



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

Single Audit

September 30, 2021

(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 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 the Metropolitan Transit Authority of Harris County, Texas (METRO), which comprise the statement of net position and statement of fiduciary net position as of September 30, 2021, and the related statements of revenues, expenses, and changes in net position, cash flows, and changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 18, 2022. 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 instances of reportable noncompliance associated with the Non-Union Pension Plan and Trust. Our audit opinion included an emphasis of a matter paragraph regarding METRO's adoption of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*, in 2021.

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 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 may exist that have not been identified.



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 METRO's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering METRO's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Houston, Texas
March 18, 2022



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 Each Major Federal Program

We have audited the Metropolitan Transit Authority of Harris County, Texas' (METRO) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of METRO's major federal programs for the year ended September 30, 2021. METRO's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of METRO's major federal programs based on our audit of the types of compliance requirements referred to above. 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 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). Those standards and the Uniform Guidance 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 METRO'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 unmodified and modified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of METRO's compliance.

Basis for Qualified Opinion on Federal Transit Cluster

As described in the accompanying schedule of findings and questioned costs, METRO did not comply with requirements regarding Assistance Listing 20.507 Federal Transit Formula Grants (included in the Federal Transit Cluster) as described in finding number 2021-001 for allowable costs. Compliance with such requirements is necessary, in our opinion, for METRO to comply with the requirements applicable to that program.

Qualified Opinion on Federal Transit Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, METRO complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Federal Transit Cluster for the year ended September 30, 2021.



Unmodified Opinion on the Other Major Federal Program

In our opinion, METRO complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2021.

Other Matters

METRO's response to the noncompliance finding identified in our audit is 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 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

Management of METRO is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered METRO's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of METRO's internal control over compliance.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a material weakness.

METRO's response to the internal control over compliance finding identified in our audit is 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 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, 2021, and have issued our report thereon dated March 18, 2022, which contained unmodified opinions on those basic financial statements. Our audit was conducted for the purpose of forming opinions 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 with auditing standards generally accepted in the United States of America. 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, 2022

