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A Review of Financial and Performance Audit Reports of Certain Mass Transit Authorities

July 1997

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Key Points of Report

A Review of Financial and Performance Audit Reports of Certain Mass Transit Authorities

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Overall Conclusion

Our review of the mass transit authorities' financial and performance audit reports concluded that no material weaknesses exist in the accounting and operations of these entities.

Key Facts and Findings

- Two mass transit authorities (Corpus Christi and Dallas) do not have formal procedures for tracking and monitoring the status or implementation of recommendations made by external independent auditors. One authority (Houston) has formal procedures; however, not all audit findings are resolved in a timely manner.
- Three members of the Metropolitan Transit Authority of Harris County, Texas, (Houston) Board exceeded the eight-year term limit by one year or more. Board members of the Austin and Corpus Christi mass transit authorities complied with term limitations as prescribed by the Texas Transportation Code.
- Section 451.066(a) of the Transportation Code places spending limitations on the Houston mass transit authority. During any five-year period, Houston may not spend more than 7 percent of its sales tax revenue and interest income on trails, streetlights, or drainage improvements. Our audit found the Houston mass transit authority to be in compliance with the 7 percent restriction.

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This review was conducted in accordance with Transportation Code, Sections 451.452 (c) and 452.452 (c).

Executive Summary

Our review of the financial and performance audit reports of certain mass transit authorities concluded that no material weaknesses exist in the accounting and operations of the following entities:

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

However, management letters of the independent accounting firms contained findings and recommendations for improvement, some which have been repeated for up to five years. (See Table 1, page 3.)

Two mass transit authorities (Corpus Christi and Dallas) do not have formal procedures in place to monitor the disposition and resolution of all audit recommendations.

Some Houston Board Members Served up to Two Years Beyond The Eight-Year Term Limit

Three members of the Metropolitan Transit Authority of Harris County, Texas, Board exceeded the eight-year term limit by one year or more. (See Table 2, page 4.) Board members of the Austin and Corpus Christi mass transit authorities complied with term limitations as prescribed by the Texas Transportation Code.

Mass Transit Authorities Finance Projects Not Directly Associated With Their Everyday Operations as Authorized by the Transportation Code

Section 451.066(a) of the Transportation Code places spending limitations on Houston, which

may not spend more than 7 percent of its sales tax revenue and interest income on trails, streetlights, or drainage improvements during any five-year period. Our audit found Houston to be in compliance with the 7 percent restriction. (See Table 3, page 5.)

Summary of Audit Objective and Scope

Our objective was to review and comment on the financial audits of the Dallas, Corpus Christi, Houston, and Austin mass transit authorities for fiscal years 1994 through 1996 and performance audit reports issued during the most current period.

This review was conducted pursuant to Transportation Code, Sections 451.452 (c) and 452.452 (c). The statutes require the State Auditor's Office to review and comment on certain mass transit authorities' financial and performance audit reports. The Transportation Code also allows the State Auditor to audit financial transactions if deemed necessary.

Scope

The following areas were addressed during the course of our review:

- Has management implemented all prior year recommendations made by external independent auditors?
- Are mass transit authority boards complying with term limitations as defined by statute?
- What percentage of sales tax revenue is being expended on projects not directly associated with the everyday operations of the mass transit authorities?
- Is the financial reporting of mass transit authorities for fiscal years 1994 through 1996 consistent with prior years?

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Section 1:

Controls Are Not in Place to Ensure Implementation of External Independent Auditor Recommendations

Two mass transit authorities (Corpus Christi and Dallas) do not have formal procedures for tracking and monitoring the status or implementation of recommendations made by external independent auditors. One mass transit authority (Houston) has formal procedures; however, not all audit findings are resolved in a timely manner. Corpus Christi has a process but has not formally documented the procedures.

From our review of audit findings and recommendations issued for fiscal years 1991 through 1996, we noted the following repeated and unresolved findings as reported by independent auditors.

