



KPMG LLP
811 Main Street
Houston, TX 77002

March 31, 2011

Audit Committee of Metropolitan Transportation
Authority of Harris County
Houston, Texas

Ladies and Gentlemen:

We have audited the financial statements of Metropolitan Transportation Authority of Harris County (the Authority), as of and for the year ended September 30, 2010, and have issued our report thereon dated March 31, 2011. In planning and performing our audit of the financial statements of the Authority, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

Information System: Data Migration

During 2010, the Authority's management replaced its legacy system for the processing of payroll transactions (BANNER). The data migration consisted of using the data that existed within BANNER for the Authority's employees and completing a database extraction or conversion into the new system (SAP). In performing a review over the data migration process, we were not able to review all documentation of steps completed during the migration process. We tested for the following items that encompass the minimum documentation requirements and noted the following:

- We were not able to review all documentation for the steps completed by management to extract data from BANNER.
- We were not able to review all documentation for the steps completed by management for data mapping required to configure SAP ensuring the integrity of converted data.
- We were not able to review all documentation for data load and validating of the data used in the data migration process.



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- We were not able to review all documentation maintained for reconciling of the data between BANNER and SAP. A detailed reconciliation to ensure integrity of data elements between systems was not reviewed.
- Formal approval and sign-off of converted data by respective business/functional leads was not provided in all cases.

Without evidence of appropriate documentation of the completed steps, there is an increased risk that the system went live with data that may not allow for proper execution of day-to-day payroll operations. Given the timing of the audit being performed just after project completion and the fact that subsequent payroll processes were executed successfully, we believe the risk was controlled.

KPMG recommends that all system development activities or modifications be appropriately documented and the documentation should be retained demonstrating management approval for auditing purposes.

Management Response

METRO IT concurs with KPMG recommendations regarding appropriate documentation and will continue to apply industry best practices in all phases of the project management life cycle utilizing these reminders to strengthen current controls for future projects.

Project Management

Management has a formal accounting policy for reporting and maintaining capital projects data consistent with generally accepted accounting principles. The project accounting maintained by the Authority allows for the tracking and monitoring of capital cost by project. However, during the audit of the financial statements certain adjustments were made by management, which included an impairment of approximately \$168 million of previously capitalized project costs. Most of the impaired costs were related to the METRO Solutions light rail project. There were various causes for the impairment including a determination to cease development of a portion of the project and an evaluation that costs incurred did not add value based on the ultimate direction of the project. During our analysis, we identified opportunities to improve the transparency and understanding of project reporting in order to provide better information to those responsible for project management and governance of the project or program.

We recommend that the Authority's management perform the following as part of its due diligence for its significant projects:

- Complete regular reviews to evaluate and analyze the construction or project activity.



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- While we know there are existing reports regarding the project, we recommend enhancing the reporting to comprehensively assess the overall project, specifically the cost, and individual subprojects to date, projections to complete the project, and key performance indicators or cost benchmarks (cost per mile for instance) to identify and respond to potential issues in a timely manner.

Management Response

Management agrees that periodic reviews of project activity will improve controls.

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Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Authority's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of management, the Audit Committee, others within the organization, and the Authority, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP