



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

Single Audit

September 30, 2023

(With Independent Auditors' Reports Thereon)

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

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KPMG LLP
811 Main Street
Houston, TX 77002

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 and fiduciary activities of Metropolitan Transit Authority of Harris County, Texas (METRO), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which comprise METRO's basic financial statements, and have issued our report thereon dated March 22, 2024

Our report includes a reference to other auditors who audited the financial statements of the Non-Union Pension Plan and Trust, as described in our report on METRO's financial statements. The financial statements of the Non-Union Pension Plan and Trust were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the Non-Union Pension Plan and Trust or that are reported on separately by those auditors who audited the financial statements of the Non-Union Pension Plan and Trust.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered METRO's internal control over financial reporting (internal control) as a basis for designing 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 METRO's internal control. Accordingly, we do not express an opinion on the effectiveness of the METRO'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 a 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether METRO'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 financial



statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Houston, Texas
March 22, 2024



KPMG LLP
811 Main Street
Houston, TX 77002

**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Directors
Metropolitan Transit Authority of Harris County, Texas:

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Metropolitan Transit Authority of Harris County, Texas' (METRO) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on METRO's major federal program for the year ended September 30, 2023. METRO's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, METRO complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of METRO and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of METRO's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to METRO's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on METRO's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government*



Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about METRO's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding METRO's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of METRO's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of METRO's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on the major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on METRO's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. METRO is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. METRO's response and corrective action plan were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a material weakness.

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 a



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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on METRO's response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. METRO is also responsible for preparing a corrective action plan to address the audit finding included in our auditors' report. METRO's response and corrective action plan were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the basic financial statements of METRO as of and for the year ended September 30, 2023, and have issued our report thereon dated March 22, 2024, which contained an unmodified opinion on those basic financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Houston, Texas
June 27, 2024

