INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS
(Continued)

General Requirements (Continued)

- Civil Rights
- Cash Management
- Federal Financial Reporting
- Relocation Assistance and Real Property Acquisition
- Allowable Costs/Costs Principles
- Drug-Free Workplace Act
- Administrative Requirements

Specific Requirements

- Types of Services Allowed or Unallowed
- Eligibility
- Matching Level of Effort and/or Earmarking Requirements
- Special Reporting Requirements
- Cost Allocation
- Monitoring Subrecipients
- Claims for Advances and Reimbursements
- Amounts Claimed or Used for Matching
- Special Tests and Provisions as Applicable

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS

(Continued)

For all of the internal control structure categories listed above, I obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and I assessed control risk.

During the year ended December 31, 1995, the RTA expended 100% of its total federal financial assistance under major federal financial assistance programs.

I performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that I considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the RTA's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. My procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, I do not express such an opinion.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control structure and its operation that I consider to be material weaknesses as defined above.

This report is intended for the information of the Board of Commissioners, management and the Federal Transportation Administration. However, this report is a matter of public record and its distribution is not limited.

Curtis A. Moret

Curtis A. Moret
May 3, 1996

CURTIS A. MORET
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Board of Commissioners
Regional Transit Authority

I have audited the Schedule of Federal Financial Assistance of the Regional Transit Authority (the RTA), as of and for the year ended December 31, 1995, and have issued my report thereon dated May 3, 1996. The general purpose financial statements were audited by other auditors whose report thereon has been furnished to me, and my opinion expressed herein, insofar as it relates to the general purpose financial statements, is solely based on the report of other auditors.

I have audited the RTA's compliance with the requirements governing types of services allowed or unallowed; eligibility; amounts claimed or used for matching; reporting; cost allocation; and claims for advances and reimbursements that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the year ended December 31, 1995. The management of RTA is responsible for RTA's compliance with those requirements. My responsibility is to express an opinion on compliance with those requirements based on my audit and the report of other auditors.

I conducted my audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the RTA's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings and Questioned Costs. I considered these instances of noncompliance in forming my opinion on compliance, which is expressed in the following paragraph.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

(Continued)

In my opinion, the RTA complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; amounts claimed or used for matching; reporting; cost allocation; and claims for advances and reimbursements that are applicable to each of its major federal financial assistance programs for the year ended December 31, 1995.

This report is intended for the information of the Board of Commissioners, management, and the Federal Transportation Administration (FTA). However, this report is a matter of public record and its distribution is not limited.

Curtis A. Moret

Curtis A. Moret
May 3, 1996

CURTIS A. MORET
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE GENERAL REQUIREMENTS APPLICABLE TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Board of Commissioners
Regional Transit Authority

I have audited the Schedule of Federal Financial Assistance of the Regional Transit Authority (the RTA), as of and for the year ended December 31, 1995, and have issued my report thereon dated May 3, 1996. The general purpose financial statements were audited by other auditors whose report thereon has been furnished to me, and my opinion expressed herein, insofar as it relates to the general purpose financial statements, is solely based on the report of other auditors.

I have applied procedures to test the RTA's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the year ended December 31, 1995:

General Requirements

- Administrative Requirements
- Political Activity
- Davis-Bacon Act
- Civil Rights
- Real Property Acquisition and Relocation Assistance
- Cash Management
- Allowable Costs/Cost Principles
- Federal Financial Reporting
- Drug-Free Workplace Act

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE GENERAL REQUIREMENTS APPLICABLE TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS
(Continued)

My procedures were limited to the applicable procedures described in the Office of Management and Budget's, "Compliance Supplement for Single Audits of State and Local Governments." My procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the RTA's compliance with the requirements listed in the preceding paragraph. Accordingly, I do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to my attention that caused me to believe that the RTA had not complied, in all material respects, with those requirements. However, the results of my procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Findings and Questioned Costs.

This report is intended for the information of the Board of Commissioners, management, and the Federal Transportation Administration. However, this report is a matter of public record and its distribution is not limited.

Curtis A. Moret

Curtis A. Moret
May 3, 1996

Program/Requirements	Findings/Noncompliance	Questioned Costs
Common Rule (Federal Financial Reporting)	The common rule requires grantees to submit a quarterly financial status report. The reported financial data should be accurate and timely. The FTA uses these reports to monitor project funds for all capital grants as well as combination capital/operating assistance grants. Although the RTA is filing these reports on a timely basis, the reports are being prepared on the cash basis of accounting. FTA regulations state that these reports are to be submitted on the accrual basis for all construction and non-construction projects.	- 0 -
Client Response:	During the Financial Management Oversight (FMO) process conducted by the Milligan Group, grants administration was apprised of this reporting deficiency for the periods through December 1995. Upon their recommendation, the quarterly reports for the period beginning the first quarter of 1996 have been modified to reflect the accrual basis of accounting as required by FTA Circular 5010.	

REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 1995
(CONTINUED)

Status of Prior Year Findings

In my prior year report dated August 3, 1995, I noted that the RTA was not updating its cost allocation plan and/or indirect cost rate on an annual basis. Based on discussions with grant and accounting department personnel, the RTA has implemented procedures to become in compliance with this requirement.

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The Global Leader

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REGIONAL TRANSIT AUTHORITY

Financial Statements and Schedules

December 31, 1995 and 1994

With Independent Auditors' Report Thereon

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8-7-96

REGIONAL TRANSIT AUTHORITY

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KPMG Peat Marwick LLP

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

Independent Auditors' Report

Board of Commissioners
Regional Transit Authority:

We have audited the accompanying balance sheets of Regional Transit Authority (RTA) as of December 31, 1995 and 1994, and the related statements of revenues, expenses and changes in accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the RTA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the RTA as of December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 5, 1996, on our consideration of the RTA's internal control structure, and a report dated April 5, 1996, on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG Peat Marwick LLP

April 5, 1996

REGIONAL TRANSIT AUTHORITY

Balance Sheets

December 31, 1995 and 1994

Assets	1995	1994
Current assets:		
Cash (note 2)	$ 567,407	2,442
Accounts receivable, net (note 3)	10,471,053	10,619,402
Inventories	3,064,206	2,613,595
Prepaid expenses and other assets	222,778	435,681
Total current assets	14,325,444	13,671,120
Restricted assets, cash and investments (note 2):		
1988 series bond trustee accounts (notes 5 and 6)	3,640,675	5,069,593
1991 series bond trustee accounts (notes 5 and 6)	10,018,041	13,046,785
Cross border lease escrow (note 5)	811,006	779,785
Self-insurance and legal claims (note 10)	8,786,535	9,610,977
Health and welfare (notes 2 and 8)	2,616,087	2,637,337
Total restricted assets	25,872,344	31,144,477
Deferred charges - bond issue costs (note 5)	1,892,769	1,972,624
Property, buildings and equipment, net (note 4)	143,153,429	135,535,048
	$ 185,243,986	182,323,269

Liabilities and Fund Equity	1995	1994
Current liabilities (payable from current assets):		
Cash overdraft	$ -	422,386
Accounts payable and accrued expenses	9,863,581	9,344,980
Amounts due to Transit Management of Southeast Louisiana, Inc. (TMSEL)	7,744,112	6,468,400
	17,607,693	16,235,766
Current liabilities (payable from restricted assets):		
Legal and small claims (note 10)	22,897,970	19,221,718
Current portion of accrued bond interest	258,478	265,694
Current portion of bonds (note 5)	1,535,000	1,450,000
	24,691,448	20,937,412
Total current liabilities	42,299,141	37,173,178
Long-term liabilities:		
Employee benefits payable (note 8)	7,330,000	7,330,000
Accrued bond interest, less current portion	2,569,310	1,860,938
Bonds payable, less current portion (note 5)	48,965,733	50,500,733
Total long-term liabilities	58,865,043	59,691,671
Total liabilities	101,164,184	96,864,849
Fund equity (note 6):		
Accumulated deficit	(31,732,633)	(23,483,497)
Contributed capital:		
Local government	22,216,032	22,216,032
Federal government	166,882,981	154,523,419
	189,099,013	176,739,451
Accumulated amortization	(73,286,578)	(67,797,534)
	115,812,435	108,941,917
Total fund equity	84,079,802	85,458,420
Commitments and contingencies (notes 7, 8, 9 and 10)		
	$ 185,243,986	182,323,269

See accompanying notes to financial statements.

REGIONAL TRANSIT AUTHORITY

Statements of Revenues, Expenses and Changes in Accumulated Deficit

For the years ended December 31, 1995 and 1994

	1995	1994
Operating revenues:		
Passenger fares	$ 35,026,390	33,959,364
Sales tax	41,324,583	37,865,765
Other (note 5)	943,454	1,519,107
Total operating revenues	77,294,427	73,344,236
Direct operating expenses:		
Labor and fringe benefits (note 1a)	54,273,007	53,955,603
Materials, fuel and supplies	10,922,034	10,979,970
Contract services	7,286,701	6,194,145
Insurance and self-insured costs	9,118,678	9,162,961
Utilities	1,395,132	1,615,584
Taxes, other than payroll	941,067	966,487
Rent	185,375	192,916
Purchased transportation	1,099,135	1,067,408
Miscellaneous	4,729,516	3,438,621
Total direct operating expenses	89,950,645	87,573,695
Depreciation expense:		
Owned premises and equipment	3,072,469	2,998,530
Contributed premises and equipment	5,489,044	5,550,865
Total depreciation expense	8,561,513	8,549,395
Loss from operations	(21,217,731)	(22,778,854)
Nonoperating revenues (expenses):		
Interest income	1,601,831	1,375,956
Interest expense	(4,214,307)	(3,943,377)
Government operating grants:		
Federal operating subsidy	4,000,000	4,000,000
State Department of Transportation	3,789,114	3,865,914
Planning and technical study grants	2,302,913	1,180,922
Total nonoperating revenues	7,479,551	6,479,415
Excess of expenses over revenues	(13,738,180)	(16,299,439)
Accumulated deficit:		
Balance, beginning of year	(23,483,497)	(12,734,923)
Credits arising from amortization of contributed premises and equipment	5,489,044	5,550,865
Balance, end of year	$ (31,732,633)	(23,483,497)

See accompanying notes to financial statements.

REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

For the years ended December 31, 1995 and 1994

	1995	1994
Cash flows from operating activities:		
Cash received from operations	$ 34,800,851	34,218,837
Cash received from sales tax	42,660,300	38,201,961
Cash received from other sources	849,505	1,577,012
Cash paid to employees and for related expenses	(53,264,964)	(53,414,801)
Cash paid to suppliers	(26,620,598)	(20,714,308)
Cash paid for legal claims	(5,060,170)	(6,225,228)
Net cash used in operating activities	(6,635,076)	(6,356,527)
Cash flows from noncapital financing activities - operating subsidies received from other governments	9,573,072	8,100,545
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(16,179,894)	(28,723,307)
Capital contribution	11,534,221	22,280,048
Interest paid	(3,513,151)	(3,271,103)
Repayment of bonds	(1,450,000)	(1,370,000)
Net cash used for capital and related financing activities	(9,608,824)	(11,084,362)
Cash flows from investing activities:		
Purchases of investment securities	(23,211,544)	(24,393,122)
Proceeds from sale and maturities of investment securities	28,483,677	30,792,196
Interest payments received	1,963,660	1,864,673
Net cash provided from investing activities	7,235,793	8,263,747
Net increase (decrease) in cash and cash equivalents	564,965	(1,076,597)
Cash and cash equivalents at beginning of year	2,442	1,079,039
Cash and cash equivalents at end of year	$ 567,407	2,442

(Continued)

REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows, Continued

	1995	1994
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	$(21,217,731)	(22,778,854)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	8,561,513	8,549,395
Provision for doubtful accounts	2,147,715	2,528,126
Amortization of bond issue costs	79,855	79,853
Increase in accounts receivable	(1,016,899)	(1,999,911)
Decrease in prepaid assets	212,903	142,356
Increase in inventory	(450,611)	(502,859)
Increase in accounts payable and accrued expenses	96,215	1,762,294
Increase in amounts due to TMSEL	1,275,712	2,836,879
Increase in the provision for legal and small claims liability	3,676,252	3,026,194
Net cash used in operating activities	$ (6,635,076)	(6,356,527)

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization and Reporting Entity

The Regional Transit Authority (RTA) is an independent political subdivision of the State of Louisiana created in 1979 by Act 439 of the Louisiana Legislature in order to provide mass transportation within its jurisdiction, which comprises the Greater New Orleans area. Effective July 1, 1983 under a transfer agreement among the RTA, the City of New Orleans (the City) and New Orleans Public Service, Inc. (NOPSI), the RTA assumed responsibility for all mass transit operations in Orleans Parish and acquired transit-related assets and assumed certain transit-related liabilities of NOPSI and of the City through purchase, funded by federal and local government grants, and through contributions from the City. Subsequently, the RTA has also assumed responsibility for mass transit operations of the City of Kenner. The RTA's scope of service presently comprises Orleans Parish and the City of Kenner in Jefferson Parish and may ultimately include future transit operations throughout the Greater New Orleans area.

The RTA is governed by an eight-member Board of Commissioners composed of appointees of the participating local governments within the RTA's jurisdiction. The Board of Commissioners establishes policies, approves the budget, controls appropriations and appoints an Executive Director responsible for administering all RTA operations and activities. At December 31, 1995 one position on the Commission was vacant; at December 31, 1994 two positions were vacant.

The RTA holds title to substantially all assets and controls, or is entitled to, substantially all revenue and funds used to support its operations and is solely responsible for its fiscal affairs. The Board of Commissioners is authorized to issue bonds, incur short-term debt and levy taxes upon approval of the voters in one or more of the parishes or municipalities served by the RTA. The RTA conducts substantially all of its transit and related operations through Transit Management of Southeast Louisiana, Inc. (TMSEL), pursuant to the management contract between RTA, TMSEL and Metro New Orleans Transit (Metro). The labor, fringe benefits and other similar costs reflected in the statement of revenues, expenses and changes in accumulated deficit are TMSEL expenses which are reimbursed by RTA pursuant to the management contract.

The RTA is a stand-alone entity as defined by GASB 14, The Financial Reporting Entity. The RTA is neither fiscally dependent on any other local government nor does it provide specific financial benefits to or impose specific financial burdens on any other government. No other potential component units meet the criteria for inclusion in the financial statements of the RTA.

(Continued)

(b) Basis of Accounting

The accounting policies of the RTA conform to generally accepted accounting principles as applicable to governments. The RTA uses fund accounting to report its financial position and results of operations. The RTA's accounts are organized into a single proprietary fund. The enterprise fund is used to account for operations (a) that are operated in a manner similar to private business--where the intent of the governing body is that the cost (expense, including deprecation) of providing goods and services to the general public is financed or recovered primarily through user charges or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance.

Accordingly, the RTA maintains its records on the accrual basis of accounting. Revenue from operations, investments and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

The RTA applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict or contradict GASB pronouncements.

(c) Restricted Assets

Certain assets, principally consisting of cash and investments, are segregated and classified as restricted assets which may not be used except in accordance with contractual terms, under certain conditions, or for specific board-designated purposes.

(d) Investments

Investments are stated at cost. Investments generally consist of U.S. Government and Agency securities, repurchase agreements and time deposits.

(e) Inventories

Inventories, principally repair parts and supplies, are stated at cost, which approximates market. Cost is determined by the average cost method except for gasoline, diesel fuel and oil for which cost is determined by the first-in, first-out method.

(f) Property, Buildings and Equipment

Property, buildings and equipment are recorded at cost. Depreciation or amortization is charged to expense over the estimated useful lives of the assets and is determined using the

(Continued)

straight-line method. Expenditures for maintenance and repairs which do not materially extend the useful life of the asset are charged to expense as incurred.

The estimated useful lives used in computing depreciation and amortization are:

Buildings	20 years
Buses and equipment	3-12 years
Streetcars, track system and related equipment	20 years
Furniture and fixtures	3-10 years
Leasehold improvements	3-5 years

The amount of depreciation and amortization of assets acquired with capital contributions is reflected as a charge to contributed capital since replacement and/or expansion has been financed from sources other than operating funds.

(g) Federal and State Grants

Federal and state grants are made available to the RTA for the acquisition of public transit facilities, buses and other transit equipment. Unrestricted operating grants and grants restricted as to purpose, but not contingent on the actual expenditures of funds, are recognized at that point in time when the right to the funds becomes irrevocable. Where the expenditure of funds is the prime factor for determining the eligibility for the grant proceeds, the grant is recognized at the time when the expense is incurred. Operating grants are credited to income, and capital grants are credited to fund equity. Depreciation and other costs financed by government capital grants are charged to operating expenses and transferred from the accumulated earnings category of fund equity to contributed capital category of fund equity.

(h) Compensated Absences

RTA is obligated to reimburse TMSEL for vacation in 1995 and 1994 when earned by TMSEL employees, either in accordance with TMSEL's general personnel policy or under certain TMSEL union agreements. The total liability for accrued vacation at December 31, 1995 and 1994, included in current liabilities, was $2,459,818 and $3,170,955, respectively.

(i) Cash Flows

For the purposes of the statement of cash flows, cash and cash equivalents include all highly liquid investments.

(j) Budgets and Budgetary Accounting

In accordance with Act 186 of the Louisiana Legislature and under authority granted to the Board of Commissioners of the RTA within

(Continued)

the Regional Transit Authority Act (Act 439), an annual budget of revenue, expenses and capital expenditures is prepared under the accrual basis of accounting, consistent with generally accepted accounting principles (GAAP). The budget is adopted by resolution of the Board of Commissioners after public hearings are conducted and public input is received. The RTA, operating as an enterprise fund, utilizes a budget and related budgetary accounting to assure that: (1) service objectives are attained; (2) expenditures are properly controlled; and (3) adequate resources will be available to finance current operations, repay long-term liabilities and meet capital outlay requirements. A budget presentation is not required and has not been included in the financial statements.

Because the RTA's revenue and expenses may fluctuate with changing service delivery levels, a flexible, rather than fixed dollar budget, is utilized to permit budgetary revision based upon changing fare revenue, levels of service and cost of operations at specific service levels. Actual results of operations are compared to the final, revised budget of the RTA for the year then ended.

(k) Claims and Judgments

The RTA provides for losses resulting from claims and judgments. A liability for such losses is reported when it is probable that a loss has occurred and the amount can be reasonably estimated. Incurred but not reported claims have been considered in determining the accrued liability.

(l) Reclassifications

Certain amounts for the year ended December 31, 1994 have been reclassified.

(2) Cash and Investments

The RTA's cash and investments consisted of the following:

	December 31, 1995		December 31, 1994	
	Restricted	Unrestricted	Restricted	Unrestricted
Cash	$ 2,210,338	567,407	2,014,250	2,442
Investments - U.S. Government Treasury Agency and Instrumentality securities	23,662,006	-	29,130,227	-
	$ 25,872,344	567,407	31,144,477	2,442

Actual cash in banks as of December 31, 1995 and 1994, for restricted and unrestricted bank accounts, before outstanding checks and reconciling items, was $3,327,092 and $2,383,181, respectively. Of the

(Continued)

total bank balances at December 31, 1995 and 1994, all amounts were substantially covered by federal depository insurance or by collateral held in the RTA's name.

Investments are held in the name of the RTA by its agent and are a category 1 under GASB 3 requirements. Statutes authorize the RTA to invest in direct United States Treasury obligations; bonds, debentures, notes or other indebtedness issued or guaranteed by U.S. Government Instrumentalities which are federally sponsored or federal agencies that are backed by the full faith and credit of the United States; short-term repurchase agreements; and time certificates of deposit at financial institutions, state banks and national banks having their principal offices in Louisiana.

Repurchase agreements and securities purchased and sold during 1995 and 1994 totaled $136,162,300 and $147,107,089, respectively.

Gross unrealized gains on investments at December 31, 1995 were $215,020; there were no unrealized losses at December 31, 1995. Gross unrealized losses on investments at 1994 were $880,463; there were no unrealized gains at December 31, 1994. The total market value of investment securities was $26,087,364 as of December 31, 1995.

As of December 31, 1995, $985,828 of restricted assets was pledged as collateral to the Louisiana Office of Workman's Compensation and $99,681 was pledged as collateral to the Louisiana Department of Labor.

(3) Accounts Receivable

Accounts receivable consist of the following as of December 31:

	1995	1994
Health and welfare benefit receivable	$ 17,003,957	14,588,573
Sales tax	3,236,551	4,572,268
Federal capital grants	3,965,185	3,139,844
State operating subsidy	1,369,756	850,801
Passenger (Transpass, Visitour)	902,137	795,887
Property damage	439,670	821,926
Orleans Parish School Board	578,926	459,637
Interest	207,570	569,399
Kenner operating subsidy	167,364	95,490
Other	88,434	114,716
Advertising	88,034	46,521
TMSEL	10,517	3,673
	28,058,101	26,058,735
Less allowance for uncollectible amounts	(17,587,048)	(15,439,333)
	$ 10,471,053	10,619,402

(Continued)

During 1995, the RTA auctioned 74 buses that were fully depreciated. The resulting gain is included in other revenue.

Construction in progress is composed of the following as of December 31:

	1995	1994
St. Charles Streetcar Line and Carrollton Facility	$ 4,273,453	2,820,693
New Orleans East Maintenance Facility	233,359	223,749
Canal Street Facility	-	18,111,582
Other	459,691	-
	$ 4,966,503	21,156,024

(5) Long-term Debt

Long-term debt consisted of the following as of December 31:

	1995	1994
1988 Series, Sales Tax Refunding Bonds, interest rates between 6.8% and 8%, due in annual principal debt service requirements ranging from $800,000 to $2,815,000, final payment due December 2013	$ 28,650,000	29,400,000
1991 Series, Sales Tax Revenue Bond, interest rates between 5.5% and 6.5% on current interest and current interest term bonds, and approximate yields of 7% and 7.10% on capital appreciation bonds, with annual principal debt service requirements ranging from $348,633 to $1,500,000	21,850,733	22,550,733
	50,500,733	51,950,733
Less current maturities	1,535,000	1,450,000
Long-term debt less current maturities	$ 48,965,733	50,500,733

1988 Bond Series

On March 29, 1988, the RTA issued $33,080,000 in Sales Tax Refunding Bonds, Series 1988 with an average interest rate of 7.2 percent over 25 years to advance refund $29,500,000 of outstanding 1986 Series A Revenue Bonds with an average interest rate of 7.6 percent over its 9-year remaining life of the issue. The net proceeds of $32,379,700 (after payment of $700,000 in underwriting fees and discount costs) received by the RTA on the sale of the bonds were applied as follows: (a) $29,117,244 was deposited in an irrevocable trust with an escrow agent

(Continued)

to provide for all future debt service payments on the 1986 Series A Revenue Bonds; (b) $3,043,510 was deposited in a reserve fund account to satisfy the Reserve Fund Requirement of the bonds; and (c) the remaining proceeds of $218,946 were used toward the payment of issuance costs of the bonds. As a result, the 1986 Series A Revenue Bonds are in substance considered defeased, and the liability for those bonds has been removed from the long-term liability accounts. At December 31, 1995 and 1994, the outstanding principal balance of the 1986 Bonds was $4,200,000 and $8,100,000, respectively.

