

Metro

*Los Angeles County Metropolitan Transportation Authority
One Gateway Plaza
3rd Floor Board Room*



Agenda - Final

Wednesday, May 18, 2016

1:00 PM

**One Gateway Plaza, Los Angeles, CA 90012,
3rd Floor, Metro Board Room**

Finance, Budget and Audit Committee

Paul Krekorian, Chair

James Butts, Vice Chair

Diane DuBois

Mark Ridley-Thomas

Hilda Solis

Carrie Bowen, non-voting member

Phillip A. Washington, Chief Executive Officer

METROPOLITAN TRANSPORTATION AUTHORITY BOARD RULES (ALSO APPLIES TO BOARD COMMITTEES)

PUBLIC INPUT

A member of the public may address the Board on agenda items, before or during the Board or Committee's consideration of the item for one (1) minute per item, or at the discretion of the Chair. A request to address the Board should be submitted in person at the meeting to the Board Secretary. Individuals requesting to speak on more than three (3) agenda items will be allowed to speak up to a maximum of three (3) minutes per meeting. For individuals requiring translation service, time allowed will be doubled.

The public may also address the Board on non-agenda items within the subject matter jurisdiction of the Board during the public comment period, which will be held at the beginning and/or end of each meeting. Each person will be allowed to speak for up to three (3) minutes per meeting and may speak no more than once during the Public Comment period. Speakers will be called according to the order in which the speaker request forms are received. Elected officials, not their staff or deputies, may be called out of order and prior to the Board's consideration of the relevant item.

In accordance with State Law (Brown Act), all matters to be acted on by the MTA Board must be posted at least 72 hours prior to the Board meeting. In case of emergency, or when a subject matter arises subsequent to the posting of the agenda, upon making certain findings, the Board may act on an item that is not on the posted agenda.

CONDUCT IN THE BOARD ROOM - The following rules pertain to conduct at Metropolitan Transportation Authority meetings:

REMOVAL FROM THE BOARD ROOM The Chair shall order removed from the Board Room any person who commits the following acts with respect to any meeting of the MTA Board:

- Disorderly behavior toward the Board or any member of the staff thereof, tending to interrupt the due and orderly course of said meeting.
- A breach of the peace, boisterous conduct or violent disturbance, tending to interrupt the due and orderly course of said meeting.
- Disobedience of any lawful order of the Chair, which shall include an order to be seated or to refrain from addressing the Board; and
- Any other unlawful interference with the due and orderly course of said meeting.

INFORMATION RELATING TO AGENDAS AND ACTIONS OF THE BOARD

Agendas for the Regular MTA Board meetings are prepared by the Board Secretary and are available prior to the meeting in the MTA Records Management Department and on the Internet. Every meeting of the MTA Board of Directors is recorded on CD's and as MP3's and can be made available for a nominal charge.

DISCLOSURE OF CONTRIBUTIONS

The State Political Reform Act (Government Code Section 84308) requires that a party to a proceeding before an agency involving a license, permit, or other entitlement for use, including all contracts (other than competitively bid, labor, or personal employment contracts), shall disclose on the record of the proceeding any contributions in an amount of more than \$250 made within the preceding 12 months by the party, or his or her agent, to any officer of the agency, additionally PUC Code Sec. 130051.20 requires that no member accept a contribution of over ten dollars (\$10) in value or amount from a construction company, engineering firm, consultant, legal firm, or any company, vendor, or business entity that has contracted with the authority in the preceding four years. Persons required to make this disclosure shall do so by filling out a "Disclosure of Contribution" form which is available at the LACMTA Board and Committee Meetings. Failure to comply with this requirement may result in the assessment of civil or criminal penalties.

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LIMITED ENGLISH PROFICIENCY

A Spanish language interpreter is available at all Board Meetings. Interpreters for Committee meetings and all other languages must be requested 72 hours in advance of the meeting by calling (213) 922-4600 or (323) 466-3876.



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NOTE: ACTION MAY BE TAKEN ON ANY ITEM IDENTIFIED ON THE AGENDA

CALL TO ORDER

ROLL CALL

5. APPROVE Consent Calendar Items: 6 and 7.

Consent Calendar items are approved by one motion unless held by a Director for discussion and/or separate action.

CONSENT CALENDAR

6. RECEIVE AND FILE the Los Angeles County Metropolitan Transportation Authority's (Metro) **basic financial statements and component financial statement audits completed by Crowe Horwath LLP (Crowe) for the fiscal year ended June 30, 2015.** [2016-0169](#)

Attachments: [Attachment A - SAS 114](#)
 [Attachment B - LACMTA Single Audit 2015 - FINAL](#)
 [attachment C - 90154 Federal funding allocation](#)
 [attachment D - 90166 federal funding allocation](#)
 [Attachment E - revised FY15 TDA OPS 50% LIMIT- FINAL](#)
 [Attachment F - revised FY15 TDA Prop1B \(planning\) FINAL](#)
 [Attachment G - revised FY15 STA FS FINAL](#)
 [Attachment H - revised CPC Financial Report FY15 - FINAL](#)
 [Attachment I - revised FY15 SAFE FS Final](#)

7. RECEIVE AND FILE the **third quarter report of Management Audit Services for the period ending March 31, 2016.** [2016-0362](#)

Attachments: [Attachment A - FY16 Q3 Report](#)

NON-CONSENT

9. ADOPT the **FY17 Proposed Audit Plan**. [2016-0344](#)

Attachments: [Attachment A - FY17 Proposed Audit Plan](#)

38. CONSIDER: [2016-0372](#)

- A. ADOPTING the FY17 Budget as presented in the budget document (provided in a separate transmittal and posted on Metro.net) with the amendment of an additional -\$5.3 million reduction as a reconciliation item to the proposed budget as shown on Attachment A;
- B. APPROVING the Reimbursement Resolution declaring Metro's intention to issue debt in FY17 for capital projects (provided in Attachment B). Actual debt issuance will require separate Board approval;
- C. APPROVING an average 3% merit increase for non-represented employees which will be performance based; and
- D. APPROVING adjustment to management pay grades and salary bands for the top seven levels H1S through HFF to reflect typical market practice. There is no impact to the budget or to current employees' salaries (see Attachment C).

Attachments: [ATTACHMENT A-Amendment Items](#)
[Attachement B Debt Reimbursement Resolution FY17 2016APR29 FINAL](#)
[Attachment C - Class and Comp Adj](#)
[ATTACHMENT D - Public Outreach](#)

Adjournment

Consideration of items not on the posted agenda, including: items to be presented and (if requested) referred to staff; items to be placed on the agenda for action at a future meeting of the Committee or Board; and/or items requiring immediate action because of an emergency situation or where the need to take immediate action came to the attention of the Committee subsequent to the posting of the agenda.



Board Report

File #: 2016-0169, **File Type:** Informational Report

Agenda Number: 6

FINANCE, BUDGET AND AUDIT COMMITTEE MAY 18, 2016

SUBJECT: BASIC FINANCIAL STATEMENTS AND COMPONENT AUDITS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Los Angeles County Metropolitan Transportation Authority's (Metro) **basic financial statements and component financial statement audits completed by Crowe Horwath LLP (Crowe) for the fiscal year ended June 30, 2015.**

ISSUE

We are required to be audited annually by independent certified public accountants. The resulting reports include Metro's basic financial statements and following component audits for the year ended June 30, 2015:

- Independent Auditors' Report on the Los Angeles County Metropolitan Transportation Authority's basic financial statements which include the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Metro as of and for the year ended June 30, 2015;
- Independent auditors' SAS 114 letter covering required communications;
- Los Angeles County Metropolitan Transportation Authority Single Audit Report Fiscal year ended June 30, 2015 which include:
 - 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*; and
 - Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal and State Awards as Required by OMB Circular A-133;
- Independent Accountants' Report on Applying Agreed-Upon Procedures on the Los Angeles County Metropolitan Transportation Authority's Federal Funding Allocation Data for the Transportation Operating Agency (ID# 90154) for the fiscal year ended June 30, 2015;
- Independent Accountants' Report on Applying Agreed-Upon Procedures on the Los Angeles County Metropolitan Transportation Authority's Federal Funding Allocation Data for the L.A. County Small Operators (ID# 90166) for the fiscal year ended June 30, 2015;

- Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance with the California Code of Regulations (Section 6667) and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Report on 50% Expenditure Limitation Schedule for the Los Angeles County Metropolitan Transportation Authority Transportation Development Act Operations Agency for the year ended June 30, 2015;
- Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance with the California Code of Regulations (Section 6640-6662) and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Report on Schedule of Revenues, Expenditures, and Changes in Fund Balances for the Los Angeles County Metropolitan Transportation Authority Transportation Development Act & Prop 1B PTMISEA Planning Agency for the year ended June 30, 2015;
- Independent Auditors' Report on the Los Angeles County Metropolitan Transportation Authority State Transit Assistance Special Revenue Fund's basic financial statements as of and for the years ending June 30, 2015 and 2014;
- Independent Auditors' Report on the Crenshaw Project Corporation (A Component Unit of the Los Angeles County Metropolitan Transportation Authority) basic financial statements and other supplementary information as of and for the period from March 23, 2012 through June 30, 2015; and
- Independent Auditors' Report on the Service Authority for Freeway Emergencies' (A Component Unit of the Los Angeles County Metropolitan Transportation Authority) financial statements and other supplementary information as of and for the years ending June 30, 2015 and 2014.

DISCUSSION

Metro's basic financial statements include our audited financial statements, supplemental information and unqualified opinion from Crowe, the independent auditor. Crowe representatives will provide a presentation on the results of their audit.

Crowe issued unmodified opinions on all audit reports; however, Crowe noted one finding in the 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 finding was related to lifetime benefits for some of Amalgamated Transit Union (ATU) employees not reflected in the prior period valuations prepared by the former actuarial firm, Mercer. The new actuarial firm, AON, recommended they should have been included and Management agreed. With the addition of the lifetime benefits, the calculation of prior Annual Required Contributions were understated and resulted in the Net OPEB (Other Post Employment Benefits) obligation liability being understated. Management has already resolved the issue.

Due to the considerable size of the document, we have not attached Metro's basic financial statements. Instead, as a savings measure a hard copy of the Basic Financial Statements is on file with the Board Secretary and is also available on the Metro website.

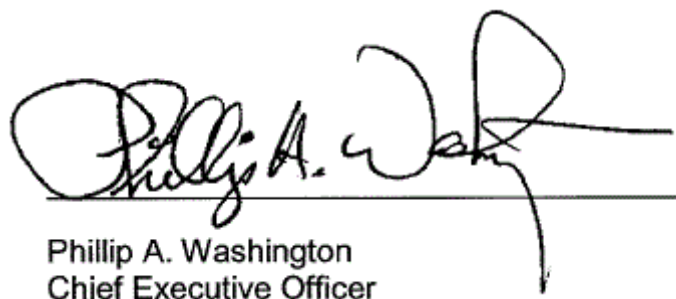
[<https://d1akjheu06qp1r.cloudfront.net/about_us/finance/images/fy15_cafr.pdf>](https://d1akjheu06qp1r.cloudfront.net/about_us/finance/images/fy15_cafr.pdf)

ATTACHMENT(S)

- A. Independent auditors' SAS 114 letter covering required communications;
- B. Los Angeles County Metropolitan Transportation Authority Single Audit Reports for the fiscal year ended June 30, 2015;
- C. Los Angeles County Metropolitan Transportation Federal Funding Allocation Data Transportation Operating Agency (ID# 90154) for the fiscal year ended June 30, 2015 (With Independent Accountants' Report on Applying Agreed-Upon Procedures Thereon);
- D. Los Angeles County Metropolitan Transportation Authority Federal Funding Allocation Data L.A. County Small Operators (ID# 90166) for the fiscal year ended June 30, 2015 (With Independent Accountants' Report on Applying Agreed-Upon Procedures Thereon);
- E. Los Angeles County Metropolitan Transportation Authority Transportation Development Act Operations Agency Year ended June 30, 2015;
- F. Los Angeles County Metropolitan Transportation Authority Transportation Development Act & Prop 1B PTMISEA Planning Agency for the year ended June 30, 2015;
- G. Los Angeles County Metropolitan Transportation Authority State Transit Assistance Special Revenue Fund Basic Financial Statements June 30, 2015 and 2014 (With Independent Auditors' Report Thereon);
- H. Crenshaw Project Corporation (A Component Unit of the Los Angeles County Metropolitan Transportation Authority) Financial Statements and Other Supplementary Information for the period from March 23, 2012 through June 30, 2015 (With Independent Auditors' Report Thereon); and
- I. Service Authority for Freeway Emergencies (A Component Unit of the Los Angeles County Metropolitan Transportation Authority) Financial Statements and Other Supplementary Information June 30, 2015 and 2014 (With Independent Auditors' Report Thereon).

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Phillip A. Washington
Chief Executive Officer



Crowe Horwath LLP
Independent Member Crowe Horwath International

The Board of Directors
Los Angeles County Metropolitan Transportation Authority
Los Angeles, California

Professional standards require that we communicate certain matters to keep you adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. We communicate such matters in this report.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

Our responsibility is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. Refer to our engagement letter with the Los Angeles County Metropolitan Transportation Authority (LACMTA) for further information on the responsibilities of management and of Crowe Horwath LLP.

AUDITOR'S RESPONSIBILITY UNDER GOVERNMENT AUDITING STANDARDS

As part of obtaining reasonable assurance about whether LACMTA's financial statements are free of material misstatement, we performed tests of LACMTA's 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 or disclosures. 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.

PLANNED SCOPE AND TIMING OF THE AUDIT

We are to communicate an overview of the planned scope and timing of the audit. Accordingly, the following matters will be discussed during our meeting with you.

- How we addressed the significant risks of material misstatement, whether due to fraud or error.
- Our approach to internal control relevant to the audit.
- The concept of materiality in planning and executing the audit, focusing on the factors considered rather than on specific thresholds or amounts.
- Where the entity has an internal audit function, the extent to which the auditor used the work of internal audit, and how the external and internal auditors best work together.

- Your views and knowledge about matters you consider warrant our attention during the audit, as well as your views on:
 - The allocation of responsibilities between you and management.
 - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
 - Significant communications with regulators.
 - Other matters you believe are relevant to the audit of the financial statements.
- Matters relative to the use of other auditors/other accountants during the audit:
 - An overview of the type of work to be performed by other auditors/other accountants.
 - The basis for the decision to make reference to the audit of the other auditor in our report on the entity's financial statements.
 - An overview of the nature of our planned involvement in the work to be performed by the other auditor/other accountant.

SIGNIFICANT ACCOUNTING POLICIES AND MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Significant Accounting Policies: The Board of Directors should be informed of the initial selection of and changes in significant accounting policies or their application. Also, the Board of Directors should be aware of methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas where there is a lack of authoritative consensus. We believe management has the primary responsibility to inform the Board of Directors about such matters. To assist the Board of Directors in its oversight role, we also provide the following.

| Accounting Standard | Impact of Adoption |
|--|---|
| GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. | Upon adoption of this Statement, LACMTA reduced beginning unrestricted net position by \$397.7 million. This was comprised of a net pension liability of \$467.2 million and deferred outflows of resources for pension contributions made after the actuarial measurement date of \$69.5 million at June 30, 2014. |
| GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68. This standard requires a government to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation of the new pension standards. Recognition of this amount will eliminate a potential source of understatement of restated beginning net position and expense in the first year of a government's implementation of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." | This Statement was adopted concurrently with GASB Statement No. 68 above. |

Management Judgments and Accounting Estimates: Further, accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. These judgments are based upon knowledge and experience about past and current events and assumptions about future events. Certain estimates are particularly sensitive because of their significance and because of the possibility that future events affecting them may differ markedly from management's current judgments and may be subject to significant change in the near term.

The following describes the significant accounting estimates reflected in LACMTA's year-end financial statements, the process used by management in formulating these particularly sensitive accounting estimates and the primary basis for our conclusions regarding the reasonableness of those estimates.

| Significant Accounting Estimate | Process Used by Management | Basis for Our Conclusions |
|--|--|---|
| Allowance for Doubtful Accounts and Bad Debt Expense | The allowance for doubtful accounts was determined by management by a process involving consideration of past experiences, current aging information, information from credit reports, contacts with the customers, and other available data including environmental factors such as industry, geographical, economic and political factors. | We tested this accounting estimate by reviewing, on a test basis, the information listed and by testing information in certain customers' credit files. |
| Fair Values of Investment Securities and Other Financial Instruments | The disclosure of fair values of securities and other financial instruments requires management to use certain assumptions and estimates pertaining to the fair values of its financial assets and financial liabilities. | We tested the propriety of information underlying management's estimates. |
| Accrued Compensated Absences | Accrued compensated absences are estimated based on vacation and sick hours accumulated by each employee and the respective pay rate of each employee. | We tested the propriety of information underlying management's estimates. |
| Useful Lives of Capital Assets | Management has determined the economic useful lives of capital assets based on past history of similar types of assets, future plans as to their use, and other factors that impact their economic value to LACMTA. | We tested the propriety of information underlying management's estimates. |
| Pension and Postretirement Obligations | Amounts reported for pension and postretirement obligations require management to use estimates that may be subject to significant change in the near term. These estimates are based on projection of the weighted average discount rate, rate of increase in future compensation levels, and weighted average expected long-term rate of return on pension assets. | We reviewed the reasonableness of these estimates and assumptions. |

| Significant Accounting Estimate | Process Used by Management | Basis for Our Conclusions |
|---------------------------------|---|--|
| Derivatives and Hedging | LACMTA uses derivatives to hedge the cash flows of price fluctuations in diesel fuel. Management has recorded this hedge based on the provisions of GASB Statement No. 53, <i>Accounting and Financial Reporting for Derivative Instruments</i> (GASB 53). The investment in the derivative investment is recorded in the Statements of Net Position as part of current assets/liabilities and other non-current assets/liabilities, as appropriate. The change in fair value of the derivative investment is recorded as a deferred inflow/outflow, as appropriate. Any gain (loss) on the sale of the derivative is recorded in the Statements of Revenues, Expenses and Changes in Net Position. | We tested the completeness of the list of derivatives entered into, the reasonableness of management's assumptions in determining the overall effectiveness of the hedge, the amount of ineffectiveness included in earnings and the method used to determine the fair value of the commodity swap, and the documentation maintained by management at inception and each reporting period. We also evaluated the resulting financial statement disclosures for completeness. |
| Self-Insurance Liability | Management has determined this liability based on the estimated loss of known claims as well as an estimate of incurred but not reported claims based on historical claims data. | We tested the propriety of information underlying management's estimates. |

AUDITOR'S JUDGMENTS ABOUT QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES

We are to discuss with you our comments about the following matters related to LACMTA's accounting policies and financial statement disclosures. Accordingly, these matters will be discussed during our meeting with you.

- The appropriateness of the accounting policies to the particular circumstances of the entity, considering the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements.
- The overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- The effect of the timing of transactions in relation to the period in which they are recorded.
- The potential effect on the financial statements of significant risks and exposures, and uncertainties that are disclosed in the financial statements.
- The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements.
- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures.
- The factors affecting asset and liability carrying values, including the entity's basis for determining useful lives assigned to tangible and intangible assets.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Corrected Misstatements: We are to inform you of material corrected misstatements that were brought to the attention of management as a result of our audit procedures.

- A prior period adjustment of \$215.0 million was recommended and made by management to decrease the business-type activities' beginning unrestricted net position and increase the net OPEB obligation liability by \$215.0 million. The impact on change in net position for the year ended June 30, 2014 was a reduction of \$215.0 million. There was no impact on the change in net position at June 30, 2014. This adjustment was made to recognize lifetime benefit provisions for ATU employees that were not reflected in the previous actuarial valuations used to calculate the net OPEB obligation. With the addition of the OPEB benefit provision, the actuarial calculation of prior Annual Required Contributions were understated and resulted in the Net OPEB Obligation liability being understated.

Uncorrected Misstatements: We are to inform you of uncorrected misstatements that were aggregated by us during the current engagement and pertaining to the latest and prior period(s) presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. For your consideration, we have distinguished misstatements between known misstatements and likely misstatements.

- A likely misstatement was waived by management to capitalize bus improvement costs and record depreciation in the proper period. LACMTA has a bus repair/upgrade mid-life program and an engine replacement program that are designed to ensure that the buses last at least as long as their estimated life, if not further. The misstatement is due to the fact that they only place these assets into service once every two to three years, which results in the cost not being capitalized in the proper period and depreciation not starting when it should. As a result of waiving this adjustment, beginning unrestricted net position and current year depreciation expense on LACMTA business-type activities are both overstated by \$31.8 million.
- As noted above, a prior period adjustment of \$215.0 million was made to decrease the business-type activities' beginning net position and increase the net OPEB obligation by \$215.0 million. This adjustment brought the June 30, 2014 balance to the correct amount, however, an adjustment to account for the current fiscal year change of \$34.4 million was waived by management. As a result, the net OPEB obligation and fringe benefits are both understated by \$34.4 million at June 30, 2015 and unrestricted net position is overstated by the same amount.
- LACMTA has three long term notes receivables attributable to governmental funds. (A \$44.9 million note on the Proposition A Fund, a \$18.0 million note on the Measure R Fund, and a \$4.0 million note on the General Fund.) The proper treatment of these notes receivables is to exclude the balances from the governmental fund balance sheet, as they do not represent assets available in the current period. They should, however, be recorded on the government-wide statement of net position and included as a reconciling item between the balance sheet and statement of net position.

We noted that the Proposition A notes receivable balance is properly excluded from the governmental fund balance sheet but improperly excluded from the government-wide statement of net position. The Measure R and General Fund notes receivable balances have been improperly included in the governmental fund balance sheet but properly included in the government-wide statement of net position.

Management chose to waive these known misstatements, and as a result, the notes receivable and unrestricted net position on the government-wide statement of net position is understated by \$44.9 million. On the governmental fund balance sheet, the Measure R Fund notes receivable and unrestricted net position is overstated by \$18.0 million and the General Fund notes receivable and unrestricted net position is overstated by \$4.0 million.

- A known misstatement to properly accrue \$1.8 million of subsidy expense was waived by management. As a result, accrued expense liability and subsidy expense on the General Fund are understated by \$1.8 million.

OTHER COMMUNICATIONS

| Communication Item | Results |
|---|---|
| <p>Other Information In Documents Containing Audited Financial Statements</p> <p>Information may be prepared by management that accompanies the financial statements. To assist your consideration of this information, you should know that we are required by audit standards to read such information and consider whether such information, or the manner of its presentation, is materially inconsistent with information in the financial statements. If we consider the information materially inconsistent based on this reading, we are to seek a resolution of the matter.</p> | <p>We read the following items and noted no material inconsistencies or misstatement of facts in such information based on our reading thereof.</p> <ul style="list-style-type: none"> Comprehensive Annual Financial Report |
| <p>Significant Difficulties Encountered During the Audit</p> <p>We are to inform you of any significant difficulties encountered in dealing with management related to the performance of the audit.</p> | <p>There were no significant difficulties encountered in dealing with management related to the performance of the audit.</p> |
| <p>Disagreements With Management</p> <p>We are to discuss with you any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to LACMTA's financial statements or the auditor's report.</p> | <p>During our audit, there were no such disagreements with management.</p> |
| <p>Consultations With Other Accountants</p> <p>If management consulted with other accountants about auditing and accounting matters, we are to inform you of such consultation, if we are aware of it, and provide our views on the significant matters that were the subject of such consultation.</p> | <p>We are not aware of any instances where management consulted with other accountants about auditing or accounting matters since no other accountants contacted us, which they are required to do by Statement on Auditing Standards No. 50, before they provide written or oral advice.</p> |
| <p>Representations The Auditor Is Requesting From Management</p> <p>We are to provide you with a copy of management's requested written representations to us.</p> | <p>We direct your attention to a copy of the letter of management's representation to us provided separately.</p> |
| <p>Significant Issues Discussed, or Subject to Correspondence, With Management</p> <p>We are to communicate to you any significant issues that were discussed or were the subject of correspondence with management.</p> | <p>There were no such significant issues discussed, or subject to correspondence, with management.</p> |
| <p>Significant Related Party Findings and Issues</p> <p>We are to communicate to you significant findings and issues arising during the audit in connection with LACMTA's related parties.</p> | <p>There were no such findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p> |

| Communication Item | Results |
|--|--|
| <p>Other Findings or Issues We Find Relevant or Significant</p> <p>We are to communicate to you other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p> | <p>There were no such other findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p> |

We are pleased to serve LACMTA as its independent auditors and look forward to our continued relationship. We provide the above information to assist you in performing your oversight responsibilities, and would be pleased to discuss this letter or any matters further, should you desire. This letter is intended solely for the information and use of the Board of Directors and, if appropriate, management, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
December 22, 2015



**LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY**

SINGLE AUDIT REPORT

Year ended June 30, 2015

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
Los Angeles, California

SINGLE AUDIT REPORT
Year ended June 30, 2015

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**INDEPENDENT AUDITOR'S 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**

Board of Directors
Los Angeles County Metropolitan
Transportation Authority
Los Angeles, California

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the year ended June 30, 2015, and the related notes to the basic financial statements, which collectively comprise LACMTA's basic financial statements, and have issued our report thereon dated December 22, 2015. Our report includes a reference to other auditors who audited the financial statements of the defined benefit pension plan financial statements of the Los Angeles County Metropolitan Transportation Authority Retirement Income Plans, as described in our report on LACMTA's financial statements. The defined benefit pension plan financial statements of the Los Angeles County Metropolitan Transportation Authority Retirement Income Plans were not audited in accordance with Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LACMTA'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 LACMTA's internal control. Accordingly, we do not express an opinion on the effectiveness of LACMTA'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 were not 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 deficiency in internal control described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2015-001 that we considered to be a significant deficiency.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LACMTA's financial statements are free of 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*.

Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Sherman Oaks, California
December 22, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AND STATE AWARDS REQUIRED BY OMB CIRCULAR A-133**

Board of Directors
Los Angeles County Metropolitan
Transportation Authority
Los Angeles, California

Report on Compliance for Each Major Federal Program

We have audited Los Angeles County Metropolitan Transportation Authority's (LACMTA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of LACMTA's major federal programs for the year ended June 30, 2015. LACMTA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of LACMTA'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 LACMTA'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 LACMTA's compliance.

Opinion on Each Major Federal Program

In our opinion, LACMTA 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 June 30, 2015.

Report on Internal Control over Compliance

Management of LACMTA 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 LACMTA'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 OMB Circular A-133, 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 LACMTA'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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of LACMTA as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise LACMTA's basic financial statements. We issued our report thereon dated December 22, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 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 expenditure of federal and state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Crowe Horwath LLP

Sherman Oaks, California
March 3, 2016

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year ended June 30, 2015

| Federal grantor/cluster title/program title/pass-through grantor/project title | CFDA Number | Grant Number | Total Award | Total expended under federal/state/local for the fiscal year ended June 30, 2015 | | | |
|--|-------------|-------------------------------|------------------------|--|----------------------|----------------------|----------------------|
| | | | | Total | Federal Share | State Share | Local Share |
| Federal Grants | | | | | | | |
| U.S. Department of Transportation | | | | | | | |
| Highway Planning and Construction Cluster | | | | | | | |
| Highway Planning and Construction | | | | | | | |
| Passed through State of California Department of Transportation: | | | | | | | |
| I-405 CAR Pool Lane | 20.205 | 07-4826 | \$ 1,053,347,625 | \$ 63,527,694 | \$ 56,241,067 | \$ - | \$ 7,286,627 |
| Burbank Airport | 20.205 | 07-4U4524 | 4,387,000 | 623,063 | 280,193 | - | 342,870 |
| Extension of Transit way on 1-110 to Downtown LA | 20.205 | EA 07-278008 ISTDEM-6065(165) | 6,272,631 | 765,280 | 612,224 | - | 153,056 |
| Congestion Reduction Demonstrations Project | 20.205 | EA 07-274408 | 68,429,771 | 7,652,753 | (425,915) | - | 8,078,668 |
| Safe Routes to School | 20.205 | SRTSN-6065(178) | 500,000 | 199,927 | 125,836 | - | 74,091 |
| Orange line High Speed Magnetic Levitation trains | 20.205 | HPLUL-6065(156) | 251,972 | 45,822 | 39,466 | - | 6,356 |
| Highway Planning and Construction Cluster Total | | | <u>1,133,188,999</u> | <u>72,814,539</u> | <u>56,872,871</u> | <u>-</u> | <u>15,941,668</u> |
| Federal Transit Cluster | | | | | | | |
| Federal Transit Capital Improvement Grants: | | | | | | | |
| Direct Programs: | | | | | | | |
| Reseda Blvd. BRT Enhancements | 20.500 | CA-04-0073 | 500,446 | 37,157 | 29,726 | - | 7,431 |
| Wilshire Blvd. Bus Only Lane | 20.500 | CA-03-0815 | 23,317,000 | 13,366,145 | 10,442,954 | - | 2,923,191 |
| Metro Rapid System Gap Closure | 20.500 | CA-03-0796 | 16,700,000 | 4,346,765 | 2,717,179 | - | 1,629,586 |
| Transit Center/Stop Improvements | 20.500 | CA-04-0037 | 1,601,429 | 12,925 | 10,340 | - | 2,585 |
| Plng Engineering of Transit Centers | 20.500 | CA-04-0094 | 7,131,578 | 3,984,026 | 3,187,221 | - | 796,805 |
| Crenshaw - Prairie Transit Corridor | 20.500 | CA-04-0034 | 8,563,010 | 560,168 | 448,134 | - | 112,034 |
| Westside Purple Line Ext - Section 1 | 20.500 | CA-03-0824 | 65,000,000 | 378,292,855 | 19,091,340 | - | 359,201,515 |
| City of Baldwin Park - Purchase Two Buses - Dial-A Ride Program | 20.500 | CA-04-0149 | 592,000 | 200,000 | 200,000 | - | - |
| Regional Connection Transit Corridor Construction | 20.500 | CA-03-0825 | 65,000,000 | 258,277,539 | 65,000,000 | 143,482,405 | 49,795,134 |
| Construction of Division 13 - Bus Operations and Maintenance Facility | 20.500 | CA-04-0190 | 47,750,000 | 31,865,693 | 5,008,864 | 26,856,829 | - |
| Acquisition of Buses | 20.500 | CA-04-0232 | 35,000,000 | 31,869,557 | 26,451,732 | 5,417,825 | - |
| Southern California 511/VTCI | 20.500 | CA-04-0230 | 2,000,000 | 902,848 | 722,279 | - | 180,569 |
| Patsaouras Plaza Bus way Station | 20.500 | CA-04-0233 | 9,679,000 | 4,602,178 | 3,681,743 | - | 920,435 |
| Metro Orange Line Bus Enhancement | 20.500 | CA-04-0261 | 10,000,000 | 6,873,246 | 5,498,597 | - | 1,374,649 |
| Traction Power Substations - ARRA | 20.500 | CA-56-0001 | 8,185,197 | 64,677 | 64,677 | - | - |
| CFDA Subtotal | | | <u>301,019,660</u> | <u>735,255,779</u> | <u>142,554,786</u> | <u>175,757,059</u> | <u>416,943,934</u> |
| Federal Transit Formula Grants: | | | | | | | |
| Direct Programs: | | | | | | | |
| Metro Rapid Bus Stations/Signal Priority | 20.507 | CA-90-Y261 | 28,919,529 | 106,945 | 106,945 | - | - |
| Replacement Buses | 20.507 | CA-95-X245 | 1,839,600 | 2,516,352 | 1,836,753 | - | 679,599 |
| Purchase Buses, Amenities | 20.507 | CA-95-X255 | 3,953,000 | 4,899,000 | 3,793,000 | - | 1,106,000 |
| Metro Rapid Bus Program | 20.507 | CA-90-Y457 | 11,081,700 | 1,201,135 | 1,201,135 | - | - |
| FY05 Transit Enhancements | 20.507 | CA-90-Y454 | 516,210 | 149,659 | 119,727 | - | 29,932 |
| Transit Enhancement FY2005 funds | 20.507 | CA-90-Y685 | 854,520 | 209,620 | 167,696 | - | 41,924 |
| Preventive Maintenance - Operation & Capital - FY 14 PM | 20.507 | CA-90-Y717 | 480,395,145 | 111 | 89 | - | 22 |
| 45-Ft Composite Buses and Transit Enhancements - Capital | 20.507 | CA-90-Y717 | 8,013,440 | 936,735 | 749,388 | - | 187,347 |
| Regional Connection Transit Corridor Construction | 20.507 | CA-95-X251 | 64,000,000 | 15,735,516 | 23,121,439 | (7,385,923) | - |
| Preventive Maintenance - FY 14 | 20.507 | CA-90-Z122 | 7,699,762 | 9,624,703 | 7,699,762 | - | 1,924,941 |
| Preventive Maintenance - FY 14 | 20.507 | CA-90-Z132 | 142,473,992 | 178,092,490 | 142,473,992 | - | 35,618,498 |
| Preventive Maintenance - FY 15 | 20.507 | CA-90-Z224 | 7,958,293 | 9,947,867 | 7,958,293 | - | 1,989,574 |
| Crenshaw/Lax Transit Corridor | 20.507 | CA-95-X256 | 58,213,840 | 65,756,060 | 58,213,840 | - | 7,542,220 |
| Metro Orange Line Extension Operating Assistance - PM | 20.507 | CA-95-X208 | 15,000,000 | 4,688,170 | 4,688,170 | - | - |
| Exposition Blvd. Right-of-Way Bike Path | 20.507 | CA-95-X214 | 11,528,000 | 8,762,923 | 7,757,816 | - | 1,005,107 |
| Bus Acq and MOL & MGL Op Asst | 20.507 | CA-95-X042 | 125,046,000 | 20,094,399 | 20,125,508 | - | (31,109) |
| Expo Phase 1 Operating assistance - 80% CMAQ | 20.507 | CA-95-X176 | 32,093,000 | 20,435,304 | 16,348,243 | - | 4,087,061 |
| LA CRD Operating Assistance - Vanpool | 20.507 | CA-95-X099 | 400,000 | 8,838 | 8,838 | - | - |
| Bus replacement(141),Overhaul(290),Metro Blue Line Transit Provider - ARRA | 20.507 | CA-96-X012 | 225,154,824 | 4,465,007 | 4,450,771 | - | 14,236 |
| CFDA Subtotal | | | <u>1,225,140,855</u> | <u>347,630,834</u> | <u>300,821,405</u> | <u>(7,385,923)</u> | <u>54,195,352</u> |
| State of Good Repair Grants Program - FY 14 SGR - PM Rail | 20.525 | CA-54-0011 | 86,968,557 | 56,191,946 | 44,953,557 | - | 11,238,389 |
| Federal Transit Cluster Total | | | <u>\$1,613,129,072</u> | <u>\$ 1,139,078,559</u> | <u>\$488,329,748</u> | <u>\$168,371,136</u> | <u>\$482,377,675</u> |

