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METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS

Single Audit

September 30, 2019

(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 Metropolitan Transit Authority of Harris County, Texas (METRO), which comprise the statement of net position as of September 30, 2019 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 26, 2020.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

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 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*.

METRO's Response to Findings

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

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

KPMG LLP

Houston, Texas
March 26, 2020

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, 2019. 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 opinion on compliance for each major federal program. However, our audit does not provide a legal determination of METRO's compliance.

Opinion on Each 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 each of its major federal programs for the year ended September 30, 2019.

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. 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 METRO as of and for the year ended September 30, 2019, and have issued our report thereon dated March 26, 2020, 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 8, 2020

METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS

Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

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)	—	3,061,825
20.500	TX-03-0269	Southeast Corridor PE (Sect. 5309 New Starts)	—	23,149,892
20.500	TX-04-0025	FY 2006-2008-2009 Bus & Bus Facilities (Sect. 5309)	—	22,346
20.500	TX-04-0103	FY 2012 Bus and Bus Facilities (Sect. 5309)	—	481,242
20.500	TX-05-0138	FY 2007-2008-2009 Fixed Guideway Mod.(Sect. 5309	—	87,396
		Federal Transit Capital Investment Grants Subtotal	—	26,802,701
		Bus and Facilities Formula Grants:		
20.526	TX-34-0002	2013-2014 Bus and Bus Facilities Formula Grant (Sect. 5339	—	4,325,094
20.526	TX-2016-041	Bus and Bus Facilities Formula Grant (Sect. 5339)/METROLift vans	—	8
		Bus and Bus Facilities Formula Grants Subtotal	—	4,325,102
		Federal Transit Formula Grants:		
20.507	TX-95-X006	Bike Racks & New Service(Quickline, Cypress, & Katy Mills) (Sect. 5307)	—	145,490
20.507	TX-2017-005	2016 Urbanized Area Formula Grant (Sect. 5307)	—	8,949,275
20.507	TX-2017-005	2017 Urbanized Area Formula Grant (Sect. 5307)	—	1,029,528
20.507	TX-2017-046	CMAQ Cypress L Ramp & Magnolia Transit Center-FY17 FHWA CMAQ Flex to FTA	—	49,337,930
		Total Federal Transit Formula Grants	—	59,462,223
		State of Good Repair Grants Program (Sect. 5337):		
20.525	TX-54-0003	State of Good Repair (Sect. 5337)	—	19,823
20.525	TX-2019-075	SEC 5337 SOGR PROGRAM FY13-14	—	12,536,307
		Total State of Good Repair Grants Program	—	12,556,130
		Total Federal Transit Cluster	—	103,146,156
		Transit Services Programs Cluster:		
20.516	TX-37-X059	Job Access and Reverse Commute (JARC) (Sect. 5316)	220,758	220,758
20.516	TX-37-X103	FY 2011 FY 2012 JARC (Sect. 5316)	42,773	57,169
		Job Access and Reverse Commute Program Subtotal	263,531	277,927
20.521	TX-57-X006	FY 2006 New Freedom (Sect. 5317)	56,530	64,695
20.521	TX-57-X038	FY2010-2011 New Freedom (Sect. 5317)	120,697	120,697
		New Freedom Program Subtotal	177,227	185,392
20.513	TX-2016-046	SEC 5310 Enhanced Mobility of Seniors & Individuals with Disabilities	471,938	568,915
20.513	TX-16-X025	2013-2014 Enhanced Mobility of Seniors & Individuals with Disabilitie	328,434	328,434
		Enhanced Mobility of Seniors & Individuals with Disabilities Subtotal	800,372	897,349
		Total Transit Services Programs Cluster	1,241,130	1,360,668
		Total Direct U.S. Department of Transportation	1,241,130	104,506,824
		Highway Planning and Construction Cluster:		
		Funds passed through from Texas Department of Transportation (TXDOT):		
20.205	0912-00-553	Regional Van Pool Program – CMAQ	—	367,775
20.205	0912-00-504	Regional Van Pool Program – STP	—	213,826
		Total Highway Planning and Construction Cluster	—	581,601
		Other direct federal funds – United States Department of Homeland Security:		
97.075	EMW-2016-RA-00031	Rail and Transit Security Grant Program	—	431,314
		Total other direct federal funds	—	431,314
		Total federal awards	$ 1,241,130	105,519,739

See accompanying notes to schedule of expenditures of federal awards.