The interest on the Sales Tax Refunding Bonds, Series 1988 is due and payable on December 1 and June 1 of each year through December 1, 2013. The bonds are secured by a pledge and lien upon a portion of the RTA's sales tax revenue (one-half of one percent upon the items and services subject to the sales tax). Bond issue costs were deferred and are being amortized over the 25-year life of the sales tax refunding bonds.

1991 Bond Series

On December 26, 1991, the RTA issued $23,215,733 in Sales Tax Revenue Bonds, Series 1991. These bonds are to be repaid over 30 years. The net proceeds of $22,968,624 (after original issue discount of $103,661 and payment of $143,448 in underwriting fees and costs) received by the RTA on the sale of the bonds were applied as follows: (a) $19,193,382 was deposited in a reserve fund account designated for capital projects, including but not limited to, the St. Charles facility renovation and restoration of streetcars used on the St. Charles Avenue Streetcar line, construction of maintenance facilities for the Riverfront streetcar line and the acquisition of buses; (b) $1,513,528 was deposited in a reserve fund for payment of interest costs; (c) $1,596,845 was deposited in a reserve fund account to satisfy the reserve fund requirement of the bonds; and (d) the remaining proceeds of $664,869 were used toward the payment of issuance costs of the bonds.

The current interest and capital appreciation bonds are secured by a pledge and lien upon a portion of the RTA's sales tax revenue (one-half of one percent upon the items and services subject to the sales tax). The interest on the current interest bonds is due and payable on June 1, and December 1 of each year through December 1, 2004. The interest for the capital appreciation bonds is due and payable in series in 2012, 2015 and 2021. Bond issue costs were deferred and are being amortized over the 30-year life of the sales tax bonds.

In accordance with the requirements of the bond indentures, the RTA maintains, with a designated trustee, certain restricted asset bond accounts. The RTA is in compliance with its bond covenants as of December 31, 1995 and 1994.

(Continued)

Cross-Border Sales Leaseback Agreement

In December 1994, the RTA entered into a sales-leaseback agreement for 73 buses, which resulted in a gain of $659,784 in 1994, which was included in other revenue. The buses are included in fixed assets. The term of the lease is for approximately seven years with a purchase option of $23,500 per bus in March 2002. The purchase option cost is included in the financing arrangement. RTA anticipates no additional liability as a result. The Board has designated the proceeds of the agreement for deficit reduction.

The following represents the debt service requirements for both the 1988 and the 1991 Bond issues as of December 31, 1995:

	Total Principal	Total Interest
1996	$ 1,535,000	3,101,730
1997	1,630,000	3,006,905
1998	1,735,000	2,902,880
1999	1,850,000	2,790,355
2000	1,970,000	2,667,975
2001-2005	12,090,000	11,096,490
2006-2010	14,762,851	8,417,886
2011-2015	10,796,436	12,380,972
2016-2020	3,557,170	19,617,895
2021	574,276	4,060,724
	$ 50,500,733	70,043,812

(6) Fund Equity

(a) Accumulated Deficit

As of December 31, 1995, the RTA's accumulated deficit was $30,887,605. Management plans on reducing the accumulated deficit through recovery of costs from increased efficiencies, as a result of changes in operations of RTA. Specific changes in operations include review of personnel and bus routes.

(Continued)

(b) Contributed Capital

The following summarizes the changes in contributed capital accounts, net of accumulated amortization, as of and for the years ended December 31:

	Local Government	Federal Government	Total
Balance at December 31, 1993, net	$ 19,560,527	73,692,092	93,252,619
Capital grants earned	-	21,240,163	21,240,163
Transfer of depreciation on capital purchases	-	(5,550,865)	(5,550,865)
Balance at December 31, 1994, net	19,560,527	89,381,390	108,941,917
Capital grants earned	-	12,359,562	12,359,562
Transfer of depreciation on capital purchases	-	(5,489,044)	(5,489,044)
Balance at December 31, 1995, net	$ 19,560,527	96,251,908	115,812,435

(7) TMSEL Pension Plan

The RTA provides for the pension expense of TMSEL employees pursuant to the management contract. Effective August 19, 1986, TMSEL received from the Internal Revenue Service a favorable letter of determination and approval of its defined benefit retirement income plan (the plan) covering substantially all TMSEL employees. On October 15, 1986, the RTA completed the transfer of pension fund assets from NOPSI to TMSEL, as called for under the terms of the Transfer Agreement between NOPSI and the RTA. Net pension plan assets transferred totaled $35,059,639 as of the actuarial valuation, dated June 30, 1986, nearest the date of transfer.

All TMSEL or former NOPSI employees over the age of 21 are eligible to participate in the plan. Benefits vest after five years of service. Employees, except for transit operators, who retire at age 65, are entitled to annual retirement benefits for life in an amount equal to 1.5 percent of their five year average of compensation times years of service. As a result of a new contract effective in 1995, transit operators who retire at age 65 are entitled to annual retirement benefits for life in an amount equal to 1.6 percent of their five year average of compensation times years of service. The plan also provides early retirement, postponed retirement, disability and death benefits.

TMSEL contributes such amounts as are necessary to provide assets sufficient to meet the benefits to be paid to Plan participants. The contributions of TMSEL and eligible employees are made in amounts,

(Continued)

determined by an enrolled actuary, sufficient to fund the Plan's current service cost plus amortization of any unfunded amounts over 25 years.

Only employees covered by a collective bargaining agreement between TMSEL and the Amalgamated Transit Union, Division 1560, while a member of the Plan and prior to the normal retirement date, can contribute to the Plan. The amounts contributed, pursuant to the collective bargaining agreement, are one percent of their weekly compensation in excess of $127 in addition to 2.23 percent of total compensation.

The following table sets forth the plan's funded status and amounts recognized in the Authority's balance sheet due to TMSEL as of December 31:

	1995	1994
Actuarial present value of benefit obligation:		
Vested benefit obligation	$ 55,310,310	46,379,399
Nonvested benefit obligation	2,736,187	2,294,377
Accumulated benefit obligation	58,046,497	48,673,776
Effect of projected future compensation levels	19,954,522	16,732,482
Projected benefit obligation for service rendered to date	78,001,019	65,406,258
Plan assets at fair value	75,225,500	64,908,100
Excess of (deficiency in) plan assets projected benefit obligation	(2,775,519)	(498,158)
Unrecognized prior service cost	1,303,664	-
Unrecognized net loss (gain) from past experience different from that assumed	1,509,402	2,013,432
Unrecognized net asset	(882,575)	(966,550)
Prepaid (accrued) pension cost	$ (845,028)	548,724

Net periodic pension cost included the following components for the years ended December 31, 1995 and 1994 and are as follows:

	1995	1994
Service cost - benefits earned during the period	$ 2,076,132	2,038,953
Interest cost on projected benefit obligation	5,219,844	4,698,428
Actual loss (return) on plan assets	(12,314,600)	2,502,874
Net amortization and deferral	7,562,676	(7,692,218)
Net periodic pension cost	$ 2,544,052	1,548,037

(Continued)

The most recent projected pension benefit obligation was computed based on the actuarial valuation performed as of January 1, 1995. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 7.5 percent per year compounded annually, (b) a discount rate of 7.0 percent at December 31, 1995 and 8.0 percent at December 31, 1994, (c) projected salary increases include an inflation component of 4.0% as of December 31, 1995 and 5.0% as of December 31, 1994, and (d) no postretirement benefits increases.

TMSEL funds actuarially determined pension costs when accrued. Any unfunded actuarial accrued liability is amortized over twenty-five years. Pension expense, which is included in labor and fringe benefits expense, was $2,544,052 and $1,548,037 in 1995 and 1994, respectively. The significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the projected pension benefit obligation as described above.

As of the most recent IRS reporting date, the ERISA funding requirements have been met.

(8) Other Post Employment Retirement Benefits

NOPSI Retiree Employees

As part of the Transfer Agreement among the RTA, NOPSI and the City, the RTA, through TMSEL, began providing benefits for health care and life insurance to retired and disabled transit employees of NOPSI. In addition, the RTA assumed liability for benefits payable to those employees who retired or became disabled prior to July 1, 1983. On July 1, 1983, the actuarially determined present value of such benefits was approximately $24,000,000. A preliminary actuarial valuation, performed in 1991, indicated that the present value of future benefits as of December 31, 1991 was $20,500,000. In consideration for the assumption of liability under the terms of the Employee and Retiree Pension Benefits Agreement (the Agreement), NOPSI and the City of New Orleans agreed to reimburse the RTA for future health care and life insurance claims of retired and disabled transit employees of NOPSI in amounts of $13,000,000 and $11,000,000, respectively, plus an interest factor of 9%. Also, NOPSI paid $7,330,000 to the RTA for indemnification against any unforeseen losses arising from the transaction, and this amount has been reflected by the RTA as employee benefits payable on behalf of TMSEL and former NOPSI employees. Adjustments to this amount could result from benefit payment experience or performance of the City of New Orleans under the terms of the Agreement.

(Continued)

During 1995 and 1994, RTA paid and billed the City of New Orleans for reimbursement under the terms of the Agreement in the amounts of $2,415,384 and $2,561,352, respectively, for post-retirement health care and life insurance claims. The City has not made any payments to RTA on this obligation. The RTA has filed suit against the City of New Orleans for collection of the amount due as discussed in note 9. An allowance for uncollectible accounts has been established for this receivable as described in note 3.

Currently, 568 (inclusive of retiree family members) and 221 NOPSI retirees are receiving medical and life insurance benefits, respectively. As of December 31, 1995 and 1994, the RTA has designated $2,616,087 and $2,637,337, respectively, as restricted assets to be available to fund the RTA's portion of such liabilities.

TMSEL Retirees

The RTA, pursuant to the TMSEL management contract, underwrites benefits for health care and life insurance to TMSEL retirees who were NOPSI transit employees prior to July 1, 1983. These employees retain full retirement benefits under the plan. All other employees of TMSEL are not eligible to receive post-retirement health and life insurance under the plan benefits. The health care plan is self-insured and is financed on a pay-as-you-go-basis. During 1995 and 1994, total TMSEL expense relating to the above plan was $403,509 and $968,422, respectively. Total benefits paid to participants during 1995 and 1994 were $567,548 and $621,287, respectively. Currently, 192 and 153 TMSEL retirees are receiving medical and life insurance benefits, respectively, and 678 employees are eligible to receive benefits under the terms of the plan. As of December 31, 1995, no actuarial evaluation of the plan has been performed.

