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Metropolitan Transportation Authority

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**INDEPENDENT CITIZEN'S ADVISORY AND OVERSIGHT COMMITTEE
JANUARY 8, 2015**

SUBJECT: PROPOSITION A AND C SPECIAL REVENUE FUNDS AUDIT

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file the attached Independent Auditor's Report on Schedule of Revenues and Expenditures for Proposition A and Proposition C Special Revenue Funds for the Year Ended June 30, 2014 (with comparative totals for 2013).

ISSUE

In November of 1998, Los Angeles County voters passed the MTA Reform and Accountability Act of 1998. This Act requires the completion of an independent audit to determine compliance by the MTA with the provisions of Propositions A and C since the effective dates of each ordinance through June 30, 1998, and then annual audits thereafter. We have contracted BCA Watson Rice, LLP (BCA) to perform the independent audit required by the act.

DISCUSSION

BCA has conducted the audit of compliance in accordance with auditing standards issued by the American Institute of Certified Public Accountants 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 BCA plan and perform the audit to obtain reasonable assurance about whether the Schedules of Proposition A and Proposition C revenues and expenditures are free of material misstatement.

The audit found that we complied, in all material respects, with the requirements referred to above that are applicable to the Proposition A and Proposition C revenues and expenditures for the year ended June 30, 2014.


NEXT STEPS


A public hearing will be scheduled.

ATTACHMENT(S)

- A. Independent Auditor's Report on Schedule of Revenues and Expenditures for Proposition A and Proposition C Special Revenue Funds for the Year Ended June 30, 2014 (with comparative totals for 2013)

Prepared by: Ruthe Holden, Chief Auditor
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November 24, 2014

To the Independent Citizens' Advisory and Oversight Committee
Los Angeles County Metropolitan Transportation Authority

We have audited the Schedules of Proposition A (Ordinance No. 16) and Proposition C (Ordinance No. 49) Revenues and Expenditures (the Schedules) of the Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the year ended June 30, 2014, and have issued our report thereon dated November 24, 2014. Professional standards require that we advise you of the following matters relating to our audit:

Our Responsibility in Relation to the Schedules of Proposition A and Proposition C Revenues and Expenditures Audit

As communicated in our entrance conference with management on August 26, 2014, our responsibility, as described by professional standards, is to form and express an opinion about whether the Schedules that have been prepared by management is presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the Schedules does not relieve you or the management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the Schedules are free of material misstatement. An audit of the Schedules include consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LACMTA's internal controls over financial reporting. Accordingly, as part of our audit, we considered the internal controls of the LACMTA solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

There were no findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to management at the entrance conference on August 26, 2014.

Compliance with All Ethics Requirements Regarding Independence

The engagement team and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant policies adopted by the LACMTA is included in Note 2 to the Schedules. There have been no changes in significant accounting policies or their applications during 2014. No matters have come to our attention that would require, us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions, and; (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. There are no uncorrected misstatements relating to the Schedules.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the LACMTA's Schedules or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain representations from management, which are included in the management representation letter dated November 24, 2014.

Management Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with the LACMTA, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the LACMTA's auditors.

This information is intended solely for the use of the management of the LACMTA, the LACMTA Board of Directors, and the Independent Citizens' Advisory and Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

BCA Watson Rice, LLP

Los Angeles County
Metropolitan Transportation Authority

**Independent Auditor's Report
On Schedule of Revenues and Expenditures
For
Proposition A and Proposition C
Special Revenue Funds**

**For the Year Ended June 30, 2014
(With Comparative Totals For 2013)**



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Los Angeles County Metropolitan Transportation Authority
Independent Auditor's Report on
Schedule of Revenues and Expenditures
For
Proposition A and Proposition C
Special Revenue Funds

For The Year Ended June 30, 2014
(With Comparative Totals for 2013)

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Independent Auditor's Report

Independent Citizens' Advisory and Oversight Committee
Los Angeles County Metropolitan Transportation Authority

Report on the Schedules of Proposition A and Proposition C Revenues and Expenditures

We have audited the accompanying Schedules of Proposition A ("Ordinance No. 16") and Proposition C ("Ordinance No. 49") Revenues and Expenditures (the Schedules) of the Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the year ended June 30, 2014, and the related notes to the Schedules, which collectively comprise LACMTA's basic Schedules as listed in the table of contents.

Management's Responsibility for the Schedules of Proposition A and Proposition C Revenues and Expenditures

LACMTA's management is responsible for the preparation and fair presentation of these Schedules 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 the Schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Schedules 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 Schedules are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedules, 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 Schedules 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 Schedules.

