appraisals for property priced at more than \$20,000.
- On two occasions, Capital Metro did not provide certified notification or send notification by certified mail to the Comptroller of Public Accounts when it changed its boundaries. The Transportation Code (Sections 451.555[b] and [c]) requires certified notification.
- Capital Metro reissued a request for proposals for the performance audit because the first proposals received were nonresponsive. As a result, Capital Metro submitted its performance audit four months after the due date established in the Transportation Code (Section 451.457).

The independent auditors report that for the first two findings, Capital Metro has taken corrective actions to avoid similar issues in the future.

Accuracy of State-Mandated Performance Indicators

Capital Metro's data availability and accuracy improved for performance indicators throughout the audit period. However, operating service data for the taxicab voucher program were not available. Some of the data required to calculate the state-mandated indicator for on-time performance were not available. In this instance, the independent auditors did not calculate the corresponding performance indicator.

Opportunities for Transit Operations Efficiencies

The independent auditors report that Capital Metro achieved positive performance results during the audit period. Additional opportunities exist to improve efficiency and effectiveness in transportation operations. Table 4 summarizes these opportunities.

Table 4

Capital Metro Summary of Transit Operations Recommendations and Responses for Fiscal Year 2001 (Summarized by the State Auditor's Office)	
Recommendation	Status of Implementation
Adopt and implement draft services guidelines.	In progress
Consider adding more part-time operators to enable Scheduling to achieve cost savings by adding more trippers with fewer runs.	In progress
Consider basic service modification to improve on-time performance.	Agree to take action
Modify Operations' management structure to assign each operator an Operations Manager.	Completed
Modify internal performance indicator currently included in the performance review plan to better evaluate results.	Agree to take action
Actively involve run-cutting staff in identifying cost drivers and developing alternative work rule options prior to labor negotiations.	Agree to take action
Renegotiate labor provisions to release shop operators by report times and to permit supervisors to call and visit absent employees.	Agree to take action
Evaluate major STS subscription trip origins and destinations to investigate the potential for flex routes and vanpools.	In progress
Evaluate opportunities to reduce STS no-shows and cancellations by reducing advance reservations.	In progress
Develop a troubleshooting checklist to enable operators to resolve minor mechanical problems.	In progress
Clean buses better, partly by purchasing different brushes for wheels and better equipment for mopping and vacuuming bus floors at the service island.	In progress
Develop and standardize daily operations reports.	Completed
Evaluate articulated buses for heavily-patronized routes where greater efficiencies can be achieved with higher capacity buses.	Under review
Augment performance management program to improve standards and oversight.	In progress
Evaluate procurement opportunities to commit to annual dollar volumes to obtain discount on economic order quantities.	Completed
Develop a means of providing the documentation needed to substantiate returns of inventory items.	Completed
Work with user departments to implement the recently adopted information technology plan.	Completed

Source: 1997-2000 Capital Metro Compliance Review by Booz Allen Hamilton, Austin Strategy Group

Summary of Mass Transit Authority Audit Requirements

The Texas Transportation Code (Sections 451 and 452) requires four of the six Texas MTAs to undergo performance audits every four years. These four MTAs must submit the results of their annual financial audits to the State Auditor's Office and other public officials. The State Auditor's Office is required to submit comments on the financial audits to the Legislative Audit Committee. Two MTAs are exempt from these requirements: VIA Metropolitan Transit (San Antonio) and Fort Worth Transit Authority.

Other Information

Objective, Scope, and Methodology

Objective

Our objective was to fulfill our statutory obligation to summarize the results of financial audits at four mass transit authorities (MTA) as required by Transportation Code, Sections 451 and 452.

Scope

The scope of this audit included examining fiscal year 2001 financial statements from each MTA, management letters, and applicable performance audit reports.

Methodology

We examined the financial statements and the associated management letters for conditions indicating significant risk. We examined the performance reports, looking for statutorily required content. This report is informational in nature and is not an audit report.

Project Information

The following members of the State Auditor's staff conducted this review:

- Adriana Buford, CPA, CIA (Project Manager)
- Anthony T. Patrick, MBA (Quality Control Reviewer)
- Sandra H. Vice, MPAff (Audit Manager)
- Frank Vito, CPA (Director)

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Mr. Fred Gilliam, President and Chief Executive Officer, Capital Metropolitan Transit Authority

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