See accompanying notes to the schedule of expenditures of federal awards.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year ended June 30, 2015

| Federal grantor/cluster title/program title/pass-through grantor/project title | CFDA Number | Grant Number | Total Award | Total expended under federal/state/local for the fiscal year ended June 30, 2015 | | | |
|---|-------------|-----------------------------------|------------------|--|----------------|----------------|----------------|
| | | | | Total | Federal Share | State Share | Local Share |
| Transit Service Cluster | | | | | | | |
| Job Access - Reverse Commute | | | | | | | |
| Direct Programs: | | | | | | | |
| L A County Job Access and Reverse Commute Program. Administration. FY 06-12 | 20.516 | CA-37-X071 | \$ 5,032,849 | \$ 362,529 | \$ 362,529 | \$ - | \$ - |
| Job Access and Reverse Commute Program. Project - LA County Job Access and Program Project | 20.516 | CA-37-X100 | 10,343,881 | 976,364 | 749,398 | - | 226,966 |
| LA County Job Access and Program Project - Capital/Operating Assist. | 20.516 | CA-37-X171 | 7,711,637 | 2,073,944 | 2,073,944 | - | - |
| Job Access and Reverse Commute - Capital/Operating Assist. | 20.516 | CA-37-X123 | 13,878,024 | 308,852 | 226,992 | - | 81,860 |
| CFDA Subtotal | | | 36,966,391 | 3,721,689 | 3,412,863 | - | 308,826 |
| New Freedom Programs: | | | | | | | |
| Direct Programs: | | | | | | | |
| New Freedom - Program Adm. FY06-12 | 20.521 | CA-57-X003 | 2,152,346 | 237,171 | 237,171 | - | - |
| New Freedom - Capital & Operating. Assistance | 20.521 | CA-57-X048 | 1,755,553 | 262,102 | 131,051 | - | 131,051 |
| New Freedom - Capital & Operating. Assistance | 20.521 | CA-57-X084 | 8,702,026 | 920,642 | 920,642 | - | - |
| New Freedom - Capital & Operating. Assistance | 20.521 | CA-57-X100 | 7,354,678 | 635,808 | 317,904 | - | 317,904 |
| CFDA Subtotal | | | 19,964,603 | 2,055,723 | 1,606,768 | - | 448,955 |
| Transit Services Cluster Total | | | 56,930,994 | 5,777,412 | 5,019,631 | - | 757,781 |
| Clean Fuels - CNG Fueling Facility at Division 13 | 20.519 | CA-58-0006 | 5,500,000 | 2,342,131 | 2,107,918 | 234,213 | - |
| Wayside Energy Storage System | 20.523 | CA-77-0002 | 4,466,000 | 522,247 | 521,565 | - | 682 |
| National Infrastructure Investments - Crenshaw/Lax Transit Corridor | 20.933 | CA-79-0001 | 13,903,535 | 194,803,784 | - | (6,450,736) | 201,254,520 |
| U.S. Department of Transportation Total | | | 2,827,118,600 | 1,415,338,672 | 552,851,733 | 162,154,613 | 700,332,326 |
| U.S. Department of Homeland Security | | | | | | | |
| Rail and Transit Security Program | | | | | | | |
| Direct Programs: | | | | | | | |
| Transit Security Grant Program | 97.075 | 2009-RA-T9-K004 | 8,458,478 | 558,685 | 502,071 | - | 56,614 |
| Transit Security Grant Program | 97.075 | 2010-RA-T0-K001 | 3,584,180 | 3,191,109 | 3,183,949 | - | 7,160 |
| Transit Security Grant Program | 97.075 | EMW-2011-RA-00011-S01 | 5,744,329 | (143,069) | (143,069) | - | - |
| Transit Security Grant Program | 97.075 | 6361-0002, FIPS#037-91170 | 16,103,043 | 561,891 | - | 561,891 | - |
| Transit Security Grant Program | 97.075 | EMW-2012-RA-K00030-S01 | 2,484,254 | 2,363,469 | 2,363,469 | - | - |
| Transit Security Grant Program | 97.075 | EMW-2013-RA-00043-S01 | 7,050,010 | 4,752,681 | 4,752,681 | - | - |
| Rail and Transit Security Program Total | | | 43,424,294 | 11,284,766 | 10,659,101 | 561,891 | 63,774 |
| U.S. Department of Homeland Security Total | | | 43,424,294 | 11,284,766 | 10,659,101 | 561,891 | 63,774 |
| Total Federal Grants | | | \$ 2,870,542,894 | \$ 1,426,623,438 | \$ 563,510,834 | \$ 162,716,504 | \$ 700,396,100 |
| State Grants | | | | | | | |
| Prop 1B Security - FY 08-09 | n/a | 6161-002,FIPS#037-91170 | \$ 16,103,000 | \$ 487,314 | \$ - | \$ 487,314 | \$ - |
| Prop 1B Security - FY 09-10 | n/a | 6261-002,FIPS#037-91170 | 16,103,043 | 5,053,917 | - | 5,053,917 | - |
| STIP PPM (State Transportation Improvement Program - Planning, Programming & Monitoring Program | n/a | PPM14-6065(183) | 3,098,000 | 3,810,458 | - | 2,874,678 | 935,780 |
| New State Pass-Through - South Bay Cities Council of Government | n/a | New State Pass-Through (3014-616) | 885,048 | 74,888 | - | 67,287 | 7,601 |
| Prop 1B PTMISEA SLPP LRT II - State / Local Partnership | n/a | 07A0034-11 A4 | 28,259,000 | 54,725,716 | - | 17,218,732 | 37,506,984 |
| Prop 1B PTMISEA - Ramer to Bernson Double Track Project (75A0406) | n/a | ICRB-A1314-02 75A0406 | 6,500,000 | 4,818,419 | - | 4,631,359 | 187,060 |
| Prop 1B PTMISEA - Van Nuys North Platform Project (75A0407) | n/a | ICRB-A1314-01 75A0407 | 4,000,000 | 2,254,319 | - | 1,717,882 | 536,437 |
| Prop 1B PTMISEA | n/a | Prop 1B PTMISEA | 135,468,949 | 137,999,115 | - | 103,756,847 | 34,242,268 |
| Prop 1B PTMISEA | n/a | Exposition LRT - II | 135,983,130 | 197,348,820 | - | 76,794,789 | 120,554,031 |
| Prop 1B PTMISEA | n/a | Division 13 | 52,764,816 | 13,486,437 | - | 1,308 | 13,485,129 |
| Total State Grants | | | \$ 399,164,986 | \$ 420,059,403 | \$ - | \$ 212,604,113 | \$ 207,455,290 |

See accompanying notes to the schedule of expenditures of federal awards.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year ended June 30, 2015

NOTE 1 – GENERAL

The accompanying schedule of expenditures of federal and state awards (the Schedule) presents the grant activity of all expenditures of federal and state award programs of the Los Angeles County Metropolitan Transportation Authority (LACMTA). All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included in the Schedule. The Schedule also includes state grants that do not participate in the federal awards. LACMTA is the reporting entity as defined in note 1 to the financial statements of LACMTA's basic financial statements.

NOTE 2 - BASIS OF PRESENTATION

The Schedule includes the federal grant activity of LACMTA and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

NOTE 3 - SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, LACMTA provided federal awards to subrecipients as follows:

| <u>Program Title</u> | <u>CFDA Number</u> | <u>Amount</u> |
|--|------------------------|----------------------|
| Highway Planning and Construction Program | 20.205 | \$ 319,659 |
| Federal Transit Capital Improvement Grants | 20.500 | 13,870,240 |
| Federal Transit Formula Grants | 20.507 | 5,629,753 |
| Job Access and Reverse Commute | 20.516 | 3,050,334 |
| New Freedom Program | 20.521 | <u>1,369,597</u> |
| | | <u>\$ 24,239,583</u> |

NOTE 4 – STATE AND LOCAL FUNDS REIMBURSEMENT

LACMTA utilizes state and local funds when federal funds are not received in a timely manner. Upon receipt of federal funds, LACMTA reimburses state and local funds that were utilized for expenditures for federal programs. Reimbursements are shown as credit balances in the Schedule. Expenditures incurred during the current fiscal year, but before a federal grant is executed are included as state or local on the Schedule in the year the expenditures are incurred and are reported as federal on the Schedule in the year the grant was executed.

NOTE 5 – FEDERAL FINANCIAL ASSISTANCE

Pursuant to the Single Audit Act and the OMB Circular A-133 Compliance Supplement, the federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, nonmonetary federal assistance is included in federal financial assistance and, therefore, is reported on the Schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the state and federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year ended June 30, 2015

NOTE 6 – MAJOR PROGRAMS

The Single Audit Act and OMB Circular A-133 establish criteria to be used in defining major federal financial assistance programs. Major programs for LACMTA are those programs selected for testing by the auditor using a risk assessment model, as well as certain minimum expenditure requirements, as outlined in OMB Circular A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

NOTE 7 – COMMINGLED ASSISTANCE

The LACMTA receives federal and state funding as a subrecipient through the State of California's Department of Transportation (Caltrans). The expenditures reported in the accompanying Schedule for CFDA 20.205, U.S. Department of Transportation – Highway Planning and Construction (grant #07-4826), represent commingled federal and state funding received from Caltrans. The sources of funding passed through Caltrans include state funding from the Traffic Congestion Relief Program (TCRP) and the State Transportation Program – Local (STPL) and Federal funding from the Federal Regional Surface Transportation Program (RSTP) and the Safe, Accountable, Flexible, Efficient Transportation Equity Act: a Legacy for Users (SAFETEA – LU). The program also includes Local Proposition C-25% funding provided by LACMTA. When the sources of funding from Caltrans are not separately identifiable, LACMTA's policy is to report amounts expended under the program first as federal expenditures up to the approved budgeted amount and then the remaining expenditures will be reported as state expenditures.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2015

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiencies identified not considered to be material weaknesses? X Yes None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards:

Internal Control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiencies identified not considered to be material weaknesses? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

CFDA 20.500 / 20.507 / 20.525 – Federal Transit Cluster
CFDA 20.205 – Highway Planning and Construction Cluster
CFDA 20.516 / 20.521 – Transit Services Cluster
CFDA 97.075 – Rail and Transit Security Program

Dollar threshold used to distinguish type A and B programs: \$ 3,000,000

Auditee qualified as low-risk auditee? X Yes No

(Continued)

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2015

SECTION 2 - FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding 2015-001 – OPEB Benefits and Plan Provisions (Significant Deficiency)

Condition: Management determined that certain benefit provisions were not included in the actuarial calculation used to measure the Net OPEB Obligation liability on LACMTA's statement of net position. Management discovered that lifetime benefits for ATU employees were not reflected in the previous valuations of the net OPEB obligation. With the addition of the OPEB lifetime benefit provision, the calculation of the prior Annual Required Contributions were understated and resulted in the Net OPEB Obligation liability being understated. This benefit plan provision did not affect any of the other LACMTA OPEB plans.

Criteria: Accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (Governmental GAAP) -- Under GASB 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans. The projection of benefits should include all benefits covered by the current substantive plan (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided.

Effect: An adjustment was made to recognize the lifetime benefits for ATU employees that were not reflected in the previous valuations of the net OPEB obligation. With the addition of the OPEB lifetime benefit provision, the calculation of the prior Annual Required Contribution amounts were understated and resulted in the Net OPEB Obligation liability being understated. A prior period adjustment of \$215,000,000 was made to decrease the business-type activities' beginning net position and increase the net OPEB obligation by \$215,000,000. The impact on change in net position for the year ended June 30, 2014 was a reduction of \$35,000,000.

Cause: As part of a transition from one actuarial firm to a new actuarial firm, management and the actuary reviewed benefit plan provisions and identified the ATU lifetime benefit that was not included, although the benefit had been in place for several years.

Recommendation: We recommend that LACMTA management perform a review of all OPEB plan provisions and benefits any time a change in the plan is made.

Management Response and Corrective Action Plan: LACMTA management performed a detailed review of OPEB plan provisions as part of an actuarial valuation specialist transition during 2015 to determine the existence, completeness, and values of benefits provided. Ongoing, management will perform an annual review of plan and benefit changes for each OPEB plan and update the actuary on changes to the plan to evaluate their impact on benefits expense and valuation estimates.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2015

SECTION 3 - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED IN OMB CIRCULAR A-133 SECTION 510(A):

None

SECTION 4 - PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Finding 2014-001 – Davis-Bacon Act – Submission of Certified Payrolls (Significant Deficiency)

Federal Program Information: U.S. Department of Transportation – Federal Transit Cluster and National Infrastructure Investments (CFDA 20.500 and 20.933)

Condition: Management of the Los Angeles County Metropolitan Transportation Authority (LACMTA) is required to obtain, on a weekly basis, certified payrolls and statements of compliance from each contractor for each week in which contracted work is performed under the Davis-Bacon Act. For all major programs cited below, we noted that management did not have adequate controls in place to ensure that certified payrolls and compliance statements are received on a weekly basis as required by the Davis-Bacon Act (29 CFR Sections 5.5 and 5.6).

In our sample of 40 certified payrolls and compliance statements for the Federal Transit Cluster, we noted all of our samples were not received on a weekly basis. We noted that 27 of the exceptions were received between 2 and 243 days past the due date. For 13 of the samples, we noted that received date stamp on the documentation for the respective samples were either illegible or not present on the weekly certified payroll reports. Although the certified payrolls were not received weekly, the LACMTA ultimately received all of the required certified payrolls for the samples tested.

In our sample of 40 certified payrolls and compliance statements for the National Infrastructure Investments program, we noted 35 of our samples were not received on a weekly basis. We noted that these exceptions were received between 1 and 157 days past the due date. Although the certified payrolls were not received weekly, the LACMTA ultimately received all of the required certified payrolls for the samples tested.

Status: Resolved. For the Federal Transit Cluster, we selected a sample of 60 certified payrolls from fiscal year 2015 and did not identify any testing exceptions. The National Infrastructure Investments grant did not have any federal expenditures in fiscal year 2015, therefore no testing or follow-up was completed.

Finding 2014-002 – Procurement, Suspension, and Debarment (Significant Deficiency)

Federal Program Information: U.S. Department of Transportation – Federal Transit Cluster, National Infrastructure Investments, Rail and Transit Service Security Grant Program (CFDA 20.500, 20.933, and 97.075)

Condition: Management is required to document the significant history of procurements, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis of contract type. Management is also required to perform verification for all covered transactions by checking the Excluded Party List System (EPLS) to ensure covered transactions are not awarded to suspended or debarred parties. For all major programs cited below, we noted that management did not have adequate controls in place to ensure compliance with procurement requirements.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2015

Federal Capital Improvement Grants

In our sample of 40 contracts and purchase orders with values over \$25,000 that had expenditures incurred during the fiscal year ended June 30, 2014, we noted 10 contract files did not have certification of non-suspension and debarment or EPLS verification within the documentation prior to federal funds being expended. We were, however, able to verify through the System for Award Management (SAM) that the respective vendors were not listed on the EPLS as suspended or debarred.

There were also 6 contracts which were missing the following information:

- 2 contract files were missing support for the history of the procurement, including the evidence of full and open competition. These contract files were also missing the required and Buy America certification.
- 1 contract file was missing support for the history of the procurement, including the evidence of full and open competition and of the cost or price analysis.
- 2 contract files were missing support for the history of the procurement, including the evidence of full and open competition.
- 1 contract file could not be located.

The federal share of expenditures associated with the 6 contracts and purchase orders that are not in compliance with the procurement requirements amounted to \$172,073 of the \$384,087,792 of total federal program expenditures for the Federal Transit Cluster.

National Infrastructure Investments

In our sample of 3 contracts and purchase orders with values over \$25,000 that had expenditures incurred during the fiscal year ended June 30, 2014, we noted 1 contract file did not have certification of non-suspension and debarment or EPLS verification within the documentation prior to federal funds being expended. We were, however, able to verify through the System for Award Management (SAM) that the respective vendors were not listed on the EPLS as suspended or debarred.

Rail and Transit Security Grant Program

In our sample of 4 contracts and purchase orders with values over \$25,000 that had expenditures incurred during the fiscal year ended June 30, 2014, we noted 2 contract files did not have certification of non-suspension and debarment or EPLS verification within the documentation prior to federal funds being expended. We were, however, able to verify through the SAM that the respective vendors were not listed on the EPLS as suspended or debarred.

Status: Resolved. For the Federal Transit Cluster, we selected a sample of 20 contracts and purchase orders from fiscal year 2015 and did not identify any testing exceptions with any of the procurement requirements and all 20 contract files were available and included supporting documentation. The National Infrastructure Investments grant did not have any federal expenditures in fiscal year 2015, therefore no testing or follow-up was completed. For the Rail and Transit Security Grant Program, we selected a sample of 6 contracts and purchase orders and did not identify any testing exceptions related to suspension or debarment.

**LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY**

FEDERAL FUNDING ALLOCATION DATA

Transportation Operating Agency (ID# 90154)

**Independent Accountant's Report
On Applying Agreed-Upon Procedures**

Fiscal year ended June 30, 2015

Independent Accountant's Report
on Applying Agreed Upon Procedures

Board of Directors
Los Angeles County Metropolitan Transportation Authority
Los Angeles, California

The Federal Transit Administration (FTA) has established the following standards with regard to the data reported to it in the Federal Funding Allocation Statistics form (FFA-10) of the Los Angeles County Metropolitan Transportation Authority's (the Authority) annual National Transit Database (NTD) report:

- A system is in place and maintained for recording data in accordance with NTD definitions. The correct data are being measured and no systematic errors exist.
- A system is in place to record data on a continuing basis, and the data gathering is an ongoing effort.
- Source documents are available to support the reported data and are maintained for FTA review and audit for a minimum of three years following FTA's receipt of the NTD report. The data are fully documented and securely stored.
- A system of internal controls is in place to ensure the data collection process is accurate and that the recording system and reported comments are not altered. Documents are reviewed and signed by a supervisor, as required.
- The data collection methods are those suggested by FTA or otherwise meet FTA requirements.
- The deadhead miles, computed as the difference between the reported total actual vehicle miles data and the reported total actual vehicle revenue miles (VRM) data, appear to be accurate.
- Data is consistent with prior reporting periods and other facts known about the Authority's operations.

We have applied the procedures, as described in Attachment A, to the data contained in the accompanying FFA-10 for the fiscal year ending June 30, 2015. Such procedures, which were agreed to and specified by FTA in the Declarations section of the *2014 Policy Manual* and were agreed to by the Authority, were applied to assist the Authority in evaluating whether the Authority complied with the standards described in the first paragraph of this part and that the information included in the NTD report FFA-10 for the fiscal year ending June 30, 2015 is presented in conformity with the requirements of the *Uniform System of Accounts (USOA) and Records and Reporting System; Final Rule*, as specified in 49 CFR Part 630, Federal Register, January 15, 1993 and as presented in the *2014 Policy Manual*. The Authority's management is responsible for the FFA-10 and compliance with NTD requirements.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment A either for the purpose for which this report has been requested or for any other purpose. This report is intended solely for your information and for FTA and should not be used by those who did not participate in determining the procedures.

The procedures in Attachment A were applied separately to each of the information systems used to develop the reported actual vehicle revenue miles (VRM), fixed guideway (FG), directional route miles (DRM), passenger miles traveled (PMT), and operating expenses (OE) of the Authority for the fiscal year ending June 30, 2015 for each of the following modes:

- Motor Bus – directly operated
- Motor Bus – purchased transportation
- Rapid Bus – directly operated
- Heavy Rail – directly operated
- Light Rail – directly operated
- Vanpool – purchased transportation

The agreed upon procedures are substantially less in scope than an examination, the objective of which is an expression of an opinion on the FFA-10 form. Accordingly, we do not express such an opinion. Also, we do not express an opinion on the Authority's system of internal control taken as a whole.

In performing the procedures, except for the information and findings identified in Attachment A to this report, no matters came to our attention that would be required to be reported to you regarding the information included in the NTD report on the FFA-10 Form for the fiscal year ending June 30, 2015. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report relates only to the information described above, and does not extend to the Authority's financial statements taken as a whole, or the forms in the Authority's NTD report other than the FFA-10 form, for any date or period.

This report is intended solely for the information and use of the Board of Directors, the management of the Authority, and the FTA and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sherman Oaks, California
November 18, 2015

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
ATTACHMENT A – AGREED UPON PROCEDURES
June 30, 2015

FTA Suggested Procedures:

- a. Obtain and read a copy of written procedures related to the system for reporting and maintaining data in accordance with the NTD requirements and definitions set forth in 49 CFR Part 630, Federal Register, dated January 15, 1993 and as presented in the 2014 Policy Manual. If procedures are not written, discuss the procedures with the personnel assigned responsibility of supervising the NTD data preparation and maintenance.

Step performed without exception.

- b. Discuss the procedures (written or informal) with the personnel assigned responsibility of supervising the preparation and maintenance of NTD data to determine:
- The extent to which the transit agency followed the procedures on a continuous basis, and
 - Whether they believe such procedures result in accumulation and reporting of data consistent with the NTD definitions and requirements set forth in 49 CFR Part 630, Federal Register, dated January 15, 1993 and as presented in the 2014 Policy Manual.

Step performed without exception.

- c. Ask these same personnel about the retention policy that the transit agency follows as to source documents supporting NTD data reported on the Federal Funding Allocation Statistics form (FFA-10).

Step performed without exception.

- d. Based on a description of the transit agency's procedures obtained in items a and b above, identify all the source documents that the transit agency must retain for a minimum of three years. For each type of source document, select three months out of the year and determine whether the document exists for each of these periods.

Selected source documents from three different months in fiscal years 2014, 2013, and 2012 (9/19/2011, 11/10/2011, 4/15/2012, 8/19/2012, 3/11/2013, 5/20/2013, 10/26/2013, 2/8/2014, 4/7/2014) to ensure they were retained for a minimum of three years. We observed that the source documents were maintained for each fiscal year as required.

- e. Discuss the system of internal controls. Inquire whether separate individuals (independent of the individuals preparing source documents and posting data summaries) review the source documents and data summaries for completeness, accuracy, and reasonableness and how often these individuals perform such reviews.

Per inquiry with the management, the individuals reviewing source documents are independent of individuals preparing the information and the review is done on a periodic basis depending on the data being reviewed.

- f. Select a random sample of source documents and determine whether supervisors' signatures are present as required by the system of internal controls. If supervisors' signatures are not required, inquire how personnel document supervisors' review.

Selected a random sample of 126 source documents, noting the required approval on all source documents. Step performed without exception.

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
ATTACHMENT A – AGREED UPON PROCEDURES
June 30, 2015

- g. Obtain the worksheets used to prepare the final data that the transit agency transcribes onto the Federal Funding Allocation Statistics form. Compare the periodic data included on the worksheets to the periodic summaries prepared by the transit agency. Test the arithmetical accuracy of the summaries.

We obtained the worksheets and agreed the data on the worksheets to the summaries provided and verified the arithmetical accuracy of the summaries without exception.

- h. Discuss the procedure for accumulating and recording passenger miles traveled (PMT) data in accordance with NTD requirements with transit agency staff. Inquire whether the procedure is one of the methods specifically approved in the 2014 Policy Manual.

For the rail modes, the Authority utilized a statistical sampling method as described in FTA Circulars 2710.1A. For the motor bus and van pool modes, the Authority utilized a 100% count verification for passenger trips and an estimate of passenger miles based on a statistical sampling method as described in FTA Circulars 2710.2A.

- i. Discuss with transit agency staff, the transit agency's eligibility to conduct statistical sampling for PMT data every third year. Determine whether the transit agency meets NTD criteria that allow transit agencies to conduct statistical samples for accumulating PMT data every third year rather than annually. Specifically:
 - a. According to the 2010 Census, the public transit agency serves an urbanized area (UZA) of less than 500,000 population.
 - b. The public transit agency directly operates fewer than 100 revenue vehicles in all modes in annual maximum revenue service (VOMS) (in any size UZA).
 - c. Service purchased from a seller is included in the transit agency's NTD report.
 - d. For transit agencies that meet one of the above criteria, review the NTD documentation for the most recent mandatory sampling year (2014) and determine that statistical sampling was conducted and meets the 95% confidence and +10% precision requirements.
 - e. Determine how the transit agency estimated annual PMT for the current report year.

Per inquiry with the Authority management, the Authority does not meet any of the three criteria that allows transit agencies to conduct statistical samples for accumulating passenger mile data every third year. Therefore, the Authority conducts statistical sampling annually as described in procedure h.

- j. Obtain a description of the sampling procedure for estimation of PMT data used by the transit agency. Obtain a copy of the transit agency's working papers or methodology used to select the actual sample of runs for recording PMT data. If the transit agency used average trip length, determine that the universe of runs was the sampling frame. Determine that the methodology used to select specific runs from the universe resulted in a random selection of runs. If the transit agency missed a selected sample run, determine that a replacement sample run was random. Determine that the transit agency followed the stated sampling procedure.

Step performed without exception.

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
ATTACHMENT A – AGREED UPON PROCEDURES
June 30, 2015

- k. Select a random sample of the source documents for accumulating PMT data and determine that the data are complete (all required data are recorded) and that the computations are accurate. Select a random sample of the accumulation periods and re-compute the accumulations for each of the selected periods. List the accumulation periods that were tested. Test the arithmetical accuracy of the summarization.

Selected a random sample of 148 source documents from October 2014, February 2015, and June 2015, used for accumulating passenger miles traveled (PMT) data and determined they were complete and mathematically accurate. We tested the average trip length and the total trips for each of the samples and recomputed the accumulations for each period. Step performed without exception.

- l. Discuss the procedures for systematic exclusion of charter, school bus, and other ineligible vehicle miles from the calculation of actual vehicle revenue miles with transit agency staff and identify that stated procedures are followed. Select a random sample of source documents used to record charter bus service and test the arithmetical accuracy of the computations.

Step performed without exception.

- m. For actual vehicle revenue miles (VRM) data, document the collection and recording methodology and identify that deadhead miles are systematically excluded from the computation. This is accomplished as follows:
- If actual VRMs are calculated from schedules, document the procedures used to subtract missed trips. Select a random sample of the days that service is operated, and re-compute the daily total of missed trips and missed VRMs. Test the arithmetical accuracy of the summary.
 - If actual VRMs are calculated from hubodometers, document the procedures used to calculate and subtract deadhead mileage. Select a random sample of the hubodometer readings and determine that the stated procedures for hubodometer deadhead mileage adjustments are applied as prescribed. Test the arithmetical accuracy of the summary of intermediate accumulations.
 - If actual VRMs are calculated from vehicle logs, select random samples of the vehicle logs and determine that the deadhead mileage has been correctly computed in accordance with FTA definitions.

Vehicle logs are used to compute the VRM data for non-fixed routes. For fixed routes, the Authority uses monthly services reports and daily loss service records to record any missed trips. Selected a haphazard sample of 24 source documents and recalculated the VRMs for the sample of trips, excluding deadhead miles. Step performed without exception.

- n. For rail modes, obtain and read the recording and accumulation sheets for actual VRM's and identify that locomotive miles are not included in the computation.

Step performed without exception.

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
ATTACHMENT A – AGREED UPON PROCEDURES
June 30, 2015

- o. If fixed guideway or High Intensity Bus directional route miles (FG or HIB DRM) are reported, interview the person responsible for maintaining and reporting the NTD data whether the operations meet the FTA definition of fixed guideway (FG) or High Intensity Bus (HIB) in that the service is:
- Rail, trolleybus (TB), ferryboat (FB), or aerial tramway (TR) or
 - Bus (MB) service operating over exclusive or controlled access rights-of-way (ROW), and
 - Access is restricted
 - Legitimate need for restricted access is demonstrated by peak period level of service D or worse on parallel adjacent highway, and
 - Restricted access is enforced for freeways; priority lanes used by other high occupancy vehicles (HOV) (i.e., vanpools (VP), carpools) must demonstrate safe operation (see Fixed Guideway Segments form (P-40))
 - High Occupancy / Toll (HO/T) lanes meet FHWA requirements for traffic flow and use of toll revenues, and that the transit agency has provided to NTD a copy of the State's certification to the US Secretary of Transportation that it has established a program for monitoring, assessing and reporting on the operation of the HOV facility with HO/T lanes.

Step performed without exception.

- p. Discuss the measurement of FG and HIB DRM with the person reporting NTD data and determine that the he or she computed mileage in accordance with the FTA definitions of FG/HIB and DRM. Inquire of any service changes during the year that resulted in an increase or decrease in DRMs. If a service change resulted in a change in overall DRMs, re-compute the average monthly DRMs, and reconcile the total to the FG/HIB DRM reported on the Federal Funding Allocation Statistics form.

Per inquiry of management there were no service changes to FG during fiscal year 2015.

- q. Inquire if any temporary interruptions in transit service occurred during the report year. If these interruptions were due to maintenance or rehabilitation improvements to a FG segment(s), the following apply:
- Report DRMs for the segment(s) for the entire report year if the interruption is less than 12 months in duration. Report the months of operation on the FG/HIB segments form as 12. The transit agency should document the interruption.
 - If the improvements cause a service interruption on the FG-DRMs lasting more than 12 months, the transit agency should contact their validation analyst to discuss. FTA will make a determination on how the DRMs should be reported.

Per inquiry of management there were no interruptions in service during fiscal year 2015 that would require a change in reporting.

- r. Measure FG/HIB DRM from maps or by retracing route.

We measured all of the FG/HIB maps. Step performed without exception.

- s. Discuss whether other public transit agencies operate service over the same FG/HIB as the transit agency. If yes, determine that the transit agency coordinated with the other transit agency (or agencies) such that the DRMs for the segment of FG/HIB are reported only once to the NTD on the Federal Funding Allocation form. Each transit agency should report the actual VRM, PMT, and OE for the service operated over the same FG/HIB.

Per inquiry of management, the Authority is the approved operator for all of their FG and the Authority is reporting their actual VRM, PMT, and OE for their services. Step performed without exception.

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
ATTACHMENT A – AGREED UPON PROCEDURES
June 30, 2015

- t. Review the FG/HIB segments form. Discuss the Agency Revenue Service Start Date for any segments added in the 2015 report year with the persons reporting NTD data. This is the commencement date of revenue service for each FG/HIB segment. Determine that the date reported is the date that the agency began revenue service. This may be later than the Original Date of Revenue Service if the transit agency is not the original operator. If a segment was added for the 2014 report year, the Agency Revenue Service Date must occur within the transit agency's 2014 fiscal year. Segments are grouped by like characteristics. Note that for apportionment purposes, under the State of Good Repair (§5337) and Bus and Bus Facilities (§5339) programs, the 7-year age requirement for fixed guideway/High Intensity Bus segments is based on the report year when the segment is first reported by any NTD transit agency. This pertains to segments reported for the first time in the current report year. Even if a transit agency can document an Agency Revenue Service Start Date prior to the current NTD report year, the FTA will only consider segments continuously reported to the NTD.

Per inquiry of management, there were no new FG segments added in fiscal year 2015.

- u. Compare operating expenses with audited financial data after reconciling items are removed.

Step performed without exception.

- v. If the transit agency purchases transportation (PT) services, interview the personnel reporting the NTD data on the amount of PT-generated fare revenues. The PT fare revenues should equal the amount reported on the Contractual Relationship form (B-30).

We agreed the fare revenue for the vanpool and motor bus PT without exception.

- w. If the transit agency's report contains data for PT services and assurances of the data for those services is not included, obtain a copy of the Independent Auditor Statement for Federal Funding Allocation (IAS-FFA) data of the PT service. Attach a copy of the statement to the report. Note as an exception if the transit agency does not have an Independent Auditor Statement for the PT data.

We inquired to management and noted that the report does include PT from private operators, but that an Independent Auditor Statement is not required since the Authority is a public transportation provider and the PT expenditures are included on the B-30 form of the NTD.

- x. If the transit agency purchases transportation services, obtain a copy of the PT contract and determine that the contract specifies the public transportation services to be provided; the monetary consideration obligated by the transit agency or governmental unit contracting for the service; the period covered by the contract (and that this period overlaps the entire, or a portion of, the period covered by the transit agency's NTD report); and is signed by representatives of both parties to the contract. Interview the person responsible for retention of the executed contract, and determine that copies of the contracts are retained for three years.

We obtained a copy of the PT contract for each provider and noted that the contract included a description of the services to be provided, the monetary consideration obligated by the Authority for the service and the period covered by the contract and that this period is the same as, or a portion of, the period covered by the Authority's NTD report; and is signed by representatives of both parties to the contract. Management stated that copies of the executed contracts are retained for the last three years, as applicable.

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
ATTACHMENT A – AGREED UPON PROCEDURES
June 30, 2015

- y. If the transit agency provides service in more than one UZA, or between an UZA and a non-UZA, inquire of the procedures for allocation of statistics between UZAs and non-UZAs. Obtain and review the FG segment worksheets, route maps, and urbanized area boundaries used for allocating the statistics, and determine that the stated procedure is followed and that the computations are correct.

Per management, the Authority provides most of their services in one UZA and therefore it is all allocated to that one UZA. Additionally, all of the services provided are in urbanized areas and allocations to non-urbanized areas are not required, therefore the procedure is not applicable.

- z. Compare the data reported on the Federal Funding Allocation Statistics Form to data from the prior report year and calculate the percentage change from the prior year to the current year. For actual VRM, PMT or OE data that have increased or decreased by more than 10%, or FG DRM data that have increased or decreased. Interview transit agency management regarding the specifics of operations that led to the increases or decreases in the data relative to the prior reporting period.

We compared and agreed the data reported on the Federal Funding Allocation Statistics form (Form FFA-10) to comparable data for the prior report year and calculated the percentage change from the prior year to the current year. For any current year data that increased or decreased by more than 10%, we inquired to the Authority and documented the explanations for the variances.

- aa. The auditor should document the specific procedures followed, documents reviewed, and tests performed in the work papers. The work papers should be available for FTA review for a minimum of three years following the NTD report year. The auditor may perform additional procedures, which are agreed to by the auditor and the transit agency, if desired. The auditor should clearly identify the additional procedures performed in a separate attachment to the statement as procedures that were agreed to by the transit agency and the auditor but not by the FTA.

Step performed without exception.

**LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY**

FEDERAL FUNDING ALLOCATION DATA

LA County Small Operators (ID# 90166)

**Independent Accountant's Report
On Applying Agreed-Upon Procedures**

Fiscal year ended June 30, 2015

Independent Accountant's Report
on Applying Agreed Upon Procedures

Board of Directors
Los Angeles County Metropolitan Transportation Authority
Los Angeles, California

The Federal Transit Administration (FTA) has established the following standards with regard to the data reported to it in the Federal Funding Allocation Statistics form (FFA-10) of the Los Angeles County Metropolitan Transportation Authority – LA County Small Operators' (ID# 90166) (the Authority's) annual National Transit Database (NTD) report:

- A system is in place and maintained for recording data in accordance with NTD definitions. The correct data are being measured and no systematic errors exist.
- A system is in place to record data on a continuing basis, and the data gathering is an ongoing effort.
- Source documents are available to support the reported data and are maintained for FTA review and audit for a minimum of three years following FTA's receipt of the NTD report. The data are fully documented and securely stored.
- A system of internal controls is in place to ensure the data collection process is accurate and that the recording system and reported comments are not altered. Documents are reviewed and signed by a supervisor, as required.
- The data collection methods are those suggested by FTA or otherwise meet FTA requirements.
- The deadhead miles, computed as the difference between the reported total actual vehicle miles data and the reported total actual vehicle revenue miles (VRM) data, appear to be accurate.
- Data is consistent with prior reporting periods and other facts known about the Authority's operations.

We have applied the procedures, as described in Attachment A, to the data contained in the accompanying FFA-10 for the fiscal year ending June 30, 2015. Such procedures, which were agreed to and specified by FTA in the Declarations section of the *2014 Policy Manual* and were agreed to by the Authority, were applied to assist the Authority in evaluating whether the Authority complied with the standards described in the first paragraph of this part and that the information included in the NTD report FFA-10 for the fiscal year ending June 30, 2015 is presented in conformity with the requirements of the *Uniform System of Accounts (USOA) and Records and Reporting System; Final Rule*, as specified in 49 CFR Part 630, Federal Register, January 15, 1993 and as presented in the *2014 Policy Manual*. The Authority's management is responsible for the FFA-10 and compliance with NTD requirements.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment A either for the purpose for which this report has been requested or for any other purpose. This report is intended solely for your information and for FTA and should not be used by those who did not participate in determining the procedures.

The procedures in Attachment A were applied separately to each of the information systems used to develop the reported actual vehicle revenue miles (VRM), fixed guideway (FG), directional route miles (DRM), passenger miles traveled (PMT), and operating expenses (OE) of the Authority for the fiscal year ending June 30, 2015 for each of the following modes and jurisdictions (collectively referred to as the Authority):

- Modes
 - Motor Bus – purchased transportation (MB)
 - Demand Response – purchased transportation (DR)
 - Demand Response Taxi – purchased transportation (DT)
- Jurisdictions:
 - Agoura Hills
 - Alhambra
 - Artesia
 - Avalon
 - Azusa
 - Baldwin Park
 - Bell
 - Bell Gardens
 - Bellflower
 - Beverly Hills
 - Burbank
 - Calabasas
 - Carson
 - Cerritos
 - Compton
 - Covina
 - Cudahy
 - Downey
 - Duarte
 - El Monte
 - Glendale
 - Glendora
 - Huntington Park
 - Inglewood
 - LACDPW – Avocado Heights
 - LACDPW – East LA
 - LACDPW – East Valinda
 - LACDPW – King Medical Center
 - LACDPW – South Whittier
 - LACDPW – Whittier
 - LACDPW – Willowbrook
 - LACDPW – Willowbrook Shuttle
 - Lawndale
 - Lynwood
 - Malibu
 - Manhattan Beach
 - Maywood
 - Monrovia
 - Monterey Park
 - Palos Verdes Peninsula Transit Authority
 - Pasadena
 - Pico Rivera
 - Pomona Valley Transportation Authority
 - Rosemead
 - Santa Fe Springs
 - South Gate
 - South Pasadena
 - West Covina
 - West Hollywood
 - Whittier

(Continued)

The agreed upon procedures are substantially less in scope than an examination, the objective of which is an expression of an opinion on the FFA-10 form. Accordingly, we do not express such an opinion. Also, we do not express an opinion on the Authority's system of internal control taken as a whole.

In performing the procedures, except for the information and findings identified in Attachment A to this report, no matters came to our attention that would be required to be reported to you regarding the information included in the NTD report on the FFA-10 Form for the fiscal year ending June 30, 2015. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report relates only to the information described above, and does not extend to the Authority's financial statements taken as a whole, or the forms in the Authority's NTD report other than the FFA-10 form, for any date or period.

This report is intended solely for the information and use of the Board of Directors, the management of the Authority, and the FTA and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP
Crowe Horwath LLP

Sherman Oaks, California
October 14, 2015

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
ATTACHMENT A – AGREED UPON PROCEDURES
June 30, 2015

FTA Suggested Procedures:

- a. Obtain and read a copy of written procedures related to the system for reporting and maintaining data in accordance with the NTD requirements and definitions set forth in 49 CFR Part 630, Federal Register, dated January 15, 1993 and as presented in the 2014 Policy Manual. If procedures are not written, discuss the procedures with the personnel assigned responsibility of supervising the NTD data preparation and maintenance.

Step performed with each jurisdiction without exception.

- b. Discuss the procedures (written or informal) with the personnel assigned responsibility of supervising the preparation and maintenance of NTD data to determine:
- The extent to which the transit agency followed the procedures on a continuous basis, and
 - Whether they believe such procedures result in accumulation and reporting of data consistent with the NTD definitions and requirements set forth in 49 CFR Part 630, Federal Register, dated January 15, 1993 and as presented in the 2014 Policy Manual.

Step performed with each jurisdiction without exception.

- c. Ask these same personnel about the retention policy that the transit agency follows as to source documents supporting NTD data reported on the Federal Funding Allocation Statistics form (FFA-10).

Step performed with each jurisdiction without exception.

- d. Based on a description of the transit agency's procedures obtained in items a and b above, identify all the source documents that the transit agency must retain for a minimum of three years. For each type of source document, select three months out of the year and determine whether the document exists for each of these periods.

Selected source documents from three different months in fiscal years 2014, 2013, and 2012 (8/18/2011, 12/10/2011, 3/15/2012, 7/19/2012, 2/11/2013, 6/20/2013, 11/26/2013, 1/8/2014, 3/7/2014) to ensure they were retained for a minimum of three years. We observed that the source documents were maintained for each fiscal year, for each jurisdiction, with the exception of the following:

- **City of Bell (MB) – The city was unable to provide the motor bus daily trip sheets and daily summaries for the following dates: 8/18/2011, 12/10/2011, 3/15/2012, 7/19/2012, 2/11/2013, and 6/20/2013; however, since they did not begin reporting to the NTD until July 2013, they were not required to maintain information prior to that date.**
 - **City of Bell (DR) – The city was unable to provide the motor bus daily trip sheets and daily summaries for the following dates: 8/18/2011, 12/10/2011, 3/15/2012, and 7/19/2012. In addition, the monthly summaries, monthly invoices, and annual summaries could not be provided for those corresponding months/years.**
 - **City of Bell (DT) – They city was unable to provide the motor bus daily trip sheets and daily summaries for the following dates: 8/18/2011, 12/10/2011, 3/15/2012, 7/19/2012, and 2/11/2013; however, since they did not begin reporting to the NTD until March 2013, they were not required to maintain information prior to that date.**
 - **City of Calabasas (DR) – The city was unable to provide the demand response daily summaries for 8/18/2011, 12/10/2011, and 3/15/2012, and the demand response trip sheets**
-

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
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for 12/10/2011 and 3/15/2012. In addition, the monthly summaries, monthly invoices, and annual summaries could not be provided for those corresponding months/years.

- **City of Carson (MB)** - The city was unable to provide motor bus daily trip sheets, daily summaries, monthly summaries, annual summaries, monthly invoices and/or NTD report for the following dates: 8/18/2011, 12/10/2011, and 3/15/2012.
 - **City of Maywood (DR)** – The city was unable to provide the motor bus daily trip sheets and daily summaries for the following dates: 8/18/2011, 12/10/2011, 3/15/2012, 7/19/2012, 2/11/2013, and 6/20/2013. In addition, the monthly summaries, monthly invoices, and annual summaries could not be provided for those corresponding months/years.
 - **City of Maywood (MB)** - The city was unable to provide the motor bus daily trip sheets and daily summaries for the following dates: 8/18/2011, 12/10/2011, 3/15/2012, 7/19/2012, 2/11/2013, and 6/20/2013; however, since they did not begin reporting to the NTD until the current year, they were not required to maintain information from the prior years.
- e. Discuss the system of internal controls. Inquire whether separate individuals (independent of the individuals preparing source documents and posting data summaries) review the source documents and data summaries for completeness, accuracy, and reasonableness and how often these individuals perform such reviews.

Per inquiry with the various jurisdiction management, the individuals reviewing source documents are independent of individuals preparing the information and the review is done on a periodic basis depending on the data being reviewed.

- f. Select a random sample of source documents and determine whether supervisors' signatures are present as required by the system of internal controls. If supervisors' signatures are not required, inquire how personnel document supervisors' review.

Selected a random sample of 382 source documents across all of the jurisdictions, noting the required approval on all source documents, with the exception of two out of ten selected from the City of Artesia.

- g. Obtain the worksheets used to prepare the final data that the transit agency transcribes onto the Federal Funding Allocation Statistics form. Compare the periodic data included on the worksheets to the periodic summaries prepared by the transit agency. Test the arithmetical accuracy of the summaries.

We obtained the worksheets and agreed the data on the worksheets to the summaries provided, with the exception of the following:

- **City of Alhambra (DR)** – We noted an exception in the processing of NTD data to the MR-20 and S-10 forms. Specifically, the September 2014 Monthly Report contained incorrect data due to a transposition error as the mileage shown under 'Vehicle Mileage at First Pick Up' on trip sheet (source document) was incorrectly inputted into September 2014 monthly report. When recomputed, Vehicle Revenue Miles (VRM) should have been stated at 55.5 instead of the reported 11.7, creating a misstatement of 43.8 Vehicle Revenue Miles (VRM). The City subsequently corrected the transposition error on the final S-10 NTD reporting form.
- **City of Burbank (MB)** - Per our review of the May 28, 2015 source documents, we noted an exception regarding the reporting of vehicle revenue miles (VRM) data. While the data for VRM was added up correctly per the supporting trip sheets for the day, we noted the total

LOS ANGELES COUNTY METROPOLITAN
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amount did not agree to the monthly summary report for May 2015. The monthly summary reported VRM for this particular date at 1,035 VRM; however, our recalculation of VRM for this date yielded 1,002 VRM. The City subsequently corrected the errors on the final S-10 NTD reporting form.

- **City of Carson (DT) -** We noted an exception in the processing of NTD data to the MR-20 and S-10 forms. Specifically, the July 2014 Monthly Report contained incorrect data due to a transposition error. Further inquiry with the City's Transit Operator, yielded the reason to be due to the erroneous input of June 2014's data instead of July 2014's data. When considered, the transposition error differences amounted to 120 for Unlinked Passenger Trips (UPT); 4 for Vehicle Revenue Hours (VRH); and 140 for Vehicle Revenue Miles (VRM). We also observed a discrepancy on the MR-20 form for the month of August – a 3 hour difference for Vehicle Revenue Hours (VRH) was noted between the Monthly Report and MR-20 form, having an effect on S-10 form. City subsequently corrected the errors on the final S-10 NTD reporting form.
 - **Palos Verdes Peninsula Transit Authority (MB) –** We noted that for the month of September 2014 vehicle revenue miles reported at 28,166 and total miles reported at 39,359 did not agree to vehicle revenue miles and total miles on the Yearly Report reported at 27,764 and 39,333, respectively. Upon discussion with the City, the under reporting resulted from a data entry error that was not identified due to insufficient review controls implemented. The City subsequently corrected the errors on the final S-10 NTD reporting form.
- h. Discuss the procedure for accumulating and recording passenger miles traveled (PMT) data in accordance with NTD requirements with transit agency staff. Inquire whether the procedure is one of the methods specifically approved in the 2014 Policy Manual.

For MB mode, the Authority utilized a statistical sampling method as described in FTA Circulars 2710.1A. For DR and DT modes, the Authority utilized a 100% count verification at some jurisdictions and a statistical sampling method as described in FTA Circulars 2710.2A at other jurisdictions.

- i. Discuss with transit agency staff (the accountant may wish to list the titles of the persons interviewed) the transit agency's eligibility to conduct statistical sampling for PMT data every third year. Determine whether the transit agency meets NTD criteria that allow transit agencies to conduct statistical samples for accumulating PMT data every third year rather than annually. Specifically:
- a. According to the 2010 Census, the public transit agency serves an urbanized area (UZA) of less than 500,000 population.
 - b. The public transit agency directly operates fewer than 100 revenue vehicles in all modes in annual maximum revenue service (VOMS) (in any size UZA).
 - c. Service purchased from a seller is included in the transit agency's NTD report.
 - d. For transit agencies that meet one of the above criteria, review the NTD documentation for the most recent mandatory sampling year (2014) and determine that statistical sampling was conducted and meets the 95% confidence and +10% precision requirements.
 - e. Determine how the transit agency estimated annual PMT for the current report year.
-

LOS ANGELES COUNTY METROPOLITAN
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Per inquiry with the Authority management, the Authority does not meet any of the three criteria that allows transit agencies to conduct statistical samples for accumulating passenger mile data every third year. Therefore, the Authority conducts statistical sampling annually as described in procedure h.

- j. Obtain a description of the sampling procedure for estimation of PMT data used by the transit agency. Obtain a copy of the transit agency's working papers or methodology used to select the actual sample of runs for recording PMT data. If the transit agency used average trip length, determine that the universe of runs was the sampling frame. Determine that the methodology used to select specific runs from the universe resulted in a random selection of runs. If the transit agency missed a selected sample run, determine that a replacement sample run was random. Determine that the transit agency followed the stated sampling procedure.

Step performed with each jurisdiction without exception.

- k. Select a random sample of the source documents for accumulating PMT data and determine that the data are complete (all required data are recorded) and that the computations are accurate. Select a random sample of the accumulation periods and re-compute the accumulations for each of the selected periods. List the accumulation periods that were tested. Test the arithmetical accuracy of the summarization.

Selected a haphazard sample of 181 source documents across all of the jurisdictions from September 2014, March 2015, and May 2015, used for accumulating passenger miles traveled (PMT) data and determined they were complete and mathematically accurate. We tested the average trip length and the total trips for each of the samples and recomputed the accumulations for each period. Step performed without exception.

- l. Discuss the procedures for systematic exclusion of charter, school bus, and other ineligible vehicle miles from the calculation of actual vehicle revenue miles with transit agency staff and identify that stated procedures are followed. Select a random sample of source documents used to record charter bus service and test the arithmetical accuracy of the computations.

This procedure was not applicable to the Authority. As such, procedure was not performed.

- m. For actual vehicle revenue miles (VRM) data, document the collection and recording methodology and identify that deadhead miles are systematically excluded from the computation. This is accomplished as follows:
- If actual VRMs are calculated from vehicle logs, select random samples of the vehicle logs and determine that the deadhead mileage has been correctly computed in accordance with FTA definitions.

Selected a haphazard sample of 181 source documents across all of the jurisdictions and recalculated the VRMs for the sample of trips, excluding deadhead miles. All of the data agreed and was computed correctly, with the exception of the City of Agoura Hills which was unable to provide the trip sheets for two of the days selected and there was no other supporting documentation for the daily totals.

LOS ANGELES COUNTY METROPOLITAN
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- n. For rail modes, obtain and read the recording and accumulation sheets for actual VRM's and identify that locomotive miles are not included in the computation.

This procedure was not applicable to the Authority. As such, procedure was not performed.

- o. If fixed guideway or High Intensity Bus directional route miles (FG or HIB DRM) are reported, interview the person responsible for maintaining and reporting the NTD data whether the operations meet the FTA definition of fixed guideway (FG) or High Intensity Bus (HIB) in that the service is:
- Rail, trolleybus (TB), ferryboat (FB), or aerial tramway (TR) or
 - Bus (MB) service operating over exclusive or controlled access rights-of-way (ROW), and
 - Access is restricted
 - Legitimate need for restricted access is demonstrated by peak period level of service D or worse on parallel adjacent highway, and
 - Restricted access is enforced for freeways; priority lanes used by other high occupancy vehicles (HOV) (i.e., vanpools (VP), carpools) must demonstrate safe operation (see Fixed Guideway Segments form (P-40))
 - High Occupancy / Toll (HO/T) lanes meet FHWA requirements for traffic flow and use of toll revenues, and that the transit agency has provided to NTD a copy of the State's certification to the US Secretary of Transportation that it has established a program for monitoring, assessing and reporting on the operation of the HOV facility with HO/T lanes.

This procedure was not applicable to the Authority. As such, procedure was not performed.

- p. Discuss the measurement of FG and HIB DRM with the person reporting NTD data and determine that the he or she computed mileage in accordance with the FTA definitions of FG/HIB and DRM. Inquire of any service changes during the year that resulted in an increase or decrease in DRMs. If a service change resulted in a change in overall DRMs, re-compute the average monthly DRMs, and reconcile the total to the FG/HIB DRM reported on the Federal Funding Allocation Statistics form.

This procedure was not applicable to the Authority. As such, procedure was not performed.

- q. Inquire if any temporary interruptions in transit service occurred during the report year. If these interruptions were due to maintenance or rehabilitation improvements to a FG segment(s), the following apply:
- Report DRMs for the segment(s) for the entire report year if the interruption is less than 12 months in duration. Report the months of operation on the FG/HIB segments form as 12. The transit agency should document the interruption.
 - If the improvements cause a service interruption on the FG-DRMs lasting more than 12 months, the transit agency should contact their validation analyst to discuss. FTA will make a determination on how the DRMs should be reported.

This procedure was not applicable to the Authority. As such, procedure was not performed.

- r. Measure FG/HIB DRM from maps or by retracing route.

This procedure was not applicable to the Authority. As such, procedure was not performed.

LOS ANGELES COUNTY METROPOLITAN
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- s. Discuss whether other public transit agencies operate service over the same FG/HIB as the transit agency. If yes, determine that the transit agency coordinated with the other transit agency (or agencies) such that the DRMs for the segment of FG/HIB are reported only once to the NTD on the Federal Funding Allocation form. Each transit agency should report the actual VRM, PMT, and OE for the service operated over the same FG/HIB.

This procedure was not applicable to the Authority. As such, procedure was not performed.

- t. Review the FG/HIB segments form (P-40 form). Discuss the Agency Revenue Service Start Date for any segments added in the 2014 report year with the persons reporting NTD data. This is the commencement date of revenue service for each FG/HIB segment. Determine that the date reported is the date that the agency began revenue service. This may be later than the Original Date of Revenue Service if the transit agency is not the original operator. If a segment was added for the 2014 report year, the Agency Revenue Service Date must occur within the transit agency's 2014 fiscal year. Segments are grouped by like characteristics. Note that for apportionment purposes, under the State of Good Repair (§5337) and Bus and Bus Facilities (§5339) programs, the 7-year age requirement for fixed guideway/High Intensity Bus segments is based on the report year when the segment is first reported by any NTD transit agency. This pertains to segments reported for the first time in the current report year. Even if a transit agency can document an Agency Revenue Service Start Date prior to the current NTD report year, the FTA will only consider segments continuously reported to the NTD.

This procedure was not applicable to the Authority. As such, procedure was not performed.

- u. Compare operating expenses with audited financial data after reconciling items are removed.

Where audited financial data was available, we compared the operating expenses per the F-30 and F-40 to the audited data. Where audited financial data was not available, we did not perform this step.

- v. If the transit agency purchases transportation (PT) services, interview the personnel reporting the NTD data on the amount of PT-generated fare revenues. The PT fare revenues should equal the amount reported on the Contractual Relationship form (B-30).

We agreed the fare revenue to the B-30 for all jurisdictions, with the following exception.

- **City of Glendora (DR) - We obtained the City's monthly invoices for FY 2015 and agreed the total fare revenue per the invoices to the general ledger and to the total PT fare revenue reported on the Contractual Relationship form (B-30). The City reported \$18,153; however, our re-computations showed \$18,287. Upon discussions with the City, we noted that the \$134 understatement of fare revenue was due to additional entries to the general ledger that were not credited in the monthly invoices to the City. The City subsequently corrected the B-30.**

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
ATTACHMENT A – AGREED UPON PROCEDURES
June 30, 2015

- w. If the transit agency's report contains data for PT services and assurances of the data for those services is not included, obtain a copy of the Independent Auditor Statement for Federal Funding Allocation (IAS-FFA) data of the PT service. Attach a copy of the statement to the report. Note as an exception if the transit agency does not have an Independent Auditor Statement for the PT data.

We inquired to all jurisdictions and noted that the report does include PT from private operators, but that an Independent Auditor Statement is not applicable since all of the Jurisdictions are public transportation providers.

- x. If the transit agency purchases transportation services, obtain a copy of the PT contract and determine that the contract specifies the public transportation services to be provided; the monetary consideration obligated by the transit agency or governmental unit contracting for the service; the period covered by the contract (and that this period overlaps the entire, or a portion of, the period covered by the transit agency's NTD report); and is signed by representatives of both parties to the contract. Interview the person responsible for retention of the executed contract, and determine that copies of the contracts are retained for three years.

We obtained a copy of the PT contract for each provider and noted that the contract included a description of the services to be provided, the monetary consideration obligated by the jurisdiction for the service and the period covered by the contract and that this period is the same as, or a portion of, the period covered by the transit agency's NTD report; and is signed by representatives of both parties to the contract. Management stated that copies of the executed contracts are retained for the last three years, as applicable.

- y. If the transit agency provides service in more than one UZA, or between an UZA and a non-UZA, inquire of the procedures for allocation of statistics between UZAs and non-UZAs. Obtain and review the FG segment worksheets, route maps, and urbanized area boundaries used for allocating the statistics, and determine that the stated procedure is followed and that the computations are correct.

This procedure was not applicable to the Authority since all service is provided in an urbanized area. As such, the procedure was not performed.

- z. Compare the data reported on the Federal Funding Allocation Statistics Form to data from the prior report year and calculate the percentage change from the prior year to the current year. For actual VRM, PMT or OE data that have increased or decreased by more than 10%, or FG DRM data that have increased or decreased. Interview transit agency management regarding the specifics of operations that led to the increases or decreases in the data relative to the prior reporting period.

We compared and agreed the data reported on the Federal Funding Allocation Statistics form (Form FFA-10) to comparable data for the prior report year and calculated the percentage change from the prior year to the current year. For any current year data that increased or decreased by more than 10%, we inquired to the Jurisdictions and documented the explanations for the variances.

- aa. The auditor should document the specific procedures followed, documents reviewed, and tests performed in the work papers. The work papers should be available for FTA review for a minimum of three years following the NTD report year. The auditor may perform additional procedures, which are agreed to by the auditor and the transit agency, if desired. The auditor should clearly identify the additional procedures performed in a separate attachment to the statement as procedures that were agreed to by the transit agency and the auditor but not by the FTA.

Step performed without exception.



**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
TRANSPORTATION DEVELOPMENT ACT
OPERATIONS AGENCY**

**50% EXPENDITURE LIMITATION SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
TRANSPORTATION DEVELOPMENT ACT
OPERATIONS AGENCY

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IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND REPORT ON 50%
EXPENDITURE LIMITATION SCHEDULE

The Board of Directors
Los Angeles County Metropolitan Transportation Authority

Report on Internal Control over Financial Reporting and on Compliance and Other Matters

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise LACMTA's basic financial statements and have issued our report thereon dated December 22, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LACMTA'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 LACMTA's internal control. Accordingly, we do not express an opinion on the effectiveness of LACMTA'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 LACMTA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Transportation Development Act, including Public Utility Code Section 99245 as enacted and amended by statute through June 30, 2015, and the allocation instructions and resolutions of the Los Angeles County Metropolitan Transportation Authority (as Planning Agency) as required by Section 6667 of the California Code of Regulations, 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 LACMTA'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 LACMTA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Report on 50% Expenditure Limitation Schedule

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of LACMTA as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise LACMTA's basic financial statements. We issued our report thereon dated December 22, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying 50% expenditure limitation schedule is presented for purposes of additional analysis 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 50% expenditure limitation schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Crowe Horwath LLP

Los Angeles, California
December 22, 2015

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
TRANSPORTATION DEVELOPMENT ACT
50% EXPENDITURE LIMITATION SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Amounts expressed in thousands)

| | | |
|---|---|-----------------------------------|
| 1 | Total operating cost | \$ 1,400,116 |
| 2 | Total capital requirements | 1,999,866 |
| 3 | Total debt service | <u>622,077</u> |
| 4 | Total of lines 1, 2, and 3 | <u>4,022,059</u> |
| 5 | Less federal grant received | 589,311 |
| 6 | Less State Transit Assistance (STA) funds received | <u>85,940</u> |
| 7 | Total of lines 5 and 6 | <u>675,251</u> |
| 8 | Total of line 4 less line 7 | 3,346,808 |
| | 50% of line 8 | <u>1,673,404</u> |
| | Total permissible Local Transportation Fund expenditures | \$ <u><u>1,673,404</u></u> |

See accompanying report on internal control over financial reporting and on compliance with the California Code of Regulations (Section 6667) and other matters based on an audit of financial statements performed in accordance with Government Auditing Standard.



**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
TRANSPORTATION DEVELOPMENT ACT
AND
PROP 1B PTMISEA PLANNING AGENCY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
FOR THE YEAR ENDED JUNE 30, 2015**

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
TRANSPORTATION DEVELOPMENT ACT
AND
PROP 1B PTMISEA PLANNING AGENCY**

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PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND
REPORT ON SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

The Board of Directors
Los Angeles County Metropolitan Transportation Authority

Report on Internal Control over Financial Reporting and on Compliance and Other Matters

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise LACMTA's basic financial statements, and have issued our report thereon dated December 22, 2015. These financial statements include LACMTA's Transportation Development Act Special Revenue Fund (TDA Fund) and the Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA Fund), which were audited as major governmental funds.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LACMTA'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 LACMTA's internal control. Accordingly, we do not express an opinion on the effectiveness of LACMTA'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 LACMTA's TDA Fund and PTMISEA Fund financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the California Code of Regulations (Sections 6640-6662), 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 LACMTA'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 LACMTA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Report on Schedule of Revenues, Expenditures, and Changes in Fund Balances

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the LACMTA as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise LACMTA's basic financial statements. We issued our report thereon dated December 22, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of revenues, expenditures, and changes in fund balances is presented for purposes of additional analysis 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 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 revenues, expenditures, and changes in fund balances is fairly stated in all material respects in relation to the basic financial statements as a whole.

Crowe Horwath LLP

Los Angeles, California
December 22, 2015

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
TRANSPORTATION DEVELOPMENT ACT
AND
PROP 1B PTMISEA PLANNING AGENCY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015
(Amounts expressed in thousands)

| | Transportation Development Act | | | |
|--|---------------------------------------|------------------------------|---------------------|-----------------------|
| | <u>Planning</u> | <u>Administration</u> | <u>Total</u> | <u>PTMISEA</u> |
| Revenues: | | | | |
| Local grants and contracts | \$ 4,972 | 3,528 | 8,500 | — |
| Intergovernmental | — | — | — | 217,475 |
| Investment income | — | — | — | 103 |
| Net appreciation in fair value of investment | — | — | — | 8 |
| Total revenues | <u>4,972</u> | <u>3,528</u> | <u>8,500</u> | <u>217,586</u> |
| Expenditures: | <u>4,972</u> | <u>3,528</u> | <u>8,500</u> | <u>—</u> |
| Total expenditures | <u>4,972</u> | <u>3,528</u> | <u>8,500</u> | <u>—</u> |
| Excess of revenues over expenditures | <u>—</u> | <u>—</u> | <u>—</u> | <u>217,586</u> |
| Other financing uses: | | | | |
| Transfers out | <u>—</u> | <u>—</u> | <u>—</u> | <u>(244,105)</u> |
| Total other financing uses | <u>—</u> | <u>—</u> | <u>—</u> | <u>(244,105)</u> |
| Net change in fund balances | <u>—</u> | <u>—</u> | <u>—</u> | <u>(26,519)</u> |
| Fund balances – beginning of year | <u>—</u> | <u>—</u> | <u>—</u> | <u>108,904</u> |
| Fund balances – end of year | <u>\$ —</u> | <u>—</u> | <u>—</u> | <u>82,385</u> |

See notes to Schedule of Revenues Expenditures, and Changes in Fund Balances, and report on internal control over financial reporting and on compliance with the California Code of Regulations (Sections 6640 - 6662) and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
TRANSPORTATION DEVELOPMENT ACT
AND
PROP 1B PTMISEA PLANNING AGENCY
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015**

(1) Transportation Planning Agency

The Los Angeles County Metropolitan Transportation Authority (LACMTA) is the regional transportation planning agency responsible for long-range transportation planning and is designated under the provisions of Section 65080 of the California Government Code (the Code) to prepare and adopt the Regional Transportation Plan (RTP) and the Regional Transportation Improvement Program (RTIP). Both the RTP and RTIP are directed to achieve a coordinated and balanced regional transportation system for the county in its jurisdiction. LACMTA is also the administrator of the Local Transportation Fund (LTF) under the provisions of Section 9532 of the Code.

The LTF was created by the Transportation Development Act (TDA) to fund transit projects in each county. The LTF retail sales taxes collected statewide by the State Board of Equalization and which are returned to individual counties according to the amount collected within that county. Los Angeles County sales tax receipts are deposited in the Los Angeles County Treasurer's Office. LACMTA, as administrator of the LTF, is authorized to distribute funds from the Treasurer's Office to claimants for transit projects that are in accordance with the Code.

Basis of Accounting

The TDA Fund uses the modified accrual basis of accounting as required by generally accepted accounting principles. Under this basis of accounting, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

(2) Prop 1B PTMISEA

The Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) was created by the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. Of the \$19.9 billion available to transportation, \$3.6 billion was allocated to PTMISEA to be available to transit operators over a ten-year period. PTMISEA funds may be used for transit rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements, and rolling stock (buses and rail cars) procurement rehabilitation or replacement. Funds in this account are appropriated annually by the Legislature to the State Controller's Office (SCO) for allocation in accordance with Public Utilities Code formula distributions: 50% is allocated to Local Operators based on farebox revenue and 50% to Regional Entities based on population.

Basis of Accounting

The PTMISEA Fund uses the modified accrual basis of accounting as required by generally accepted accounting principles. Under this basis of accounting, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.



**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Financial Statements

June 30, 2015 and 2014

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Los Angeles County Metropolitan Transportation Authority
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the State Transit Assistance Fund (the STA Fund), a special revenue fund of the Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the STA Fund, of the LACMTA, as of June 30, 2015, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 1, the financial statements present only the STA Fund and do not purport to, and do not, present fairly the financial position of Los Angeles County Metropolitan Transportation Authority, as of June 30, 2015, or the changes in the financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

The financial statements of the STA Fund as of June 30, 2014, were audited by other auditors whose report dated December 19, 2014, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 3 through 5 and page 11, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2015 financial statements as a whole. The 2015 supplemental schedule of allocations and supplemental schedule of expenditures and transfers on pages 12 and 13 are presented for purposes of additional analysis and are 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 2015 financial statements. The 2015 information has not been subjected to the auditing procedures applied in the audit of the 2015 financial statements and accordingly, we do not express an opinion or provide any assurance on it. The 2014 supplemental schedule of allocations and supplemental schedule of expenditures and transfers on pages 12 and 13 is presented for purposes of additional analysis and is not a required part of the 2014 financial statements. The 2014 information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 financial statements. The information has not been subjected to the auditing procedures applied by other auditors in the audit of the 2014 financial statements and accordingly, they did not express an opinion or provide any assurance on it.

Crowe Horwath LLP

Crowe Horwath LLP

Sherman Oaks, California
December 22, 2015

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Management's Discussion and Analysis (Unaudited)

Fiscal years ended June 30, 2015 and 2014

The Los Angeles County Metropolitan Transportation Authority's State Transit Assistance Special Revenue Fund (the "STA Fund") was created in accordance with the provisions of the Transportation Development Act (the "Act") as administered by the Department of Transportation of the State of California (the "State"). Sales tax revenues of the STA Fund represent an allocation of sales tax on gasoline and diesel fuel collected by the State Board of Equalization in the State of California. Expenditures from the STA Fund are made by Los Angeles County (the "County") in accordance with written instructions issued by the Los Angeles County Metropolitan Transportation Authority (LACMTA) under the terms of the Act.

Our discussion and analysis of STA Fund's financial performance presents an overview of the STA Fund's financial activities during the fiscal years ended June 30, 2015 and 2014. We encourage readers to consider the information presented here in conjunction with the financial statements beginning on page 6. The financial statements, notes to the financial statements, and this discussion and analysis were prepared by management and are the responsibility of the management.

All amounts are expressed in thousands of dollars unless otherwise indicated.

2015 Financial Highlights

- Revenues exceeded expenditures by \$95,774.
- Sales tax collected for the year decreased by \$10,999 or 9.39% compared with the prior year. The decrease was mainly due to the lower allocation received from the State of California. Investment income decreased by \$4 or 2.38% mainly due to unfavorable investment conditions.
- Total other financing sources (uses) of funds decreased by \$18,791 or 17.12% compared with the prior year. The decrease was mainly due to the lower bus and rail operating subsidy allocated to the Enterprise Fund due to less sales tax revenue.

2014 Financial Highlights

- Revenues exceeded expenditures by \$100,256.
- Sales tax collected for the year increased by \$574 or 0.49% compared with the prior year. The increase was due to the higher allocation received from the State of California. Investment income decreased by \$26 or 13.31% was mainly due to lower levels of funds available for investing.

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Management's Discussion and Analysis (Unaudited)

Fiscal years ended June 30, 2015 and 2014

- Total other financing sources (uses) of funds increased by \$3,768 or 3.60% compared with the prior year. The increase was mainly due to an increase in the bus and rail operating subsidy allocated to the Enterprise Fund.

Overview of Financial Statements

This discussion and analysis serves as an introduction to the basic financial statements. The STA Fund's basic financial statements consist of two components: (1) the fund financial statements, and (2) the notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

The condensed balance sheets show STA Fund's assets, liabilities, and fund balances as of June 30, 2015, 2014 and 2013. The difference between the assets and liabilities is reported as fund balance. The Fund balance may serve as a useful indicator of the STA Fund's financial health.