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

Opinion

In our opinion, the Schedules referred to above present fairly, in all material respects, the Proposition A and Proposition C Revenues and Expenditures of LACMTA as of June 30, 2014, and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 5 and 7 be presented to supplement the Schedules. Such information, although not a part of the basic Schedules, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic Schedules 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 Schedules, and other knowledge we obtained during our audit of the basic Schedules. 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.

Other Information

As discussed in Note 3 to the Schedules, the accompanying Schedules of the Proposition A and C Special Revenue Funds are intended to present the revenues and expenditures attributable to the Special Revenue Funds. They do not purport to, and do not, present fairly the financial position of the LACMTA, as of June 30, 2014, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Prior-Year Comparative Information

We have previously audited the Schedules of Proposition A and Proposition C Revenues and Expenditures of LACTMA, and we expressed an unmodified audit opinion in our report dated December 5, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, on our consideration of LACMTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LACMTA's internal control over financial reporting and compliance.

BCA Watson Rice, LLP

Torrance, CA
November 24, 2014

Los Angeles County Metropolitan Transportation Authority
Proposition A Special Revenue Fund
Schedule of Revenues and Expenditures
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)
(Amounts expressed in thousands)

	<u>2014</u>	<u>2013</u>
Revenues:		
Sales tax	\$ 778,504	\$ 687,172
Investment income	871	1,270
Net appreciation (decline) in fair value of investments	529	(1,046)
Total Revenues	<u>779,904</u>	<u>687,396</u>
Expenditures:		
Transportation subsidies	300,674	275,057
Total Expenditures	<u>300,674</u>	<u>275,057</u>
Excess of Revenues over Expenditures	479,230	412,339
Other financing sources (uses)		
Transfers in	-	32,224
Transfers out	(327,776)	(414,610)
Total other financing sources (uses)	<u>(327,776)</u>	<u>(382,386)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ 151,454</u>	<u>\$ 29,953</u>

The Notes to the Schedule of Revenues and Expenditures are an integral part of this Schedule.

Los Angeles County Metropolitan Transportation Authority
Proposition A Special Revenue Fund
Schedule of Revenues and Expenditures – Budget and Actual
For the Year Ended June 30, 2014
(Amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Sales tax	\$ 708,400	\$ 708,400	\$ 778,504	\$ 70,104
Investment income	-	-	871	871
Net appreciation in fair value of investments	-	-	529	529
	<u>708,400</u>	<u>708,400</u>	<u>779,904</u>	<u>71,504</u>
Total revenues				
Expenditures				
Transportation subsidies	288,519	288,519	300,674	(12,155)
	<u>288,519</u>	<u>288,519</u>	<u>300,674</u>	<u>(12,155)</u>
Total expenditures				
Excess of revenues over expenditures	419,881	419,881	479,230	59,349
Other financing sources (uses)				
Transfers out	(266,742)	(266,742)	(327,776)	(61,034)
	<u>(266,742)</u>	<u>(266,742)</u>	<u>(327,776)</u>	<u>(61,034)</u>
Total other financing sources (uses)				
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ 153,139</u>	<u>\$ 153,139</u>	<u>\$ 151,454</u>	<u>\$ (1,685)</u>

The Notes to the Schedule of Revenues and Expenditures are an integral part of this Schedule.

Los Angeles County Metropolitan Transportation Authority

Proposition C Special Revenue Fund
Schedule of Revenues and Expenditures

For the Year Ended June 30, 2014

(With Comparative Totals for 2013)

(Amounts expressed in thousands)

	<u>2014</u>	<u>2013</u>
Revenues:		
Sales tax	\$ 778,600	\$ 687,332
Intergovernmental	114,337	241,298
Investment income	79	661
Net decline in fair value of investments	(52)	(141)
Total Revenues	<u>892,964</u>	<u>929,150</u>
Expenditures:		
Administration and other	246,224	275,403
Transportation subsidies	604,877	445,353
Total Expenditures	<u>851,101</u>	<u>720,756</u>
Excess of Revenues over Expenditures	41,863	208,394
Other financing sources (uses)		
Transfers in	198,040	2,419
Transfers out	(240,541)	(305,408)
Total other financing sources (uses)	<u>(42,501)</u>	<u>(302,989)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (638)</u>	<u>\$ (94,595)</u>

The Notes to the Schedule of Revenues and Expenditures are an integral part of this Schedule.