(9) Commitments and Contingencies

(a) Leases

The RTA is obligated under various operating leases for office and storage space. The operating leases contain renewal options for varying periods at equal or increased annual rentals.

Future operating lease payments for the following two years as of December 31, 1995 are as follows:

1996	$ 201,689
1997	138,662

Total lease and rental payments for the year ended December 31, 1995 and 1994 were $185,375 and $192,916, respectively.

(Continued)

(b) Contingencies

The RTA receives financial assistance directly from Federal agencies which are subject to audit and final acceptance by these agencies. In the opinion of management, amounts that might be subject to disallowance upon final audit, if any, would not have a material effect on the RTA's financial position.

As discussed in notes 3 and 8, the RTA and TMSEL are plaintiffs in a lawsuit against the City of New Orleans alleging that the City violated the terms of the 1983 "Employee and Retiree Pension and Welfare Agreement" and claiming that the City was indebted to the RTA for amounts paid under the agreement for health and welfare benefits of certain retirees. The accumulated payments totaled $17,003,957 as of December 31, 1995. The City has denied liability.

(c) Grant Commitments

As of December 31, 1995 and 1994, the RTA is committed to use earnings to fund local matching requirements under grants for which a contractual obligation existed at the end of each year. The outstanding federal share of grants at December 31, 1995 and 1994 totals $18,616,040 and $26,507,650, respectively, and requires commitments of local matching funds totaling $3,918,802 and $7,284,954, respectively.

(10) Self-insurance and Legal Claims

The RTA is exposed to various risks of loss related to torts, damage to and destruction of assets, errors and omissions, injuries to TMSEL employees and natural disasters. The RTA is self-insured for general liability claims up to $1,000,000; commercial insurance for general liability covers claims in excess of $1,000,000 up to $14,000,000. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. Pursuant to the TMSEL management contract, RTA reimburses TMSEL for TMSEL's health care benefits and TMSEL employees' injury and workers' compensation claims. Claim expenses and liabilities are reported when it is probable that the loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

At December 31, 1995 and 1994, $22,897,970 and $19,221,718, respectively, of accrued liabilities were recorded to cover such claims. The accruals, which are based upon experience with previous claims, the advice of counsel, and actuarial evaluation are, in the opinion of management, sufficient to provide for all probable and reasonably estimable claims liabilities at December 31, 1995 and 1994.

(Continued)

Changes in legal and small claims liability during the years ended December 31 were as follows:

	Beginning of year liability	Current year claims and changes in estimates	Claim payments	Balance at year end
1994	$ 16,195,524	9,162,961	(6,136,767)	19,221,718
1995	19,221,718	9,118,678	(5,442,426)	22,897,970

Restricted assets in the amount of $8,786,535 at December 31, 1995 and $9,610,977 at December 31, 1994 are available to fund current portions of the aforementioned accrued liabilities.

(11) Management Fees

The RTA contracted with Metro providing that Metro manage and supervise the operations of the transit system. Management fees paid under contract to Metro for the years ended December 31, 1995 and 1994 were $157,530 and $151,279, respectively.

(12) Related Parties

The RTA has a standing agreement with the City of New Orleans to provide mutually beneficial services (interagency agreement) through 1995. The RTA offset $1,200,000 in police services provided by the City against related receivables in 1995 and 1994.

The members of the Board of Commissioners were paid a per diem for the attendance of board and committee meetings in calendar year 1994 and were paid a per diem for the attendance of board meetings only (not committee meetings) in 1995 and are also reimbursed for out-of-pocket expenses resulting from their participation in RTA activities. The amounts received by each Commissioner for the year ended December 31, 1995 and 1994 were as follows:

	Per Diem	Expense Reimbursement	Total
1995:			
Daniel Alfortish	$ 2,475	782	3,257
Dennis DiMarco	2,175	704	2,879
Earline Roth	375	-	375
Nat Lacour	2,325	-	2,325
Thomas Lacour	2,475	1,565	4,040
Ronald Gardner	300	-	300
Ellenese Brooks-Simms	1,500	2,984	4,484
Robert Tucker	2,475	529	3,004
	$ 14,100	6,564	20,664

(Continued)

	Per Diem	Expense Reimbursement	Total
1994:			
Daniel Alfortish	$ 3,233	1,982	5,215
Dennis DiMarco	2,858	3,925	6,783
Nat Lacour	2,025	2,112	4,137
Thomas Lacour	3,158	3,826	6,984
John LeBourgeois	833	2,449	3,282
Kern Reese	908	2,950	3,858
Ellenese Brooks-Simms	3,158	14,115	17,273
Robert Tucker	2,100	4,607	6,707
	$ 18,273	35,966	54,239

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Fund Equity

For the years ended December 31, 1995 and 1994

	Accumulated Deficit - Reserved and Unreserved	Net Contributed Capital - Local Government	Net Contributed Capital - Federal Government	Total
Balance at December 31, 1993	$ (12,734,923)	19,560,527	73,692,092	80,517,696
Capital grants earned	-	-	21,240,163	21,240,163
Excess of expenses over revenue	(16,299,439)	-	-	(16,299,439)
Transfer of depreciation on contributed capital purchases	5,550,865	-	(5,550,865)	-
Balance at December 31, 1994	(23,483,497)	19,560,527	89,381,390	85,458,420
Capital grants earned	-	-	12,359,562	12,359,562
Excess of expenses over revenue	(13,738,180)	-	-	(13,738,180)
Transfer of depreciation on contributed capital purchases	5,489,044	-	(5,489,044)	-
Balance at December 31, 1995	$ (31,732,633)	19,560,527	96,251,908	84,079,802

See accompanying independent auditors' report.

Schedule 2

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Restricted Asset Bond Accounts

For the years ended December 31, 1995 and 1994

The following summarizes the activity in the 1988 series bond trustee accounts:

	1986 Construction	Capital	Debt Service	Reserve	Total
Cash and investments at January 1, 1994	$ 74,575	2,149,134	944,570	3,940,101	7,108,380
Cash receipts:					
Interest income	2,058	147,534	47,593	161,455	358,640
Sales tax receipts	-	37,262,789	-	-	37,262,789
Transfer for principal and interest	-	-	3,041,085	-	3,041,085
Total cash receipts	2,058	37,410,323	3,088,678	161,455	40,662,514
Cash disbursements:					
Principal and interest payments	-	-	(3,041,095)	-	(3,041,095)
Sales tax outflow	-	(34,354,726)	-	-	(34,354,726)
Capital acquisitions and construction cost	(76,633)	(2,162,997)	-	(9,630)	(2,249,260)
Transfer to debt service	-	(3,041,085)	-	-	(3,041,085)
Other	-	-	(15,135)	-	(15,135)
Total disbursements	(76,633)	(39,558,808)	(3,056,230)	(9,630)	(42,701,301)
Ending balance - December 31, 1994	-	649	977,018	4,091,926	5,069,593
Cash receipts:					
Interest income	-	35	28,022	160,459	188,516
Sales tax receipts	-	41,621,627	-	-	41,621,627
Transfer for principal and interest	-	-	2,418,176	-	2,418,176
Total cash receipts	-	41,621,662	2,446,198	160,459	44,228,319
Cash disbursements:					
Principal and interest payments	-	-	(3,040,974)	-	(3,040,974)
Sales tax outflow	-	(38,865,373)	-	-	(38,865,373)
Transfer for debt service	-	(2,756,254)	-	(994,636)	(3,750,890)
Total disbursements	-	(41,621,627)	(3,040,974)	(994,636)	(45,657,237)
Ending balance - December 31, 1995	$ -	684	382,242	3,257,749	3,640,675

(Continued)

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Restricted Asset Bond Accounts, Continued

The following summarizes the activity in the 1991 series bond trustee accounts:

	Capital	Debt Service	Reserve	Interest	Issuance	Capitalized Interest	Total
Beginning balance January 1, 1994	$ 16,537,321	133,030	1,761,669	12	6,198	311,385	18,749,615
Cash receipts:							
Transfer for principal and interest	-	1,596,270	-	-	-	-	1,596,270
Investment income	719,016	19,754	90,579	-	186	6,664	836,199
Total cash receipts	719,016	1,616,024	90,579	-	186	6,664	2,432,469
Cash disbursements:							
Transfer of principal and interest	(1,596,270)	(1,596,270)	-	-	-	-	(3,192,540)
Capital acquisitions and construction cost	(4,671,211)	-	(4,904)	-	-	(266,644)	(4,942,759)
Total disbursements	(6,267,481)	(1,596,270)	(4,904)	-	-	(266,644)	(8,135,299)
Ending balance - December 31, 1994	10,988,856	152,784	1,847,344	12	6,384	51,405	13,046,785
Cash receipts:							
Transfer for principal and interest	6,326	1,564,843	-	-	-	-	1,571,169
Interest income	537,005	29,660	88,620	-	24	241	655,550
Total cash receipts	543,331	1,594,503	88,620	-	24	241	2,226,719
Cash disbursements:							
Transfer for debt service	-	(1,597,355)	-	(12)	(6,408)	(51,646)	(1,655,421)
Capital acquisitions and construction cost	(3,419,689)	-	(180,353)	-	-	-	(3,600,042)
Total disbursements	(3,419,689)	(1,597,355)	(180,353)	(12)	(6,408)	(51,646)	(5,255,463)
Ending balance - December 31, 1995	$ 8,112,498	149,932	1,755,611	-	-	-	10,018,041

See accompanying independent auditors' report.

KPMG Peat Marwick LLP

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

Independent Auditors' Report on the Internal Control Structure at the Financial Statement Level

The Board of Commissioners
Regional Transit Authority:

We have audited the financial statements of the Regional Transit Authority (the RTA) as of and for the year ended December 31, 1995, and have issued our report thereon dated April 5,1996.

We conducted our audit in accordance with generally accepted auditing standards and 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 of material misstatement.

The management of the RTA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the RTA for the year ended December 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

We also noted other matters involving the internal control structure and its operation that we have reported to management of the RTA, in a separate letter dated April 5,1996.

This report is intended for the information of the Board of Commissioners, management, and the Louisiana Legislative Auditor's Office. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

April 5,1996

KPMG Peat Marwick LLP

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

Independent Auditors' Report on Compliance at the Financial Statement Level

The Board of Commissioners
Regional Transit Authority:

We have audited the financial statements of the Regional Transit Authority (the RTA), as of and for the year ended December 31, 1995, and have issued our report thereon dated April 5, 1996.

We conducted our audit in accordance with generally accepted auditing standards and 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 of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the RTA is the responsibility of the management of the RTA. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the RTA's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of the Board of Commissioners, management and the Louisiana Legislative Auditor's Office. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

April 5, 1996

KPMG Peat Marwick LLP

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

April 5, 1996

The Board of Commissioners
Regional Transit Authority:

We have audited the consolidated financial statements of Regional Transit Authority as of and for the year ended December 31, 1995, and have issued a report thereon dated April 5, 1996.

This information is intended solely for the use of the Board of Commissioners and management and should not be used for any other purpose.