The comparative statements of revenues, expenditures, and changes in fund balance for the fiscal year show the fund activities that impacted the fund balance.

Condensed Balance Sheets

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|-------------------------------------|-------------|-------------|-------------|
| Total assets | \$ 48,186 | \$ 49,955 | \$ 46,215 |
| Total liabilities | \$ 39,632 | \$ 46,235 | \$ 33,020 |
| Fund balances | 8,554 | 3,720 | 13,195 |
| Total liabilities and fund balances | \$ 48,186 | \$ 49,955 | \$ 46,215 |

As of June 30, 2015, STA's fund balance of \$8,554 represents funds available for future payments.

Total assets decreased \$1,769 or 3.54% as of June 30, 2015 compared to June 30, 2014 primarily due to lower sales tax receivable and the transfer of fund back to Prop A Discretionary Bus (95%x40%). Total liabilities decreased \$6,603 or 14.28%, as of June 30, 2015 compared to June 30, 2014 mainly due to lower accrued liabilities and a lower amount due to the Enterprise Fund for the bus and rail operating subsidy.

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Management's Discussion and Analysis (Unaudited)

Fiscal years ended June 30, 2015 and 2014

Total assets increased \$3,740 or 8.09% as of June 30, 2014 compared to June 30, 2013 primarily due to an increase in sales tax receivables and in the due from Prop A Discretionary Bus (95%x40%). Total liabilities increased \$13,215 or 40.02% as of June 30, 2014 compared to June 30, 2013 mainly due to a higher amount due to the Enterprise Fund for the bus and rail operating subsidy.

Condensed Statement of Revenues, Expenditures, and Changes in Fund Balances

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|------------------|------------------|------------------|
| Revenues | \$ 106,287 | \$ 117,290 | \$ 116,742 |
| Expenditures and other financing sources(uses) of funds | <u>(101,453)</u> | <u>(126,765)</u> | <u>(130,493)</u> |
| Excess of revenues over expenditures | 4,834 | (9,475) | (13,751) |
| Fund balances – beginning of year | <u>3,720</u> | <u>13,195</u> | <u>26,946</u> |
| Fund balances – end of year | <u>\$ 8,554</u> | <u>\$ 3,720</u> | <u>\$ 13,195</u> |

Total revenues decreased \$11,003 or 9.38%, during fiscal year 2015 compared to fiscal year 2014 primarily due to the lower sales tax allocations received from the State of California. Expenditures and other financing uses decreased \$25,312 or 20% during fiscal 2015 compared to fiscal year 2014 mainly due to the lower bus and rail operating subsidy to the Enterprise Fund.

Total revenues increased \$548 or 0.47% during fiscal 2014 compared to fiscal year 2013 primarily due to the higher sales tax allocation received from the State of California. Expenditures and other financing uses decreased \$3,728 or 2.86% during fiscal 2014 compared to fiscal year 2013 mainly due to a transfer in from Prop A Discretionary Bus (95%x40%).

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Balance Sheets

June 30, 2015 and 2014

(Amounts expressed in thousands)

| | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|
| Assets | | |
| Cash and cash equivalents | \$ 23,490 | \$ 12,130 |
| Interest receivable | 28 | 36 |
| Due from other funds | — | 5,521 |
| Sales tax receivable | <u>24,668</u> | <u>32,268</u> |
| Total assets | <u>48,186</u> | <u>49,955</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities | 1,857 | 4,466 |
| Due to other funds | <u>37,775</u> | <u>41,769</u> |
| Total liabilities | <u>39,632</u> | <u>46,235</u> |
| Fund balances: | | |
| Restricted | <u>8,554</u> | <u>3,720</u> |
| Total Fund balances | <u>8,554</u> | <u>3,720</u> |
| Total liabilities and fund balances | <u>\$ 48,186</u> | <u>\$ 49,955</u> |

See accompanying notes to financial statements

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Statement of Revenues, Expenditures, and Changes in Fund Balances

Fiscal years ended June 30, 2015 and 2014

(Amounts expressed in thousands)

| | <u>2015</u> | <u>2014</u> |
|---------------------------------------|-----------------|------------------|
| Revenues: | | |
| Sales tax | \$ 106,123 | \$ 117,122 |
| Investment income | 164 | 168 |
| Total Revenue | <u>106,287</u> | <u>117,290</u> |
| Expenditures: | | |
| Transportation subsidies | 10,513 | 17,034 |
| Excess of revenues over expenditures | <u>95,774</u> | <u>100,256</u> |
| Other financing sources (uses) | | |
| Transfers in | — | 5,000 |
| Transfers out | <u>(90,940)</u> | <u>(114,731)</u> |
| Total net other financing uses | <u>(90,940)</u> | <u>(109,731)</u> |
| Net change in fund balances | 4,834 | (9,475) |
| Fund balances - beginning of the year | <u>3,720</u> | <u>13,195</u> |
| Fund balances - end of year | <u>\$ 8,554</u> | <u>\$ 3,720</u> |

See accompanying notes to financial statements.

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Notes to Financial Statements
June 30, 2015 and 2014

(1) Summary of Significant Accounting Policies

(a) General Description

The Los Angeles County Metropolitan Transportation Authority's State Transit Assistance Special Revenue Fund (the STA Fund) was created in accordance with the provisions of the Transportation Development Act (the Act) as administered by the Department of Transportation of the State of California (the State). Sales tax revenues of the STA Fund represent an allocation of retail sales tax on gasoline and diesel fuel collected by the State Board of Equalization in the State of California. Expenditures from the STA Fund are made by Los Angeles County (the County) in accordance with written instructions issued by the Los Angeles County Metropolitan Transportation Authority (LACMTA) under the terms of the Act.

(b) Basis of Accounting

The STA Fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, LACMTA considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred and a valid claim is presented. Transportation subsidies are recorded when all of the eligibility requirements have been met, including the receipt of the reimbursement request.

(c) Fund Accounting

LACMTA utilizes fund accounting to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. The STA Fund is considered a governmental fund. The measurement focus is the determination of changes in financial position, rather than net income determination. Additionally, the STA Fund is considered a special revenue governmental fund. Special revenue funds are used to account for proceeds of specific revenue sources including sales tax that are legally restricted to expenditures for specified transportation purposes. When both restricted and unrestricted resources are available for use, it is LACMTA's policy to use restricted resources first.

(d) Financial Statement Presentation

The accompanying financial statements present only the STA Fund and do not purport to, and do not, present fairly the financial position of the Los Angeles County Metropolitan Transportation Authority as of June 30, 2015 and 2014, the changes in its financial position, and where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Notes to Financial Statements
June 30, 2015 and 2014

(e) Cash and Cash Equivalents

The STA Fund's cash and cash equivalents include investments in the Los Angeles County Investment Pool (LACIP) and are reported at fair value which is the quoted market price. The STA Fund is an involuntary participant in the LACIP.

(f) Sales Tax Receivable

Sales tax receivables represent uncollected amounts from the allocation of retail sales tax on gasoline and diesel fuel collected by the State Board of Equalization in the State of California. As of June 30, 2015 and 2014, the STA Fund had a receivable of \$24,668 and \$32,268 due from the State for the fourth quarter allocation.

(2) Cash and Investments

Cash balances of the STA Fund are pooled with other County funds and invested by the Los Angeles County Treasurer (the Treasurer). These funds are subject to withdrawal from the Treasurer's pool upon demand.

The STA Fund's pooled cash and investments with the LACIP amounted to \$23,490 at June 30, 2015 and \$12,130 at June 30, 2014. The County Board of Supervisors provides regulatory oversight for the LACIP. The fair value of the position in the investment pool is the same as the value of the pool. The investment pool is not rated for purposes of evaluating credit risk as of June 30, 2015 and 2014.

Detailed information concerning the County's pooled cash and investments can be found in the County of Los Angeles Comprehensive Annual Financial Report (CAFR). A copy of the County's CAFR can be obtained by writing to the Los Angeles County Auditor-Controller, 500 West Temple Street, Room 525, Los Angeles, CA 90012-2766.

(3) Due to/from Other Funds

Due to or from other funds represent payables owed to or receivable from a particular LACMTA fund for temporary loans, advances, goods delivered, or services rendered. As of June 30, 2015, the STA Fund had a payable to the LACMTA's Enterprise Fund in the net amount of \$37,775. At June 30, 2014, the STA Fund had a net payable of \$41,248 due to the Enterprise Fund and a receivable from the Prop A Discretionary Bus Fund (95%x40%) of \$5,000.

(4) Interfund Transfers

Transfers represent permanent, legally authorized transfers from a fund receiving revenue to the fund through which resources are to be expended. These transfers represent operating and capital subsidies given out from one fund to another fund. For the year ended June 30, 2015, the STA Fund transferred \$85,940 to LACMTA's Enterprise Fund and \$5,000 to the Prop A Discretionary Bus Fund (95%x40%). For the year ended June 30, 2014, the STA Fund transferred \$114,731 to the LACMTA Enterprise Fund and received \$5,000 from the Prop A Discretionary Bus Fund (95%x40%).

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Notes to Financial Statements
June 30, 2015 and 2014

(5) Sales Tax Revenue

Sales tax revenue represents amounts from the allocation of retail sales tax on gasoline and diesel fuel collected by the California State Board of Equalization. For the years ended June 30, 2015 and 2014, the STA Fund received an allocation of \$106,123 and \$117,122, respectively.

(6) Payables to Cities and Jurisdiction

For the years ended June 30, 2015 and 2014, the STA Fund incurred accrued liabilities to various cities and jurisdictions of \$1,857 and \$4,466, respectively. These accrued liabilities represented claims for the fiscal year allocation that were disbursed by the STA Fund in the following fiscal year.

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

Fiscal year ended June 30, 2015

(Amounts expressed in thousands)

| | <u>Final budget (Unaudited)</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---------------------------------------|-------------------------------------|-----------------|---------------------------------------|
| Revenues: | | | |
| Sales tax | \$ 104,699 | \$ 106,123 | \$ 1,424 |
| Investment income | - | 164 | 164 |
| Total revenues | <u>104,699</u> | <u>106,287</u> | <u>1,588</u> |
| Expenditures: | | | |
| Transportation subsidies | <u>11,582</u> | <u>10,513</u> | <u>1,069</u> |
| Total expenditures | <u>11,582</u> | <u>10,513</u> | <u>1,069</u> |
| Excess of revenues over expenditures | <u>93,117</u> | <u>95,774</u> | <u>2,657</u> |
| Other financing sources(uses) | | | |
| Transfers in | - | - | - |
| Transfers out | <u>(85,745)</u> | <u>(90,940)</u> | <u>(5,195)</u> |
| Total net financing (uses) | <u>(85,745)</u> | <u>(90,940)</u> | <u>(5,195)</u> |
| Net change in fund balances | <u>7,372</u> | <u>4,834</u> | <u>(2,538)</u> |
| Fund balances - beginning of the year | <u>3,720</u> | <u>3,720</u> | <u>-</u> |
| Fund balances - end of year | <u>\$ 11,092</u> | <u>\$ 8,554</u> | <u>\$ (2,538)</u> |

See accompanying independent auditors' report

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Supplemental Schedule of Allocations (Unaudited)

Fiscal years ended June 30, 2015 and 2014

(Amounts expressed in thousands)

| <u>PUC Code</u> | <u>Operating 6730(a)</u> | <u>Capital 6730(b)</u> | <u>Rail 6730 (c)</u> | <u>2015 Total</u> | <u>2014 Total</u> |
|----------------------------|------------------------------|----------------------------|--------------------------|-----------------------|-----------------------|
| Jurisdiction | | | | | |
| Arcadia | \$ 40 | - | - | 40 | 50 |
| Claremont | 29 | - | - | 29 | 39 |
| Commerce | 41 | - | - | 41 | 48 |
| Culver City | 646 | - | - | 646 | 886 |
| Foothill Transit | 2,744 | - | - | 2,744 | 3,913 |
| Gardena | 637 | - | - | 637 | 915 |
| La Mirada | 15 | - | - | 15 | 20 |
| Montebello | 1,009 | - | - | 1,009 | 1,444 |
| Long Beach | 2,768 | - | - | 2,768 | 3,940 |
| LACMTA | 33,271 | - | 48,406 | 81,677 | 99,108 |
| Norwalk | 368 | - | - | 368 | 546 |
| Redondo Beach | 88 | - | - | 88 | 119 |
| Santa Monica | 2,426 | - | - | 2,426 | 3,479 |
| Torrance | 770 | - | - | 770 | 1,102 |
| | | | | | |
| Total STA fund allocations | \$ <u>44,852</u> | \$ <u>-</u> | \$ <u>48,406</u> | \$ <u>93,258</u> | \$ <u>115,609</u> |

See accompanying independent auditors' report

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Supplemental Schedule of Expenditures and Transfers (Unaudited)

Fiscal years ended June 30, 2015 and 2014

(Amounts expressed in thousands)

| PUC Code | 2015 | | | | 2014 | | | |
|--------------------------------|----------------------|--------------------|------------------|------------------|----------------------|--------------------|------------------|-------------------|
| | Operating 6730(a) | Capital 6730(b) | Rail 6730 (c) | Total | Operating 6730(a) | Capital 6730(b) | Rail 6730 (c) | Total |
| Jurisdiction | | | | | | | | |
| Arcadia | \$ 30 | \$ - | \$ - | \$ 30 | \$ 66 | \$ - | \$ - | \$ 66 |
| Claremont | - | - | - | - | 50 | - | - | 50 |
| Commerce | 31 | - | - | 31 | 63 | - | - | 63 |
| Culver City | 484 | - | - | 484 | 886 | 310 | - | 1,196 |
| Foothill Transit | 2,058 | - | - | 2,058 | 3,913 | - | - | 3,913 |
| Gardena | 478 | - | - | 478 | 915 | 111 | - | 1,026 |
| La Mirada | - | - | - | - | 27 | - | - | 27 |
| Long Beach | 2,768 | - | - | 2,768 | 3,940 | - | - | 3,940 |
| LACMTA | 33,271 | 196 | 52,475 | 85,942 | 57,457 | (10) | 57,284 | 114,731 |
| Montebello | 1,008 | - | - | 1,008 | 1,444 | - | - | 1,444 |
| Norwalk | 368 | - | - | 368 | 546 | - | - | 546 |
| Redondo Beach | 88 | - | - | 88 | 158 | 9 | - | 167 |
| Santa Monica | 2,425 | 2 | - | 2,427 | 3,479 | 15 | - | 3,494 |
| Torrance | 771 | - | - | 771 | 1,102 | - | - | 1,102 |
| Total STA fund expenditures | <u>\$ 43,780</u> | <u>\$ 198</u> | <u>\$ 52,475</u> | <u>\$ 96,453</u> | <u>\$ 74,046</u> | <u>\$ 435</u> | <u>\$ 57,284</u> | <u>\$ 131,765</u> |

See accompanying independent auditors' report

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

The Board of Directors
Los Angeles County Metropolitan Transportation Authority
Los Angeles, California

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 State Transit Assistance Fund (the STA Fund), a special revenue fund of the Los Angeles County Metropolitan Transportation Authority (LACMTA), which comprise the balance sheet as of June 30, 2015, and the related statement of revenues, expenditures, and changes in fund balance for the years then ended, and have issued our report thereon dated December 22, 2015

In connection with our audit, nothing came to our attention that caused us to believe that LACMTA failed to comply with the terms, covenants, provisions, or conditions of Section 6751 of the California Code of Regulations, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding LACMTA's noncompliance with the above-referenced terms, covenants, provisions, or conditions, insofar as they relate to accounting matters.

This report is intended solely for the information and use of management, LACMTA's Board of Directors, others within the Authority, and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Sherman Oaks, California
December 22, 2015



Crenshaw Project Corporation
(A Component Unit of the Los Angeles County
Metropolitan Transportation Authority)

Basic Financial Statements

June 30, 2015

Crenshaw Project Corporation
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Basic Financial Statements
June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Crenshaw Project Corporation
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying statement of net position of the Crenshaw Project Corporation (CPC), a component unit of the Los Angeles County Metropolitan Transportation Authority, as of June 30, 2015 and the related statement of revenues, expenses, and changes in fund net position and statement of cash flows for the period from March 23, 2012 through June 30, 2015, and the related notes to the financial statements, which collectively comprise the CPC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CPC, as of June 30, 2015, and the changes in its financial position, and its cash flows for the period from March 23, 2012 through June 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 1 and 2, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Crowe Horwath LLP

Crowe Horwath LLP

Sherman Oaks, California
December 22, 2015

Crenshaw Project Corporation
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Management's Discussion and Analysis (Unaudited)
June 30, 2015

As management of the Crenshaw Project Corporation (CPC), we offer readers of our basic financial statements this narrative overview and analysis of the financial activities of CPC for the period from March 23, 2012 to June 30, 2015. This discussion and analysis is designed to assist the readers in focusing on the significant financial issues and activities of CPC.

We encourage the readers to consider the information presented herein in conjunction with the basic financial statements beginning on page 3. The basic financial statements, the notes to the basic financial statements, and this discussion and analysis were prepared by management and are the responsibility of management.

All amounts are expressed in thousands of dollars unless otherwise indicated.

Background

The Crenshaw Project Corporation (CPC) was formed on March 23, 2012 for the sole purpose of participating in financing public transportation projects of the Los Angeles County Metropolitan Transportation Authority (LACMTA).

CPC currently serves as the conduit borrower as part of a financing agreement with the United States Department of Transportation (USDOT) under its Transportation Infrastructure Finance and Innovation Act (TIFIA) program to partially finance the construction of LACMTA's Crenshaw/LAX Transit Project (Project).

Financial Highlights

- In September, 2012, CPC secured a \$545,900 TIFIA loan from the USDOT to partially finance the Project. The loan under the TIFIA program is secured by Measure R sales tax revenues allocated to the Project. The CPC has drawdown \$37,477 of the loan as of June 30, 2015.
- Net position remained \$0 as of June 30, 2015. Total assets of \$37,477 represent advances to LACMTA and the total liabilities represent the note payable to TIFIA.
- Total expenses of \$457 consisted mostly of loan fees and other charges, which were reimbursed by LACMTA.

Overview of the Basic Financial Statements

This management's discussion and analysis serves as an introduction to the CPC's basic financial statements. The CPC's basic financial statements are: 1) the statement of net position, 2) the statement of revenues, expenses, and changes in net position, 3) the statement of cash flows, and 4) the notes to the basic financial statements.

CPC's basic financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as promulgated by the

Crenshaw Project Corporation
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Management's Discussion and Analysis (Unaudited)
June 30, 2015

Government Accounting Standards Board (GASB). CPC is structured as an Enterprise fund where revenues are recognized when they are earned and expenses are recognized when they are incurred. See notes to the basic financial statements for the summary of CPC's significant accounting policies.

The statement of net position presents information on all of CPC's assets and liabilities, and the difference between the two is reported as net position. The statement of revenues, expenses, and changes in net position presents the results of CPC's operations. The statement of cash flows presents the cash flows generated by CPC to meet its obligations. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Presented below are the condensed statement of net position and condensed statement of revenues, expenses, and changes in net position as of June 30, 2015 and for the period from March 23, 2012 to June 30, 2015. The table below presents financial information for CPC since its inception, therefore comparative amounts are not available.

| | |
|---|--------------------|
| Condensed Statement of Net Position | |
| Non-current assets | \$ 37,477 |
| Total assets | <u>37,477</u> |
| | |
| Non-current liabilities | <u>37,477</u> |
| Total liabilities | <u>37,477</u> |
| Net position | <u><u>\$ -</u></u> |
| Condensed Statement of Revenues, Expenses, and Changes in Net Position | |
| Revenues | \$ 457 |
| Expenses | <u>457</u> |
| Net income (loss) | <u>-</u> |
| Changes in net position | - |
| Net position – beginning of year | <u>-</u> |
| Net position – end of year | <u><u>\$ -</u></u> |

Crenshaw Project Corporation
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Statement of Net Position
June 30, 2015
(Amounts expressed in thousands)

Assets

Non-current assets

Due from LACMTA

\$ 37,477

Total Assets

\$ 37,477

Liabilities

Non-current liabilities

Note payable

\$ 37,477

Total Liabilities

37,477

Net Position

\$ -

The notes to the financial statements are an integral part of this statement.

Crenshaw Project Corporation
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Statement of Revenues, Expenses, and Changes in Fund Net Position
Period from March 23, 2012 to June 30, 2015
(Amounts expressed in thousands)

| | |
|-------------------------------------|--------------------|
| Operating Revenues | |
| Charges for services | \$ 457 |
| Total operating revenues | <u>457</u> |
| Operating Expenses | |
| Professional and technical services | 455 |
| Other administrative expenses | <u>2</u> |
| Total operating expenses | <u>457</u> |
| Operating income (loss) | <u>-</u> |
| Change in net position | - |
| Net position – beginning of year | <u>-</u> |
| Net position – end of year | <u><u>\$ -</u></u> |

The notes to the financial statements are an integral part of this statement.

Crenshaw Project Corporation
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Statement of Cash Flows
Period from March 23, 2012 to June 30, 2015
(Amounts expressed in thousands)

| | |
|--|--------------------|
| Cash Flows from Operating Activities | |
| Receipts from LACMTA | \$ 457 |
| Payments to vendors | (457) |
| Net cash flows from operating activities | <u>-</u> |
| Cash Flows from Non-Capital Financing Activities | |
| Proceeds from TIFIA loan | 37,477 |
| Advances to LACMTA for the construction of Crenshaw Transit project | (37,477) |
| Net cash flows from non-capital financing activities | <u>-</u> |
| Net increase (decrease) in cash and cash equivalents | - |
| Cash and cash equivalents - beginning of year | - |
| Cash and cash equivalents - end of year | <u><u>\$ -</u></u> |

The notes to the financial statements are an integral part of this statement.

Crenshaw Project Corporation
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Financial Statements
June 30, 2015

The notes to the basic financial statements are a summary of significant accounting policies and other disclosures considered necessary for a clear understanding of the accompanying basic financial statements.

Unless otherwise stated, all dollar amounts are expressed in thousands.

Note 1 – Reporting Entity

Crenshaw Project Corporation (CPC) was formed for the specific purpose of securing a loan from United States Department of Transportation (USDOT) under the Transportation Infrastructure Finance and Innovation Act (TIFIA) program for the construction of LACMTA's Crenshaw/LAX Transit Project (Project). The Project has an approved life-of-project (LOP) budget of \$2.05 billion that covers the design and construction of a new 8.5-mile double-track LRT line, including eight transit stations, procurement of a minimum of 20 light rail vehicles, and the construction of a full service maintenance facility known as the "Southwestern Yard". The Project will extend from the EXPO Line (at the intersection of Exposition and Crenshaw Boulevards) and the Metro Green Line near the existing Aviation/LAX Station.

CPC is governed by a Board consisting of the same members of the Board of Directors of LACMTA (the "Metro Board"). The Chair, First-Chair and Second-Chair of the Metro Board shall have the corresponding positions on the CPC Board. The Board may serve on the Board only as long as they are members of the Metro Board. Each Director shall serve a term commensurate with his or her term on the Metro Board. CPC is a component unit of LACMTA because it is financially dependent upon LACMTA and LACMTA's approval is needed for CPC to expend its budgets and issue long-term debt. Although CPC is a legally separate entity, and in substance part of LACMTA's operations, the data from CPC is included in LACMTA's financial data. These financial statements present only CPC and do not purport to, and do not, present fairly the financial position of Los Angeles County Metropolitan Transportation Authority, as of June 30, 2015, or the changes in the financial position for the year then ended.

Note 2 - Summary of Significant Accounting Policies

CPC's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The basic financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when incurred, regardless of the timing of related cash flows.

Crenshaw Project Corporation
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Financial Statements
June 30, 2015

Fund Accounting

The proprietary fund type is used to account for ongoing operations and activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. CPC uses the proprietary fund type to account for the goods and services provided to LACMTA on a cost reimbursement basis. Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues generally result from providing services in connection with CPC's ongoing operations. Operating expenses include professional services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. CPC applied all applicable Government Accounting Standard Board pronouncements in accounting and reporting for its proprietary operations.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments, including restricted assets with a maturity date of 90 days or less, are considered to be cash and cash equivalents. Otherwise, they are considered to be investments.

Note 3 – Due from LACMTA

Due from LACMTA consists of cash advances to partially finance the construction of the Project. As of June 30, 2015, the outstanding balance of due from LACMTA totaled \$37,477.

Note 4 – Notes Payable

In September, 2012, the CPC secured a loan not to exceed \$545,900 from USDOT under the TIFIA program to partially finance the construction of the Project. The loan, secured by a portion of LACMTA's Measure R sales tax revenues allocated to the Project, bears interest at 2.43% per annum on the outstanding balance with a maturity date of June 1, 2034. As of June 30, 2015, the outstanding balance of the TIFIA loan was \$37,477.

The CPC's annual debt service requirements (including accretion) are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|--------------------------------|------------------|------------------|------------------|
| 2016 | \$ (857) | \$ 857 | \$ - |
| 2017 | (936) | 936 | - |
| 2018 | (960) | 960 | - |
| 2019 | (984) | 984 | - |
| 2020 | (1,009) | 1,009 | - |
| 2021-2025 | 2,892 | 5,044 | 7,936 |
| 2026-2030 | 16,961 | 4,054 | 21,015 |
| 2031-2034 | 22,370 | 1,460 | 23,830 |
| | <u>\$ 37,477</u> | <u>\$ 15,304</u> | <u>\$ 52,781</u> |

Crenshaw Project Corporation
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Notes to the Financial Statements
June 30, 2015

The annual debt service requirements represent a proportionate share of the loan payments for the principal amount of \$545,900.

Note 5 – Subsequent Events

In July and August 2015, \$82,678 and \$143,751, respectively, were drawn down from the TIFIA loan to reimburse LACMTA for expenditures incurred on the Project.



SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)
Financial Statements
June 30, 2015 and 2014

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Los Angeles County Metropolitan Transportation Authority
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Service Authority for Freeway Emergencies (SAFE), a component unit of the Los Angeles County Metropolitan Transportation Authority (LACMTA), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprises SAFE's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of SAFE as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The basic financial statements of SAFE as of June 30, 2014, were audited by other auditors whose report dated February 11, 2015, expressed unmodified opinions on the respective financial statements of the governmental activities and the major fund.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 3 through 5 and page 11, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Crowe Horwath LLP

Crowe Horwath LLP

Sherman Oaks, California
March 1, 2016

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)
Management's Discussion and Analysis (Unaudited)
June 30, 2015 and 2014

Management's discussion and analysis of the financial performance of the Service Authority for Freeway Emergencies (SAFE) presents an overview of SAFE's financial activities during the fiscal years ended June 30, 2015 and 2014. Management encourages readers to consider information presented here in conjunction with the financial statements (beginning on page 6). The financial statements, notes to the financial statements, and this discussion and analysis were prepared by management and are the responsibility of management. All dollar amounts are expressed in thousands unless otherwise indicated.

Financial Highlights

- Fiscal year 2015 net position decreased by \$5,164 or 17.37% compared to fiscal year 2014 mainly due to higher expenses for congestion relief operations.
- Total revenues are comprised of licenses and fines, intergovernmental revenue, and investment earnings. Licenses and fines revenue remained flat from 2014 to 2015. Investment earnings in fiscal year 2015 decreased by \$145 or 47.08% compared to fiscal year 2014 mainly due to unfavorable investment conditions.
- Expenses increased by \$2,279 or 20.94% in fiscal year 2015 compared to fiscal year 2014. The increase in expenses for fiscal year 2015 was mainly due to the implementation of MATIS (Motorist Aid Traveler Information System) and increase in the operating subsidy.

Overview of Financial Statements

This management's discussion and analysis serves as an introduction to SAFE's basic financial statements. SAFE's basic financial statements are comprised of three components: (1) the government-wide financial statements; (2) the fund financial statements, and (3) the notes to the basic financial statements. This report also contains required supplemental information in addition to the basic financial statements.

Government-wide financial statements provide a broad overview of SAFE's finances in a manner similar to private sector entities. The government-wide statements consist of: (1) the statements of net position, which present information on all of SAFE's assets and liabilities with the difference between the two being reported as net position, and (2) the statements of activities, which depict the changes in net position during the year. Trends of increasing or decreasing net position may serve as a useful indicator of financial health.

Fund financial statements represent the near-term inflows, outflows, and balances of spendable resources. The basic fund financial statements consist of: (1) the balance sheets, which present SAFE's assets and liabilities, with the difference between assets and liabilities being reported as fund balance; and (2) the statements of revenues, expenditures, and changes in fund balances. This report presents the underlying events or activities of the fund that affected the balance sheets.

The notes to the basic financial statements are various disclosures that accompany the government-wide and fund financial statements in order to provide a full understanding of SAFE's finances.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)
Management's Discussion and Analysis (Unaudited)
June 30, 2015 and 2014

Analytical Overview

The table below shows the condensed schedule of net position for fiscal years 2015, 2014, and 2013:

| | Governmental Activities | | |
|--------------------|--------------------------|-----------|-----------|
| | Schedule of Net Position | | |
| | 2015 | 2014 | 2013 |
| Total assets | \$ 25,678 | \$ 30,624 | \$ 33,903 |
| Total liabilities | 1,119 | 901 | 1,448 |
| Total net position | \$ 24,559 | \$ 29,723 | \$ 32,455 |

Total assets decreased by \$4,946 or 16.64% in fiscal year 2015, and \$3,279 or 9.67% in fiscal year 2014. This was due to increases in capital and operating subsidies which were reported as transfers to the Los Angeles County Metropolitan Transportation Authority.

The total liabilities increased by \$218 or 24.20% mainly due to increase in program expenditures during the year and timing differences. Total liabilities for fiscal year 2014 decreased by \$547 or 37.78% below fiscal year 2013 due to a decrease in congestion relief operations program expenditures and lower unpaid Freeway Service Patrol (FSP) program expenditure reimbursement to LACMTA.

The following table is a condensed schedule of activities for the years ended June 30, 2015, 2014, and 2013:

| | Governmental Activities | | |
|--|--------------------------------|------------|----------|
| | Summary Schedule of Activities | | |
| | 2015 | 2014 | 2013 |
| Program expenses, net of revenue: | | | |
| Congestion relief operations net of revenue | \$ 8,205 | \$ 6,353 | \$ 7,355 |
| Operating subsidies to the Los Angeles County Metropolitan Transportation Authority | 4,956 | 4,529 | 933 |
| Program expenses, net of revenue | 13,161 | 10,882 | 8,288 |
| General Revenues: | | | |
| Licenses and fines | 7,834 | 7,842 | 7,607 |
| Investment and earnings | 163 | 308 | 53 |
| Total general revenues | 7,997 | 8,150 | 7,660 |
| Change in net position | \$ (5,164) | \$ (2,732) | \$ (628) |

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)
Management's Discussion and Analysis (Unaudited)
June 30, 2015 and 2014

Factors Impacting Future Periods

For the foreseeable future, SAFE will continue to operate and manage the call box system (fixed and mobile) and the Southern California 511 traveler information system. In fiscal year 2015, SAFE completed an evaluation of the fixed call box system and obtained approval to proceed with a restructuring of the fixed call box system. This restructuring will begin in fiscal year 2016 and is expected to be completed in fiscal year 2017. The restructuring will result in the removal of approximately 400 call boxes and the reduction in the operating costs for the fixed call box system. The mobile call box service has been fully transitioned into Southern California 511 and will continue to operate as a motorist aid service similar to the fixed call box system thereby providing motorists with a readily available alternative to the fixed call box system. The Southern California 511 system is operated under contract and the contract is set to expire in June 2017. As a result, it is anticipated that during fiscal year 2017, overall costs to support 511 may increase as both the cost to maintain current operations and the anticipated development of the next generation system will need to be accounted for. The goal of the next generation 511 system will be to streamline operations and hopefully reduce or contain future operating costs. SAFE will continue to provide financial support to the Metro Freeway Service Patrol program as long as funds remain available. Finally, SAFE is also participating in the evaluation and possible integration of operations into the Los Angeles Transportation Management Center operated jointly by CHP and Caltrans. The purpose of this project is to evaluate opportunities to better utilize SAFE services in the overall management of the operation of the freeway system. It is anticipated that there will be a slight cost increase to support this project and future cost reductions will be realized through the operational improvements.

Further Information

This report has been designed to provide all interested parties with a general overview of SAFE'S financial condition and related issues. Inquiries should be directed to the Accounting Department, One Gateway Plaza, Mail Stop 99-20-7, Los Angeles, CA 90012-2952.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)
Statements of Net Position
June 30, 2015 and 2014
(Amounts expressed in thousands)

| | Governmental activities | |
|---------------------------------------|--------------------------------|------------------|
| | 2015 | 2014 |
| Assets: | | |
| Cash and investments | \$ 24,918 | \$ 30,501 |
| Intergovernmental receivable | 653 | 123 |
| Interest receivable | 107 | — |
| Total assets | <u>25,678</u> | <u>30,624</u> |
| Liabilities: | | |
| Accounts payable and accrued expenses | <u>1,119</u> | <u>901</u> |
| Total liabilities | <u>1,119</u> | <u>901</u> |
| Net position: | | |
| Restricted | <u>24,559</u> | <u>29,723</u> |
| Total net position | <u>\$ 24,559</u> | <u>\$ 29,723</u> |

See accompanying notes to the basic financial statements.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)
Statements of Activities
Years ended June 30, 2015 and 2014
(Amounts expressed in thousands)

| | Governmental activities | |
|--|--------------------------------|-------------|
| | 2015 | 2014 |
| Program expenses, net of revenue: | | |
| Transit operations: | | |
| Congestion relief operations | \$ 8,207 | \$ 6,358 |
| Less operating grants and contributions | (2) | (5) |
| Net congestion relief operations | 8,205 | 6,353 |
| Operating subsidies to the Los Angeles County Metropolitan Transportation Authority | 4,956 | 4,529 |
| Total program expenses, net of program revenue | 13,161 | 10,882 |
| General revenues: | | |
| Licenses and fines | 7,834 | 7,842 |
| Investment and other earning | 163 | 308 |
| Total general revenues | 7,997 | 8,150 |
| Change in net position | (5,164) | (2,732) |
| Net position – beginning of year | 29,723 | 32,455 |
| Net position – end of year | \$ 24,559 | \$ 29,723 |

See accompanying notes to the basic financial statements.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
 (A Component Unit of the
 Los Angeles County Metropolitan Transportation Authority)
 Balance Sheets
 June 30, 2015 and 2014
 (Amounts expressed in thousands)

| | Special Revenue Fund | |
|------------------------------------|-----------------------------|------------------|
| | 2015 | 2014 |
| Assets: | | |
| Cash and investments | \$ 24,918 | \$ 30,501 |
| Intergovernmental receivable | 653 | 123 |
| Interest receivable | 107 | - |
| Total assets | <u>25,678</u> | <u>30,624</u> |
| Liabilities: | | |
| Accounts payable | <u>1,119</u> | <u>901</u> |
| Total liabilities | <u>1,119</u> | <u>901</u> |
| Fund balance: | | |
| Restricted | <u>24,559</u> | <u>29,723</u> |
| Total fund balance | <u>24,559</u> | <u>29,723</u> |
| Total liabilities and fund balance | <u>\$ 25,678</u> | <u>\$ 30,624</u> |

See accompanying notes to the basic financial statements.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)
Statements of Revenues, Expenditures, and Changes in Fund Balance
Years ended June 30, 2015 and 2014
(Amounts expressed in thousands)

| | Special Revenue Fund | |
|---|-----------------------------|------------------|
| | 2015 | 2014 |
| Revenues: | | |
| Licenses and fines | \$ 7,834 | \$ 7,842 |
| Intergovernmental | 2 | 5 |
| Investment income | 163 | 308 |
| Total general revenues | <u>7,999</u> | <u>8,155</u> |
| Expenditures: | | |
| Administration and other transportation projects | 8,207 | 6,358 |
| Subsidies to the Los Angeles County Metropolitan Transportation Authority | 4,956 | 4,529 |
| Total expenditures | <u>13,163</u> | <u>10,887</u> |
| Net change in fund balance | (5,164) | (2,732) |
| Fund balance - beginning of year | 29,723 | 32,455 |
| Fund balance - end of year | <u>\$ 24,559</u> | <u>\$ 29,723</u> |

See accompanying notes to the basic financial statements.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2015 and 2014

The notes to the basic financial statements are a summary of significant accounting policies and other disclosures considered necessary for a clear understanding of the accompanying basic financial statements. Unless otherwise indicated, all dollar amounts are expressed in thousands.

