



KPMG LLP
811 Main Street
Houston, TX 77002

February 27, 2014

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

Ladies and Gentlemen:

We have audited the financial statements of Metropolitan Transit Authority of Harris County (the Authority), as of and for the year ended September 30, 2013, and have issued our report thereon dated February 27, 2014. 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 a certain matter involving internal control and other operational matters that is presented for your consideration. This comment 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:

Other Post-employment Benefit (OPEB) Non-Union Census Data

In connection with the audit, we tested the accuracy of the census data provided to the Authority's actuary for the Non-Union OPEB plan. We did not identify any exceptions in the nonretiree population. However, out of 48 retirees tested representing 10% of the total retiree population, the birthdates provided to the actuary for two retirees did not agree to personnel information on file. The birthdates provided to the actuary indicated that the employees were younger by approximately 12 years and 16 years than the retiree's actual ages. The Authority's actuary estimates that these exceptions, if extrapolated to the entire population, resulted in an approximately \$1,000,000 overstatement of the \$49,649,000 Non-Union OPEB liability, representing 2% of the balance.

Another instance was noted where the retiree's birthdate per the Authority's computerized personnel data did not agree to the retiree's personnel file. In this instance, it appears that the proper birthdate was provided to the actuary. Additionally, some retiree personnel files could not be located, resulting in the Authority having to provide other sources of information to support the retiree birthdates, such as beneficiary cards.



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Page 2 of 2

We recommend that the Authority's management perform the following as part of ensuring the completeness and accuracy of the census data for all of its defined benefit plans, with a specific focus on the retiree population:

- Prior to submission to the actuary, complete a thorough review of the census data to ensure the integrity of the information, including the start date, retirement date, and date of birth. We suggest initially focusing on the retiree population before evaluating whether there is a need to conduct a similar scrub of the active employee population.
- While we know that there are existing procedures in place with regards to the recordkeeping of census data, we recommend enhancing the procedures to help mitigate the risk of error for the manual components of the recordkeeping process.
- Consider computerizing retiree personnel records which are currently being maintained manually

Management Response

Human Resources will review all census data for accuracy and completeness prior to sending to the actuary with the initial focus on the manual retirees' records.

Currently, retiree information is maintained in separate Excel spreadsheets. We are currently reconciling these retiree medical, life and pension spreadsheets against data extracted from METRO's previous Human Resource system. If a discrepancy is found, it will be further investigated for accuracy. Going forward as employees retire, their data will be extracted from the current system and added to the spreadsheet until such time that SAP can accommodate retiree data as it does active employee information.

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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 Company'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