Los Angeles County Metropolitan Transportation Authority
Proposition C Special Revenue Fund
Schedule of Revenues and Expenditures – Budget and Actual
For the Year Ended June 30, 2014
(Amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Sales tax	\$ 708,401	\$ 708,401	\$ 778,600	\$ 70,199
Intergovernmental	220,803	220,803	114,337	(106,466)
Investment income	-	-	79	79
Net decline in fair value of investments	-	-	(52)	(52)
Total revenues	929,204	929,204	892,964	(36,240)
Expenditures				
Administration and other	247,298	244,369	246,224	(1,855)
Transportation subsidies	535,926	536,161	604,877	(68,716)
Total expenditures	783,224	780,530	851,101	(70,571)
Excess of revenues over expenditures	145,980	148,674	41,863	(106,811)
Other financing sources (uses)				
Transfers in	10,627	11,273	198,040	186,767
Transfers out	(248,537)	(204,544)	(240,541)	(35,997)
Total other financing sources (uses)	(237,910)	(193,271)	(42,501)	150,770
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (91,930)	\$ (44,597)	\$ (638)	\$ 43,959

The Notes to the Schedule of Revenues and Expenditures are an integral part of this Schedule.

Los Angeles County Metropolitan Transportation Authority

Notes to the Schedules of Revenues and Expenditures
For Proposition A and Proposition C Special Revenue Funds
June 30, 2014

1. Organization

General

The Los Angeles County Metropolitan Transportation Authority (LACMTA) is governed by a Board of Directors composed of the five members of the County Board of Supervisors, the Mayor of the City of Los Angeles, three members appointed by the Mayor, and four members who are either mayors or members of a city council and have been appointed by the Los Angeles County City Selection Committee to represent the other cities in the County, and a non-voting member appointed by the Governor of the State of California.

LACMTA is unique among the nation's transportation agencies. It serves as transportation planner and coordinator, designer, builder and operator for one of the country's largest and most populous counties. More than 10 million people – about one fourth of California's residents - live, work, and play within its 1,433-square-mile service area.

Proposition A

The Proposition A Fund is a special revenue fund used to account for the proceeds of the voter-approved one-half percent sales tax that became effective on August 20, 1980. Revenues collected are required to be allocated in the following manner: 25% to local jurisdictions for local transit; 35% for transit-related construction projects, debt service payments and operation of rail rapid transit systems; and 40% for public transit purposes at the discretion of LACMTA.

Proposition C

The official name of this special revenue fund is the “Los Angeles Anti-Gridlock Transit Improvement Fund”. This fund is used to account for the proceeds of the voter-approved one-half percent sales tax that became effective on August 8, 1990. Revenues collected are required to be allocated in the following manner: 5% to improve and expand rail and bus security; 10% for Commuter Rail and construction of Transit Centers, Park-and-Ride lots and Freeway Bus Stops; 20% to local jurisdictions for public transit and related services; 25% for essential County-wide transit related improvements to freeways and state highways; and 40% to improve and expand rail and bus transit County-wide.

Los Angeles County Metropolitan Transportation Authority

Notes to the Schedules of Revenues and Expenditures
For Proposition A and Proposition C Special Revenue Funds
June 30, 2014

2. Summary of Significant Accounting Policies

The Schedules of Revenues and Expenditures for Proposition A and Proposition C Special Revenue Funds have been prepared in conformity with Generally Accepted Accounting Principles in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments. The more significant of LACMTA's accounting policies with regard to the special revenue fund type are described below:

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. 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 most of LACMTA's governmental activities. The measurement focus is a determination of changes in financial position, rather than a net income determination. LACMTA uses governmental fund type Special Revenue Funds to account for Proposition A and Proposition C sales tax revenues and expenditures. Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Basis of Accounting

The modified accrual basis of accounting is used for the special revenue fund type. Under the modified accrual basis of accounting, revenues (primarily from sales tax) are recorded when susceptible to accrual, which means measurable (amount can be determined) and available (collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period).

Budgetary Accounting

The established legislation and adopted policies and procedures provide that the LACMTA's Board approves an annual budget. Annual budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America for all governmental funds.