(1) Summary of Significant Accounting Policies

(a) *Reporting Entity*

The Service Authority for Freeway Emergencies (SAFE) was created in February 1988 pursuant to California Streets and Highway Code Section 2550 et seq., and is responsible for the operation, maintenance, and administration of the Los Angeles County Kenneth Hahn Call Box system. Under the authority of the above section, the Los Angeles County Metropolitan Transportation Authority (LACMTA) is the designated SAFE for Los Angeles County.

As LACMTA's board is SAFE's board, SAFE is a component unit of LACMTA and is included in LACMTA's financial statements as a blended component unit.

(b) *Operations*

SAFE is responsible for the implementation, maintenance, operation, and administration of motorist aid on the network of freeways, highways, and unincorporated county roads within Los Angeles County. SAFE operates and maintains approximately 2,700 call boxes along 436 miles of freeways, state highways, and selected county roads in Los Angeles County. SAFE also funds, operates and manages the Southern California 511 traveler information system. This system provides real-time and planned traffic, transit and other related traveler information to the public via the phone, web and mobile application.

(c) *Government-wide Financial Statements*

SAFE's financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, consist of government-wide statements, including a statement of net position, statement of activities, and fund financial statements, which provide a more detailed level of financial information.

The government-wide financial statements report information on all of the non-fiduciary activities of the agency and are reported using the economic resources measurement focus and the accrual basis of accounting.

The statement of activities demonstrates the degree to which the direct expenses, including centralized expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Licenses and fines and investment earnings not considered program revenues are reported as general revenues.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2015 and 2014

(d) *Fund Accounting*

SAFE utilizes fund accounting to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary.

Governmental funds are used to account for SAFE's activities. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Additionally, the SAFE fund is considered a special revenue governmental fund. Special revenue funds are used to account for specific revenue sources that are legally restricted to specific purposes. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, SAFE considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred and a valid claim is presented.

(e) *Fund Balance and Net Position*

Restricted fund balance and net position include amounts that can be spent only for specific purposes stipulated by enabling legislation, by grants, creditors, or by regulations of other governments. SAFE's fund balance and net position were classified as restricted as they can only be used in accordance with the provisions of the California Streets and Highway Code Section 2550 et seq by which the fund was created.

(f) *Budgetary Accounting*

Enabling legislation and adopted policies and procedures provide that the SAFE Board of Directors approve an annual budget. The Board of Directors conducts a public hearing for discussion of the proposed annual budget prior to adoption of the final budget. Unexpended appropriations lapse at year-end. The legal level of control is at the fund level, and expenses may not exceed total appropriations without board approval. By policy, the board has provided procedures for management to make revisions within operational or project budgets when there is no net dollar impact to total appropriations. The budget is prepared on a GAAP basis.

(g) *Cash and Investments*

SAFE maintains a minimum balance with the Los Angeles County Treasurer's external investment pool. Balances in excess of \$50 are withdrawn and deposited into the LACMTA internal investment pool. Cash and investments are reported at fair market value which is the quoted market price.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2015 and 2014

(h) Receivables

Receivables are net of estimated allowances for uncollectible accounts which are determined based on past experience. Receivables includes license and fine revenue due from the State Department of Motor Vehicles.

(i) License and Fines

License and fines revenue is recognized when earned and is generated by a \$1 (amount not in thousands) per car registration fee in Los Angeles County, which is receivable from the State Department of Motor Vehicles.

(j) Effects of New GASB Pronouncements

The following summarizes recent GASB pronouncements and their impact, if any, on the financial statements:

In June 2012, GASB issued Statement No. 68, *"Accounting and Financial Reporting for Pensions."* This Statement replaces the requirements of Statement No. 27, *"Accounting for Pensions by State and Local Governmental Employers,"* as well as the requirements of GASB 50, *"Pension Disclosures,"* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This statement establishes standards for governmental employer recognition, measurement, and presentation of information about pensions provided through pension plans that are within the scope of this statement. It also establishes requirements for reporting information about pension-related financial support provided by entities that make contributions to pension plans that are used to provide pensions to the employees of other entities. The requirement of this Statement is effective for fiscal years beginning after June 15, 2014. The implementation of the new reporting requirements of GASB 68 did not have any impact on SAFE.

In January 2013, GASB issued Statement No. 69, *"Government Combinations and Disposals of Government Operations."* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Government mergers include combinations of legally separate entities without the exchange of significant considerations. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. This Statement also provides guidance for transfers of operations that do not constitute legally separate entities and in which no significant consideration is exchanged. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. The implementation of the new reporting requirements of GASB 69 did not have any impact on SAFE.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
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Notes to the Basic Financial Statements
June 30, 2015 and 2014

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — an amendment of GASB Statement No. 68*. This Statement amends paragraph 137 of Statement 68 which requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition, only if it is practical to determine all such amounts. At transition to Statement 68, Statement 71 states that if it is not practical for an employer or non-employer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The requirements of this Statement are effective for fiscal years beginning after June 15, 2014. The implementation of the new reporting requirements of GASB 71 did not have any impact on SAFE.

In February 2015, GASB issued Statement No. 72 *“Fair Value Measurement and Application.”* This standard is applicable primarily to investments made by state and local governments and defines fair value and describes how fair value should be measured, identifies the assets and liabilities that should be measured at fair value, and requires specific information about fair value to be disclosed in the financial statement. This new standard also expands note disclosures to categorize fair values according to their relative reliability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015. SAFE plans to implement the new reporting requirement of GASB 72 for the fiscal year ending June 30, 2016, if applicable.

In June 2015, GASB issued Statement No. 73 *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68,”* and *“Amendments to Certain Provisions of GASB Statements 67 and 68.”* GASB Statement 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by Statements 67 and 68). The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015. SAFE plans to implement the new reporting requirements for the fiscal year ending June 30, 2016, if applicable.

In June 2015, GASB issued Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,”* which replaces GASB Statement No. 43, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*. Statement 74 addresses the financial reports of defined retiree benefit by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires additional disclosures and RSI related to the measurement of the retiree benefit plan liabilities with accumulated assets, including information about the annual money-weighted rates of return on plan investments. The requirements of this Statement are effective for fiscal years

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
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Notes to the Basic Financial Statements
June 30, 2015 and 2014

beginning after June 15, 2016. SAFE plans to implement the new reporting requirements for the fiscal year ending June 30, 2017, if applicable.

In June 2015, GASB issued Statement No. 75 *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,”* which replaces the requirements of GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (retiree benefits)”. Statement No. 75 directs governments to report a liability on their financial statements for their retiree benefits. It requires governments in all types of retiree benefit plans to present additional disclosures and supplementary information (RSI) about their retiree benefit liabilities. The requirements of Statement 75 are effective for fiscal years beginning after June 15, 2017. SAFE plans to implement the new reporting requirements for the fiscal year ending June 30, 2018, if applicable.

In June 2015, GASB issued Statement No. 76 *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”* which reduces the GAAP hierarchy from four categories under GASB Statement No. 55 to two categories. The first category consists of GASB Statements of Governmental Accounting Standards; the second category comprises GASB Technical Bulletins, Implementation Guides, and guidance from the AICPA. The most significant change is the raising of the level of authority of the Implementation Guides. The Statement also addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. These changes are intended to improve financial reporting for governments by establishing a framework for the evaluation of accounting guidance that will result in governments applying that guidance with less variation. That will improve the usefulness of financial statement information for making decisions, assessing accountability, and enhancing the comparability of financial statement information among governments. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015. SAFE plans to implement the new reporting requirements for the fiscal year ending June 30, 2016, if applicable.

In August 2015, GASB issued Statement No. 77 *“Tax Abatement Disclosures.”* This statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: 1) brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by abatement recipients, 2) the gross dollar amount of taxes abated during the period, and 3) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The requirements of this Statement are effective for fiscal years beginning after December

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2015 and 2014

15, 2015. SAFE plans to implement the new reporting requirements for the fiscal year ending June 30, 2017, if applicable.

In December 2015, GASB issued Statement No. 78 “*Pension Provided Through Certain Multiple-employer Defined Benefit Pension Plan.*” This statement amends the scope and applicability of GASB 68 to exclude pensions provided to benefit pension plan that; 1) is not a state or local governmental pension plan, 2) is used to provide define benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and 3) has no predominant state or local governmental employer (either individual or collectively with other states or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for fiscal years beginning after December 15, 2015. SAFE plans to implement the new reporting requirements for the fiscal year ending June 30, 2017, if applicable.

In December 2015, GASB issued Statement No. 79, “*Certain External Investment Pools and Pool Participants.*” This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. The provisions of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015. SAFE plans to implement the new reporting requirements for the fiscal year ending June 30, 2016, if applicable.

In January 2016, GASB issued Statement No. 80, “*Blending Requirements for Certain Component Units.*” This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, “*Determining Whether Certain Organizations Are Component Units.*” The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. SAFE plans to implement the new requirements for the fiscal year ending June 30, 2017, if applicable.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
 (A Component Unit of the
 Los Angeles County Metropolitan Transportation Authority)
 Notes to the Basic Financial Statements
 June 30, 2015 and 2014

(2) Cash and Investments

The following is a breakdown of SAFE's cash and investments as of June 30, 2015 and 2014.

| | <u>2015</u> | <u>2014</u> |
|------------------------------------|------------------|------------------|
| LACMTA investment pool | \$ 24,868 | \$ 29,752 |
| Los Angeles County investment pool | 50 | 749 |
| Total | <u>\$ 24,918</u> | <u>\$ 30,501</u> |

SAFE cash balances are pooled with other LACMTA funds participating in the investment pool by the LACMTA Treasurer. These funds are subject to withdrawal from the Treasurer's pool upon demand. The LACMTA Board of Directors provides regulatory oversight for the LACMTA pool. Each fund maintains an equity interest in the pool and is presented as cash and investments in the Statement of Net Position. The fair value of the position in the investment pool is the same as the value of the pool. The investment pool is not rated for purposes of evaluating credit risk as of June 30, 2015 and 2014. Detailed information regarding the LACMTA's pooled cash and investments can be found in the LACMTA Comprehensive Annual Financial Report (CAFR). A copy of the LACMTA's CAFR can be obtained by submitting a written request to the Accounting Department, One Gateway Plaza, Los Angeles, CA 90012-2952.

SAFE cash balances are also pooled with other County funds and invested by the Los Angeles County Treasurer. These funds are subject to withdrawal from the Treasurer's pool upon demand. The County Board of Supervisors provides regulatory oversight for the Los Angeles County Investment Pool (LACIP). The fair value of the position in the investment pool is the same as the value of the pool. The investment pool is not rated for purposes of evaluating credit risk as of June 30, 2015 and 2014. Detailed information regarding the County's pooled cash and investments can be found in the County of Los Angeles Comprehensive Annual Financial Report (CAFR). A copy of the County's CAFR can be obtained by submitting a written request to the Los Angeles County Auditor-Controller, 500 West Temple Street, Room 525, Los Angeles, CA 90012-2766.

In accordance with GASB Statement No. 40, *"Deposit and Risk Disclosure - an Amendment of GASB Statement No. 3"*, certain required disclosures regarding investment policies and practices with respect to the risk associated with their concentration of credit risk, custodial credit risk, interest rate risk, and foreign currency risk are discussed in the following paragraphs:

(a) Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual shares. SAFE maintains investment policies that establish thresholds for holdings of individual securities. SAFE does not have any holdings meeting or exceeding these threshold levels. As of June 30, 2015, SAFE does not have any investments with more than 5% of the total investments under one issuer except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2015 and 2014

(b) Custodial Credit Risk

SAFE has no known custodial credit risk for deposits as financial institutions are required by the California Government Code to collateralize deposits of public funds by pledging government securities as collateral. Such collateralization of public funds is accomplished by pooling.

(c) Interest Rate Risk

Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. SAFE measures interest rate risk on its short-term investments using the effective duration method. SAFE maintains policy requiring the average duration of the externally managed short-term investments not to exceed 150% of the benchmark duration and the average duration of the internally managed short-term investments not to exceed three years. This policy does not apply to investments of proceeds related to bond financings. SAFE measures interest rate risk on its bond proceeds and debt service investments using the weighted average maturity method.

(d) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of the cash deposits or investments. As of June 30, 2015, there is no exposure to currency risk as all SAFE cash deposits and investments are denominated in U.S. dollar currency.

(3) Significant Commitments

SAFE has entered into a Memorandum of Understanding (MOU) with the Public Transportation Services Corporation (PTSC), a blended component unit of LACMTA, for PTSC to provide cost reimbursable administrative support services to SAFE. The MOU will remain in effect until terminated by either party with a minimum of sixty (60) days written notice.

SAFE had \$2,583 of outstanding contractual commitments as of June 30, 2015 that had not been claimed or disbursed.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority
Statements of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
For the years ended June 30, 2015 and 2014
(Amounts expressed in thousands)

| | 2015 | | | | 2014 | | | |
|---|---------------------------------|------------------------------|-----------|-------------------------------------|---------------------|-------------------|-----------|-------------------------------------|
| | Original Budget ¹ | Final Budget ¹ | Actual | Variance with Final Budget | Original Budget* | Final Budget * | Actual | Variance with Final Budget |
| Revenues: | | | | | | | | |
| Licenses and fines | \$ 9,000 | \$ 9,000 | \$ 7,834 | \$ (1,166) | \$ 8,325 | \$ 8,325 | \$ 7,842 | \$ (483) |
| Intergovernmental | - | - | 2 | 2 | - | - | 5 | 5 |
| Investment income | 500 | 500 | 163 | (337) | 500 | 500 | 308 | (192) |
| Total revenues | 9,500 | 9,500 | 7,999 | (1,501) | 8,825 | 8,825 | 8,155 | (670) |
| Expenditures: | | | | | | | | |
| Administration and other transportation projects | 11,707 | 11,589 | 8,207 | 3,382 | 11,760 | 11,705 | 6,358 | 5,347 |
| Subsidies to the Los Angeles County Metropolitan Transportation Authority | 5,000 | 5,000 | 4,956 | (44) | 1,500 | 1,500 | 4,529 | (3,029) |
| Total expenditures | 16,707 | 16,589 | 13,163 | 3,426 | 13,260 | 13,205 | 10,887 | 2,318 |
| Net change in fund balances | (7,207) | (7,089) | (5,164) | 1,925 | (4,435) | (4,380) | (2,732) | 1,648 |
| Fund balances – beginning of year | 29,723 | 29,723 | 29,723 | - | 32,455 | 32,455 | 32,455 | - |
| Fund balances – end of year | \$ 22,516 | \$ 22,634 | \$ 24,559 | \$ 1,925 | \$ 28,020 | \$ 28,075 | \$ 29,723 | \$ 1,648 |

* Budget prepared in accordance with GAAP.



Board Report

File #: 2016-0362, **File Type:** Informational Report

Agenda Number: 7

FINANCE, BUDGET AND AUDIT COMMITTEE MAY 18, 2016

SUBJECT: MANAGEMENT AUDIT SERVICES FY 2016 THIRD QUARTER REPORT

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the **third quarter report of Management Audit Services for the period ending March 31, 2016.**

ISSUE

At its January 2005 meeting, the Board designated the Executive Management and Audit Committee (EMAC) as their audit committee. The EMAC requested a quarterly report from Management Audit Services (Management Audit) on its audit activities. In July 2011, the audit responsibilities were transferred to the Finance, Budget and Audit Committee. This report fulfills the requirement for the third quarter of FY 2016.

DISCUSSION

Management Audit provides audit support to the Chief Executive Officer (CEO) and his executive management. The audits we perform are categorized as either internal or external. Internal audits evaluate the processes and controls within the agency. External audits analyze contractors, cities or non-profit organizations that we conduct business with or receive Metro funds.

There are four groups in Management Audit: Performance Audit, Contract Pre-Award Audit, Incurred Cost Audit and Audit Support and Research Services. Performance Audit is primarily responsible for all audits for Operations, Finance and Administration, Planning and Development, Program Management, Information Technology, Communications, Risk, Safety and Asset Management and Executive Office. Contract Pre-Award and Incurred Cost Audit are responsible for external audits in Planning and Development, Program Management and Vendor/Contract Management. All of these units provide assurance to the public that internal processes are efficiently, economically, effectively, ethically, and equitably performed by conducting audits of program effectiveness and results, economy and efficiency, internal controls, and compliance. Audit Support and Research Services is responsible for administration, financial management, budget coordination, and audit follow-up and resolution tracking.

The summary of Management Audit activity for the quarter ending March 31, 2016 is as follows:

Internal Audits: 3 internal audits were completed; 17 internal audits were in process.

External Audits: 26 contract pre-award audits with a total value of \$245 million and 6 incurred cost audits with a total value of \$95 million were completed; 6 contract audits, 45 incurred cost audits were in process.

Audit Follow-up and Resolution: 16 recommendations were closed during the third quarter. At the end of the quarter,

there were 68 open audit recommendations. Details of all open, extended, and closed recommendations can be found in the Third Quarter Board Box titled "Status of Audit Recommendations".

Management Audit's FY 2016 third quarter report is included as Attachment A.

NEXT STEPS


Management Audit will provide the FY 2016 year-end summary of audit activity to the Board at the September 2016 Finance, Budget and Audit Committee meeting.

ATTACHMENT

A. Management Audit Services Quarterly Report to the Board for the period ending March 31, 2016

Prepared by: Monica Del Toro, Audit Support
(213) 922-7494

Reviewed by: Diana Estrada, Chief Auditor
(213) 922-2161



Phillip A. Washington
Chief Executive Officer

**MANAGEMENT AUDIT SERVICES
QUARTERLY REPORT TO THE BOARD**

**Los Angeles County Metropolitan
Transportation Authority**

***Third Quarter
FY 2016***



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| INTERNAL AUDITS | |
| Performance Audit of Cost Estimating Process | 5 |
| Performance Audit of Operations Key Performance Indicators | 5 |
| Performance Audit of the Request for Proposals Processes | 6 |
| OTHER AUDITS | |
| Other Audits | 7 |
| AUDIT SUPPORT SERVICES | |
| Audit Follow-Up and Resolution | 8 |
| SUMMARY TABLES | |
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| Appendix B – Incurred Cost Audits Completed | 11 |
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EXECUTIVE SUMMARY

Summary of Audit Activity

During the third quarter of FY 2016, 35 projects were completed. These include:

Internal Audits

- Performance Audit of Request for Proposal Processes.
- Performance Audit of Operations Key Performance Indicators.
- Performance Audit of the Cost Estimating Process.

Pre-Award Audits

- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for the 1st/Central Station Improvement Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for Transit Access Pass Ticket Vending Machine Installation;
- 2 Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for Metro ExpressLanes Solicitation Development Services;
- 2 Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for Construction Management Support Services for Soundwall No. 11;
- 2 Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for the Southern California Regional Interconnector Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for the Regional Connector Transit Corridor Project Change Order 003;
- 9 Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for Technical Consulting Services for Heavy Rail Vehicle;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for Plans, Specification & Estimates for I-5 North Managed Lanes;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for Project Approval and Environmental Document for the I-605/SR-91;
- Independent Auditor's Report on Agreed-Upon Procedures for the Cost Proposal for the Rail to Rail Active Transportation Project Environmental and Design; and
- 5 Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for Elevator / Escalator Maintenance.

Incurred Cost Audits

- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Los Angeles' Westwood/West Los Angeles Adaptive Traffic Control System Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of County of Los Angeles' South Bay Signal Synchronization & Bus Improvement Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Montebello's Beverly Boulevard Widening Phase III Project;
- Independent Auditor's Report on Agreed-Upon Procedures of the Interim Review of Caltrans' SR-60 HOV Lanes and Soundwalls from I-605 to Brea Canyon Road Project;

EXECUTIVE SUMMARY

Summary of Audit Activity

- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Agoura Hill's U.S. 101 / Reyes Adobe Road Interchange Improvement Project; and
- Independent Auditor's Report on Agreed-Upon Procedures of the Close-out Review of City of Westlake Village's Route 101 Lindero Canyon Road Interchange Improvements Project.

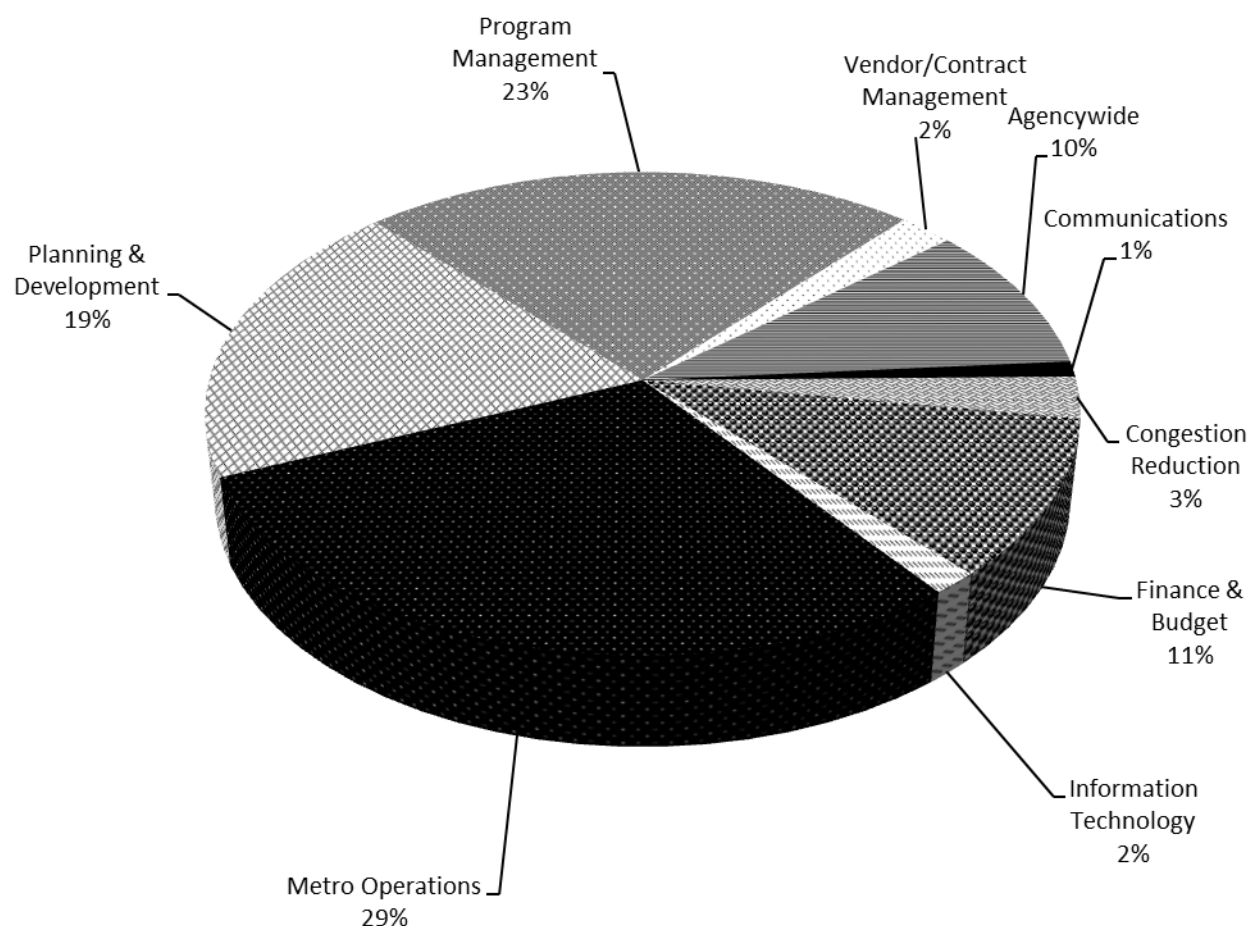
The completed external audits are discussed on page 4. Discussions of the internal audits begin on page 5.

Other audits completed by external CPA firms that Management Audit supervised are discussed on page 6.

EXECUTIVE SUMMARY

Sixty-eight projects were in process as of March 31, 2016; these include 17 internal audits, 6 contract pre-award audits, and 45 incurred cost audits.

The following chart identifies the functional areas where Management Audit focused audit staff time and efforts during third quarter FY 2016:



Audit follow-up:

- Sixteen recommendations were closed during the third quarter. At the end of the quarter there were 68 open audit recommendations.

EXTERNAL AUDITS

Contract Pre-Award Audit

Contract Pre-Award Audit provides support to the Vendor/Contract Management Department for a wide range of large-dollar procurements and projects. This support is provided throughout the procurement cycle in the form of pre-award, interim, change order, and closeout audits, as well as assistance with contract negotiations.

During third quarter FY 2016, 26 audits were completed, reviewing a net value of \$245 million. Auditors questioned \$16 million or 7% of the proposed costs. The 26 audits supported procurements in the following areas:

- 9 Heavy Rail Technical and Engineering Consulting Services procurements;
- 5 Elevator/Escalator Maintenance procurements;
- 2 ExpressLanes Project procurements;
- 2 Southern California Regional Interconnector Project procurements;
- 2 Construction Management Support Services procurements;
- 1 Transit Access Pass Project procurement;
- 1 Metro Gold Line Eastside Access Project procurement;
- 1 Rail to Rail Active Transportation Project procurement;
- 1 I-5 North Managed Lanes Project procurement;
- 1 I-605/SR-91 Interchange Project procurement; and
- 1 Regional Connector Transit Corridor Project procurement.

Six contract pre-award audits were in process as of March 31, 2016.

Details on Contract Pre-Award Audits completed during third quarter FY 2016 are in Appendix A.

Incurred Cost Audit

Incurred Cost Audit conducts audits for Planning and Development's Call-for-Projects program, Program Management's highway projects, federally funded transportation programs, and various other transportation related projects, including CalTrans projects. The purpose of the audits is to ensure that funds are spent in accordance with the terms of the grants/contracts and federal cost principles.

Incurred Cost Audit completed six audits during third quarter FY 2016. We reviewed \$95 million of funds and identified \$4.5 million or 5% of unused funds that may be reprogrammed. Forty-five incurred cost audits were in process as of March 31, 2016.

Details on Incurred Cost Audits completed during third quarter FY 2016 are in Appendix B.

INTERNAL AUDITS

For the third quarter of FY 2016, three internal audits were completed. Seventeen internal audits were in process as of March 31, 2016. The internal audits in process are listed in Appendix C.

The following internal audits were issued in the third quarter FY 2016. The completed reports are listed in order of the magnitude of risks that their findings represent to the agency.

Performance Audit of the Cost Estimating Process

Metro's Estimating Department performs independent cost estimates (ICE) for major capital projects. We obtained the services of an independent consulting firm that specializes in cost estimating to evaluate the efficiency and effectiveness of the cost estimating process; including the alignment of cost estimating functions with industry best practices. We also performed an analysis of the Southwestern Yard to identify the reasons for the gap between contractors' bids and Metro independent cost estimates (ICE).

We found that Metro's cost estimating process meets industry best practices and standards. However, we found that we lack formal written policies and procedures to ensure the consistency of the cost estimating process and that there is no in-house training program or continued education requirements for estimating staff. In addition, we found that several factors contributed to the gap between bids received for the Southwestern Yard project including the use of the design build delivery method which results in varied scope approach and inaccuracy in the estimates provided. Management agreed with all of the recommendations included in the audit and will take the necessary steps to correct the issues.

Performance Audit of Operations Key Performance Indicators (KPIs)

The audit objective was to assess the efficiency and effectiveness of Operations KPIs which address safety, security, fiscal discipline, customer service and state of good repair.

We found that Operations' KPIs adequately measure their performance and progress towards achieving their goals. However, we found opportunities for improvement in the reliability of the data that support the KPIs and the establishment of KPI targets. Management agreed with the recommendations and has already taken steps to correct the issues.

INTERNAL AUDITS

Performance Audit of the Request for Proposal (RFP) Processes

The audit objective was to evaluate the risk of non-compliance to Federal Transit Administration (FTA) requirements by conducting a follow up review of two deficiencies noted in the FTA 2013 Procurement System Review. We also sought to determine the status of implementation of MLC & Associate's (MLC) recommendations of the RFP process.

We found that improvements have been made in regards to sole source justification documentation. However, we found that a significant number of files sampled did not contain the responsibility determination checklist which serves as a guide to locate required documents within the file and that the checklist did not include 2 of the 10 criteria required by the FTA. We also found that Vendor/Contract Management (V/CM) has implemented four of MLC's 63 recommendations. For the remaining 59 recommendations, V/CM has developed an action plan to address the recommendations and will provide quarterly status reports to Management Audit.

OTHER AUDITS

Other audits completed during Third Quarter FY16 by external CPA firms include:

Gateway Center & Union Station Properties Financial Statements and Independent Auditor's Reports – Issued January 2016

Metro acquired the Union Station and Gateway Center properties in April 2011 and entered into a Leasing and Operations Management Agreement with Morlin Asset Management for the management and operations of the Gateway Center and Union Station.

We contracted BCA Watson Rice LLP (BCA) to conduct an audit of the financial statements for these two entities for the year ended June 30, 2015. The auditor found that the financial statements present fairly, in all material respects, the financial position of each entity.

Access Services Schedule of Revenues and Expenditures and Report on Compliance with Requirements Applicable to Federal Transit Administration Section 5310 and Proposition C Discretionary in accordance with MOU No. P000ASI19 – Issued January 2016

Access Services (Access) administer the Los Angeles County Coordinated Paratransit Plan on behalf of the County's 44 public fixed route operators. Access provides approximately 3.1 million trips per year to more than 163,000 qualified disabled riders in a service area of over 1,950 square miles. In September 2014, LACMTA and Access executed an agreement to provide funding to Access during the period July 1, 2014 through June 30, 2015. Funding consisted of \$60,600,000 Regional Surface Transportation Program funds under FTA Section 5310 Program and \$68,513,472 of Proposition C Discretionary.

BCA conducted the audit of the Schedule of Revenues and Expenditures and Report on Compliance with Requirements Applicable to Federal Transit Administration Section 5310 and Proposition C Discretionary of Access under MOU P000ASI19 for the year ended June 30, 2015 and found that they present fairly, in all material respects.

PTSC-MTA Risk Management Authority Basic Financial Statements – Issued February 2016

In October 1998, the Public Transportation Services Corporation (PTSC) and the Los Angeles County Metropolitan Transportation Authority (LACMTA) entered into a joint powers agreement to create the PTSC-MTA Risk Management Authority (PRMA) for the purpose of establishing and operating a program of cooperative self-insurance and risk management. PRMA receives all of its funding from LACMTA and PTSC. As PTSC also receives its funding from LACMTA, PRMA is a component unit of the LACMTA and is included in LACMTA's financial statements as a blended component unit.

An audit of PRMA's financial statements by an independent CPA firm is required annually. We retained BCA to conduct the audit for the fiscal year ended June 30, 2015. BCA found that the financial statements present fairly, in all material respects, the position of PRMA as of June 30, 2015.

AUDIT SUPPORT SERVICES

Audit Follow-Up and Resolution

During the third quarter, 16 recommendations were completed and closed. At the end of this quarter there were 68 outstanding audit recommendations. The table below summarizes the third quarter activity.