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2021

CFDA number	Grant number	Program/project descriptions	Subrecipient expenditures	Total expenditures
		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)	\$ —	38,428,712
20.500	TX-03-0269	Southeast Corridor PE (Sect. 5309 New Starts)	—	3,617,318
20.500	TX-04-0025	FY 2006-2008-2009 Bus & Bus Facilities (Sect. 5309)	—	541,757
		Federal Transit Capital Investment Grants Subtotal	—	42,587,787
		Buses and Bus Facilities Formula, Competitive, and Low and No Emissions Programs:		
20.526	TX-2019-068-00	Houston METRO Lapsing FY2016 Grant (Sect. 5339)	—	1,429,380
20.526	TX-2020-116-00	Redesign N. Post Oak Rd. & Construct NW Transit Center	—	568,411
20.526	TX-2020-144-00	Houston METRO FY2018 Sect. 5339 Bus and Buses Facilities	—	1,137,745
20.526	TX-2021-045-00	Houston METRO FY2020 Sect. 5339 Discretionary Bus Regional Fare Collection System	—	20,827
		Bus and Bus Facilities Formula Grants Subtotal	—	3,156,363
		Federal Transit Formula Grants:		
20.507	TX-95-X006	Bike Racks & New Service (Quickline, Cypress, & Katy Mills) (Sect. 5307)	—	17,193
20.507	TX-2017-046-00	CMAQ Cypress L Ramp & Magnolia Transit Center FY2017 FHWA CMAQ Flex to FTA	—	1,332
20.507	TX-2019-077-01	Urbanized Area Formula Program FY2017 and FY2018 (Sect. 5307)	—	(56,634)
20.507	TX-2020-109-00	Urbanized area Formula Program FY2019 (Sect. 5307)	—	47,112,572
20.507	TX-2021-070-00	COVID-19 – Houston METRO Sect. 5307 CRRSAA Operating Assistance	—	144,898,927
20.507	TX-2021-089-00	COVID-19 – Houston METRO FY2021 Sect. 5307 ARP Act Operating Assistance	—	298,675,777
		Total Federal Transit Formula Grants	—	490,649,167
		State of Good Repair Grants Program (Sect. 5337):		
20.525	TX-54-0003	State of Good Repair (Sect. 5337)	—	2,517,216
20.525	TX-2020-134-00	Houston METRO Preventive Maintenance FY2019 (Sect. 5337)	—	3,001,997
		Total State of Good Repair Grants Program	—	5,519,213
		Total Federal Transit Cluster	—	541,912,530
		Transit Services Programs Cluster:		
		Enhanced Mobility of Seniors and Individuals with Disabilities:		
20.513	TX-2016-046-00	Sect. 5310 Enhanced Mobility of Seniors & Individuals with Disabilities	157,989	1,425,099
20.513	TX-2020-115-00	Sect. 5310 Enhanced Mobility of Seniors & Individuals with Disabilities	—	6,950
20.513	TX-2021-072-00	COVID-19 – Houston METRO Sect. 5310 ARPA Operating Assistance	—	615,523
20.513	TX-2021-079-00	COVID-19 – Houston METRO Sect. 5310 CRRSAA Act Operating Assistance	—	615,514
		Enhanced Mobility of Seniors & Individuals with Disabilities Subtotal	157,989	2,663,086
		Total Transit Services Programs Cluster	157,989	2,663,086
		Other direct federal funds – United States Department of Transportation:		
		Public Transportation Emergency Relief Program and Public Transportation Innovation:		
20.527	TX-2020-113-00	Sect. 5324 Emergency Relief – Operating/Emergency & Permanent Repairs – Hurricane Harvey	—	6,714,118
20.530	TX-2021-028-00	Sect. 5312 Research, Dev, Demo/deploy., and Evaluation Projects (FY2018 and forward)	—	473,401
		Total other direct funds	—	7,187,519
		Total Direct U.S. Department of Transportation	157,989	551,763,135
		Highway Planning and Construction Cluster:		
		Funds passed through from Texas Department of Transportation (TXDOT):		
20.205	0912-00-547	Regional Van Pool Program – CMAQ	—	975,264
20.205	0912-00-546	Regional Van Pool Program – STP	—	612,174
		Total Highway Planning and Construction Cluster	—	1,587,438
		Total federal awards	\$ 157,989	553,350,573

See accompanying notes to schedule of expenditures of federal awards.

**METROPOLITAN TRANSIT AUTHORITY
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Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2021

(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 \$15.0 million and nonoperating grant proceeds of \$538.4 million for total federal financial assistance in the amount of approximately \$553.4 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
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Schedule of Findings and Questioned Costs

Year ended September 30, 2021

(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: **No**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **Yes**
 - Significant deficiencies: **No**
- (e) Type of report issued on compliance for major program: **Unmodified for all major programs except for Federal Transit Cluster, which was qualified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**
- (g) Major programs:
 - Federal Transit Cluster – Assistance Listing 20.500, 20.507, 20.525, and 20.526
 - Public Transportation Emergency Relief Program – Assistance Listing 20.527
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee: **Yes**

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

None

(3) Findings and Questioned Costs Relating to Federal Awards

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

**METROPOLITAN TRANSIT AUTHORITY
OF HARRIS COUNTY, TEXAS**
Schedule of Findings and Questioned Costs
Year ended September 30, 2021

Finding Number:	2021-001
Federal Agency:	US Department of Transportation
Assistance Listing No. and Title	20.507 – COVID-19: Federal Transit Formula Grants
Award Number:	TX-2021-070-00 / TX-2021-089-00
Award Amount:	\$144,898,927 / \$298,675,777
Federal Award Year(s):	FY 2021 / FY 2021 to FY 2025
Compliance Requirement:	Allowable Costs
Type of Finding:	Material Non-compliance and Material Weakness in Internal Control
Repeat Finding:	No
Questioned Costs:	\$346,608 (Identified Costs) / \$58,295 (Identified Costs)
Statistically Valid Sample:	The sample was not intended to be, and was not, a statistically valid sample.