Table 1
Repeated and Unresolved Independent Auditor Findings

Mass Transit Authority	Finding	Years Reported
Dallas Area Rapid Transit	Violations of the Prompt Payment Act; accounts payable vouchers were not paid within 30 days of receipt.	1991, 1993, 1994, 1995, 1996
	Missing documentation and poor organization of personnel files, which does not comply with Dallas's policies and procedures relating to personnel files.	1991, 1992, 1993, 1995, 1996
	Fixed asset and inventory problems relating to reconciliations, amortization, pricing, and documentation ^A	1992, 1993, 1994
Metropolitan Transit Authority of Harris County, Texas	Inventory reconciliation problems existed between the Materials Management System and the General Ledger. ^B	1991, 1992, 1993, 1994
^A Dallas's Internal Audit Department completed a review and reported that the problem still existed in 1996. ^B According to Houston's Assistant General Manager/Auditor, an internal review noted that this problem still existed in 1996.		

Management is responsible for resolving audit findings and implementing recommendations. A process to track the status of audit findings can help management fulfill this responsibility. If management does not have such a process, internal auditors may wish to establish their own. Audit reports should disclose the status of uncorrected significant findings and recommendations from prior audits that affect audit objectives.

Section 2:

Some Houston Board Members Served Up to Two Years Beyond the Eight-Year Term Limit

Three members who previously served on the Metropolitan Transit Authority of Harris County, Texas, Board exceeded the eight-year term limit by one year or more.

Table 2

Houston Board Members Exceeding Term Limit

Board Member	Appointment Date	Concluded Service	Years/Months in Office
Board Member A ^A	May 1987	November 1996	9 years, 6 months
Board Member B ^B	May 1987	May 1997	10 years
Board Member C ^B	August 1986	August 1995	9 years
^A Appointment made by the Harris County Commissioners Court ^B Appointment made by a panel composed of mayors of municipalities.			

The remaining Houston Board members and board members of the Corpus Christi and Austin mass transit authorities complied with the term limit as prescribed by Transportation Code, Section 451.506. ¹

The statute states that an individual may not serve more than eight years on the same board. However, an exception is allowed if there is a holdover pending the qualification of a successor. In our opinion, it appears unreasonable that it could take one year or more to find a qualified successor to the board.

Section 3:

Mass Transit Authorities Finance Projects Not Directly Associated With Their Everyday Operations as Authorized by the Transportation Code

The Austin and Houston mass transit authorities are authorized by Transportation Code, Section 451.065 to construct and/or maintain roadways, trails, and streetlights. Austin and Houston use sales tax revenue and interest income to finance these projects. ²

¹ The Dallas Board is governed by Chapter 452, Subchapter O, which does not impose any term limitations on its board members.

² Corpus Christi is not authorized to finance such projects.

Section 451.066(a) of the Transportation Code places a spending limitation on Houston. No more than 7 percent of its sales tax revenue and interest income may be spent on trails, streetlights, or drainage improvements during any-five year period.

Our audit found Houston to be in compliance with the seven percent restriction. Houston spent \$73.8 million during fiscal years 1992-1996. These expenditures accounted for 5.29 percent of total sales tax revenue and interest income as reported in the authority's annual financial reports. (See Table 3.)

Austin, which is not restricted to the 7 percent limitation, began financing projects in fiscal year 1994. (See Table 4.)

The Dallas mass transit authority is governed by Chapter 452 of the Transportation Code, which is silent in regard to the construction and maintenance of roadways, trails, and streetlights. However, Dallas used its sales tax revenue and interest income to finance similar projects. (See Table 4.)

Table 3

Selected Expenditures Compared to Sales Tax Revenue and Interest Income for Houston, Fiscal Years 1992 through 1996

Type of Work	Expenditures	Sales Tax Revenue and Interest Income	Expenditures as a Percentage of Sales Tax Revenue and Interest Income
Trails, Streetlights, and Drainage Improvements	\$73.8 million	\$139,000 million	5.29 percent*
Bridges, Grade Separations, Roads, and Streets	\$567.7 million		40.65 percent
* Houston cannot spend more than 7 percent of sales tax revenue and interest income on trails, streetlights, and drainage improvements.			