Summary of MAS and External Audit Recommendations As of March 31, 2016

| Executive Area | Closed | Late | Extended | Not Yet Due/Under Review | Total Open |
|----------------------------|--------|------|----------|--------------------------|------------|
| Program Management | | | | 8 | 8 |
| Labor/Employee Relations | 1 | | 4 | 2 | 6 |
| Finance and Budget | 1 | | | | 0 |
| Information Technology | 3 | | 3 | | 3 |
| Metro Operations | 7 | | 16 | 18 | 34 |
| Planning and Development | 2 | 1 | 15 | | 16 |
| Vendor/Contract Management | 2 | | | | 0 |
| Congestion Reduction | | | | 1 | 1 |
| Totals | 16 | 1 | 38 | 29 | 68 |

In addition to the above MAS and external audit recommendations, we closed 7 recommendations for the Office of the Inspector General (OIG). At the end of the quarter there were 58 outstanding OIG audit recommendations

Appendix A

| Contract Pre-Award Audit FY 2016 - Audits Completed During Third Quarter | | | | | |
|---|------------------------|--|-------------------------------------|--------------------|-----------------------|
| No. | Area | Audit Number & Type | Contractor | Requirement | Date Completed |
| 1 | Planning & Development | 16-PLN-A13 - Attestation Agreed-upon Procedures | Ted Toki Tanaka Architects | Contractual | 2/2016 |
| 2 | Finance & Budget | 16-OMB-A01 - Attestation Agreed-upon Procedures | Cubic Transportation Systems, Inc. | Contractual | 2/2016 |
| 3 | Congestion Reduction | 16-CEO-A02A - Attestation Agreed-upon Procedures | Cambria Solutions, Inc. | Contractual | 2/2016 |
| 4 | Program Management | 16-CON-A05 - Attestation Agreed-upon Procedures | Ghirardelli Associates, Inc. | Contractual | 2/2016 |
| 5 | Congestion Reduction | 16-CEO-A02B - Attestation Agreed-upon Procedures | HNTB Corporation | Contractual | 2/2016 |
| 6 | Program Management | 16-CON-A12B - Attestation Agreed-upon Procedures | V&A, Inc. | Contractual | 2/2016 |
| 7 | Program Management | 16-CON-A06 - Attestation Agreed-upon Procedures | MNS Engineers, Inc. | Contractual | 2/2016 |
| 8 | Program Management | 16-CON-A12A - Attestation Agreed-upon Procedures | HDR Engineering, Inc. | Contractual | 2/2016 |
| 9 | Program Management | 16-CON-A04- Attestation Agreed-upon Procedures | Regional Connector Constructors, JV | Contractual | 3/2016 |
| 10 | Metro Operations | 16-OPS-A05A - Attestation Agreed-upon Procedures | STV, Inc. | Contractual | 3/2016 |
| 11 | Metro Operations | 16-OPS-A05B - Attestation Agreed-upon Procedures | Parsons Brinkerhoff, Inc. | Contractual | 3/2016 |
| 12 | Metro Operations | 16-OPS-A05C - Attestation Agreed-upon Procedures | Systems Consulting, LLC | Contractual | 3/2016 |

Appendix A

| Contract Pre-Award Audit FY 2016 - Audits Completed During Third Quarter | | | | | |
|---|------------------------|--|--------------------------------------|--------------------|-----------------------|
| No. | Area | Audit Number & Type | Contractor | Requirement | Date Completed |
| 13 | Metro Operations | 16-OPS-A05D - Attestation Agreed-upon Procedures | Information Design Consultants, Inc. | Contractual | 3/2016 |
| 14 | Metro Operations | 16-OPS-A05E - Attestation Agreed-upon Procedures | Virginkar & Associates, Inc. | Contractual | 3/2016 |
| 15 | Metro Operations | 16-OPS-A04A - Attestation Agreed-upon Procedures | LTK Engineering Services | Contractual | 3/2016 |
| 16 | Metro Operations | 16-OPS-A04B - Attestation Agreed-upon Procedures | Virginkar & Associates, Inc. | Contractual | 3/2016 |
| 17 | Metro Operations | 16-OPS-A04C - Attestation Agreed-upon Procedures | CH2M Hill, Inc. | Contractual | 3/2016 |
| 18 | Metro Operations | 16-OPS-A04D- Attestation Agreed-upon Procedures | Ramos Consulting Services, Inc. | Contractual | 3/2016 |
| 19 | Program Management | 16-HWY-A01 - Attestation Agreed-upon Procedures | Guida Surveying, Inc. | Contractual | 3/2016 |
| 20 | Planning & Development | 16-PLN-A21- Attestation Agreed-upon Procedures | RBF Consulting | Contractual | 3/2016 |
| 21 | Program Management | 16-CON-A13 - Attestation Agreed-upon Procedures | Cityworks Design | Contractual | 3/2016 |
| 22 | Metro Operations | 16-OPS-A06B- Attestation Agreed-upon Procedures | Elite Escalator, Inc. | Contractual | 3/2016 |
| 23 | Metro Operations | 16-OPS-A06A- Attestation Agreed-upon Procedures | Mitsubishi Electric U.S. Inc. | Contractual | 3/2016 |
| 24 | Metro Operations | 16-OPS-A06F - Attestation Agreed-upon Procedures | Elevators Etc. | Contractual | 3/2016 |
| 25 | Metro Operations | 16-OPS-A06E- Attestation Agreed-upon Procedures | Excelsior Elevator Corporation | Contractual | 3/2016 |
| 26 | Metro Operations | 16-OPS-A06C- Attestation Agreed-upon Procedures | Vintage Elevator Services, Inc. | Contractual | 3/2016 |

Appendix B

| Incurred Cost Audit FY 2016 - Audits Completed During Third Quarter | | | | | |
|---|--------------------|-----------------------|--------------------------|-------------|----------------|
| No. | Area | Audit Number & Type | Grantee | Requirement | Date Completed |
| 1 | Program Management | 15-PLN-A08 - Closeout | City of Los Angeles | Contractual | 1/2016 |
| 2 | Program Management | 13-PLN-A19 - Closeout | Los Angeles County | Contractual | 1/2016 |
| 3 | Program Management | 15-PLN-A20- Closeout | City of Montebello | Contractual | 2/2016 |
| 4 | Program Management | 11-PLN-G05 - Interim | Caltrans | Contractual | 2/2016 |
| 5 | Program Management | 15-PLN-A31 - Closeout | City of Agoura Hills | Contractual | 3/2016 |
| 6 | Program Management | 15-PLN-A14 - Closeout | City of Westlake Village | Contractual | 3/2016 |

Appendix C

| Internal Audit FY 2016 - Internal Audits in Process | | | | |
|---|------------------------------|---|--|------------------------------|
| No. | Area | Audit Number & Title | Description | Estimated Date of Completion |
| 1 | Communications | 16-COM-P01 - Special Fares | Evaluate the effectiveness of internal controls over special fare programs. | 4/2016 |
| 2 | Congestion Reduction | 16-CEO-P02 - 511 follow-up audit | Follow Up on 511 audit. | 4/2016 |
| 3 | Planning & Development | 14-EDD-P01 - Real Estate Property Management Follow-up | Evaluate accuracy and completeness of tracking real estate properties in Real Property Management System. | 4/2016 |
| 4 | Vendor / Contract Management | 16-VCM-P02 - Annual Audit of Business Interruption Fund | Annual required audit of Business Interruption Fund program. | 4/2016 |
| 5 | Agencywide | 16-AGW-P03 - Overtime Usage | Evaluate the accuracy, efficiency and effectiveness of overtime usage. | 5/2016 |
| 6 | Metro Operations | 16-OPS-P01 - Wayside System | Evaluate effectiveness of maintenance of the Rail track & signaling systems. | 5/2016 |
| 7 | Metro Operations | 16-OPS-P02 - Rail Overhaul and Maintenance | Evaluate the efficiency and effectiveness of the Rail Overhaul and Refurbishment Program. | 5/2016 |
| 8 | Vendor / Contract Management | 12-ADM-I01 - Contract Information Management System | Assess the system implementation process to acquire, design, test and implement the Contract Information Management System that meets specific functionalities required by the MTA business processes. | 5/2016 |
| 9 | Finance & Budget | 10-ACC-F01 - Accounts Receivable | Validate adequacy of current policies and procedures. | 6/2016 |
| 10 | Program Management | 16-CON-P01 - Performance Audit of Indefinite Delivery / Indefinite Quantity (IDIQ) Type Contracts | Determine the efficiency and effectiveness of the administration of IDIQ Contracts. | 6/2016 |
| 11 | Program Management | 16-CON-P04 - Quality Assurance | Effectiveness and efficiency of quality assurance processes. | 6/2016 |

Appendix C

| Internal Audit FY 2016 - Internal Audits in Process | | | | |
|---|------------------------------|--|--|------------------------------|
| No. | Area | Audit Number & Title | Description | Estimated Date of Completion |
| 12 | Vendor / Contract Management | 13-ADM-O02 - Automated Storage and Retrieval System Phase I & II | Evaluate the adequacy of internal controls over the Automated Storage and Retrieval System (ASRS). | 6/2016 |
| 13 | Metro Operations | 16-OPS-P03 Performance Audit of Accident Prevention Program | Evaluate effectiveness of accident prevention practices | 6/2016 |
| 14 | Metro Operations | 16-OPS-P05 Performance Audit of Division Practices | Evaluate effectiveness of division management practices | 6/2016 |
| 15 | Vendor / Contract Management | 16-VCM- P01 - Audit of P Card | Evaluate compliance to P-card purchase requirements. | 6/2016 |
| 16 | Program Management | 12-CON-P03 - I-405 Follow-up | Verify if management's corrective actions from the prior audit were implemented and resulting in improvements. | 12/2016 |
| 17 | Program Management | 10-CPC-K02 - Third Party Utility Relocation Agreement Efficiency | Assess the adequacy and effectiveness of the Third Party Utility Relocation. | 12/2016 |

Appendix D

| Open Audit Recommendations | | | | | | |
|----------------------------|------------------------|--|----------|---|--------------------------|--------------------------|
| No. | Area | Audit Number & Title | Rec. No. | Recommendation | Original Completion Date | Extended Completion Date |
| 1 | Operations | 11-OPS-O06 - HASTUS | 1 | We recommend the Chief Operations Officer require the Scheduling department to: Upgrade to 2013 HASTUS and change their current practices to fully utilize the ATP module to calibrate route runtimes and trip-specific operational layover requirements to feed back into key scheduling processes. | 6/30/2016 | 12/31/2016 |
| 2 | Operations | 11-OPS-O06 - HASTUS | 2 | We recommend the Chief Operations Officer require the Scheduling department to: Provide training on all ATP features. | 6/30/2016 | 12/31/2016 |
| 3 | Operations | 11-OPS-O06 - HASTUS | 3 | We recommend the Chief Operations Officer require the Scheduling department to: Provide training on all AP features. a. Develop the requirements to utilize AVL data to supplement missing data from the APC. b. Customize the current ATP module to improve its functionality until the proposed 2013 upgrade can be accomplished. | 6/30/2016 | 12/31/2016 |
| 4 | Operations | 11-OPS-O06 - HASTUS | 4 | We recommend the Chief Operations Officer consider utilizing more of HASTUS' Minbus module features by: Defining the higher minimum of either 1) the United Transportation Union Labor Agreement, or 2) an operational minimum layover time. | 6/30/2016 | 12/31/2016 |
| 5 | Operations | 11-OPS-O06 - HASTUS | 5 | We recommend the Chief Operations Officer consider utilizing more of HASTUS' Minbus module features by: Looking for opportunities to interline routes as a strategy for achieving a more cost effective solution. | 6/30/2016 | 12/31/2016 |
| 6 | Operations | 11-OPS-O06 - HASTUS | 6 | We recommend the Chief Operations Officer consider utilizing more of HASTUS' Minbus module features by: Developing a more robust, realistic deadhead matrix and use the matrix during the vehicle blocking process to globally optimize its bus system schedules. | 6/30/2016 | 12/31/2016 |
| 7 | Operations | 11-OPS-O06 - HASTUS | 7 | We recommend the Chief Operations Officer consider utilizing more of HASTUS' Minbus module features by: Defining the maximum number of vehicle groups possible for any given trip. | 6/30/2016 | 12/31/2016 |
| 8 | Operations | 11-OPS-O06 - HASTUS | 8 | We recommend the Chief Operations Officer consider utilizing more of HASTUS' Minbus module features by: Training Schedulers to use Minbus advanced features. | 6/30/2016 | 12/31/2016 |
| 9 | Operations | 11-OPS-O06 - HASTUS | 11 | We recommend the Chief Operations Officer: Consider multi-division operator run cutting to optimize workforce distribution amongst divisions. | 6/30/2014 | 12/31/2016 |
| 10 | Operations | 11-OPS-O06 - HASTUS | 12 | We recommend the Chief Operations Officer: Adopt integrated scheduling to improve the efficiency of run cuts | 6/30/2014 | 12/31/2016 |
| 11 | Operations | 11-OPS-O06 - HASTUS | 13 | We recommend the Chief Operations Officer transition to HASTUS for scheduling rail service. The plan should include transition milestones and estimated completion dates. | 6/30/2016 | 12/31/2016 |
| 12 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 4 | Document existing procedures to improve internal control and oversight of grantees/sub-recipients | 6/30/2015 | 6/30/2016 |
| 13 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 5 | Activities at high risk for error and non-compliance should be identified and procedures documented for consistent implementation across all modes and project managers. | 6/30/2015 | 6/30/2016 |

Appendix D

| Open Audit Recommendations | | | | | | |
|----------------------------|------------------------|--|----------|--|--------------------------|--------------------------|
| No. | Area | Audit Number & Title | Rec. No. | Recommendation | Original Completion Date | Extended Completion Date |
| 14 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 7 | Proceed with development of grants management module in the FIS system. | 12/31/2015 | 12/31/2016 |
| 15 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 8 | Coordinate FIS module development with a more comprehensive grants management database system for tracking grants within the RGM Unit. Consider using a user-friendlier "Windows-based" environment for the grants management database. | 12/31/2015 | 12/31/2016 |
| 16 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 9 | Inventory and evaluate current "shadow systems" to help determine project manager requirements. This may provide useful information for the creation of a centralized database. | 12/31/2015 | 12/31/2016 |
| 17 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 10 | Develop protocols on who can update the data and how often. | 12/31/2015 | 12/31/2016 |
| 18 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 11 | Develop a high-level summary of grants for Metro executive staff and Board members based on their need for that information. | 12/31/2015 | 12/31/2016 |
| 19 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 12 | Consider revising its organizational structure to provide clearer definition of responsibilities, improved levels of supervision and review, and improved management control and oversight. One possible structure would be around the key functions or elements of grants management. | 6/30/2015 | 6/30/2016 |
| 20 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 13 | Develop teams around each of these key elements, with a supervisor responsible for managing and directing each team's activities. | 6/30/2015 | 6/30/2016 |
| 21 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 19 | Develop a process to ensure implementation of timely and appropriate corrective actions to address closeout activities such as final reporting, project closeouts and other events that affect the closeout process. | 6/30/2015 | 12/31/2016 |
| 22 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 20 | Designate an individual to serve as the grant closeout liaison. | 6/30/2015 | 12/31/2016 |
| 23 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 21 | Create a tool, such as an "Aging Report" to enable the liaison to quickly identify a critical event and to perform necessary updates to close the grant. | 6/30/2015 | 12/31/2016 |
| 24 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 24 | Establish a procedure to coordinate all grants within the agency and communicate that to all Metro departments/staff. | 6/30/2015 | 7/31/2015 (LATE) |
| 25 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 26 | Inventory individual roles and responsibilities and develop procedures for transfer of knowledge and cross training of other team members. | 6/30/2015 | 6/30/2016 |

Appendix D

| Open Audit Recommendations | | | | | | |
|----------------------------|----------------------------|--|----------|--|--------------------------|--------------------------|
| No. | Area | Audit Number & Title | Rec. No. | Recommendation | Original Completion Date | Extended Completion Date |
| 26 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 27 | Develop a process focused less on modal specialization and adopt a model whereby a greater number of team members are trained across a wider spectrum of activities and modes. | 6/30/2015 | 6/30/2016 |
| 27 | Planning & Development | 13-PLN-P01 - Grants Management and Call for Projects | 28 | Establish formal training; verify that processes are consistent but sufficiently flexible to accommodate variations in managing grants and projects. | 6/30/2015 | 6/30/2016 |
| 28 | Congestion Reduction | 12-HCP-P01 - Metro Freeway Service Patrol | 3 | Develop goals and objectives, and reinstitute performance measurements, for the oversight of the Metro Freeway Service Patrol Program | 5/30/2016 | |
| 29 | Information Technology | 14-ADM-P01 - Mobile Devices | 2 | We recommend that the Chief Information Officer implement appropriate Mobile Device Management software to manage all mobile devices and enforce security | 9/30/2015 | 2/29/2016 |
| 30 | Information Technology | 14-ADM-P01 - Mobile Devices | 3 | We recommend that the Chief Information Officer expand ITS wireless Device and Service policies and procedures to include written security requirements for mobile devices. | 9/30/2015 | 2/29/2016 |
| 31 | Information Technology | 14-ADM-P01 - Mobile Devices | 4 | We recommend that the Chief Information Officer implement a device management platform that will provide adequate device level security controls. | 9/30/2015 | 2/29/2016 |
| 32 | Operations | 13-OPS-P02 - Non-Revenue Vehicle Usage | 1 | We recommend the Executive Director, Maintenance, require Non-Revenue Fleet management to perform a one-time analysis to establish a baseline for the optimum fleet size for the non-revenue fleet based on mission needs, vehicle utilization, life cycle costs, etc. | 11/30/2015 | 6/30/2016 |
| 33 | Operations | 13-OPS-P02 - Non-Revenue Vehicle Usage | 2 | We recommend the Executive Director, Maintenance, require Non-Revenue Fleet management to monitor the assignment and usage of non-revenue vehicles fleet. | 11/30/2015 | 6/30/2016 |
| 34 | Operations | 13-OPS-P02 - Non-Revenue Vehicle Usage | 3 | We recommend the Executive Director, Maintenance direct Non-Revenue to update GEN 16 to require Department/Cost Center managers to certify annual usage via signed certification statement. Executive Officers must approve certification. | 12/31/2015 | 6/30/2016 |
| 35 | Operations | 13-OPS-P02 - Non-Revenue Vehicle Usage | 4 | We recommend the Executive Director, Maintenance direct Non-Revenue to revise GEN 16 to clarify the criteria for overnight usage. | 12/31/2015 | 6/30/2016 |
| 36 | Operations | 13-OPS-P02 - Non-Revenue Vehicle Usage | 5 | We recommend the Executive Director, Maintenance direct Non-Revenue to customize the M3 Motor Pool application to improve its functionality to track and report overnight usage for all department pools. | 11/30/2015 | 6/30/2016 |
| 37 | Labor / Employee Relations | 13-OPS-P02 - Non-Revenue Vehicle Usage | 6 | We recommend the Executive Director, Employee and Labor Relations direct General Services to fully utilize M3 Motor Pool application to track and report overnight usage for General Services Pool vehicles. | 9/30/2015 | 3/31/2016 |
| 38 | Labor / Employee Relations | 13-OPS-P02 - Non-Revenue Vehicle Usage | 7 | We recommend the Executive Director, Employee and Labor Relations direct General Services to immediately cancel all unknown key card assignments. | 9/30/2015 | 4/30/2016 |
| 39 | Labor / Employee Relations | 13-OPS-P02 - Non-Revenue Vehicle Usage | 8 | We recommend the Executive Director, Employee and Labor Relations direct General Services to recertify all key card assignees and implement a process to manage key card assignments. | 3/31/2016 | |

Appendix D

| Open Audit Recommendations | | | | | | |
|----------------------------|----------------------------|--|----------|--|--------------------------|--------------------------|
| No. | Area | Audit Number & Title | Rec. No. | Recommendation | Original Completion Date | Extended Completion Date |
| 40 | Labor / Employee Relations | 13-OPS-P02 - Non-Revenue Vehicle Usage | 9 | We recommend the Executive Director, Employee and Labor Relations direct General Services to update GEN 17 to provide specific guidelines for the assignment and use of complementary key cards. | 6/30/2016 | |
| 41 | Labor / Employee Relations | 13-OPS-P02 - Non-Revenue Vehicle Usage | 11 | We recommend the Executive Director, Employee and Labor Relations direct General Services to compare 24-hour assignments to transit subsidy recipients to ensure compliance with GEN 16. | 12/31/2015 | 4/30/2016 |
| 42 | Labor / Employee Relations | 13-OPS-P02 - Non-Revenue Vehicle Usage | 12 | We recommend the Executive Director, Employee and Labor Relations direct General Services to provide training to TCU / Maintainers on GEN 16 requirements to overnight use of pool vehicles. | 12/31/2015 | 4/30/2016 |
| 43 | Operations | 13-OPS-P06 - Contracted Bus Service | 1 | We recommend the Executive Director, Transportation, to require Contracted Services to: develop a Contract Monitoring System that includes but is not limited to: a. A Contract Administration Plan that specifies the performance outputs of the statement of work and describes the methodology to conduct monitoring or surveillance. The extent and frequency of monitoring activities should be based on an assessment of risk related to each contractor and the impact if the work is not performed adequately. b. Written policies and procedures that serve as a guide to ensuring consistent, high quality contract monitoring process. c. A centralized location for receiving and maintaining contractors' submittals and reports by utilizing Metro's existing web based SharePoint system. | 10/31/2016 | |
| 44 | Operations | 13-OPS-P06 - Contracted Bus Service | 2 | We recommend the Executive Director, Transportation, to require Contracted Services to obtain appropriate training to enable the team to develop the appropriate skills and background to efficiently monitor contractors' performance. | 2/29/2016 | |
| 45 | Operations | 13-OPS-P06 - Contracted Bus Service | 3 | We recommend the Executive Director, Transportation, to require Contracted Services to include in Policy and Procedures: a statement that documentation of decisions, requiring executive approval and authorization, be maintained. All modifications of contractual terms must be in writing and executed by the Contract Administrator, as the CEO's designee, in compliance with the contract. | 10/31/2016 | |
| 46 | Operations | 13-OPS-P06 - Contracted Bus Service | 4 | We recommend the Executive Director, Transportation, to require Contracted Services to consult with County Counsel on their concerns regarding the liquidated damages provisions in the current contracts. Based on the outcome either reassess liquidated damages and collect amounts owed to Metro during the suspended period or issue contract amendments to change the liquidated damages provisions. | 1/31/2016 | |
| 47 | Operations | 13-OPS-P06 - Contracted Bus Service | 5 | We recommend the Executive Director, Transportation, to require Contracted Services to validate the accuracy and completeness of contractors' submittals by recalculations, verification to original records, etc. | 4/30/2016 | |

Appendix D

| Open Audit Recommendations | | | | | | |
|----------------------------|------------|--|----------|--|--------------------------|--------------------------|
| No. | Area | Audit Number & Title | Rec. No. | Recommendation | Original Completion Date | Extended Completion Date |
| 48 | Operations | 13-OPS-P06 - Contracted Bus Service | 6 | We recommend the Executive Director, Transportation, to require Contracted Services to develop procedures for monitoring contractors performance, including, but not limited to, spot checks, periodic inspections, random sampling of routine functions, based on the risk identified in the Contract Administration Plan and the analyses of contractors monthly submittals. | 6/30/2016 | |
| 49 | Operations | 13-OPS-P06 - Contracted Bus Service | 7 | We recommend the Executive Director, Transportation, to require Contracted Services to develop a comprehensive checklist of review tasks for each procedure used to conduct the contractors review, document deficiencies identified and corrective actions taken. | 6/30/2016 | |
| 50 | Operations | 13-OPS-P06 - Contracted Bus Service | 8 | We recommend the Executive Director, Transportation, to require Contracted Services to validate fare revenues deposits to the bank receipts or statements. | 1/31/2016 | |
| 51 | Operations | 13-OPS-P06 - Contracted Bus Service | 12 | We recommend the Executive Director of Transportation, require that Contracted Services follow-up variances and anomalies in KPI data and results with contractor to determine their cause and ensure that any necessary corrective actions have been implemented. | 3/31/2016 | |
| 52 | Operations | 13-OPS-P06 - Contracted Bus Service | 13 | We recommend the Executive Director of Transportation, require that Contracted Services identify KPIs as measurements for contractors' performance within future contracts. | 6/30/2016 | |
| 53 | Operations | 13-OPS-P06 - Contracted Bus Service | 14 | We recommend the Executive Director of Transportation, require that Contracted Services document follow-up of exceptions, cited in both CHP and QA inspection reports, and corrective actions taken. | 5/31/2016 | |
| 54 | Operations | 13-OPS-P04 - Operations Key Performance Indicators | 2 | We recommend that the Chief Operations Officer works with ITS to determine whether the ATMS incident number can be carried over to the VAMS. | 9/30/2016 | |
| 55 | Operations | 13-OPS-P04 - Operations Key Performance Indicators | 3a | We recommend that the Chief Operations Officer explore the feasibility of capturing rail miles automatically, similar to the capture of bus mileage data, Fleetwatch System, by implementing a wireless access point on all rail cars. | 8/30/2016 | |
| 56 | Operations | 13-OPS-P04 - Operations Key Performance Indicators | 4 | We recommend that the Chief Operations Officer develops standard operating procedures (SOP) to require operations to notify M3 whenever there are codes updates/changes for failures that have been implemented in ATMS and are to be picked up by M3. | 3/31/2016 | |
| 57 | Operations | 13-OPS-P04 - Operations Key Performance Indicators | 5 | We recommend that the Chief Operations Officer requires SPA to work with ITS to pull data directly from M3. | 4/1/2016 | |
| 58 | Operations | 13-OPS-P04 - Operations Key Performance Indicators | 6 | We recommend that the Chief Operations Officer requires SPA to continue to work with ITS to develop a Business Intelligence software application that includes a customizable interface with the ability to pull data from multiple sources. | 6/30/2017 | |

Appendix D

| Open Audit Recommendations | | | | | | |
|----------------------------|--------------------|--|----------|---|--------------------------|--------------------------|
| No. | Area | Audit Number & Title | Rec. No. | Recommendation | Original Completion Date | Extended Completion Date |
| 59 | Operations | 13-OPS-P04 - Operations Key Performance Indicators | 7 | We recommend that the Chief Operations Officer requires data owners to validate the data supporting KPIs for accuracy and completeness. | 4/30/2016 | |
| 60 | Operations | 13-OPS-P04 - Operations Key Performance Indicators | 8 | We recommend that the Chief Operations Officer require that Executive Management adjust KPI targets and document the process used. | 6/30/2016 | |
| 61 | Program Management | 13-CEO-P01 - Cost Estimating Process | 1 | We recommend that Estimating Management develop comprehensive policies and procedures that at a minimum should include: a) Clear definition of the role of the Cost Estimating department in the following areas: preparation of independent cost estimates including thresholds when the estimating department is responsible in preparing the cost estimates, review, validation and approval of cost estimates, involvement in budget planning phase b) Standard process and format including the requirement to use Work Breakdown Structure (WBS) to be used by consultants, contractors and internal staff. | 3/31/2017 | |
| 62 | Program Management | 13-CEO-P01 - Cost Estimating Process | 2 | Communicate the policies and procedures to staff, consultants and users. | 3/31/2017 | |
| 63 | Program Management | 13-CEO-P01 - Cost Estimating Process | 3 | Evaluate resources to meet the role and responsibilities of cost estimating department. | 3/31/2017 | |
| 64 | Program Management | 13-CEO-P01 - Cost Estimating Process | 4 | Collaborate with procurement and program management in revising the naming convention on policies and procedures. | 3/31/2017 | |
| 65 | Program Management | 13-CEO-P01 - Cost Estimating Process | 5 | We recommend that Estimating Management evaluate the training needs for estimating staff based on the changes of agency's risk, and ensure knowledge is transferred as staff retired. | 3/31/2017 | |
| 66 | Program Management | 13-CEO-P01 - Cost Estimating Process | 6 | Based on the training need assessment, evaluate the required resources for training and develop a training program. | 3/31/2017 | |
| 67 | Program Management | 13-CEO-P01 - Cost Estimating Process | 7 | Consider adding the training requirements in the policy and procedures. | 3/31/2017 | |
| 68 | Program Management | 13-CEO-P01 - Cost Estimating Process | 8 | We recommend that Estimating Management provide estimating guidelines and formats when utilizing two independent estimates, so that they may be compared productively. Guidelines should be developed that cover estimating approach, methodology, Work Breakdown Structures (WBS) and cost account structure. | 3/31/2017 | |



Board Report

File #: 2016-0344, File Type: Plan

Agenda Number: 9

REVISED
FINANCE, BUDGET AND AUDIT COMMITTEE
MAY 18, 2016

SUBJECT: FY17 AUDIT PLAN

ACTION: APPROVE ADOPTION OF THE FY17 PROPOSED AUDIT PLAN

RECOMMENDATION

ADOPT the **FY17 Proposed Audit Plan**.

ISSUE

At its January 2008 meeting, the Board adopted modifications to the FY07 Financial Stability Policy. The Financial Stability Policy requires Management Audit Services (Management Audit) to develop a risk assessment and an audit plan each year and present it to the Board. It also requires that the Finance, Budget and Audit Committee, as the audit committee for the agency, provide input and approval of the audit plan.

DISCUSSION

Instrumental to the development of the FY17 Audit Plan was completion of the FY16 agency-wide risk assessment. The agency-wide risk assessment is continually being refined and adjusted based upon events, issues identified during audits and agency priorities. The risk assessment continues to place a strong emphasis on the agency's internal control framework and vulnerability to fraud. We believe this year's risk assessment portrays the agency's risks in light of the changes to our risk environment and the challenges the agency faces in the next few years. The result is the FY17 Proposed Audit Plan (Attachment A).

This is the twelfth year an audit plan has been developed and presented to the Board for input and adoption.

Policy Implications

An audit plan defines the work that will be completed or directed by Management Audit each fiscal year. It indicates both the depth and breadth of audit activities addressing financial, operational and compliance risks for the agency. The audit plan also identifies the extent to which controls are being assessed by routine audit activities, addressed proactively through advisory services, or as a result of concerns from management.

The annual audit plan is driven by two key factors: (1) risk assessment results, and (2) audit resources. The goal in drafting the audit plan is to address the highest risk areas at the agency given the resources available to complete the audits.

In developing the plan, the hours included for each audit are an estimate. There are occasions where some reviews may take longer and therefore absorb more hours than proposed and in other cases, the audit will be completed in fewer hours than estimated. In addition, urgent requests arise that need audit support. When this occurs, the plan must be

reassessed and Management Audit may supplement internal resources with outside consultants as long as there is funding and consultants available for the task. Therefore, not all planned audit work may be completed and the audit plan may be reassessed and adjusted during the year for unanticipated risks and work.

DETERMINATION OF SAFETY IMPACT

Approval of this item will not impact the safety of Metro's patrons or employees.

FINANCIAL IMPACT

Any funding for external consultants needed to complete the annual audit plan will be included in the FY17 budget in Management Audit's cost centers and the appropriate projects throughout the agency.

ALTERNATIVES CONSIDERED

One option would be not to complete an annual audit plan. This is not recommended since the audit plan is a management tool to systematically assign resources to areas that are a concern or high risk to the agency. Communicating the audit plan to the Board is required by audit standards.

NEXT STEPS

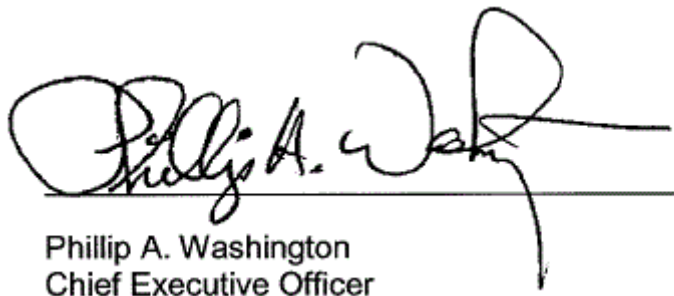
Once the Board adopts the annual audit plan, Management Audit will develop the audit schedule for FY17. Management Audit will report to the Board quarterly on its progress in completing the annual audit plan.

ATTACHMENTS

Attachment A - FY17 Annual Business Plan and Proposed Audit Plan

Prepared by: Monica Del Toro, Audit Support
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Reviewed by: Diana Estrada, Chief Auditor
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Phillip A. Washington
Chief Executive Officer

Los Angeles County
Metropolitan Transportation Authority

MANAGEMENT AUDIT SERVICES

FISCAL YEAR 2017 ANNUAL BUSINESS PLAN AND PROPOSED AUDIT PLAN



Metro

Management Audit Services

Fiscal Year 2017 Annual Business Plan And Proposed Audit Plan

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Executive Summary

OVERVIEW

Annually, the Board requires Management Audit Services (Management Audit) to complete an agency-wide risk assessment and submit an audit plan to the Board for its input and approval.

An agency-wide risk assessment is the process of understanding an organization's strategic, operational, compliance and financial objectives to identify and prioritize threats/risks that could inhibit successful completion of these objectives. Risk assessments provide management with meaningful information needed to understand factors that can negatively influence operations and outcomes.

An audit plan is driven by two key factors: 1) risk assessment results, and 2) audit resources. The goal of preparing an audit plan is to address the highest risk areas at the agency given the resources available to complete the audits.

RISK ASSESSMENT

Instrumental to the development of the FY17 Audit Plan was completion of the FY16 agency-wide risk assessment. The agency-wide risk assessment is continually being refined and adjusted based upon events, issues identified during audits and agency priorities. The categorization of risks used corresponds with the current eight CEO initiatives identified in the Budget document:

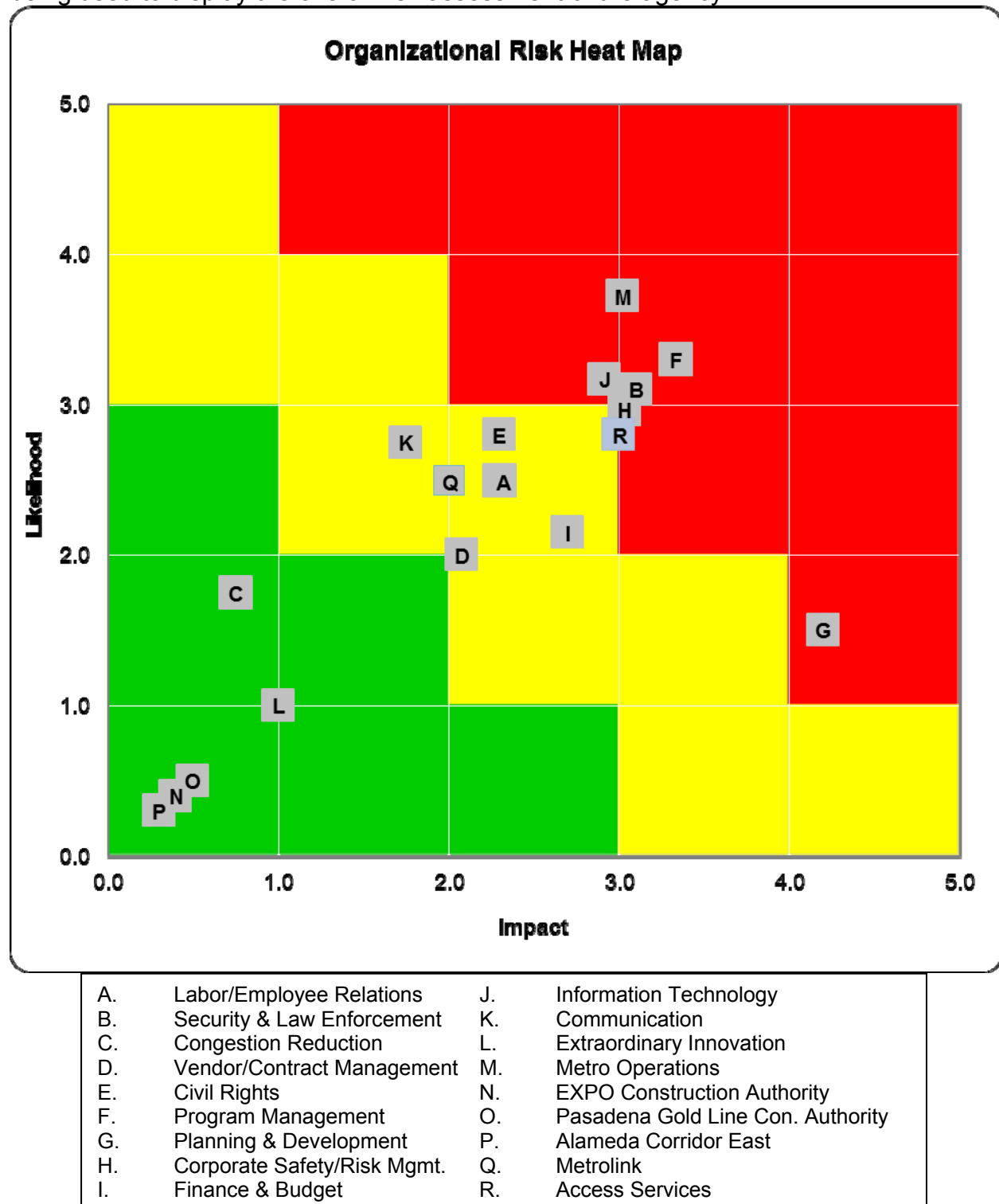
1. Advance safety and security for our customers, the public, and Metro employees
2. Exercise fiscal discipline to ensure financial stability
3. Plan and deliver capital projects on time and on budget while increasing opportunities for small business development and innovation.
4. Improve the customer experience and expand access to transportation options.
5. Increase transit use and ridership.
6. Implement an industry leading state of good repair program.
7. Invest in workforce development.
8. Promote extraordinary innovation.