Very truly yours,

KPMG Peat Marwick LLP

REGIONAL TRANSIT AUTHORITY

DECEMBER 31, 1995

Our Responsibility Under Generally Accepted Auditing Standards

Our responsibility under generally accepted auditing standards is to express an opinion on the financial statements of Regional Transit Authority (RTA) as of and for the year ended December 31, 1995 based on our audit. In carrying out this responsibility, we assessed the risk that the financial statements may contain a material misstatement, either intentional or unintentional, and designed and conducted our audit to provide reasonable, not absolute, assurance of detecting misstatements that are material to the financial statements. In addition, we considered the internal control structure of RTA to gain a basic understanding of the accounting system in order to design an effective and efficient audit approach, although not for the purpose of providing specific assurance on the internal control structure.

Significant Accounting Policies

The significant accounting policies used by RTA are described in the "Summary of Significant Accounting Policies" note to the financial statements.

We noted no transactions entered into by RTA during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance of the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. We considered the calculation of claim provisions and liabilities to be estimates that are significant due to the judgment required of management in estimating the amount of the loss recorded. Based on the testwork performed we conclude that management's methods and estimates appear reasonable at December 31, 1995.

Significant Audit Adjustments

There are a number of significant adjustments to the internal financial statements that, in our judgment, either individually or in the aggregate, have a significant effect on RTA's financial reporting process. These adjustments were proposed by both internal staff and KPMG Peat Marwick LLP during the course of the audit.

Disagreements With Management

There were no disagreements with management on financial accounting and reporting matters which, if not satisfactorily resolved, would have caused a modification of our report on the RTA's 1995 financial statements.

Consultation With Other Accountants

To the best of our knowledge, management has not consulted with or obtained an opinion, written or oral, from other independent accountants during the past year which were subject to the requirements of Statement on Auditing Standards No. 50, "Reporting on the Application of Accounting Principles."

Major Issues Discussed With Management Prior to Retention

There have been no major issues discussed with management prior to our retention as your auditors.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

KPMG Peat Marwick LLP

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

April 5, 1996

Board of Commissioners
Regional Transit Authority
6700 Plaza Drive
New Orleans, Louisiana 70127-2677

Dear Commissioners:

We have audited the financial statements of the Regional Transit Authority (RTA) for the year ended December 31, 1995, and have issued our report thereon dated April 5, 1996. In planning and performing our audit of the financial statements of RTA, we considered RTA's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Appendix A. Appendix B contains a list of the status of prior year comments.

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

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

This report is intended solely for the information and use of the Board of Commissioners, the Louisiana Legislative Auditor's Office, federal and state grantors, management, and others within the RTA.

Very truly yours,

KPMG Peat Marwick LLP

REGIONAL TRANSIT AUTHORITY

CURRENT YEAR COMMENTS

PERFORMANCE BUDGETING

The RTA should consider developing a performance-based budget, expanding the current budget document to include the product/services that will be generated as a result of the expenditures provided to a department. This expanded process can be used to set performance standards that can be used by management to monitor their staff and their progress toward the RTA's goals. In addition, (1) before final distribution a draft of the proposed total detailed budget should be presented to all departments for final input and suggestions, particularly the Accounting Department, Grants and Risk Management, and (2) monthly explanations of budget to actual variances should be prepared and presented to the Board in a timely manner.

INVESTMENTS

In view of the recent legislature enactments related to investments, as well as the general industry concerns regarding certain types of investments, we recommend that the RTA update its investment policy to detail and clarify investment objectives and the procedures and constraints to reach these objectives. In addition, the RTA should review its investment portfolio to ensure compliance objectives as stated in its updated investment policy.

EMPLOYEE RECORDS

During the audit of payroll and fringe benefits, KPMG reviewed several employee records. Employee records are maintained in manual folders and information is not updated or maintained on a regular basis. We recommend the timely update of data and use of an automated system to maintain employee records.

To strengthen controls and safeguarding of data we recommend that this data be maintained in the personnel files by the Human Resources Director, who should review all changes in status and pay as processed by the clerks and verify the changes to the supporting documentation.

EMPLOYEE BENEFITS

KPMG requested certain information maintained by Human Resources relating to accrued vacation. This information was not readily available to Human Resources staff. We recommend that Human Resource Department work closely in conjunction with the Accounting Department in order to gain a full understanding of the financial impact of the information input and maintained by Human Resources.

PRIOR YEAR MANAGEMENT LETTER COMMENTS

There are numerous comments noted in the prior year management letter that are not yet implemented. Rather than repeat these comments, the status of each comment is reflected in Appendix B.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
PAYROLL			
Payroll is the largest single expense of the RTA. In order to increase the efficiency of the payroll system and increase the reliability of recorded financial data from the payroll system, the following is recommended:			
• The RTA should investigate the feasibility of direct deposit for all payroll disbursements. Direct deposits would allow the RTA to further maximize its cash management and increase the efficiency of the payroll department, while also providing enhanced services to its employees.	Concur	Implemented	The RTA presently is in the process of communicating with Liberty Bank and Trust Company in order to make direct deposits available to the employees of the Regional Transit Authority, as well as the employees of Transit Management of Southeast Louisiana, Inc. This service will be offered to employees by April 1996.
• Currently, no formal reconciliation process of the data used to process the IRS Form 941 information to the salary data reflected in the general ledger is performed. We recommend that this reconciliation be performed on a quarterly basis to ensure the accuracy of the financial data recorded in the general ledger and reported to the IRS.	Concur	Substantially implemented	The reconciliation process referred to in the comment has been initiated by the Accounting Department. The process has been performed for the fiscal year ended December 31, 1995 and will, as recommended, be performed on a quarterly basis.
• The RTA uses its own employees to provide labor on certain capital projects. This labor is, therefore, included in the capitalization of project costs. Most of these projects are federally	Concur	Implemented	The recommendation as suggested has been implemented and the accounts have been adjusted accordingly.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
funded with a specified match required by the Federal Government of the RTA. During our testwork on payroll and fixed assets, KPMG noted that the RTA reduced its capitalized internal labor costs by the amount of the RTA's local match requirement. As the total amount of labor incurred is subject to capitalization, under generally accepted accounting principles, the RTA should capitalize the entire amount of labor related to the construction of the project.			
• In the past two years, the RTA installed a new payroll system. During our testwork, we noted that the data being generated from the payroll system and posted to the general ledger is not always correct, particularly in the area of benefits and withholdings. To ensure that the system is performing properly, a detailed review of the computer-related controls and processes of the payroll system should be performed.	Concur	In-process	The review of the computer-related controls and processes of the payroll system is presently being performed. Updates to the present software in use will be installed during calendar year 1996. The installation of the upgrade will greatly enhance the reliability of the information generated.
INVESTMENTS			
The RTA currently has approximately $38 million in investments, with the actual investing of $26 million handled by the RTA's outside investment managers. In order to better ensure the accuracy of financial data recorded for all investment activity and to	Concur	Substantially implemented	Management concurs that monthly postings to the general ledger and reconciliations of all bond fund trustee statements and investment notices to the general ledger should be performed by the Accounting

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
better monitor all investment transactions, we recommend that monthly postings to the general ledger and reconciliations of the trustee statements and investment notices to the general ledger be performed by the Accounting Department and that the accounting for premiums and discounts and purchased interest be reviewed.			Department. Specific procedures including the forwarding of all investment-related transaction notices received from financial institutions will be forwarded to the Accounting Department on a daily basis. Additionally, on a monthly basis, a reconciliation between the general ledger and the newly created treasurer position's outstanding investment reports will be performed to ensure the accuracy of the financial data recorded and statements generated for reporting purposes. Finally, the accounting for premium and discounts and purchased interest will be reviewed to ensure compliance with generally accepted accounting principles.
COLLATERAL			
Financial Institutions Reform, Recovery, and Enforcement Act of 1989 requires that, in pledging collateral, financial institutions are required to document in its Board of Directors' minutes its pledge of funds to safeguard government assets maintained by that financial institution. In order to ensure that these procedures are being followed, the RTA should request this certification by the financial institution annually. During our testwork we found that all Certificates of Deposit that were not held at First National Bank of Commerce	Concur	Implemented	The RTA fully intends to comply with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, which requires a collateral pledge for all government assets maintained by financial institutions. With the exception of one financial institution, which was a result of two institutions merging, all RTA assets are fully collateralized or insured by the Federal Deposit Insurance Corporation (FDIC).

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
were under-collateralized for balances in excess of $100,000. We recommend that RTA develop procedures whereby it obtains the certifications annually.			
SELF INSURANCE			
The RTA is self-insured through TMSEL for workers' compensation, small claims and general liability claims. The Legal Department oversees these self-insured areas. In performing testwork on the documentation supporting self-insurance payments and self-insurance reserves, we noted several deviations from existing controls and procedures. While these deviations did not have a material impact on the total self-insurance reserve, we have suggested to management various improvements in the area of claim file organization and content and improvements in data processing systems that would strengthen existing controls and procedures.	Concur	In-process	The RTA is considering several different types of file folders that are designed to handle multi claimant files. The Policies and Procedures Manual specifically addresses required file documentations/content. Additionally, KPMG's comments regarding the data processing system were noted and RTA is working with the MIS Department to implement procedures. Reports for analysis of claims are currently generated in order to better assist management in its understanding of the types of claims and range of amounts of claims. Currently, reports are generated on an as-needed basis. These reports include print-outs which list high dollar claims (i.e., claims reserved equal to or greater than $50,000), claims by law firm, and claims by year. As stated, these analyses assist management in monitoring the claims (i.e., legal) activity. Policies and procedures were developed relative to out-of-house litigation handling during

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
			mid-year 1995. Attorneys become involved in a case when it is determined that the in-house resources (inclusive of staffing) are not adequate to handle a specific matter. Litigation is forwarded out-of-house on a case-by-case basis. In sum, the ability to handle litigation on an in-house basis is primarily dependent upon all resources available at any given point in time. Settlement authority has been vested within the Legal/Claims Department so as to affect maximum efficiency in case settlement. The General Counsel and all Staff Counsel are vested with a specific amount of settlement authority so as to prompt efficient and expedient conclusion of litigation.
WORKERS' COMPENSATION			
The RTA is self-insured through TMSEL for workers' compensation. Therefore, a workers' compensation reserve is calculated and maintained by the Risk Management Department and recorded as a liability on the financial statements. During our audit, we reviewed the workers' compensation reserves and noted the following areas for improvement: • In our review of medical correspondence and discussions with the client, KPMG noted employees who were classified as	Concur	In-process	Although reserves have been set in those cases involving employees who are classified as permanently disabled, reserves for these cases should be reviewed on a regular periodic basis and updated to reflect the proper reserve amount. In this regard, during the early part of 1995, all files in this category were reviewed, with reserves to be revised reflecting a lifetime reserve figure based on a calculation