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2023

<u>Assistance listing number</u>	<u>Grant number</u>	<u>Program/project descriptions</u>	<u>Subrecipient expenditures</u>	<u>Total expenditures</u>
		U.S. Department Transportation, Federal Transit Administration (Direct):		
		Federal Transit Cluster:		
		Federal Transit Capital Investment Grants:		
20.500	TX-03-0268	North Corridor PE (Sect. 5309 New Starts)	\$ —	1,216,634
20.500	TX-03-0269	Southeast Corridor PE (Sect. 5309 New Starts)	—	1,874,565
20.500	TX-05-0138	FY 2007-2008-2009 Fixed Guideway Mod.(Sect. 5309)	—	19
		Federal Transit Capital Investment Grants Subtotal	—	3,091,218
		Federal Transit Formula Grants:		
20.507	TX-95-X006	Bike Racks & New Service (Quickline, Cypress, & Katy Mills) (Sect. 5307)	—	1,832,720
20.507	TX-2021-008	CMAQ Construction of ADA Projects (Universal Accessibility Project)	—	222,250
20.507	TX-2021-125	Houston METRO FY2020 CMAQ West Belfort Park & Ride Construction	—	205,541
20.507	TX-2022-047	COVID-19 Houston METRO FY2021 ARP Additional Assistance (Sect. 5307)	—	137,370,703
20.507	TX-2022-072	FY2020 Sect. 5307 Urbanized Area Formula Program	—	75,400,936
20.507	TX-2023-020	FY2020 FHWA Transfer CMAQ Regional Transit Fare Collection System (Sect. 5307)	—	1,914,975
		Federal Transit Formula Grants Subtotal	—	216,947,125
		State of Good Repair Grants Program:		
20.525	TX-2022-058	Houston METRO FY2020 Sect. 5337 Preventive Maintenance	—	6,380,815
		State of Good Repair Grants Program Subtotal	—	6,380,815
		Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs:		
20.526	TX-2019-068	Houston METRO Lapsing FY2016 Grant (Sect. 5339)	—	75,275
20.526	TX-2020-144	Houston METRO FY2018 Sect. 5339 Bus and Buses Facilities	—	3,849,237
20.526	TX-2021-045	Houston METRO FY2020 Sect. 5339 Discretionary Bus Regional Fare Collection System	—	2,393,329
20.526	TX-2023-063	Houston METRO FY2020 Sect. 5339 Discretionary Bus Regional Fare Collection System	—	5,000,000
20.526	TX-2023-078	Houston METRO FY2022 Sect. 5339 Bus and Buses Facilities	—	5,521,598
		Buses and Bus Facilities Formula, Competitive and Low or No Emissions Programs Subtotal	—	16,839,439
		Total Federal Transit Cluster	—	243,258,597
		Transit Services Programs Cluster:		
		Enhanced Mobility of Seniors and Individuals with Disabilities:		
20.513	TX-2016-046	Sect. 5310 Enhanced Mobility of Seniors & Individuals with Disabilities	—	124,509
20.513	TX-2020-115	Sect. 5310 Enhanced Mobility of Seniors & Individuals with Disabilities	189,189	189,189
20.513	TX-2021-127	FY2019 Sect. 5310 Ride with Heart Lapsing	199,614	199,614
		Enhanced Mobility of Seniors and Individuals with Disabilities Subtotal:	388,803	513,312
		Job Access and Reverse Commute Program:		
20.516	TX-37-X059	FY2007-10 Sect.5316 JARC Formula Program	3,686	3,686
		Job Access and Reverse Commute Program Subtotal	3,686	3,686
		Total Transit Services Programs Cluster	392,489	516,998
		Public Transportation Emergency Relief Program:		
20.527	TX-2023-039	FY2018 Sect. 5324 Emergency and Community Services Center – Land Acquisition	—	5,924,200
		Public Transportation Emergency Relief Program Subtotal	—	5,924,200
		Total Public Transportation Emergency Relief Program	—	5,924,200
		Public Transportation Innovation:		
20.530	TX-2021-028	SEC 5312 – Innovation in Public Transit – Houston METRO Shuttle of the Future	—	383,858
		Public Transportation Innovation	—	383,858
		Total Public Transportation Innovation	—	383,858
		Total Direct U.S. Department of Transportation	392,489	250,083,653
		Highway Planning and Construction Cluster:		
		Funds passed through from Texas Department of Transportation (TXDOT):		
20.205	0912-00-547	Regional Van Pool Program – CMAQ	—	478,415
20.205	0912-00-546	Regional Van Pool Program – STP	—	904,944
		Funds passed through from Texas Department of Transportation (TXDOT) Subtotal	—	1,383,359
		Total Highway Planning and Construction Cluster	—	1,383,359
		Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research:		
		Funds passed through from Houston-Galveston Area Council (H-GAC):		
20.505	RF-2021-045-A	Transportation Improvement Program-Regional Fare System	—	144,748
		Funds passed through from Houston-Galveston Area Council (H-GAC)	—	144,748
		Total Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	—	144,748
		Total U.S. Department of Transportation	392,489	251,611,760
		National Science Foundation:		
		Engineering Grants:		
47.041	R-22-0008	Funds passed through from University of Houston: Smart and Connected Communities	—	7,201
		Funds passed through from University of Houston	—	7,201
		Total Engineering Grants	—	7,201
		Total National Science Foundation	—	7,201
		Total Federal Awards	\$ 392,489	251,618,961

See accompanying notes to schedule of expenditures of federal awards.

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

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2023

(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 (METRO).

(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 METRO's basic financial statements.

(3) Relationship to the Basic Financial Statements

Financial assistance revenue is reported in METRO's basic financial statements as capital grant proceeds of \$30.3 million and nonoperating grant proceeds of \$221.3 million for a total federal financial assistance of approximately \$251.6 million.

(4) Loans and Loan Guarantees

METRO did not have any loans payable to, or guaranteed by, the U.S. Government or an agency thereof as of fiscal year-end.

(5) Indirect Costs

METRO did not use the 10% de minimis indirect cost rate.

