



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

Single Audit

September 30, 2017

(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 Metropolitan Transit Authority of Harris County, Texas (the Authority), which comprise the statement of net position as of September 30, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 14, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the 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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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 the Authority'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 determination of financial statement amounts. 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Houston, Texas
March 14, 2018



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 (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2017. The Authority'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 the Authority'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 the Authority'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 opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



Report on Internal Control Over Compliance

Management of the Authority 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 the Authority'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 the Authority'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 financial statements of the Authority as of and for the year ended September 30, 2017, and have issued our report thereon dated March 14, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

KPMG LLP

Houston, Texas
June 1, 2018

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2017

<u>CFDA 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 Capital Improvement Grants:		
20.500	TX-03-0259	Cypress, Fuqua & Clear Lake P&R (Sect 5309 New Starts)	\$ —	3,253,527
20.500	TX-03-0268	North Corridor PE (Sect. 5309 New Starts)	—	5,545,799
20.500	TX-03-0269	Southeast Corridor PE (Sect. 5309 New Starts)	—	7,642,902
20.500	TX-04-0025	FY 2006-2008-2009 Bus & Bus Facilities (Sect. 5309)	—	219,780
20.500	TX-04-0103	FY 2012 Bus and Bus Facilities (Sect. 5309)	—	349,137
20.500	TX-05-0138	FY 2007-2008-2009 Fixed Guideway Mod.(Sect. 5309)	—	1,091,765
		20.500 Subtotal	—	18,102,910
20.526	TX-34-0002	2013-2014 Bus and Bus Facilities Formula Grant (Sect. 5339)	—	6,044,028
20.526	TX-2016-041	Bus and Bus Facilities Formula Grant (Sect. 5339)/METROLift vans	—	3,335,579
		20.526 Subtotal	—	9,379,607
		Total Direct Federal Transit Capital Improvement Grants	—	27,482,517
		Federal Transit Capital and Operating Assistance Formula Grants:		
20.507	TX-95-0006	Bike Racks & New Service(Quickline, Cypress, & Katy Mills) (Sect. 5307)	—	889,676
20.507	TX-90-Y121	FY 2014 Urbanized Area POP (Sect. 5307)	—	(96,664)
20.507	TX-2016-020	2015 Urbanized Area Formula Grant (Sect. 5307)	—	4,111,481
20.507	TX-2017-005	2016 Urbanized Area Formula Grant (Sect. 5307)	—	62,878,540
20.507	TX-2017-005	2016 Urbanized Area Formula Grant (Sect. 5307)	—	1,174,857
20.507	TX-2017-005	2016 Urbanized Area Formula Grant (Sect. 5307)	—	357,704
20.507	TX-2017-046	CMAQ Cypress L Ramp & Magnolia Transit Center-FY17 FHWA CMAQ Flex to FTA	—	390,199
		Total Federal Transit Capital and Operating Assistance Formula Grants	—	69,705,793
		State of Good Repair (Sect. 5337):		
20.525	TX-54-0003	State of Good Repair (Sect. 5337)	—	2,985,777
20.525	TX-2017-004	2016 State of Good Repair Formula Grant (Sect. 5337)	—	5,227,728
		Total State of Good Repair	—	8,213,505
		Total Federal Transit Cluster	—	105,401,815
		Transit Services Programs Cluster:		
20.516	TX-37-X059	Job Access and Reverse Commute (JARC) (Sect. 5316)	133,273	133,306
20.516	TX-37-X103	FY 2011 FY 2012 JARC (Sect. 5316)	867,050	1,906,547
		20.516 Subtotal	1,000,323	2,039,853
20.521	TX-57-X006	FY 2006 New Freedom (Sect. 5317)	360,982	368,222
20.521	TX-57-0038	FY2010-2011 New Freedom (Sect. 5317)	3,021	3,021
		20.521 Subtotal	364,003	371,243
20.513	TX-2016-046	SEC 5310 Enhanced Mobility of Seniors & Individuals with Disabilities	435,601	664,970
20.513	TX-16-X025	2013-2014 Enhanced Mobility of Seniors & Individuals with Disabilities Formula Grant (Sect. 5310)	805,434	805,434
		20.513 Subtotal	1,241,035	1,470,404
		Total Transit Services Programs	2,605,361	3,881,500
		Total Transit Services Programs Cluster	2,605,361	3,881,500
		Total Direct U.S. Department of Transportation	2,605,361	109,283,315
		Highway Planning and Construction Cluster:		
		Funds passed through from Texas Department of Transportation (TXDOT):		
20.205	0912-00-461	Regional Van Pool Program – CMAQ	—	1,776,272
20.205	0912-00-448	Regional Van Pool Program – STP	—	1,535,505
		Total Highway Planning and Construction Cluster	—	3,311,777
		Other Direct Federal Funds:		
97.036	DR4269	Disaster Grants-Public Assistance - FEMA	—	79,093
		Total Other Direct Federal Funds	—	79,093
		Total Federal Awards	\$ 2,605,361	112,674,185