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
permanently disabled from a working capacity based on the nature of their injury. However, lifetime reserves based on life expectancy and years to retirement have not been calculated for these employees. KPMG recommends that a review of all employees receiving workers' compensation reserves be established to provide for the proper reserve for those employees classified as permanently disabled. Documentation of such reviews and calculations should be maintained in the employees' case files. Updates of these amounts should be performed at least annually.			of future medical benefits and future indemnity benefits reflecting life expectancy and number of years to retirement. Reserves for employees in the permanently disabled category shall be reviewed and updated as appropriate, but in no case less than on a quarterly basis. RTA has established a target date of July 1, 1996, to have all long-term Workers' Compensation cases properly reviewed and the reserves adjusted accordingly.
• In our review of employee claim files, KPMG noted that some employees are being paid at a rate lower than required due to the fact that their records were not updated in prior years to reflect the increased maximum compensation payments allowable under the State of Louisiana, Department of Labor regulations. The RTA should establish procedures whereby all records are reviewed and updated at least annually.	Concur	In-process	A review was performed of all cases and three cases were found with the incorrect rates. Retroactive payments were made to these employees. The rates were noted to the correct rates.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
• During our review of claim files, support for the established reserves (medical and compensation) was not maintained in the files. In order to ensure the accuracy of the recorded reserves, a timely review of all files should be conducted and the support and/or rationale for the establishment of the reserve should be maintained in the case files. Furthermore, the reserve report should be reviewed on a periodic basis by the appropriate level of management in order to minimize the potential for error and to ensure that reserve amounts are being updated regularly. Procedures should be established whereby all case files are reviewed quarterly, whereby all large case reserves are reviewed by at least two individuals other than the preparer, and whereby all files contain the necessary updates of medical and other information, calculations of reserves, etc. The development of checklists and/or tickler files could assist management in this process.	Concur	In-process	It is evident that documentation must be maintained in each employee's workers' compensation file which supports the reserve that has been set. A review was completed in early 1995 of all workers' compensation files to ensure that reserves are current and the proper documentation is included in each file that supports the set reserve. This documentation will include medical and rehabilitation reports as well as the reason for establishment of, or change in, the reserve amount. A form has recently been designed which will be included in each file as a "check" to ensure that reserves are properly set and updated and that the appropriate support documentation is contained within each file. Additionally, all workers' compensation reserves will be reviewed by management on a quarterly basis to ensure that reserves are being revised and properly documented on a timely basis. Moreover, all files in those cases reserved at $25,000 or more will be reviewed quarterly by the workers' compensation representative, the attorney responsible for workers' compensation matters, and at least

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
			one member of management to ensure that reserves are properly maintained and documented. Finally, the Workers' Compensation Representative, as well as the attorney responsible for workers' compensation matters, shall maintain "tickler" files to ensure that all file reviews mentioned herein are performed on a timely basis. In its review of employee claim files, KPMG noted that some employees were being *paid at a rate lower* than required due to the fact that their records were not updated in prior years to reflect the increased maximum compensation payments allowable under the law. However, a recently performed in-house review of employee workers' compensation files has revealed that only three (3) individuals were receiving workers' compensation benefits that had not been calculated using the appropriate payment rates. Investigation is currently being conducted into any and all amounts owed these three (3) employees due to erroneous calculations and appropriate reimbursement will be made accordingly.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
RISK MANAGEMENT			
The RTA is self-insured for personal injury and property damage. All initial non-litigation claims filed are maintained by the risk management department until the case is settled or a lawsuit filed. A reserve is maintained for these cases and recorded as a liability on the financial statements. During our testwork of the reserve for non-litigation claims, we noted several opportunities for efficiencies and improvements.			
In review of selected cases, we noted the following:			
• Information in the files did not agree with the information on the reserve report. The reserves recorded on the report were not always supported by the information contained in the case file. In some cases, individuals who were noted as claimants in the case file were not listed on the report. In addition, amounts paid as listed on the report did not compare to the amount noted as paid as documented in the files.	Concur	In-process	During the KPMG audit process, it was noted that the reserves recorded on the reserve report were not always supported by the information contained within the respective case file. In order for information in the case files to agree with information within the reserve report, the claims area reinstituted the 30-day and 90-day review process whereby supervisory claims personnel can review each assigned file on a regular basis. This review process addresses the accuracy of the reserve as well as proper file maintenance. Additionally, this review process will

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
			ensure that all appropriate information reflected in the file and on the file jacket corresponds with the posted reserve. Moreover, it will ensure that the amounts paid to settle claims are properly reflected on the file jacket as well as in the supporting documentation contained within the file itself.
• In many instances it was difficult to determine the adjuster's decision as to whether the RTA had a liability in the case. The normal procedure for documenting case files is to include an evaluation sheet for each claimant, noting the nature of the case, whether RTA had liability for the claim, the type of injury sustained by the claimant and the amount to be reserved for the case. For a number of the cases reviewed, the evaluation sheet was not included in the case file. Therefore, no evidence or support was available for the amount reserved in the report. Case files were sometimes poorly organized and it was difficult to determine the facts of the case. In addition, there was a lack of uniformity on the part of the adjusters. Methods for determining reserves, as well as their case documentation, differed by adjuster.	Concur	In-process	In a number of cases reviewed by KPMG, evaluation sheets were not included in the case files. Hence, no evidence or support was available for the amount reserved in each respective case. Moreover, it appeared that there was a lack of uniformity on the part of the adjusters in determining case reserves. Through the close monitoring of all claim files, achieved through a reorganization of claim staff, the appropriate claim supervisors will ensure that an evaluation sheet is included in each file and that this evaluation sheet shall note the nature of the case, whether RTA had liability for the claim, the type of injuries sustained by the claimant, and the amount to be reserved for the case. Additionally, closer claim supervision will ensure that all files are organized as per established policies and procedures,

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
			with the facts of the case to be easily determined through a cursory file review.
• Procedures need to be established whereby the reserve report is reviewed for accuracy by the adjusters, as well as a manager. In one instance, the amount reserved for a claimant was recorded on the report as $25,000; however, the amount reserved per the case file was $2,500. It was further noted that, on occasion, the amounts reserved were improperly classified. That is, an amount which should have been reserved for property damage was recorded on the report as a reserve for bodily injury. Adjusters should review the data related to their cases and initial or sign the report as having reviewed the report for accuracy and completeness. A second review should be performed by a manager, randomly selecting files for verification of accuracy and compliance with procedures and for review of the accuracy of large amounts.	Concur	In-process	Appropriate review and analysis of reserve reports will be performed during the 30-day and 90-day file reviews. In addition, all reserves will be reviewed/analyzed on a quarterly basis by the appropriate supervisory personnel, inclusive of a claims manager. These reviews will correct any improper classification of reserve amounts as well as any inaccuracies between case files and the reserve report. The RTA is contemplating a process whereby each reserve report produced will require each adjuster to initial such report as having reviewed the report for accuracy and completeness. A second review shall be performed by a Claims Manager or supervisor who shall randomly select files for verification of accuracy and completeness.
• The reserve report is not updated timely for changes to case file information. It was noted that one claimant's case had been settled on October 29, 1993; however, the reserve report still listed a reserve for that case at December 31, 1993. In addition, the reserves recorded in the report were not adjusted for information subsequently recorded in the case files.	Concur	In-process	The KPMG audit indicates that the reserve report reviewed was not updated timely for changes to case file information. A method is presently being developed whereby the reserve report will be updated at the time of the 30-day and 90-day file reviews.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
• It was noted that on one occasion, a fraudulent claim was filed. Although RTA did not pay the claim, they did set up a reserve for it. It was not noted in the case file as to whether the RTA is pursuing the matter.	Concur	Implemented	If a claim is deemed to be suspect and/or fraudulent, it is referred immediately to the RTA Transit Police for further handling. (It has been a practice to document the status of such cases as "suspect" or "fraudulent" as soon as practicable as the claims file is subject to subpoena, and delay in documentation may cause future litigation problems.) However, it should be noted that all files are reserved when presented and, therefore, those claims which are deemed to be suspect and/or fraudulent will have a reserve when first opened. Yet, when a full investigation has been conducted so as to conclude with relative certainty that fraud is present, the case is closed and the reserve is decreased to zero.
The RTA has numerous claims and the above reflects our findings from selected case files reserves. While our findings may not be representative of the whole population of claims, the following recommendations are suggested to improve the efficiency and accuracy of the risk management claim's process:			
• Although policies and procedures exist to address the proper documentation of information in case files, such policies and procedures	Concur	In-process	The Safety and Risk Management Department will reinstitute the 30-day and 90-day review process. Should a case remain open past ninety

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
are not completely followed by adjusters. A method of review for case file documentation should be developed whereby management can better detect noncompliance with policies and better ensure compliance with established procedures.			(90) days, it will be reviewed every thirty (30) days until it is concluded. It is believed that this review process will best ensure compliance with all established claims procedures.
• Adjuster methods for determining reserves, as well as for documenting case file information, should be consistent and uniform. Standard documentation and procedures should be established in writing.	Concur	In-process	In that the Legal and Claims Department has recently been reorganized, a number of policies and procedures require revisiting. One such set of policies and procedures includes adjuster methods for determining reserves. Another set involves adjuster methods for documenting case file information. The objectives herein are both consistency and uniformity. Standard documentation and procedures were to be finalized by October 1995.
• Although all case files are reviewed prior to issuing settlement checks, open case files should be reviewed periodically by a supervisor on a random basis to ensure that the case is adequately documented, that the adjuster's decision as to the extent of the RTA's liability is clear, that internal policy and procedures have been followed, and that the information in the case	Concur	In-process	KPMG suggests that all claim amounts be reviewed at least quarterly. However, it is believed that the review processes discussed above (i.e., the 30-day, 90-day review processes) will include "check" for the proper amounts of reserves and the proper classification of amounts. As noted above, if a case remains open past ninety (90) days, it will be

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
adequately supports information summarized in detailed reports.			reviewed every thirty (30) days until conclusion. As such, the reserve report shall be reviewed at each juncture to ensure that posted reserves are adequate in amount and proper in classification.
• In order to ensure the accuracy and adequacy of reserves, the report generated to document the reserves for non-litigation cases should be reviewed periodically for proper amounts of reserves and proper classification of amounts. All claim amounts should be reviewed at least quarterly. Documentation of such reviews should be maintained, as well as the follow-up on corrections as a result of the review. Analysis of claimants, types of claims occurred, routes and reasons for the claims, etc. should be expanded to determine if preventive measures could reduce the RTA's exposure on claims.	Concur	In-process	As mentioned above, the 30 and 90 day review process was reinstated during 1995. The documentation and analysis process will be completed in 1996.
LEGAL RESERVE			
The legal department prepares a quarterly report of all open legal claims and their case reserves. This report is then actuarially reviewed at year end to determine the appropriateness of the litigation liability on the balance sheet and to record incurred but not reported claims. During a review of this report, we noted reserve amounts which did not			

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
correspond to the reserves as established by the attorney and several cases listed as open when they were actually closed.			
To improve the legal reserve calculation process, the following are suggested for consideration:			
• Verification of the input of data from the attorneys should be performed. Consideration could be given to the practicality of having the attorneys electronically provide the data needed by the department in the format compatible with the RTA's software. If data can be uploaded in the RTA's software, the time required to input data could be reduced and used to verify and review the hard copy data submitted by the attorneys.	Concur	Deferred	Although the Legal Department is currently in discussion with the MIS Department relative to the possibility of electronic data transmission between counsel and RTA, verification of data input is presently performed by a limited number of clerical personnel. It is readily admitted that if data can be uploaded to the RTA's software, the time required to input data would be reduced and such time could be used to verify or review the hard copy data submitted by the (out-of-house) attorneys. Efforts between the Legal Department and the MIS Department are ongoing in this regard. The costs involved in such a sophisticated system may be prohibitive. The RTAs five (5) year MIS plan will address the Legal Department's needs. The coordination with outside counsel will be conducted through the General Counsel as the primary user department.
• Reports for analysis of the claims should be generated in order to	Concur	In-process	At present, it is possible to print separate reports of