The risk assessment continues to place a strong emphasis on the agency's internal control framework and vulnerability to fraud. We believe this year's risk assessment portrays the agency's risks in light of the changes to our risk environment and the challenges the agency faces in the next few years.

The risk environment continues to evolve with the focus this year on safety and security, state of good repair, capital projects delivery, strategic financing alternatives, key information systems, and the agency's ability to achieve all of its goals successfully with the available funding and staffing.

The agency-wide risk assessment process began by reviewing and analyzing key documents such as the annual budget, the Basic Financial Statements, status reports on major projects, past audit reports, open and late corrective actions to prior audit findings, and the transportation plans. We then completed an extensive assessment of

the different areas within the agency. We supplemented this assessment by interviewing key personnel to obtain additional information. All of this information was used to identify risks and concerns specific to individual cost centers as well as risks impacting the entire agency. In addition, similar to last year we evaluated risks related to five outside agencies that receive significant funding from MTA: Access Services, Metrolink, Exposition Authority (Expo), Pasadena Foothill Extension Authority (Foothill), and Alameda Corridor East (ACE). Risks were then scored using two factors, magnitude of impact and likelihood of occurrence. As in prior years, a heat map is still being used to display the overall risk assessment of the agency.



High Risk Areas

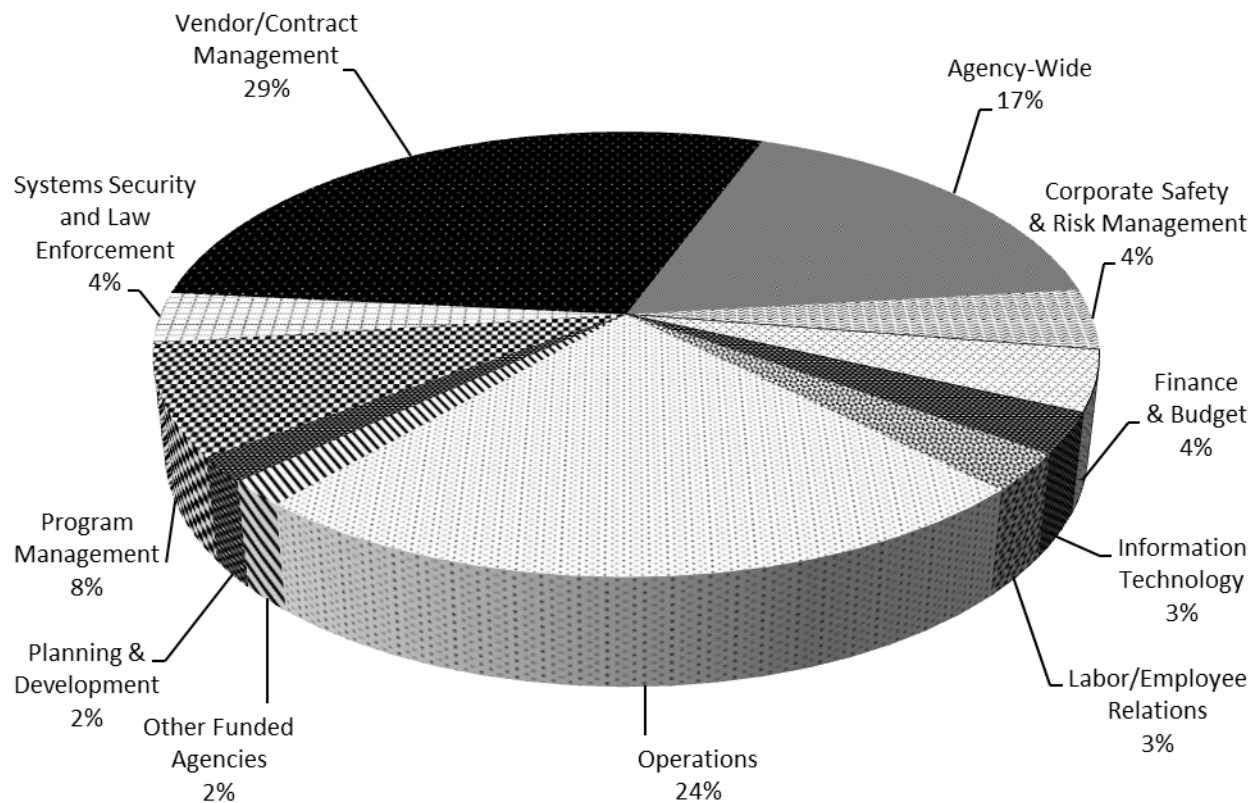
The top internal risks include safety and security, aging infrastructure, funding constraints, dated information systems and completion of multiple capital projects within the same timeframe with limited resources. Access Services continues to be an external risk.

- 1) The agency is facing heightened risk due to potential threats of terrorism and other crimes. Systems Security and Law Enforcement is exploring innovative ways to use technology and partner with the Sheriff's department and the community to secure high risk areas. In addition, Metro is planning to increase law enforcement visibility to improve safety and security and decrease fare evasion.
- 2) Operations' overall risk score is impacted by aging infrastructure coupled with a significant amount of deferred maintenance that is being addressed but is still considered a risk to achieving some of the agency's key goals. Operations and the Transit Asset Management department are now collaborating to formalize a process to assess the condition of their equipment, rolling stock, infrastructure, and facilities in order to comply with FTA's state of good repair regulation and upcoming MAP 21 certification.
- 3) Completion of multiple capital projects simultaneously with limited resources is still considered to be a risk. Apart from the inherent development/construction risks, there may be inadequate funding to complete all projects as planned within the projected timeframe. In addition, schedule delays, increased costs and the inability to hire qualified technical staff to provide oversight for major construction projects continue to be significant concerns. However, more emphasis has been placed on strategic planning, risk transference and risk sharing, particularly in the area of Third Party Utility relocations.
- 4) Metro continues to struggle with the projected operating deficit as well as limited resources to fully fund the capital expansion projects already in progress. The agency has recognized the need to be more fiscally flexible and innovative and responded by implementing the Risk Allocation Matrix (RAM) and an Internal Savings Account. In addition, we are assessing possible Public, Private Partnership (P3) opportunities and other strategic alternatives to ensure financial stability and mitigate projected budget shortfalls.
- 5) Increased reliance on system generated data and the need for comprehensive, integrated information systems continue to impact the overall technology risk scoring. Growing concern over cyber security vulnerabilities require more resources to be expended to preserve system reliability and data integrity. In addition, there is a need for a collaborative business continuity disaster recovery plan to facilitate the ability to resume operations in the aftermath of a catastrophic event.
- 6) The inability to hire qualified technical and support staff are pervasive concerns that surfaced in most of the risk assessment discussions. Senior Management is addressing these concerns by shifting available resources to key risk areas, partnering with local institutions to provide specialized training, expanding the veteran hiring initiative, implementing a leadership academy and continuing the entry level trainee program.

- 7) Access Services has traditionally been funded using federal and local funds which have not been growing at the same rate as Americans with Disabilities Act (ADA) paratransit demand. ADA paratransit costs and demands are growing due to demographic shifts of an aging population of baby boomers and cuts in human services transportation funding. Metro is preparing for the increased costs by including funding for Access Services in the proposed ballot measure.

AUDIT PLAN

For purposes of the audit plan, the agency has been organized into 13 departmental functions and 5 other agencies funded by MTA. The audits in the FY17 audit plan are distributed across the organizational structure as follows:



A detailed list of audits is included in Appendix A.

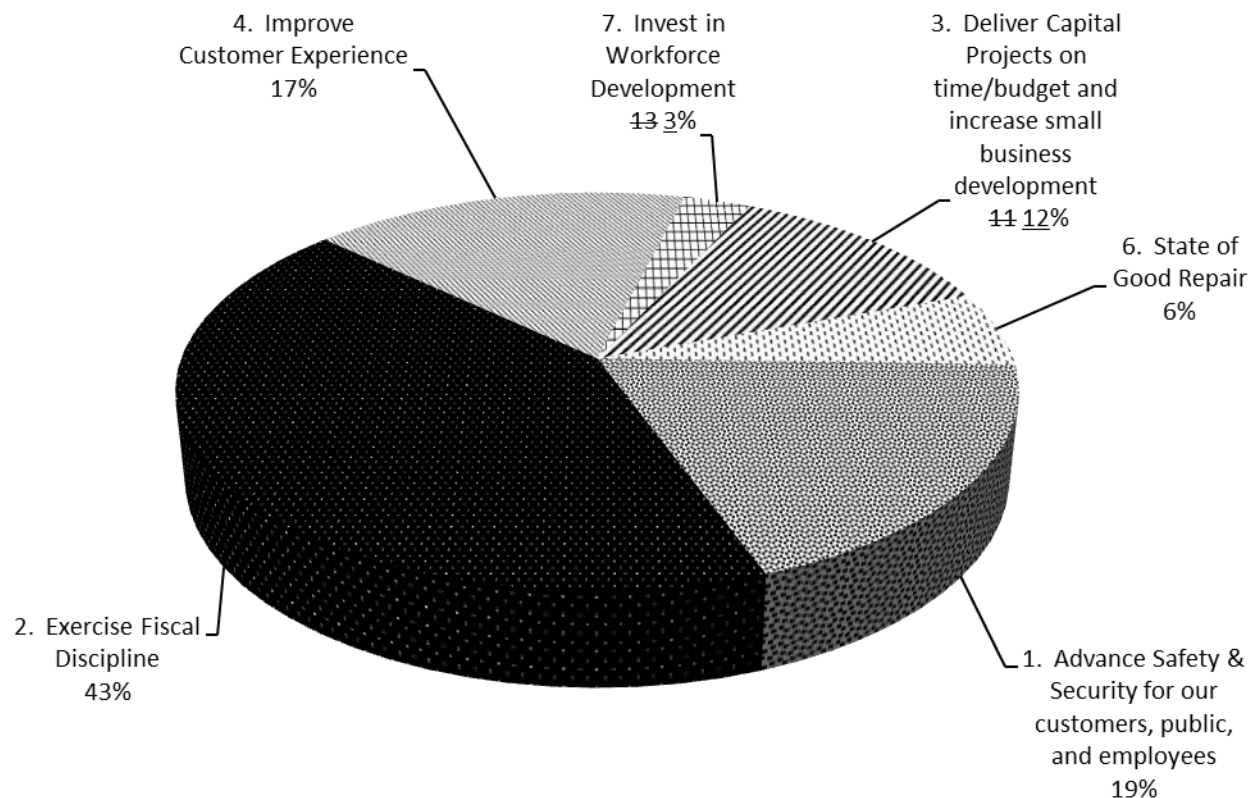
Audit Plan Strategy

The audit plan is based on the information obtained during the agency-wide risk assessment process and includes audits in those areas identified as high risk to the agency.

The projects proposed in the audit plan correlate to the 8 CEO Goals for the agency:

1. Advance safety and security for our customers, the public, and Metro employees
2. Exercise fiscal discipline to ensure financial stability
3. Plan and deliver capital projects on time and on budget while increasing opportunities for small business development and innovation.
4. Improve the customer experience and expand access to transportation options.
5. Increase transit use and ridership.
6. Implement an industry leading state of good repair program.
7. Invest in workforce development.
8. Promote extraordinary innovation.

The following chart summarizes the audits by the primary agency strategic goal.



ALLOCATION OF AUDIT RESOURCES

Our FY17 plan is based on 27,300 direct audit hours to be provided by 13 budgeted audit professionals, 3 entry-level trainees and contracted subject matter experts. The audit hours for the Chief Auditor and her management team are not included in the direct audit hours. The direct audit hours are allocated as follows:

- 18,550 hours (68%) for new audits,
- 2,500 hours (9%) for CEO requested projects, and
- 6,250 hours (23%) for audits which are still in progress.

In developing the plan, the hours included for each audit are an estimate. There are occasions where some audits may take more or fewer hours than estimated. In addition, urgent requests from the CEO or Executive Management may arise that require audit support. When this occurs, Management Audit will reassess the plan and may supplement internal resources with outside consultants, pending available funding. Management Audit may also use external consultants to provide subject matter expertise when necessary.

The FY17 audit plan included in Appendix A attempts to provide a balanced and effective review of the entire agency constrained by Management Audit resource limitations.

This is the CEO's audit plan being presented to the Board for approval. The CEO has the discretion based on agency need or Board direction to reprioritize audit resources. We are dedicated to completing our audit plan while continuing to be flexible and responsive to the agency's needs.

AUDIT PLAN AREAS

Internal Audits

The internal audits were selected based on the results of the FY16 agency-wide risk assessment. Areas identified as critical or high risk during the agency-wide risk assessment were given priority when identifying potential audits for the FY17 audit plan. Since there are more risks than available resources, resources were the key factor in selecting the number of risks and areas to audit. The audits identified for the FY17 proposed audit plan were selected based on one of the following four strategic audit objectives:

1. Support agency-wide goals and objectives
2. Evaluate governance, risk and internal control environment
3. Review efficiency and effectiveness of operations
4. Validate compliance to regulatory requirements

The majority of Management Audit's projects are focused on identifying business process improvements and innovative ways to support the agency's strategic initiatives. This is in addition to our traditional assurance work on "hard controls", such as segregation of duties, safeguarding agency assets, reliability of financial and operational information, and compliance with regulations, contracts, and memorandums of understanding (MOUs). Since the agency is currently undertaking numerous major IT system enhancements and development, audit resources will also provide assurance that the critical system's internal controls are adequate and working effectively.

Contract Pre-Award & Incurred Cost Audits

Incurred Cost Audits review costs associated with MOU's issued under the Call for Projects program or contract incurred costs. Contract Pre-award Audits review costs proposed for contracts and change orders issued by Vendor/Contract Management. We identified the audits in the FY17 proposed plan based on discussions with project managers and contract administration staff, analysis of Call for Project's audit universe and Financial Information Systems' (FIS) data for contract audits. The universe of audits was balanced against the associated budget authorized to complete the work. The grant audit work was completely outsourced in FY16 and will continue to be outsourced in FY17 due to a shortage of permanent staff.

The highest priority for FY17 is contract audits for large construction, corridor, and rolling stock regulatory projects followed by pre-award audits for all other projects. Incurred cost and closeout audits are the lowest priority. Because staffing in Management Audit is limited, external resources will be used if there are available funds to meet critical project deadlines.

External Financial and Compliance Audits

In 2009, Management Audit assumed the responsibility for managing the agency's planned audits by external auditors. The FY17 plan includes hours set aside to ensure that these audits are completed within the scope and schedule of the contracts.

Special Request Audits

The FY17 plan also includes 2,500 hours or approximately 9% of available hours for special projects requested by the CEO. These hours provide some flexibility in the audit plan to respond to emerging issues where the CEO needs audit resources to address an unanticipated issue or heightened concern.

In order to comply with Government Accountability Office's Generally Accepted Government Auditing Standards and the Institute of Internal Auditor's (IIA) International Standards for the Professional Practice of Internal Auditing Standards. The Standards require that internal audit adopt a process to monitor and assess the overall effectiveness of the audit quality process. This self-assessment measures compliance to the Standards and to Management Audit's Charter, mission statement, objectives, audit policy manual, supervision, and staff development. In addition, the internal quality assurance review assesses our effectiveness and promotes continuous improvement within Management Audit. This internal review will also help us prepare for the external quality assurance review scheduled for FY17.

OTHER PLANNED ACTIVITIES

Audit Tracking and Follow-up

In compliance with the Standards, Management Audit tracks and follows up on the implementation of all audit recommendations from both internal and external audit groups including OIG, State of California, FTA, etc. Management Audit also reports all outstanding audit issues to the CEO and Board of Directors on a quarterly basis to ensure that any significant risks to the agency are addressed in a timely manner.

MANAGEMENT AUDIT SERVICES FRAMEWORK

Metro's vision is excellence in service and support. Management Audit is committed to providing essential support to achieve this vision. To do this we have developed our department vision which is to deliver value by driving positive change through partnership and trust. In order to ensure our work is consistently reliable, independent and objective, Management Audit completes work under the framework of our Board approved Audit Charter. The Audit Charter includes Management Audit's mission, the standards we must comply with, and our department's objectives and core function.

Mission

Our mission is to provide highly reliable, independent, objective assurance and consulting services designed to add value and improve operations. The department accomplishes this by bringing a systematic, disciplined approach to evaluating and recommending improvements to the effectiveness of risk management, controls and governance processes.

Standards

The Institute of Internal Auditors (IIA) defines internal auditing as:

"...an independent, objective, assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes."

To meet our client's expectations and for us to function with reliability and credibility, Management Audit must ensure our audits are independent, objective and accurate. Therefore, Management Audit follows the ethical and professional standards promulgated by the Government Accountability Office, Generally Accepted Government Auditing Standards (GAGAS) and the Institute of Internal Auditors International Professional Practices Framework. Depending on the type of audit being done, Management Audit also follows the standards promulgated by the American Institute of Certified Public Accountants (AICPA) and by the Information Systems Audit and Control Association (ISACA).

Objectives and Core Functions

As summarized in our Audit Charter, the primary objective of Management Audit is to assist the CEO and his management team with their important business and financial decisions by:

- Monitor and verify key regulatory and legislative compliance;
- Assess internal controls effectiveness and fiscal responsibility;
- Evaluate cost reasonableness of contracts and grants;
- Identify and recommend business process improvements;
- Evaluate and recommend efficiencies and effectiveness of programs and functions;
- Evaluate safety and security of agency systems, programs and initiatives; and
- Track and report on all outstanding external and internal audit findings.

In addition, Management Audit's objective is to foster a system and environment that supports the highest level of integrity and ethical conduct and provides assurance of an acceptable level of risk to management for all key business processes.

APPENDIX A

DETAILED LISTING OF AUDITS

CEO Goal #1 – Advance safety and security for our customers, the public and Metro employees

| | Title | Objective | Area |
|----|--|---|--------------------------------------|
| 1. | Audit of IT Project Management | Evaluate efficiency and effectiveness of IT project management. | Information Technology |
| 2. | Audit of Rail Communication Systems | Evaluate efficiency and effectiveness of Rail Communication Systems. | Operations |
| 3. | Audit of Transit Terrorism <u>System Security Plan</u> | Evaluate adequacy of Transit Terrorism Homeland Security efficiency and effectiveness on the process for the <u>development and updates for System Security Plan</u> . | Systems Security and Law Enforcement |
| 4. | Audit of SCADA | Evaluate systemwide security of SCADA. | Operations |
| 5. | Audit of Environmental Compliance | Evaluate effectiveness of agency's environmental compliance program. | Program Management |

CEO Goal #2 – Exercise fiscal discipline to ensure financial stability

| | Title | Objective | Area |
|----|--|---|---|
| 1. | Pre-award audits | Pre-award audits for procurements and modifications. | Vendor/Contract Management |
| 2. | Incurred Cost Contract Audits | Verify costs are reasonable, allowable and allocable on cost reimbursable contracts for Contractors. | Vendor/Contract Management |
| 3. | Incurred Cost Grant Audits | Verify costs are reasonable, allowable and allocable on cost reimbursable contracts for Caltrans, Cities & County MOUs. | Planning & Development / Program Management |
| 4. | Financial and Compliance external audits | Complete legally mandated financial and compliance audits. | Agency-Wide |
| 5. | Performance Audit of Cash Counting Process | Evaluate Controls of Cash Counting Process. | Finance & Budget |

| | Title | Objective | Area |
|----|--|--|----------------------------|
| 6. | Performance Audit of Farebox Revenue Process | Evaluate Controls of Farebox Revenue collection process. | Finance & Budget |
| 7. | Performance Audit of P-card Purchases | Evaluate compliance to P-card purchase requirements. | Vendor/Contract Management |
| 8. | Performance Audit of IT Asset Management | Evaluate the effectiveness of management over technology assets. | Information Technology |
| 9. | Audit of Consultant Hours | Evaluate efficiency and effectiveness of the use of consultants. | Agency-Wide |

Strategic Goal #3 – Plan and deliver capital projects on time and on budget while increasing opportunities for small business development and innovation

| | Title | Objective | Area |
|----|--|--|---|
| 1. | Buy America Pre-Awards | Buy America pre-award audits | Vendor/Contract Management |
| 2. | Annual Audit of Business Interruption fund | Evaluate Business Interruption Fund program | Vendor/Contract Management |
| 3. | Audit of Regional Connector Project | Evaluate the adequacy and effectiveness of controls over Regional Connector Project. | Program Management |
| 4. | Audit of EIS/EIR process | Evaluate the efficiency and effectiveness Environmental Impact Study / Environmental Impact Report (EIS/EIR) of the project management and oversight | Planning & Development / Program Management |

Strategic Goal #4 – Improve the customer experience and expand access to transportation options

| | Title | Objective | Area |
|----|---|---|-----------------------|
| 1. | Audit of IT Controls over Access Services | Evaluate the reliability of Access Services information systems. | Other Funded Agencies |
| 2. | Audit of HASTUS Daily Module | To evaluate the effectiveness of controls over the Hastus Daily Module. | Operations |
| 3. | Audit of M3 System | Evaluate effectiveness of M3 system utilization. | Operations |
| 4. | Audit of Power Maintenance & Usage | Evaluate efficiency and effectiveness of rail operations power maintenance and usage. | Operations |
| 5. | Audit of Division Management Practices | Evaluate efficiency and effectiveness of Division management practices and processes. | Operations |

Strategic Goal #6 – Implement an industry-leading state of good repair program

| | Title | Objective | Area |
|----|------------------------------------|---|--|
| 1. | Audit of State of Good Repair Plan | Evaluate efficiency and effectiveness of readiness to Comply with State of Good Repair. | Corp. Safety & Risk Mgmt. / Operations |

Strategic Goal #7 – Invest in workforce development

| | Title | Objective | Area |
|----|--------------------|---|--------------------------|
| 1. | Audit of Oracle HR | Evaluate accuracy of Oracle HR position reconciliation process. | Labor/Employee Relations |



Board Report

File #: 2016-0372, **File Type:** Public Hearing

Agenda Number: 38

FINANCE, BUDGET & AUDIT COMMITTEE PUBLIC HEARING - PROPOSED FY17 BUDGET MAY 18, 2016

SUBJECT: FISCAL YEAR 2017 (FY17) BUDGET

ACTION: ADOPT THE FY17 BUDGET

RECOMMENDATION

APPROVE:

- A. adopting the **FY17 Budget** as presented in the budget document (provided in a separate transmittal and posted on Metro.net) with the amendment of an additional -\$5.3 million reduction as a reconciliation item to the proposed budget as shown on Attachment A;
- B. the **Reimbursement Resolution declaring Metro's intention to issue debt in FY17 for capital projects** (provided in Attachment B). Actual debt issuance will require separate Board approval;
- C. an average 3% merit increase for non-represented employees which will be performance based; and
- D. an adjustment to management pay grades and salary bands for the top seven levels H1S through HFF to reflect typical market practice. There is no impact to the budget or to current employees' salaries (see Attachment C).

ISSUE

State Law (Public Utilities Code Section 130105) requires Metro to adopt an annual budget to manage the revenues and expenses of the agency's projects and programs. The budget is the legal authorization to obligate and spend funds and to implement Board policy. It includes all operating, capital, planning and programming, subsidy funds, debt service requirements, and general fund activities for the fiscal year. Budget detail is a management plan for financial activity and is prepared at the fund, project, department and expenditure level. The legal level of control is at the fund level. Total annual expenditures cannot exceed the final appropriation by the Board except for capital expenditures, which is authorized on a life-of-project basis.

Copies of the proposed budget document were made available to the public on May 3, 2016, both electronically at www.metro.net and through the Records Management Center (RMC) at RMC@metro.net. Printed copies of the budget document were made available at the RMC on the Plaza level of the Gateway Building on the same day. The public hearing is scheduled for May 18, 2016. Advance public notification of this hearing was issued through advertisements posted in over two dozen news publications.

The FY17 Budget development process started in January 2016 with monthly updates to the Finance, Budget, & Audit Committee. Additionally, in that time, Metro staff has provided multiple budget briefings to Board staff and has followed up on questions received from Board staff. There has also been 19 meetings held to stakeholders including Service Councils, Citizens Advisory Council, Technical Advisory Committee, Bus Operations Subcommittee and the public both in person and via electronic media outlets such as podcasts, website and social media.

DISCUSSION

The proposed FY17 Budget is balanced at \$5.7 billion in total agency expenditures which is a decrease of -\$137 million, or -2.4%, from \$5.8 billion in FY16. This is a result of efforts to tighten cost controls, increase fiscal discipline and accountability throughout the agency while continuing to deliver on the following agency goals:

1. Advance safety and security for our customers, the public, and Metro employees
2. Exercise fiscal discipline to ensure financial stability
3. Plan and deliver capital projects on time and on budget while increasing opportunities for small business development and innovation
4. Improve the customer experience and expand access to transportation options
5. Increase transit use and ridership
6. Implement an industry-leading state of good repair program
7. Invest in workforce development
8. Promote extraordinary innovation

Assumptions Summary

The FY17 budget is built based on the following assumptions:

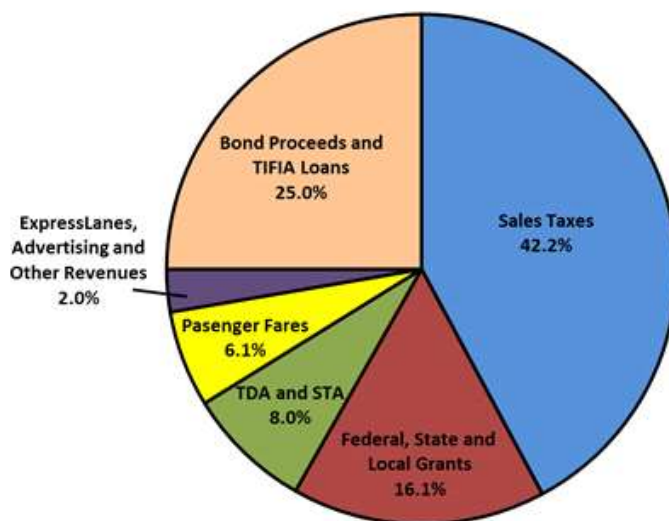
- FY 17 sales tax growth of 3.3% over FY16 Budget based on forecasting sources as well as actual receipts for FY16 YTD through Q2
- CPI of +1.85% based on Beacon Economics forecast
- Bus Revenue Service Hours decrease by 41,828 hours or -0.6% primarily due to increase speed and optimizing service levels

- Rail Revenue Service Hours increase by 168,584 hours or 15.4% from a full year operations of the rail extensions
- The budget reflects negotiated wage and salary provisions for represented employees (SMART, ATU, AFSCME, TCU and Teamsters). The wage increase by these provisions is at least 3.0% for annual wage increase and an additional amount for step increase to reach the maximum pay rate for an annual increase ranging from 3% to 5%.
- No new non represented FTEs requested
- Represented FTEs increase in Transit security department is conditioned upon savings from the new law enforcement contract; any reduction in represented FTE's will be through attrition.

Resources Summary

The table below summarizes the budgeted types of resources available for FY17.

| | | FY17 | |
|-----------------------------|---|----------------|---------------|
| Resources (\$s in millions) | | Proposed | % of Total |
| 1 | Sales Taxes (Prop A, C and Measure R) | \$ 2,387.1 | 42.2% |
| 2 | Federal, State and Local Grants | 910.7 | 16.1% |
| 3 | TDA and STA | 450.8 | 8.0% |
| 4 | Passenger Fares | 346.2 | 6.1% |
| 5 | ExpressLane, Advertising and Other Revenues | 152.6 | 2.7% |
| 6 | Bond Proceeds and TIFIA Loans | 1,415.8 | 25.0% |
| 7 | Grand Total | 5,663.2 | 100.0% |



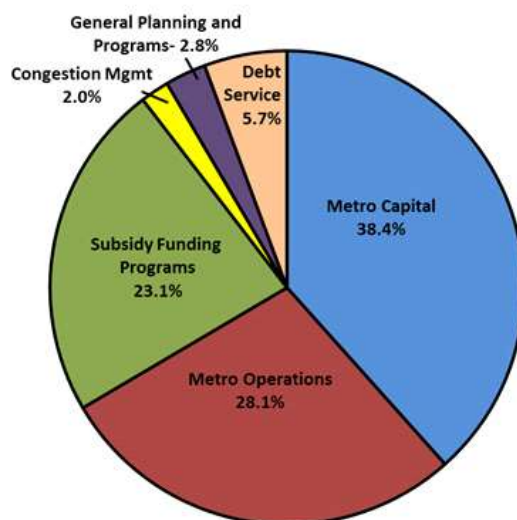
FY17 vs FY16 Expense Summary

The agency implemented a zero-based budget process for FY17 which is a deliverable based

approach in building the budget. Through this process, we were able to prioritize projects and redeploy expenditures and resources to the core needs for the upcoming fiscal year. This reinforces the agency's commitment to tighten budget controls and exercise fiscal discipline in the allocation of limited resources and further drive accountability.

As a result, the FY17 Budget nets to a decrease in total agency expenditures of -\$137 million, which is a -2.4% decrease, from \$5.8 billion in FY16 to \$5.7 billion in FY17. This budget decrease is the net result after absorbing \$130 million or 2.2% of cost increases for non-discretionary items and new programs. However cost control and accountability efforts contribute to a decrease from FY16 to FY17 of -\$267 million or -4.6%. This further demonstrates the agency's core goal of exercising fiscal discipline to ensure financial stability. The chart below shows the summary of expenditures for FY16 vs FY17.

| Program Type (\$ in millions) | FY16 | FY17 Proposed | Variance \$'s | Variance % | % of Total FY17 Budget |
|-------------------------------|-------------------|-------------------|-------------------|--------------|------------------------|
| 1 Metro Capital | \$ 2,521.4 | \$ 2,173.8 | \$ (347.6) | -13.8% | 38.4% |
| 2 Metro Operations | 1,515.2 | 1,593.5 | 78.3 | 5.2% | 28.1% |
| 3 Subsidy Funding Programs | 1,159.7 | 1,306.2 | 146.5 | 12.6% | 23.1% |
| 4 Congestion Management | 99.4 | 111.0 | 11.6 | 11.7% | 2.0% |
| 5 General Planning & Programs | 175.8 | 158.5 | (17.3) | -9.8% | 2.8% |
| 6 Debt Service | 328.7 | 320.1 | (8.6) | -2.6% | 5.7% |
| 7 Grand Total | \$ 5,800.2 | \$ 5,663.1 | \$ (137.1) | -2.4% | 100.0% |



The major reasons for the \$130 million or 2.2% increase is due to increases in labor, insurance and utilities rate inflation, contractual obligations, costs for investing in new programs such as Bike and Active Transportation Programs, studies and projects, and ongoing construction projects such as the Westside Purple Line Extension, Regional Connector and Crenshaw/LAX based on the project LOP and a full year operation of the Gold Line Foothill Phase 2A and Expo Line extensions.

Risk Allocation Matrix (RAM) in FY17 Budget

In January 2016, the RAM was approved by an action of the Metro Board of Directors. RAM is an

ongoing agencywide process to identify a strategic mix of cost saving and revenue generating new initiatives to implement in order to secure Metro's long term financial stability. To monitor the savings and revenues achieved through the RAM new initiatives, the estimated financial impacts of those that will be implemented in FY17 have been included in the proposed budget. Based on current projections, the total savings and revenues to be realized in FY17 are estimated at \$128M.

| | FY17 Current Budget Amount |
|---|---------------------------------------|
| 1 New Revenues | \$436,200 |
| 2 Includes new advertising and film revenue-generation opportunities | |
| 3 Ongoing Cost Savings | \$27,697,666 |
| 4 Includes minor adjustments in bus and rail service, and reallocation of cap and trade funds | |
| 5 One-time Cost Savings | \$100,000,000 |
| 6 One-time reduction in fund balance reserves | |
| 7 Total | \$128,133,866 |

FTE Summary

FY17 Budget will have no non-contract FTE additions. Continuing the effort to strengthen fiscal discipline, the agency will redeploy existing vacancies to the priorities for the upcoming year as opposed to requesting new FTEs. In the past couple of years the agency has added positions faster than it can fill them which has led to a growing number of vacant positions to date. Along with the vacancies is the zero-based budget development approach which has allowed the agency to identify and reprioritize the near-time needs accordingly and thereby no new non contract FTE's are requested.