Los Angeles County Metropolitan Transportation Authority

Notes to the Schedules of Revenues and Expenditures
For Proposition A and Proposition C Special Revenue Funds
June 30, 2014

2. Summary of Significant Accounting Policies (Continued)

Budgetary Accounting (Continued)

Prior to the adoption of the budget, the Board conducts public hearings for discussion of the proposed annual budget and at the conclusion of the hearings, but not later than June 30, adopts the final budget. All appropriations lapse at fiscal year end. The budget is prepared by fund, project, expense type, and department. The legal level of control is at the fund level and the Board must approve additional appropriations. By policy, the Board has provided procedures for management to make revisions within operational or project budgets only when there is no net dollar impact to the total appropriations at the fund level. Budget amendments are made when needed.

Annual budgets are adopted by LACMTA on the modified accrual basis of accounting for the special revenue fund types, on a basis consistent with GAAP as reflected in the Schedules.

Interest Income and Appreciation (Decline) in Fair Value of Investments

The net appreciation (decline) in the fair value of investments is shown on the Schedule of Revenues and Expenditures. LACMTA maintains a pooled cash and investments account that is available for use by all funds, except those restricted by state statutes.

Use of Estimates

The preparation of the Schedules in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Financial Data

The amounts shown for 2013 in the accompanying Schedules are included only to provide a basis for comparison with 2014 and are not intended to present all information necessary for a fair presentation in accordance with generally accepted accounting principles.

Los Angeles County Metropolitan Transportation Authority

Notes to the Schedules of Revenues and Expenditures

For Proposition A and Proposition C Special Revenue Funds

June 30, 2014

3. Schedules of Revenues and Expenditures for Proposition A and Proposition C Special Revenue Funds

The Schedules are intended to reflect the revenues and expenditures of Proposition A and Proposition C funds only. Accordingly, the Schedules do not purport to, and do not, present fairly the financial position of the LACMTA and changes in financial position thereof for the years then ended in conformity with generally accepted accounting principles in the United States of America.

4. Intergovernmental Transactions

Any transaction conducted with a governmental agency outside the complete jurisdiction of LACMTA will be recorded in an account designated as Intergovernmental.

5. Operating Transfers

Amounts reflected as operating transfers represent permanent, legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended. All operating transfers in/out of the Proposition A and Proposition C Special Revenue Funds have been made in accordance with all expenditure requirements of both Proposition A and Proposition C Ordinances.

6. Litigation

LACMTA is named as a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of management, the resolution of these matters will not have a material adverse effect on the financial condition of LACMTA.

7. Subsequent Events

Long-Term Debt

In November 2014, the LACMTA Board of Directors authorized the competitive sale of bonds to refund \$184,910 of outstanding Proposition A First Tier Senior Sales Tax Revenue Bonds, Series 2005-A, in one or more transactions through June 30, 2015, to achieve debt service savings. LACMTA expects to advance refund approximately \$154,645 of the Prop A 2005-A bonds in December 2014.

Los Angeles County Metropolitan Transportation Authority
Notes to the Schedules of Revenues and Expenditures
For Proposition A and Proposition C Special Revenue Funds
June 30, 2014

7. Subsequent Events (Continued)

Index Interest Rate Bonds

The Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds, Series 2008-A1, Series 2008-A2, Series 2008-A3 and Series 2008-A4 (the "Index Interest Rate Bonds") bear interest at an Index Interest Rate. On July 28, 2014, the Series 2008-A1 Bonds were purchased by Banc of America Preferred Funding Corporation (BAPFC) and on August 1, 2014, the Series 2008-A2 Bonds were purchased by BAPFC and the Series 2008-A3 and 2008-A4 Bonds were purchased by U.S. Bank National Association, to replace the expiring liquidity facilities with Bank of America, N.A., Sumitomo Mitsui Banking Corporation, and RBC Capital Markets, LLC. The Index Interest Rate Bonds will be subject to tender for purchase on July 28, 2016 (Series 2008-A1) and August 1, 2016 (Series 2008-A2, 2008-A3 and 2008-A4) with a one year early termination clause unless extended or modified.



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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*

Independent Citizens' Advisory and Oversight Committee
Los Angeles County Metropolitan Transportation Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Revenues and Expenditures (the Schedules) for Proposition A and Proposition C Special Revenue Funds of the Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the fiscal year ended June 30, 2014, and the related notes to the Schedules, which collectively comprised LACMTA's basic Schedules, and have issued our report thereon dated November 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the LACMTA's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 LACMTA's Schedules 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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in

internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LACMTA's Schedules 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 the amounts on the Schedules. 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*.

Restriction on Use

This report is intended for the information and use of the LACMTA Board of Directors and management, and the Independent Citizens' Advisory and Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

BCA Watson Rice, LLP

Torrance, California

November 24, 2014