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
better assist management in its understanding of the types of claims and range of amounts of claims. For example, a report listing high-dollar claims could be generated allowing management to inquire and understand the rationale for the reserve. Reports listing claims by attorney, old outstanding cases, and other similar analyses could assist management in monitoring the claims activity.			cases based on the dollar reserve, the handling firm, and the age of the fee. As of April 1995, a more detailed system was initiated for regular assessment of all cases reserved at or above certain specified amounts.
• Management should consider the practicality of requiring the attorneys to code their claims by type of claim. If codes could be established to categorize the majority of the claims, then management could obtain reports sorted by category to review the amount of reserves established by the various attorneys for consistency, to better monitor the occurrence of the types of claims and to better analyze areas for preventive measures or settlement procedures.	Concur	Deferred	Currently, codes are utilized within the claims section to categorize the type of accident/incident. A review and analysis of this coding was accomplished by July 1995 to ensure that this claims coding is accurate. At the conclusion of this review, a system will be implemented within the Legal Department and with outside counsel to ensure that all litigation matters are coded equivalently. It is understood that if codes are established to categorize the majority of the claims, management could obtain reports sorted by category to review reserve amounts, to better monitor the occurrence of the types of claims, and to better analyze areas for preventive measures and upgraded settlement procedures.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
• While attorneys are used by the RTA for its litigation claims, policy and procedures should be developed outlining when attorneys become involved in a case and if and when management can settle cases up to a maximum amount, such as up to $10,000.	Concur	Implemented	As noted above, the Legal and Claims Department has recently undergone a reorganization. New policies and procedures which clearly outline settlement authority were in place by July 1995. Moreover, these new policies and procedures specifically address RTA's requirements of outside counsel relative to case management, extending from initial receipt of a matter through settlement/ adjudication.
CONTRIBUTED CAPITAL			
Various federal and state grants are made available to the RTA for the acquisition of public transit facilities, buses, and other transit equipment. Capital expenditures made with federal funds are recorded in contributed capital rather than fund equity. During the year, additions to contributed capital were not reconciled to capital grants earned. We recommend that the appropriate level of management perform a review of all activity in the contributed capital accounts on a monthly basis to ensure entries are properly recorded.	Concur	Implemented	The review of the activity in the contributed capital account as recommended will be reviewed on a monthly basis to ensure entries are properly recorded.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
RECEIVABLES			
In examining the accounts receivable aging schedule and payment process, we noted a delay in payment from vendors was occurring during the year because the customers/vendors were not being invoiced on a monthly basis. We recommend that invoices be sent to customers/vendors on a consistent and timely basis.	Concur	Implemented	Invoices are presently being mailed to customers/vendors on a monthly basis consistently.
INTERNAL AUDIT			
We noted that the majority of the Internal Audit's efforts have been centered around capital projects. To better utilize their services, an internal audit plan should be developed annually and approved by the finance committee. In addition, the Internal Audit Department should be involved with the installation of new systems to ensure the integrity of the output of the data.	Concur	In-process	The Manager of Internal Audit has developed a 1996 audit plan. In addition, it is Management's intentions to involve the Internal Audit Section in the installation of new systems to ensure the integrity of the output of data.
There is no formal policy in place to prohibit the internal auditors from auditing a function that employs a relative or that prohibits them from auditing an area in which he/she recently worked or in which he/she will soon work. We recommend that such policies be developed and implemented. In addition, we recommend that functions and goals of Internal Audit be defined, including the development of annual work plans. Beyond the scope of Internal Audit, staffing may need to be increased to meet the demand for their services.	Concur	Implemented	A formal policy was developed for Internal Audit which addresses the concerns of KPMG. However, it is a policy of the Internal Audit Section to practice independence which ensures that all work performed is a result of a detached and objective point of view. Subsequent to the issuance of KPMG's management letter comments, an audit plan was created for the latter part of 1995 and calendar year 1996. This plan was created based on the present needs of the

DISPOSITION OF PRIOR YEAR'S MANAGEMENT LETTER COMMENTS

PRIOR YEAR RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
			company. In addition, a policy statement was prepared which defines the function and goals of the Internal Audit Section. Though the level of staffing does not inhibit the Internal Audit Section from meeting the needs of some areas of the company, the Section has achieved successful audit results. The results are achieved by concentrating on the areas that require its prompt attention. Focusing on present problems helps to prevent or detect loss. Management is currently reassessing the staffing level of the Internal Audit Section.
FINANCIAL STATEMENTS The Board receives reports on revenues and expenses from the Budget Department. However, to better reflect data that is consistent with the audited financial statements, consolidated balance sheets and income statements should be prepared by the accounting/finance departments and presented to the Board, with explanations of variances and fluctuations. Budget information should be presented with the financial statements to address fluctuations and budget variances.	Concur	Implemented	As of May 1995, consolidated balance and income statements have been prepared on a monthly basis and have been presented to the Board. Budget variances and fluctuations are included in these reports.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
ARBITRAGE			
It appears that there is a potential arbitrage liability. Management should periodically assess the arbitrage situation in periods where rates on investments approach or exceed the bond rates. Calculation of the arbitrage liability should be performed annually by RTA.	Concur	In-process	In all previous arbitrage calculations there have been no arbitrage liability. However, as recommended by KPMG, the RTA will perform arbitrage liability calculations on an annual basis.
SAFEGUARDING ASSETS - INVENTORY CONTROL			
The RTA maintains supplies and materials inventory at four locations. Cycle counts are performed periodically at each location to verify inventory records. Adjustments to inventory perpetual balances are made when differences between actual counts and amounts in perpetual records are noted. The following was noted during our test work of inventory: • When there are discrepancies between actual counts and perpetual inventory records, sometimes adjustments are made to the perpetual records without proper investigation as to the cause of the discrepancy. • During the physical inventory performed at year-end, certain procedures were not adequately followed. Certain items were not properly located in the prescribed bin as was indicated on the inventory tags.	Concur	Implemented	Discrepancies between actual counts and perpetual records are investigated and adjusted by the Inventory Specialist only. The reason for the discrepancy is determined and noted in the permanent file. The existence of improper bin locations is noted. Bin assignment and bin change procedures are already in place. Storeroom personnel have been re-instructed accordingly. Easy access to and removal of inventory has been curtailed by enforcement of issue procedures requiring correct and complete information, authorizations, and documentation.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
• During 1994, it was determined that there were improprieties in the handling of inventory by RTA employees. It was noted that some employees were able to remove inventory from stock and sell such inventory to outside parties. Although some individuals were terminated after the discovery of these improprieties, the controls in the inventory system should be strengthened to prevent easy access to and removal of inventory.			
The following procedures should be considered to strengthen existing controls over inventory:			
• Investigation of discrepancies between actual counts and perpetual records. All discrepancies noted during cycle counts and at other times during the year should be thoroughly investigated before making any adjustments to perpetual records. Only authorized personnel should be able to make adjustments to perpetual inventory records.			
• Inventory procedures should be followed. The RTA has adequate procedures to perform year-end physical inventories at its locations. The procedures should be properly followed.			

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
• Controlled access to inventory should be limited to as few people as possible. Procedures to remove inventory from stock should be well documented and consistently followed. Implementation of the above procedures will strengthen the RTA's existing controls and better provide for the safeguarding of RTA's assets.			
HEALTH INSURANCE			
In 1994, RTA was self-insured for health. Both RTA and employees contribute toward the insurance funding of the health costs. Procedures need to be established whereby the health insurance liability and withholding amounts are reviewed at least quarterly to ensure the proper recording of health insurance costs.	Concur	In-process	The RTA Health Insurance Plan is being reviewed by management with the assistance of an independent consultant. Total cost and cost distribution between employer and employee are included in the scope of services. Procedures will be further developed and implemented to ensure the proper recording of health insurance cost and withholding amounts on a timely basis.
SALES TAX DOCUMENTATION			
To better understand the allocation of sales taxes to debt, capital and operations, a report should be prepared annually by management to summarize the uses of the sales tax proceeds and to summarize the RTA's compliance with the provisions of the sales tax ordinance. Accounting information may need to be reorganized to reflect these changes. A report summarizing the above	Concur	In-process	As a component of the annual budgetary process of the RTA, a sales tax revenue allocation was developed. Accounting information and the recordation processes will be reviewed and revised as required to ensure that the sales

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
mentioned items would document the RTA's compliance with the sales tax ordinances.			tax revenue is recorded in accordance with the Board approved allocation. A year-end report summarizing the actual collection and utilization of the sales tax revenue will be developed and presented to the Board. The 1996 RTA budget process included an allocation of sales tax revenue. At year-end, a report will be developed and presented to the Board summarizing the collection and utilization of sales tax revenue.
BOND ACCOUNTS AND RESTRICTED ASSETS			
The RTA has two bond issues with numerous accounts, as well as other Board-restricted assets. While these accounts have designated purposes, the use of the funds and consideration of redesignations should be performed periodically by management and presented to the Board for approval. For example, the need to fund interest on the capital appreciation bonds, as well as funding for self-insurance should be reviewed at least annually and assets should be designated as appropriate.	Concur	In-process	Staff have recently developed, in draft form, the RTA's Capital Program 1995-2001. The program matches RTA bond funds with approved federal grants that contribute up to 80% of the costs of certain projects that are viable toward achieving our goal of providing quality transportation services. After review by management, the report will be forwarded to the Board for approval. Management will review the need to fund the interest on the capital appreciation bonds, as well as the funding for self-insurance purposes.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
DEFICIT The RTA has had an accumulated deficit for the past couple of years. In addition, available cash for operating purposes has been declining. The nature of RTA's operations is such that it is dependent on user fees, federal grants and sales taxes in order to finance operations and capital improvements. Short-term and long-term plans need to be developed by management in order to prepare the RTA for the next decade. The plans should consider potential areas of increased efficiency, monetary impact of any upcoming federal regulations, the demands on its cash flows for debt as well as operating costs, the RTA's capital needs, including expansion, replacement and maintenance needs, the market demands in the area, the need to fund self insurance, retirement programs, etc. The short-term plan should address cash flow needs for the next 6 to 12 months, with the long-term plan addressing the next 1 to 10 years. Identification of the need for additional resources needs to be addressed early in order that the RTA can present the data which will be needed by the public and business community in order to support additional revenue sources. Cash flow is a significant issue for the RTA and needs to be addressed in the near term.	Concur	In-process	RTA's Board of Commissioners completed a nationwide search and successfully hired a General Manager this past October. The General Manager, a transit expert, was commissioned to balance the 1996 budget with 1996 revenue and begin the process to eliminate RTA's accumulated deficit. For the first time in many years, RTA's 1996 budget was balanced without using cash reserves. In order to significantly reduce costs, service adjustments were designed and implemented successfully on January 7, 1996. Additionally, health insurance costs are being reduced via a new health insurance plan and revenue sources are being increased through marketing convention transpass sales. This balanced budget will be monitored throughout the year to ensure that specific performance targets are met and the required savings realized. Management will be developing a multi-year plan in the up-coming months, which shall serve as a strategic road map and establish long-term goals and objectives to eliminate the accumulated deficit by the year 2000 or sooner, if possible.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
INVESTMENT AND BANK RECONCILIATIONS			
In our review of bank and investment reconciliations, the general bank account did not reconcile to the general ledger detail by $10,080. In reviewing the investment detail as obtained from the trustee statements and comparing the total to the amount on the general ledger, the amount on the general ledger was overstated by $313,612. By developing monthly reconciliation processes, these differences would be detected more timely and can be more efficiently researched.	Concur	Implemented	General bank account reconciliation to the general ledger are prepared on a timely basis. Differences noted have been researched and the appropriate adjustments recorded.
RECEIVABLES			
RTA's Transpass receivable has 22% of its accounts over 90 days delinquent and 95% of its damage claims receivable over 90 days delinquent in payment to the RTA. The collection efforts and existing policies should be reviewed to determine if additional procedures could reduce the length of receivables outstanding.	Concur	Implemented	RTA's Internal Audit Section performed a review of existing procedures for sales to determine the strength of internal controls. As a result of the review, measures have been initiated to assist in alleviating persistent delinquency of accounts which include the generating of an aging schedule, the review of the current invoice statement and the status of the account by the sales coordinator prior to the issuance of any passes to the vendor. This procedures is proving to be effective by forcing vendor to make payment, creating dialogue between vendor and sales representative if