Table 4

Selected Expenditures Compared to Sales Tax Revenue and Interest Income for Austin and Dallas, Fiscal Years 1994 through 1996

Type of Work	Expenditures	Sales Tax Revenue and Interest Income	Expenditures as a Percentage of Sales Tax Revenue and Interest Income
Austin			
Trails, Streetlights, Drainage Improvements, Bridges, Grade Separations, Roads, and Streets	\$32.1 million	\$208.5 million	15.43 percent
Dallas			
Trails, Streetlights, Drainage Improvements, Bridges, Grade Separations, Roads, and Streets	\$41.2 million	\$791.8 million	5.2 percent

Section 4:

Mass Transit Authorities Appropriately Reported Financial Activity on a Consistent Basis

The mass transit authorities' financial statements have been prepared on a basis consistent with that of the preceding years. Accounting standards permit some flexibility in financial reporting between the mass transit authorities. Our analytical reviews of summarized financial data for each of the four mass transit authorities did not disclose any unusual trends that could not be explained.

Objective, Scope, and Methodology

Objective

Our objective was to review and comment on the following mass transit authorities' financial audits for fiscal years 1994 through 1996 and performance audit reports issued during the current period:

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

This engagement was conducted pursuant to Transportation Code, Sections 451.452 (c) and 452.452 (c). These statutes require the State Auditor's Office to review and comment on certain mass transit authorities' financial and performance audit reports. The statutes also allow the State Auditor to audit financial transactions if it is determined to be necessary.

Scope

The following areas were addressed during the course of our review:

- Has management implemented all prior year recommendations made by external independent auditors?
- Are mass transit authority boards complying with term limitations as defined by statute?
- What percentage of sales tax revenue is being expended on projects not directly associated with the everyday operations of the mass transit authorities?
- Is financial reporting of the mass transit authorities for fiscal years 1994 through 1996 consistent with prior years?

Methodology

The methodology used during this review consisted of:

- Collecting and analyzing basic financial and performance data or information
- Performing fluctuation analyses of account balances shown on annual financial statements

- Assessing trends from management letter comments
- Reviewing and evaluating performance reports

Information collected to accomplish our objectives included the following:

- Phone interviews with transit authorities' management and personnel
- Documentary evidence such as:
 - Annual financial reports for fiscal years 1992 through 1996
 - Current performance audit reports
 - Board member lists with appointment dates
- Independent auditor statements
- Enabling legislation

Procedures and tests conducted:

- Review of prior years' working papers for audit background
- Determination of the criteria to select significant account balances for trend and fluctuation analyses
- Investigation and explanation of the account balances with significant fluctuations or trends
- Categorization and sorting of management letter findings reported for fiscal years 1991 through 1996
- Review of board member terms for all four mass transit authorities and their compliance with state statutes
- Review and compilation of expenditures made with sales tax revenue and interest income for projects not directly related to the day-to-day operations of authorities

Analysis techniques used:

- Annual financial report fluctuation analysis
- Annual financial report trend analysis
- Review of management letter findings and trend analysis
- Compliance review of board member terms
- Review of current performance reports

Criteria used:

- Mass transit authority enabling legislation
- American Institute of Certified Public Accountants Reporting Standards

Fieldwork was conducted from April 22, 1997, through May 30, 1997. The review was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

The audit work was performed by the following members of the State Auditor's staff:

- Debra Weyer, CGFM (Project Manager)
- Brian Boone
- Tracy Tran, CPA
- Becky Becker, CGFM (Quality Control Reviewer)
- Pat Keith, CQA (Audit Manager)
- Craig D. Kinton, CPA (Director)