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Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

(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 $38.7 million less $5.9 million of state grant proceeds and nonoperating grant proceeds of $72.7 million for total federal financial assistance in the amount of approximately $105.5 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.

(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: **Yes**

(c) Noncompliance material to the financial statements: **No**

(d) Internal control deficiencies over major programs disclosed by the audit:

- Material weaknesses: **No**
- Significant deficiencies: **No**

(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): **No**

(g) Major programs:

- Federal Transit Cluster – CFDA 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: **Yes**

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

Finding Number: 2019-001

Entity: Harris County Metropolitan Transit Authority

Finding Title: Census Data – Other Post-Employment Benefits

Type of Finding: Significant Deficiency in internal control

Criteria

The preparation of the financial statements requires management of the Harris County Metropolitan Transit Authority (METRO) to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of year-end, and the reported amounts of revenues and expenses during the period. Significant estimates made by METRO include: net OPEB liability; net pension liability; self-insurance liabilities; and the value of capital assets, net of depreciation.

Condition

During the prior year (2018), METRO implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75) as of the beginning of the fiscal year (October 1, 2017). GASB 75 requires governmental entities to report the total net OPEB liability on the Statement of Net Position. The net OPEB liability is calculated by METRO's actuaries based on numerous economic and demographic factors. Certain demographic information is provided to the actuaries by METRO's human resources department in the form of a census that includes certain key information used in developing assumptions.

METRO maintains both a non-union and union OPEB plan. During the current year (2019), METRO's actuaries and management noted an inconsistency in census data related to the union plan. Union employees earn the right to participate in METRO's Union Health and Welfare Trust after retirement. At retirement an eligible employee may opt to receive this benefit; however, while not all eligible employees opt to receive this benefit, METRO included 100% of retirees in its census data as if they had in fact accepted this benefit. Actual historical data supports a 75% opt in rate at retirement with less than 5% opting in at a later date. METRO has adjusted its assumptions to reflect a 75% opt in rate at retirement with 25% remaining retirees electing to opt in at a later date. The error in the census data provided resulted in an overstatement of the net OPEB liability at September 30, 2018 of approximately $63 million.

After discovering this error, management and the actuaries reviewed other key demographic assumptions used in the 2018 union OPEB valuation. Based on this review, other assumptions were modified including: increasing the number of active employees expected to accept OPEB benefits at retirement from 65% to 75% and increasing the number of employees who would have spouses covered by the plan from 50% to 60%.

These changes are supported by historical trends and resulted in an understatement in the net OPEB liability at September 30, 2018 of approximately $39 million.

Effect

The errors associated with the census data and other assumptions resulted in a net overstatement of net OPEB liability of approximately $24 million, A difference of approximately $12.7 million remains at September 30, 2019 related to METRO using the 25% assumption of retirees to opt in to the OPEB plan at a later date rather than the 5% supported by historical data.

Cause

Management did not have a formal review process in place to ensure that census data provided to the actuaries reflects actual participation in its union OPEB plan. Additionally, management did not have a formal process in place to periodically perform a timely review of assumptions to ensure that they are properly supported by historical data.

Auditors' Recommendation

We recommend that prior to submission to the actuary, METRO's management complete a more thorough review of the census data to ensure the integrity of the information. Additionally, we recommend that METRO's management continue to monitor all postretirement benefit actuarial assumptions for reasonableness ensuring that they are supported by historical data and current economic factors. Assumptions should be updated in a timely manner when needed changes are identified.

Views of Responsible Officials

Beginning with the 2019 valuations, a more complete reconciliation of status changes for all participants and postretirement benefit coverages for all retirees was produced based on additional information requested by the actuaries and provided by METRO. This more detailed reconciliation and coverage detail will be the standard going forward. As with the 2019 census data, METRO will be asked to sign off on the census data prior to the completion of each valuation.

The actuary is responsible for preparing a list of recommended assumptions each year, highlighting any suggested assumption changes with documented support which includes historical data and current economic factors for any recommended changes, prior to preparing the preliminary valuation results. METRO will review the assumption recommendations with their auditors and confirm their assumption selection in writing prior to completion of each valuation.

Implementation Date: Implemented

Responsible Party: Director of Benefits

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Schedule of Findings and Questioned Costs

Year ended September 30, 2019

(3) Findings and Questioned Cost Relating to Federal Awards

None Reported