Criteria:

Per CFR 200.303, the non-Federal entity must 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. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Per CFR 200.403, except where otherwise authorized by statute, cost must meet the following general criteria in order to be allowable under Federal awards:

1. Be necessary and reasonable for the performance of the Federal award and be allocable thereto under the principles in 2 CFR part 200, subpart E.
2. 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.
3. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.

**METROPOLITAN TRANSIT AUTHORITY
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Schedule of Findings and Questioned Costs

Year ended September 30, 2021

4. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
5. Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
6. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
7. Be adequately documented.
8. Cost must be incurred during the approved budget period. The Federal awarding agency is authorized, at its discretion, to waive prior written approvals to carry forward unobligated balances to subsequent budget periods.

Per CFR 200.441, costs resulting from non-Federal entity violations of, alleged violations of, or failure to comply with, Federal, state, tribal, local or foreign laws and regulations are unallowable, except when incurred as a result of compliance with specific provisions of the Federal award, or with prior written approval of the Federal awarding agency.

Condition:

As part of audit procedures over an initial sample of 25 non-payroll items, representing expenditures of \$47,808,264, we identified one transaction for \$308,508 wherein METRO incorrectly included an accrued expenditure transaction as of September 30, 2021 in a request for federal reimbursement for an amount not supported by vendor documentation or evidence of prior payment. The accrual was subsequently reversed from the accounting records after year-end and eventually recorded and paid at the actual amounts, which differed from the amount included in METRO's request for federal reimbursement. Additionally, we identified an additional transaction in the initial sample of 25 non-payroll items for \$7,100 in which a component requisitioned from inventory was repaired and subsequently returned to inventory but was included in a formal request for federal reimbursement.

We expanded the initial sample of 25 non-payroll items to 40 non-payroll items, representing additional expenditures of \$3,635,195 for a total tested balance of \$51,443,459, and identified an additional transaction for \$31,000 wherein the amount represented an accrued expenditure transaction as of September 30, 2021, which was subsequently reversed. Additionally, as part of the audit procedures over the expanded sample, we also identified one transaction for \$58,295 in which METRO included expenditures associated with a legal settlement in a request for reimbursement. In general, legal settlements are not considered to be allowable expenditures in accordance with federal statutes. Management failed to support the allowability of the expenditure with either an exclusion to the general rule or prior approval from the granting agency to allow for the recovery of this expenditure.

In summary, we identified four exceptions from a sample of 40 non-payroll expenditures. Our sample of 40 items totaled \$51,443,459 and three of the identified exceptions resulted in questioned costs of \$346,608 for grant number TX-2021-070-00, and one identified exception resulted in questioned costs of \$58,295 for grant number TX-2021-089-00. Total expenditures for grant numbers TX-2021-070-00 and

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2021

TX-2021-089-00 were \$144,898,927 and \$298,675,777, respectively. Total expenditures for the Federal Transit Cluster were \$541,912,530.

Effect:

Insufficient review of transactions in accordance with established controls and procedures resulted in inappropriate transactions being submitted for reimbursement to the federal government.

Cause:

METRO's process for ensuring transactions are adequately supported by evidence of allowability and prior payment were impacted by the large volume of transactions included in federal reimbursement requests while the number of personnel responsible for performing reviews did not increase to respond to the increased volume of work.

Auditor's Recommendation:

Established policies and procedures should be reemphasized and followed to ensure incurred costs are properly reviewed for allowability and that prior payment of said costs are validated prior to submission for reimbursement to the federal government. If the volume of federal expenditures continues to be above historical levels management should also consider allocating additional resources to ensure sufficient capacity of personnel to follow established policies and procedures.

Views of Responsible Officials (CAP):

METRO's Grant Programs Division will review established policies and procedures regarding cost principles criteria (i.e. allowable, allocable, reasonable, and necessary) for expense transactions to be charged to grants and reimbursed by the granting agency and implement changes as necessary. This effort will be completed by Albert Lyne, Director Grant Programs and Revenue Services, before July 31, 2022.

METRO's Grant Programs Division will promote annual continuing education and grant training courses to ensure METRO is complying with the required regulations. This effort will commence effective July 1, 2022 by Albert Lyne, Director Grant Programs and Revenue Services.