See accompanying independent auditors' report.

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

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2017

(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 (the Authority).

(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 the Authority's basic financial statements.

(3) Relationship to the Basic Financial Statements

Federal financial assistance revenue is reported in the Authority's basic financial statements as capital grant proceeds and nonoperating grant proceeds in the amount of approximately \$112.7 million.

(4) Indirect Costs

The Authority did not use the 10 percent de minimis indirect cost rate.

**METROPOLITAN TRANSIT AUTHORITY
OF HARRIS COUNTY, TEXAS**
Schedule of Findings and Questioned Costs
Year ended September 30, 2017

(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**
- (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 programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major program: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**
- (g) Major programs:
 - Federal Transit Cluster – CFDA 20.500, 20.507, 20.525, and 20.526
 - Transit Services Programs Cluster – CFDA 20.513, 20.516, and 20.521
- (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 Relating 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, 2017

(3) Findings and Questioned Costs Relating to Federal Awards

Finding #2017-001	Subrecipient Monitoring
	<p><i>Type of Finding</i> Noncompliance</p> <p><i>Federal Program</i> Transit Services Program Cluster, CFDA Nos. and Award Nos. 20.513, TX-2016-046, TX-16-X025 (These are the only awards impacted by the finding)</p> <p><i>Federal Agency</i> U.S. Department of Transportation</p> <p><i>Pass-through Entity</i> N/A</p> <p><i>Federal Award Year</i> October 1, 2016 to September 30, 2017</p>
Criteria or requirement	<p>Per 2 CFR §200.331 Requirements for pass-through entities, a pass-through entity (PTE) must:</p> <p>Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring. Factors to be considered include:</p> <ol style="list-style-type: none"> (1) The subrecipient's prior experience with the same or similar subawards; (2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F-Audit Requirements of this part, and the extent to which the same or similar subaward has been audited as a major program; (3) Whether the subrecipient has new personnel or new or substantially changed systems; and (4) The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2017

Condition found	The Authority provides funding to five subrecipients through the Transit Services Program Cluster that are subject to the requirements described above. The Authority used a risk-based approach to establish appropriate monitoring procedures for the program's subrecipients; however, the Authority maintains limited documentation of this ongoing risk assessment process and thus we are unable to confirm the Authority's compliance with the subrecipient monitoring risk assessment requirements.
Cause and possible asserted effect	The Authority did not adequately document its risk assessment process which is a required element of a subrecipient monitoring program. The Authority conducted on-site monitoring for two of five subrecipients subject to Uniform Guidance during fiscal 2017. Desk reviews were conducted for the other three subrecipients.
Identification of questioned costs and how they were computed	No questioned costs have been identified.
Whether the sampling was a statistically valid sample	This sample was not intended to be, and was not, a statistically valid sample.
Identification of whether the audit finding is a repeat finding in the immediately prior audit and if so, the applicable prior year finding number.	This is not a repeat finding.
Recommendations	The Authority should enhance its method of documenting the risk assessment process for subrecipients. These enhancements will improve the monitoring of subrecipients while bringing the Authority into compliance with this part of its oversight responsibilities. The evaluations should be documented in writing and maintained on file.
Views of responsible officials	The Authority agrees with auditors' recommendation and will implement corrective action prior to September 30, 2018.