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
			discrepancies exist, and showing vendor that the RTA will aggressively pursue delinquent or slow moving accounts. An assessment was made of damaged claims receivables in an effort to collect. As a result, a collector's position was created in the Risk Management Department to facilitate the collection process.
TMSEL			
The RTA has a direct relation with TMSEL in that TMSEL serves as the RTA's operating company. Because of the significant volume of transactions of the TMSEL general ledger that impact RTA's financial statements, we recommend that RTA require annual audits of the TMSEL financial statements. In addition, we recommend that RTA develop procedures whereby the "Due to/from TMSEL" account is reconciled monthly in a timely manner. Details supporting the transactions between RTA and TMSEL should be clearly documented with a reasonable audit trail. The current method of batching transactions with minimal support attached needs to be modified whereby RTA can determine exactly why transfers are being made and ensure the proper recording of such transfers. As part of the monthly TMSEL reconciliation, all TMSEL balance sheet accounts should be agreed to supporting documentation. As	Concur	Implemented	As recommended, the "Due to/from TMSEL" accounts are detailed and reconciled on a monthly basis. Reconciliations of the TMSEL payroll accounts are presently prepared on a timely basis.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
noted in the current year, various unexplained amounts had accumulated over the last several years which had no supporting documentation. We also noted that none of the TMSEL payroll bank accounts were being reconciled in a timely manner. The monthly reconciliation process should also incorporate these areas.			
COMPENSATED ABSENCES			
RTA's policies on vacation accrual dictates the number of days an employee is eligible based on years of service at his or her anniversary. RTA currently calculates the years of service by subtracting the employee's starting year from the fiscal year end of the report. RTA should amend this calculation to consider the specific date of hire and anniversary date. In addition, RTA has no procedures in place to maintain vacation information for lift operators. RTA should establish a procedure to maintain this information.	Concur	Implemented	The calculation for the 1995 vacation accrual was based on anniversary month. In addition, the data to maintain vacation information for lift operators is presently being input into the computer system.
STRENGTHENING MONTHLY FINANCIAL DATA			
In our audit testwork, we identified several adjustments that needed to be recorded. These adjustments related to claims, interest expense, and depreciation. To present accurate interim financial data, management should develop procedures whereby these entries are generated at least quarterly.	Concur	Implemented	In the last quarter of fiscal year ended December 31, 1995, the RTA modified the monthly internal financial statements to reflect the audited financial statement format. Monthly adjustments were incorporated to address the entries noted.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
TIMELY ISSUANCE OF FINANCIAL STATEMENTS			
Louisiana State law requires the RTA to submit its unaudited financial statements within six months of year-end. By addressing some of the recommendations previously described last year and in this letter, the RTA will better be able to comply with the deadline requirement.	Concur	Implemented	The RTA has presently revamped its overall approach to planning and preparing for the annual audit process. The new approach is company-wide in nature and involves departmental input throughout the organization. Deadlines are placed and enforced on all departments involved in the process. These deadlines are coordinated with the external audit entity to ensure that the audit will be completed timely. The audit will be completed in such a manner to facilitate the approval and acceptance of the Board of Commissioners while maintaining the submission schedule mandated by Louisiana State Law and enforced by the Legislative Auditors.

REGIONAL TRANSIT AUTHORITY
NEW ORLEANS, LOUISIANA

SINGLE AUDIT REPORTS
FOR THE YEAR ENDED DECEMBER 31, 1995

CURTIS A. MORET
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INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

To The Board of Commissioners
Regional Transit Authority

I have audited the Schedule of Federal Financial Assistance of the Regional Transit Authority (the RTA) for the year ended December 31, 1995. This Schedule of Federal Financial Assistance is the responsibility of the management of the RTA. My responsibility is to express an opinion on this Schedule of Federal Financial Assistance based on my audit. The accompanying Schedule of Federal Financial Assistance is a supplementary schedule and is not a part of the RTA's general purpose financial statements. Those statements were audited by other auditors whose report has been furnished to me; and in my opinion, insofar as it relates to the amounts included from the general purpose financial statements, is based solely on the report of the other auditors.

I conducted my audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that I plan and perform the audit to obtain reasonable assurance about whether the Schedule of Federal Financial Assistance is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Federal Financial Assistance. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

My audit was conducted for the purpose of forming an opinion on the Schedule of Federal Financial Assistance of the RTA taken as a whole. This Schedule of Federal Financial Assistance is not a required part of the RTA's general purpose financial statements and is presented for the purpose of additional analysis and , in my opinion, based on my audit and the report of other auditors, the Schedule of Federal Financial Assistance is fairly presented, in all material respects in relation to the general purpose financial statements taken as a whole.

Curtis A. Moret

Curtis A. Moret
May 3, 1996

REGIONAL TRANSIT AUTHORITY SUMMARY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

FOR THE YEAR ENDED DECEMBER 31, 1995

FEDERAL GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT CONTRACT NUMBER	FEDERAL SHARE OF TOTAL AUTHORIZED AMOUNT	GRANT RECEIVABLE AT 12/31/94	FEDERAL SHARE OF EXPENDITURES	FEDERAL FUNDS RECEIVED	ADJUSTMENTS	GRANT RECEIVABLE AT 12/31/95
DEPARTMENT OF TRANSPORTATION								
FEDERAL TRANSPORTATION ADMINISTRATION (FTA)								
Capital Improvement Grants:								
	20-500	LA-03-0049	18,600,000	2,173,031	10,434,224	9,657,150	0	2,950,105
	20-500	LA-03-0052	10,000,000	43,874	205,936	231,051	0	18,759
	20-500	LA-03-0053	2,000,000	182,011	563,929	674,492	0	71,448
	20-500	LA-03-0054	8,280,000	0	2,434	0	0	2,434
	20-500	LA-03-0055	2,354,728	52,435	195,886	248,007	0	314
	20-500	LA-03-0056	2,943,618	6,454	784,990	638,558	0	152,886
	20-500	LA-03-0060	2,720,085	0	99,411	0	0	99,411
	20-500	LA-03-0061	4,973,713	0	1,523	0	0	1,523
			51,872,144	2,457,805	12,288,333	11,449,258	0	3,296,880
Capital and Operating Assistance Grants:								
	20-507	LA-26-0001	200,000	29,275	8,030	0	0	37,305
	20-507	LA-26-2002	185,600	0	0	0	0	0
	20-507	LA-90-0124	3,162,936	21,682	20,572	39,392	0	2,862
	20-507	LA-90-0142	120,000	22,611	60,822	74,501	0	8,932
	20-507	LA-90-2113	118,000	0	0	0	0	0
	20-507	LA-90-2124	120,000	0	1,419	0	0	1,419
	20-507	LA-90-0154	5,979,172	37,416	2,056,133	2,190,953	0	(97,404)
	20-507	LA-90-0161	3,520,000	0	317,713	67,564	0	250,149
	20-507	LA-90-0171	2,245,000	0	58	0	0	58

The accompanying notes are an integral part of this schedule.

REGIONAL TRANSIT AUTHORITY SUMMARY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

FOR THE YEAR ENDED DECEMBER 31, 1995

FEDERAL GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT CONTRACT NUMBER	FEDERAL SHARE OF TOTAL AUTHORIZED AMOUNT	GRANT RECEIVABLE AT 12/31/94	FEDERAL SHARE OF EXPENDITURES	FEDERAL FUNDS RECEIVED	ADJUSTMENTS	GRANT RECEIVABLE AT 12/31/95
Capital and Operating Assistance Grants:								
	20-507	LA-90-2142	182,400	4,236	24,750	38,716	0	(9,730)
	20-507	LA-90-2154	40,000	4,296	160,643	40,000	0	124,939
	20-507	LA-90-2161	200,000	0	130,071	110,674	0	19,397
	20-507	LA-90-4161	4,000,000	0	4,000,000	4,000,000	0	0
	20-507	LA-90-0113	11,427,974	450,258	(821,911)	(368,451)	0	(3,202)
	20-507	LA-90-0103	2,683,148	112,288	236,730	61,822	0	287,196
			34,184,230	682,062	6,195,030	6,255,171	0	621,921
			86,056,374	3,139,867	18,483,363	17,704,429	0	3,918,801

The accompanying notes are an integral part of this schedule.

REGIONAL TRANSIT AUTHORITY

Notes to the Schedule of Federal Financial Assistance

For the Year Ended December 31, 1995

NOTE 1 - Summary of Significant Accounting Policies

The Schedule of Federal Financial Assistance for the Regional Transit Authority of New Orleans, Louisiana (RTA) has been prepared on the cash basis of accounting. Cash receipts are recorded when received and expenditures are recorded when disbursed. The major programs of the RTA are the Capital Improvement Grant Programs and the Capital and Operating Assistance Grant Programs.

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INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Board of Commissioners
Regional Transit Authority

I have audited the Schedule of Federal Financial Assistance of the Regional Transit Authority (the RTA) for the year ended December 31, 1995, and have issued my report thereon dated May 3, 1996. The general purpose financial statements were audited by other auditors whose report thereon has been furnished to me, and my opinion expressed herein, insofar as it relates to the general purpose financial statements, is based solely on the report of other auditors. I have also audited the RTA's compliance with requirements applicable to major federal financial assistance programs and have issued my report thereon dated May 3, 1996. The results of my study and evaluation of external administrative controls used in administering federal financial assistance programs are presented herein.

I conducted my audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that I plan and perform the audit to obtain reasonable assurance about whether the Schedule of Federal Financial Assistance is free of material misstatement and whether the RTA, complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing my audit for the year ended December 31, 1995, I considered the RTA's internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the RTA's Schedule of Federal Financial Assistance and on the compliance of RTA with requirements applicable to major programs and not to provide assurance on the internal control structure in accordance with OMB Circular A-128. This report addresses my consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. Other auditors issued a report dated April 5, 1996 in which they reported separately on the results of their study and evaluation of internal accounting controls, (as part of their audit of the general purpose financial statements) other than those used in administering federal financial assistance programs.

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS
(Continued)

The management of the RTA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, I have classified the significant internal control policies and procedures used in administering federal financial assistance programs in the following categories:

Accounting Controls

- Cash Receipts
- Cash Disbursements
- Payroll Management
- Property Management

General Requirements

- Political Activity
- Davis-Bacon Act