**METROPOLITAN TRANSIT AUTHORITY
OF HARRIS COUNTY, TEXAS**
Schedule of Findings and Questioned Costs
Year ended September 30, 2023

(1) Summary of Auditor's Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified for both business-type activities and fiduciary activities**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major program disclosed by the audit:
 - Material weaknesses: **Yes**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**
- (g) Major program:
 - Federal Transit Cluster – Assistance Listing 20.500, 20.507, 20.525 and 20.526
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee: **No**

(2) Findings Related to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2023

(3) Findings and Questioned Costs Relating to Federal Awards

The following finding and questioned costs were identified relating to federal awards:

Finding Number:	2023-001
Federal Agency:	U.S. Department of Transportation
Assistance Listing No. and Title:	20.507; Federal Transit Formular Grants (Urbanized Area Formula Program)
Award Number:	TX-2022-047; American Rescue Plan (ARP) Additional Assistance Section 5307 Operating Assistance
Award Amount:	\$137,370,703
Federal Award Year(s):	FY 2023
Compliance Requirements:	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Repeated Finding:	No
Questioned Costs:	\$590,403 (Identified Costs)
Statistically Valid Sample:	The sample was not intended to be, and was not, a statistically valid sample.

Criteria:

Per section 3401(a) of the American Rescue Plan (ARP) Act of 2021, ARP funds shall be available for reimbursement for: (a) payroll of public transportation entities, (b) operating costs to maintain service due to lost revenue due as a result of the coronavirus public health emergency, and (c) paying administrative leave of operations or contractor personnel due to reductions of service.

In addition, Title 2 CFR § 200.303 requires the recipient of federal funds establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Moreover, Title 2 CFR 200.403 (a) and (b) state that except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards: (a) be necessary and reasonable for the performance of the Federal award and be allocable thereto under 2 CFR part 200, subpart E, and (b) conform to any limitations or exclusions set forth in 2 CFR part 200, subpart E or in the Federal award as to types or amount of cost items.

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2023

Condition:

As part of audit procedures over a sample of 25 non-payroll transactions we identified one transaction for \$8,510 relating to legislative consulting services which was not an allowable activity under the grant agreement. As a result of further review of the general ledger account in which the above item was recorded, we identified 13 additional transactions for similar unallowable activities representing \$581,987. We did not identify any indirect costs that were associated with these unallowable costs.

Total questioned cost identified through the audit procedures performed was approximately \$590,403.

Total expenditures for the Federal Transit Cluster were approximately \$243,258,597.

Cause:

Historically, grants received by METRO have generally been specific to specified projects, which allowed METRO to establish projects in advance for tracking, accumulating, and approving/monitoring costs incurred. As such, METRO's internal controls are designed with this project-based focus in mind. In the current year METRO received this grant which allows them to seek reimbursement for certain prior year costs not already reimbursed by the Federal government. Given the broad nature of costs allowed under this grant and the ability to seek reimbursement for prior year costs, management identified costs which were included in general ledger accounts not typically subject to detailed allowability assessments in accordance with federal requirements, and as a result METRO inadvertently placed an increased reliance on the knowledge of grants department personnel to understand the nature of general ledger accounts and transactions, as well as an increased reliance on reviewers identifying unallowable costs in the summary of expenditures submitted for reimbursement.

Effect:

Certain of the costs incurred and submitted for reimbursement by METRO were unallowable.

Auditor's Recommendation:

METRO should establish appropriate processes and controls to guide grant personnel in the aggregation of grant costs. In particular, management should focus on the processes and controls associated with grants for which predefined projects are not established in advance of incurring grant related expenditures.

Views of Responsible Officials (CAP):

METRO's Grant Programs Administration Division will review and implement changes, as necessary, to established policies and procedures regarding expense transactions to be charged to a grant and reimbursed by the granting agency. Emphasis will be placed on reimbursements for prior year costs not typically subject to detailed allowability assessments in accordance with federal requirements. Any change to processes and controls will be in accordance with cost principles criteria (i.e., allowable, allocable, reasonable, and necessary) as per Title 2 CFR 200.403 (a) and (b). This effort will be completed by Philip Brenner, Deputy CFO, before September 30, 2024.