A net 30 new represented FTEs requested for FY17 comprised of the following:

- 1) 77 additions for the Transit security department (conditioned upon the new law enforcement contract); the 77 addition in security is to increase the control of security deployment and improve results and again will only be filled if there is an offset in savings in the new law enforcement contract
- 2) 1 addition for communications in managing the bike locker program
- 3) 48 positions in operations will be reduced through attrition based on Board approved service levels planned for FY17

| | Department | FY17 | FY16 | FY17 Change | FY17 | FY 17 |
|----|------------------------|-----------------|-------------|----------------|-------|-------|
| 1 | | Non Represented | Represented | | | Total |
| 2 | Board of Directors | 38 | 0 | | 0 | 38 |
| 3 | Chief Executive Office | 236 | 219 | 77 | 296 | 532 |
| 4 | Communications | 101 | 183 | 1 | 184 | 285 |
| 5 | Congestion Reduction | 20 | 0 | | 0 | 20 |
| 6 | Finance & Budget | 166 | 68 | | 68 | 234 |
| 7 | Information Technology | 92 | 51 | | 51 | 143 |
| 8 | Operations | 275 | 7,580 | -48 | 7,532 | 7807 |
| 9 | Planning & Development | 163 | 0 | | 0 | 163 |
| 10 | Program Management | 234 | 0 | | 0 | 234 |
| 11 | Vendor/Contract Mgmt | 158 | 162 | | 162 | 320 |
| 12 | Total | 1,483 | 8,263 | 30 | 8,293 | 9,776 |

Non Represented FTE's Merit Increase

In line with negotiated wage rates for represented FTEs, an average 3.0% merit increase is requested for non-represented employees which will be distributed based on a merit based performance system.

Classification and Compensation Pay Grade and Salary Band Adjustment

In order to reflect market practice, HR will be consolidating and adjusting the current pay grade level bands to reflect consistent progression and spreads which will align customary compensation packages. There will be no impact to budget or current employees' salary. Please refer to Attachment C for more details.

Public Outreach

A comprehensive public outreach program for the FY17 budget is in place to ensure the greatest level of engagement from the public and key stakeholders. Using public workshops, communication tools and technology advances, numerous options and opportunities for informing and engaging the public are available.

In addition, an online tool will be available to engage the public and continually gather input to help guide the mid-year budget and future budgets.

Soliciting meaningful input from the public and stakeholders is important. To ensure greater participation, the times and locations of public workshops were advertised through multiple channels, including the Metro website, "Take Ones" on board bus/rail vehicles and at customer centers, newspaper advertising, messages on hold, and Metro Briefs. A summary of public outreach efforts and comments received is in Attachment D.

Reimbursement Resolution

Federal tax law requires that bond proceeds can only be used for expenses incurred after the issuance of bonds. In order to be reimbursed for expenses incurred before the bond issue, Metro must pass a resolution indicating the intent to issue bonds at a later date for the expenditures

described in the reimbursement resolution. The attached resolution (Attachment B) is included in the budget board report as a matter of course, to tie expenditures anticipated in the budget to proceeds from future bond issuance, and it must be approved as an item separate from the budget document.

DETERMINATION OF SAFETY IMPACT

The proposed budget continues to make safety a primary goal and provides funding for new and ongoing safety programs throughout Metro.

FINANCIAL IMPACT

The proposed FY17 Budget (provided in a separate transmittal) is \$5.7 billion which is a -2.4% decrease from FY16. The budget includes expenditures and appropriates the resources necessary to fund them. The proposed budget demonstrates Metro's ongoing commitment to meeting its capital and operating obligations, which is a requirement necessary in order to continue to receive subsidies from the state and federal governments and to administer regional transportation funding to local cities and Municipal Operators.

NEXT STEPS

Monitoring the FY17 budget performance will be an ongoing effort year around. Staff will be conducting quarterly variance analysis and tracking performance metrics to reinforce accountability and budgetary control. There will be a mid-year budget assessment to evaluate the budget's alignment to agency priorities. In addition, continuous improvements will be implemented to the process and regular updates will be reported to the Board.

ATTACHMENTS

Attachment A - Amendment Items to FY17 Proposed Budget

Attachment B - Reimbursement Resolution of Metro for Fiscal Year 2017

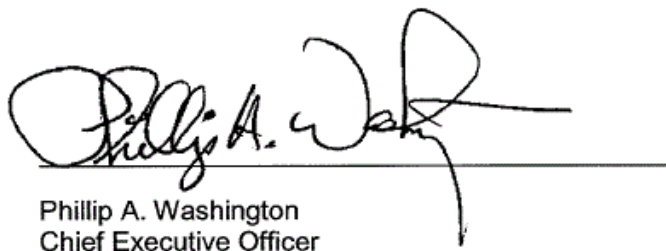
Attachment C - Classification and Compensation Adjustment

Attachment D - Public Outreach and Comments on Fiscal Year 2017 Budget

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Phillip A. Washington
Chief Executive Officer

**REIMBURSEMENT RESOLUTION
OF THE
LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
FOR FISCAL YEAR 2017**

WHEREAS, the Los Angeles County Metropolitan Transportation Authority (the "Metro") desires and intends to finance certain costs relating to (i) the design, engineering, construction, equipage and acquisition of light rail lines including the Exposition Line Phase II Project, Crenshaw/LAX, Regional Connector, and the Purple Line Subway Extension, Phases 1, 2 and 3 (ii) the design, engineering, construction, equipage and acquisitions for the Southwestern Rail Maintenance Yard, (iii) the design, engineering, construction, equipage and acquisitions for the Rail Deferred Maintenance Project, (iv) the design, engineering and other related close out costs of the I-405 Car Pool Lanes project, (v) the engineering, construction, renovation, maintenance, and/or acquisition of various capital facilities and equipment, including buses and rail cars, related to service operation, (x) design, engineering, construction, equipage and acquisition of various highway projects including soundwalls and carpool lanes, and (xi) to other transit related projects (each a "Project" and collectively, the "Projects");

WHEREAS, to the extent that federal and/or state grant funding budgeted to be received during FY17 is delayed or reduced, the Los Angeles County Metropolitan Transportation Authority desires and intends to finance certain costs relating to the Projects.

WHEREAS, Metro expects to issue debt through the issuance of tax-exempt bond issues to pay for these expenditures, which bond issues will have three separate security sources, Proposition A, Proposition C and Measure R sales tax revenues, respectively, or grant revenues to finance the costs of the Project on a permanent basis (the "Debt");

WHEREAS, Metro expects to expend moneys of the Enterprise Fund (other than moneys derived from the issuance of bonds) on expenditures relating to the costs of the Projects prior to the issuance of the Debt, which expenditures will be properly chargeable to a capital account under general federal income tax principles;

WHEREAS, Metro reasonably expects to reimburse certain of such capital expenditures with the proceeds of the Debt;

WHEREAS, Metro expects that the amount of Debt that will be issued to pay for the costs of the Projects will not exceed \$275 million for Proposition A, \$350 million for Proposition C and \$660 million for Measure R;

WHEREAS, at the time of each reimbursement, Metro will evidence the reimbursement in writing, which identifies the allocation of the proceeds of the Debt to Metro, for the purpose of reimbursing Metro for the capital expenditures made prior to the issuance of the Debt;

WHEREAS, Metro expects to make reimbursement allocations no later than eighteen (18) months after the later of (i) the date on which the earliest original expenditure for the Project is paid or (ii) the date on which the Project is placed in service (or abandoned),

but in no event later than three (3) years after the date on which the earliest original expenditure for the Project is paid;

WHEREAS, Metro will not, within one (1) year of the reimbursement allocation, use the proceeds of the Debt received by way of a reimbursement allocation in a manner that will result in the creation of replacement proceeds of the Debt or another issue (e.g., Metro will not pledge or use the proceeds received as reimbursement for the payment of debt service on the Debt or another issue, except that the proceeds of the Debt can be deposited in a bona fide debt service fund); and

WHEREAS, this Resolution is intended to be a " declaration of official intent" in accordance with Section 1.150-2 of the Treasury Regulations.

NOW THEREFORE, BE IT RESOLVED, that (i) all of the foregoing recitals are true and correct and (ii) in accordance with Section 1.150-2 of the Treasury Regulations, Metro declares its intention to issue Debt in an amount not to exceed \$275 million for Proposition A, \$350 million for Proposition C and \$660 million for Measure R; the proceeds of which will be used to pay for the costs of the Projects, including the reimbursement to Metro for certain capital expenditures relating to the Projects made prior to the issuance of the Debt.

ATTACHMENT A

| Amendment Items to FY17 Proposed | | \$s in millions |
|----------------------------------|---|-----------------|
| 1 | FY17 Proposed | 5,663.1 |
| 2 | Amendment Items | |
| 3 | Cancellation of Line 270 S per April Board Action | (1.4) |
| 4 | Raymer Bernsen project | (3.9) |
| 5 | FY17 Proposed with Amendment Items | 5,657.8 |
| 6 | FY17 Proposed with Amendment Items vs FY16 | -2.5% |

ATTACHMENT C

Classification and Compensation Adjustment

A Classification & Compensation Study on the Non Represented Job classifications and pay structure was conducted by The Unisource Group and Mercer and a job titling restructure has been recommended for the top 7 pay grade levels (H1S through HFF) which will have zero impact to the budget and no impact to current employees' salaries. The recommendation is to adjust top management grades (DEO and above) to reflect typical market practice by taking the following actions:

- 1) Remove one pay grade
- 2) Adjust midpoint progressions to scale up normally and establish consistent pay grade spread
- 3) Re-slot roles in current grades H1S through HFF to maintain internal equity

Below is the proposed pay grade change (note that there is no change to pay grade H1A through H1Q):

Current Structure

| Pay Grade | Minimum (\$000s) | Midpoint (\$000s) | Maximum (\$000s) | Spread | Progression |
|-----------|------------------|-------------------|------------------|--------|-------------|
| HFF | \$337 | \$411 | \$485 | 44% | 21% |
| HDD | \$278 | \$340 | \$401 | 44% | 24% |
| HCC | \$222 | \$274 | \$325 | 46% | 32% |
| HBB | \$166 | \$208 | \$250 | 50% | 6% |
| HAA | \$157 | \$196 | \$235 | 50% | 6% |
| H1T | \$147 | \$184 | \$221 | 50% | 4% |
| H1S | \$142 | \$177 | \$213 | 50% | 15% |
| H1Q | \$123 | \$154 | \$184 | 50% | 11% |
| H1P | \$111 | \$138 | \$166 | 50% | 11% |
| H1O | \$100 | \$125 | \$150 | 50% | 10% |
| H1N | \$91 | \$114 | \$136 | 50% | 10% |
| H1M | \$83 | \$103 | \$124 | 50% | 9% |
| H1L | \$76 | \$95 | \$114 | 50% | 9% |
| H1K | \$70 | \$87 | \$105 | 50% | 8% |
| H1J | \$65 | \$81 | \$97 | 50% | 8% |
| H1I | \$60 | \$75 | \$90 | 50% | 7% |
| H1H | \$56 | \$70 | \$84 | 50% | 10% |
| H1G | \$51 | \$63 | \$76 | 50% | 10% |
| H1F | \$46 | \$58 | \$69 | 50% | 10% |
| H1E | \$42 | \$53 | \$63 | 50% | 9% |
| H1D | \$39 | \$48 | \$58 | 50% | 8% |
| H1C | \$36 | \$45 | \$53 | 50% | 8% |
| H1B | \$33 | \$41 | \$49 | 50% | 7% |
| H1A | \$31 | \$38 | \$46 | 50% | -- |

Proposed Structure

| Pay Grade | Minimum (\$000s) | Midpoint (\$000s) | Maximum (\$000s) | Spread | Progression |
|-----------|------------------|-------------------|------------------|--------|-------------|
| HFF | \$335 | \$419 | \$503 | 50% | 25% |
| HEE | \$268 | \$335 | \$402 | 50% | 25% |
| HDD | \$214 | \$268 | \$322 | 50% | 22% |
| HCC | \$176 | \$220 | \$264 | 50% | 15% |
| HBB | \$153 | \$191 | \$229 | 50% | 12% |
| HAA | \$136 | \$171 | \$205 | 50% | 11% |
| H1Q | \$123 | \$154 | \$184 | 50% | 11% |
| H1P | \$111 | \$138 | \$166 | 50% | 11% |
| H1O | \$100 | \$125 | \$150 | 50% | 10% |
| H1N | \$91 | \$114 | \$136 | 50% | 10% |
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| H1B | \$33 | \$41 | \$49 | 50% | 7% |
| H1A | \$31 | \$38 | \$46 | 50% | - |

| Current | Proposed | Change in Midpoint |
|---------|----------|--------------------|
| HFF | HFF | 2% |
| HDD | HEE | -1% |
| HCC | HDD | -2% |
| HBB | HCC | 6% |
| HAA | HBB | -3% |
| H1T | HAA | -7% |
| H1S | | -4% |

ATTACHMENT D

FY17 PROPOSED BUDGET Summary of Public Outreach Efforts and Comments Received

Public Outreach Efforts

| Strategy | Outreach | Summary/Recap | |
|--------------------------------|---|------------------------------|-----------------|
| Stakeholder Meetings | | <u>Workshops</u> | <u>Comments</u> |
| | Service Councils (SC) | 10 | 31 |
| | Citizens Advisory Council (CAC) | 2 | 9 |
| | Streets and Freeways Subcommittee (SFS) | 1 | |
| | Bus Operations Committee (BOS) | 2 | 5 |
| | Technical Advisory Committee (TAC) | 2 | 1 |
| | General Managers Meeting (GM) | 2 | 2 |
| Website | Public Access to budget details On-line survey | Email Comments: 8 Mail: 2 | |
| Social Media | Podcasts Blog posts Facebook Twitter | | |
| E-Blast | >24,000 emails | April/May | |
| Messages on-hold | On-hold message | | |
| Publications (multi-languages) | Notification of public hearing >60 publications | | |
| Take-ones (English/Spanish) | Distribution of >78,000 throughout system, customer centers and at stakeholder events | Phone calls: | |

Comments Received

Comments received from the public during Metro's FY17 budget outreach process are summarized below. This summary includes comments received through May 11th. Most comments have been addressed at the workshops, while other comments will be provided to departments for response and follow-up. All other comments will be considered during the mid-year budget assessment. Feedback was received from the following sources and groups:

- Service Council Meetings
- Citizens Advisory Council
- Streets and Freeways Subcommittee
- Bus Operations Committee
- Technical Advisory Committee
- Written Comments received via mail and email
- Social Media Outreach, including podcasts and blog posts

| Key Topics | Synopsis of Comments |
|----------------------|---|
| Transit Service | <ul style="list-style-type: none"> • What ridership is expected for Expo to Santa Monica and Gold Line to Azusa? • What is the reason for the ridership decline? • What is the difference in Revenue Service Hours from FY15 to FY16? • Are we buying more articulated buses? • Will the new articulated buses have more seats? • What is included in the Revenue Service Hour change? • What is the new load standard? • Does the ridership chart assume 0% change as a baseline then + rail ridership from the extensions? • Don't cut 770, 190 or 270. • Declining farebox recovery is a concern, would rather pay higher fares for higher quality service • Stop rail projects and finish I-5 • Please keep funding for 150,183,240,234,734,744 • Need bus service to UCLA from the Valley • Build more rail as quickly as possible • Reduce spending on rail capital expansion and shift money to bus operations and bus service improvements • Line 90 and 91 should travel more often and later in the evenings • Line 166 should go east to Foothill Boulevard • Routes on the "15 minute map" should never have headways less than 30 minutes through 10pm. • Never run headways longer than 15 minutes on rail service. • Coordinate with Foothill Transit to provide better service on the Metro Silver Line and Foothill Silver Streak. • How are we going to keep schedules correct if a bus breaks down or other interruptions of transit service occur? • Rightsizing of the system resulted in a reduction in bus RSH. How will the ridership and schedule patterns be analyzed and how quickly will corrections be made and implemented? |
| Alternative Revenues | <ul style="list-style-type: none"> • Please explain the RAM. • Why is the FY18 RAM savings less than the FY17 amount? • How do we save costs from All Door Boarding? • How do RAM ideas get implemented into the budget? • Do the RAM ideas include transfer of bus lines to municipal operators? • Will CMAQ funds be used to pay for Orange Line service? |
| Technology | <ul style="list-style-type: none"> • Please describe the online budget tool and provide a demo of the tool before it launches. • Describe how the trade-offs will be shown on the online budget tool when adding or deleting programs and services. • What technology is used to collect ridership data? |
| Safety and Security | <ul style="list-style-type: none"> • What are we doing about fare evasion? • Will the new Expo II and Gold Line Foothill extension stations have gates? • What safety/security improvements are being funded? • What is the change in safety/security funding from FY16 to FY17? • Explain the large drop in security cost per RSH. Has security been reduced? • What is the fare evasion rate, and what are we doing to stop fare evasion? |

| | |
|--------------------------|--|
| Budget | <ul style="list-style-type: none"> • How does the public provide input into the budget process? • What percent of the budget is zero based? • When is the deficit now? • Will the amount of debt service stay the same over the next 5 years? • Make sure deferred maintenance is being funded, such as the Green Line station rehabilitation. • What are the reserves used for? • How is the budget being marketed to the public? The CAC wants to see the fully integrated marketing plan. |
| Customer Service | <ul style="list-style-type: none"> • When will TVMs be at Harbor-Gateway Station? • Suggest broad outreach on TVM and Mobile Validator limitations with respect to the Harbor-Gateway TVM installation and All Door Boarding on the Silver Line. • Increase available parking at North Hollywood station. • Improve customer and rider communication by updating and republishing the "15 minute map." |
| Potential Ballot Measure | <ul style="list-style-type: none"> • Is the 2.4% sales tax growth rate consistent with the potential ballot measure assumptions? • How do we understand what goes into the PBM? Can we have a presentation on the expenditure plan when it is made public? • We would like to have a workshop in the new few months to talk about how to allocate the non-capital program of the PBM. • Please come back with the dollar amounts for the sales tax projections. • Why assume sales tax growth rate is flat for FY17 when the current trend is declining? • Why is the sales tax assumed to grow by 2.4%? • How are we letting the public know that the FY17 budget does not include the potential ballot measure? • The budget does not include additional funding from the ballot measure. How fast would this funding be added to the budget? • How is the potential ballot measure being marketed to the public? The CAC wants to see the fully integrated marketing plan. |
| Fares | <ul style="list-style-type: none"> • Why is the fare for the Orange Line cheaper than for the Silver Line? • Does the institutional pass RAM idea mean a fare increase is being contemplated? • Proceed with Phase 2 of the 2014 fare restructuring effort. • Expand the EZ Pass to passes with shorter durations than the 30-day pass, such as a 7-day or 1-day pass. • Proceed with Phase 2 and Phase 3 of the 2014 fare restructuring effort. |

FY17 Proposed Budget

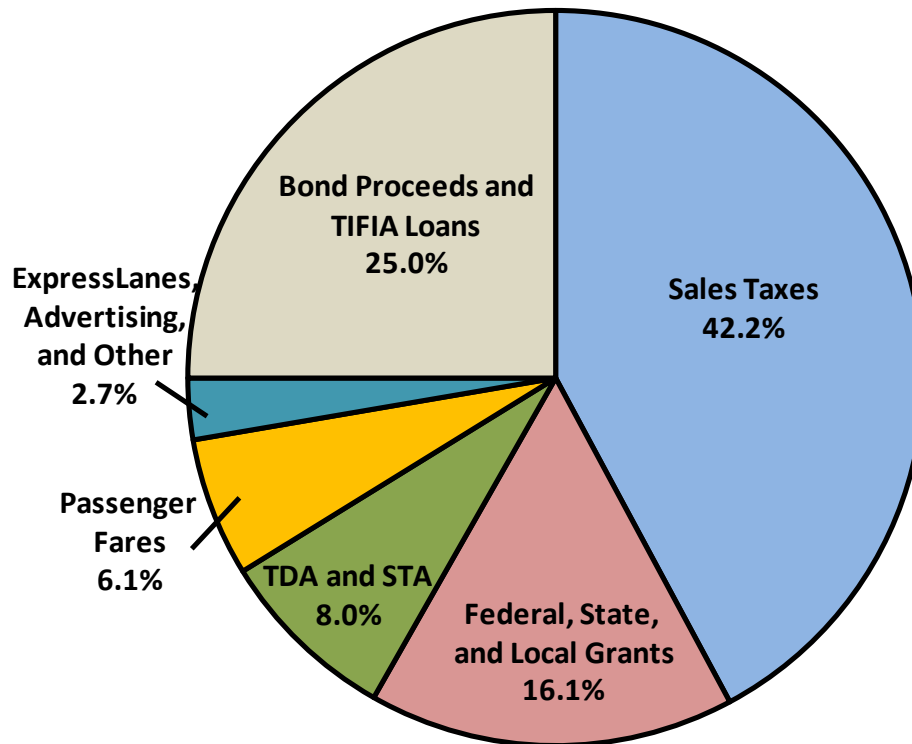
FY17 Budget Public Hearing
Finance, Budget and Audit Committee

May 18, 2016

Summary of Agency Resources

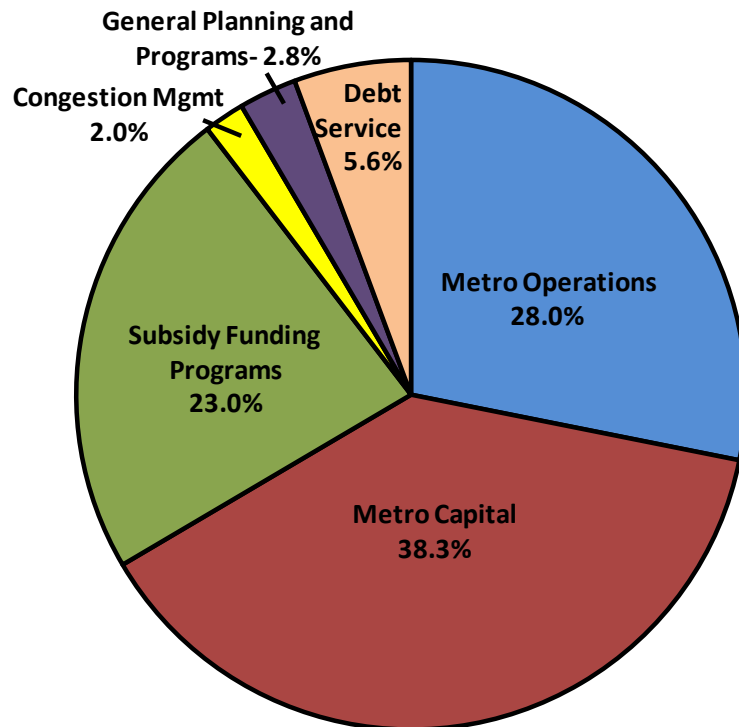
(\$ in millions)

| Resources | | FY17 Proposed | % of Total FY17 Budget |
|-----------|--|-------------------|------------------------------|
| 1 | Sales Taxes (Props A, C, and Measure R) | \$ 2,387.1 | 42.2% |
| 2 | Federal, State, and Local Grants | 910.7 | 16.1% |
| 3 | TDA and STA | 450.8 | 8.0% |
| 4 | Passenger Fares | 346.2 | 6.1% |
| 5 | ExpressLane, Advertising, and Other Revenues | 152.6 | 2.7% |
| 7 | Bond Proceeds and TIFIA Loans | 1,415.8 | 25.0% |
| 8 | Total Resources | \$ 5,663.2 | 100.0% |



Summary of Agency Expenditures

| Program Type (\$ in millions) | | FY16 Budget | FY17 Proposed | Variance \$ | Variance % | % of Total FY17 Budget |
|-------------------------------|-----------------------------|-------------------|-------------------|-------------------|--------------|------------------------|
| 1 | Metro Capital | \$ 2,312.2 | \$ 2,173.8 | \$ (138.4) | -6.0% | 38.4% |
| 2 | Metro Operations | 1,500.4 | 1,593.5 | 93.1 | 6.2% | 28.1% |
| 3 | Subsidy Funding Programs | 1,379.0 | 1,306.2 | (72.8) | -5.3% | 23.1% |
| 4 | Congestion Management | 99.3 | 111.0 | 11.7 | 11.8% | 2.0% |
| 5 | General Planning & Programs | 180.7 | 158.5 | (22.2) | -12.3% | 2.8% |
| 6 | Debt Service | 328.7 | 320.1 | (8.6) | -2.6% | 5.7% |
| 7 | Grand Total | \$ 5,800.2 | \$ 5,663.2 | \$ (137.0) | -2.4% | 100.0% |



- Balanced budget for FY17
- Net \$137.0 million reduction (-2.4%) includes absorbing cost inflation, new rail service, and other new programs and projects
- Metro resolution to cost control through zero-based budget and Risk Allocation Matrix (RAM)
- Performance Measure to ensure accountability
- Cost control efforts will continue through Annual Program Evaluation (APE) and Midyear budget
- Efforts continue to exercise cost control and working to realize additional savings (to be reflected as an amendment to the budget)


FY17 Budget Development Process

| Budget Development Schedule | |
|-----------------------------|---|
| Jan-16 | RAM initiatives adopted for FY17 implementation |
| Feb-16 | (1) Budget Planning Parameters (2) FY17 Preliminary Capital Program |
| Mar-16 | Agencywide Bus and Rail Service Levels |
| Apr-16 | (1) Preliminary Summary of Expenditures and FTE (2) Bus and Rail Operations Budget |
| May-16 | Board Adoption – May 26 |

Outreach with key stakeholders:

- Board of Directors
- Senior Leadership Team and Executive Staff
- Regional Service Councils, Citizen Advisory Council (CAC), Technical Advisory Committee (TAC), and Bus Operations Subcommittee (BOS)
- Electronic media (e.g. social media, the Source, webinar, webpage, etc.)
- Online Budget Tool

Online Budget Tool

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MAY IS BIKE MONTH.

We want you to make new connections.

More Expo Opens May 20

Metro Careers

Attend a LIVE Telephone Town Meeting

Provide input on Metro's budget.

Can't find a place to park?

Metro parking survey continues.

Service improvements and new technology make it easier to Go Metro.
Anytime you board a Metro bus or train, there are thousands of Metro employees working behind the scenes to make sure your experience is the best it can be.

Online Budget Tool

What Are Your Transportation Priorities?

Start the survey by prioritizing the programs and services of importance to you below. Then in the next few pages as you respond to a series of questions, you will immediately see the financial impacts associated with your choices, resulting in your personalized budget proposal for Metro to consider as part of our budget planning.

Drag and drop priorities below to reorder.

1. Improve Bus Service

2. Improve Rail Service

3. Improve Highways and Reduce Congestion

4. Reduce First/Last Mile Gaps (Make it Easier to Get to and from Bus and Rail Stations)

5. Improve the Customer Experience and Security

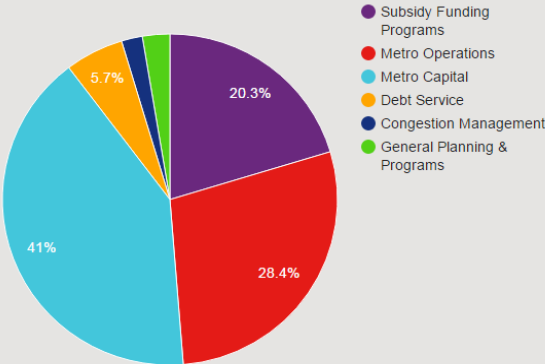
6. Expand the Bike Share Program

Add Comment

Use the navigator below to proceed.

Overview of Metro’s Proposed Budget by Program Type

Select a program type on the pie chart for additional info.



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How Would You Make it Easier to Get to and from Bus and Rail Stations?

See Description

1. What improvement or service would you add to the first/last mile strategy?

Select response:

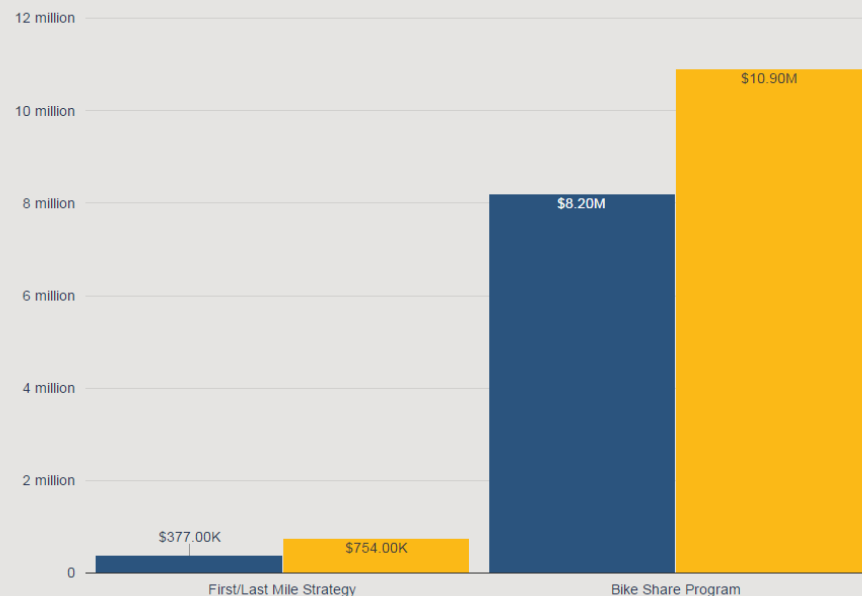
- ☒ Improve sidewalk infrastructure (for example, increase or improve crosswalks, curb ramps, lighting and landscaping)
- ☐ Increase the number of bike lockers and bike parking at transit stations
- ☐ Partner with private entities such as Lyft or Uber to provide discounts or coordinate services
- ☐ Increase the number of Metro parking facilities (Park & Ride Lots)
- ☐ Provide a bike share network at or near Metro bus hubs/rail stations
- ☐ None

Add Comment

Budget

■ Metro Proposed Budget
■ Your Proposed Budget

Metro Proposed Budget
\$8,577,000
Your Proposed Budget
\$11,654,000



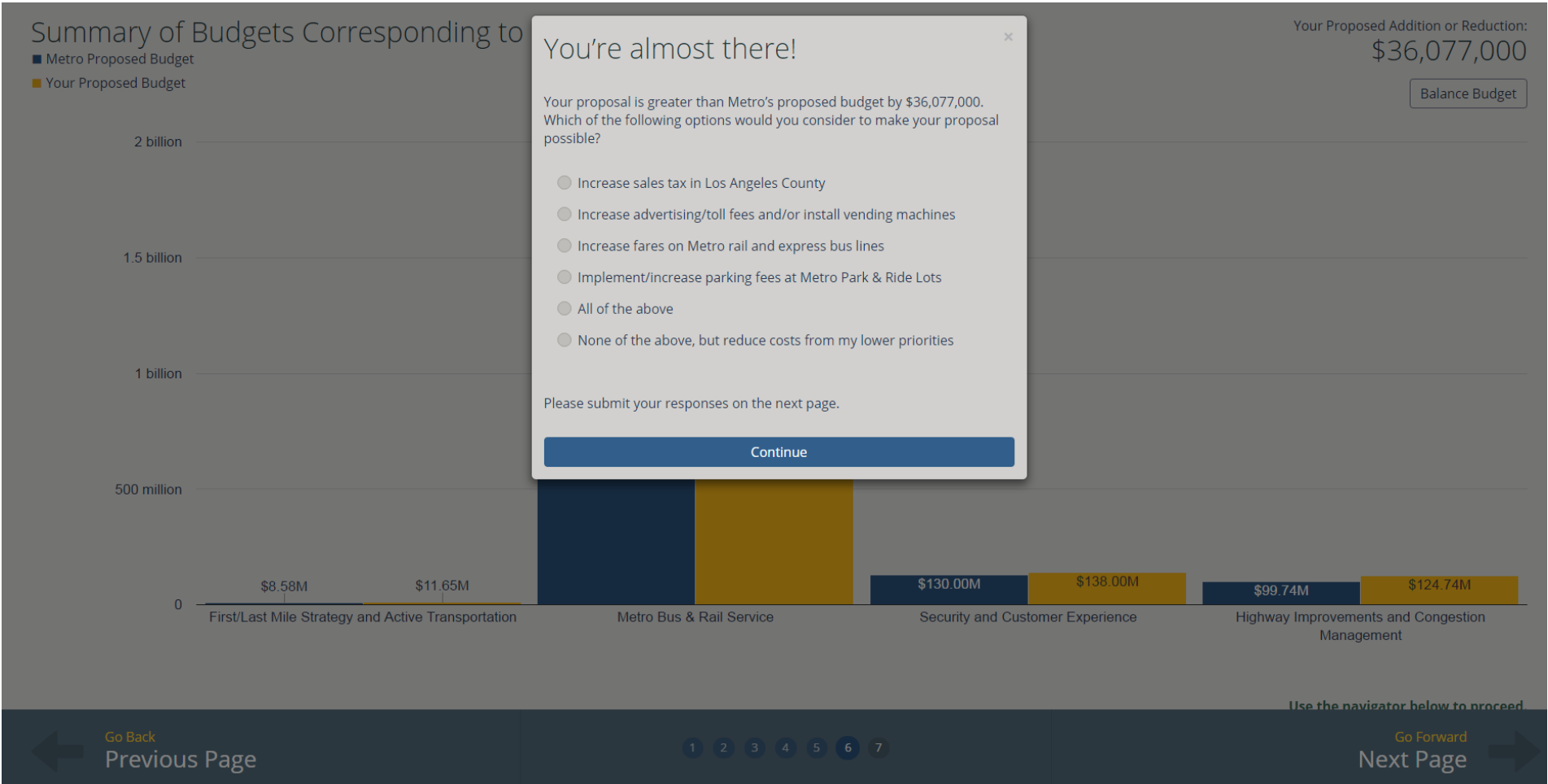
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Thank you for providing your feedback!

Your input is greatly valued and will be reviewed as part of Metro's budget planning.

Stay Connected



OK

FY17 Budget Risks

Deviations from budget assumptions could include:

- Lower than expected sales tax revenue growth
- Lower than expected passenger boardings and fare revenue
- Greater than expected cost Inflation
- Reduced STA and Cap & Trade funding levels
- Federal Funding delays (congressional and other)
- Failure of the State to issue Prop 1B bond funding and/or High-speed rail funding
- Changes in debt borrowing (market) conditions

Request to Adopt FY17 Proposed Budget

- Adopt the FY17 Budget as presented in the budget with the amendment of an additional -\$5.3 million reduction as a reconciliation item to the proposed budget
- Approve the Reimbursement Resolution declaring Metro's intention to issue debt in FY17 for capital projects; Federal tax law requires that bond proceeds can only be used for expenses incurred after the issuance of bonds. In order to be reimbursed for expenses incurred before the bond issue, Metro must pass a resolution indicating the intent to issue bonds at a later date for the expenditures described in the reimbursement resolution.
- Approve an average 3.0% merit increase for non-represented employees which will be based on a merit performance system; this is in line with negotiated wage rates for represented FTEs
- Approve adjustment to management pay grades and salary bands for the top seven levels H1S through HFF to reflect typical market practice. There is no impact to the budget or to current employees' salaries.

Next Steps

- May 26, 2016 – Adoption of FY17 budget; projected to be a balanced budget
- Continue to monitor budget performance and enforce accountability throughout the year