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REGIONAL TRANSIT AUTHORITY

Financial Statements and Schedules

December 31, 1997 and 1996

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 audited, or reviewed, 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 JUL 2 2 1998

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, 1997 and 1996, 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, 1997 and 1996, 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 June 12, 1998 on our consideration of the RTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

June 12, 1998

Member Firm of
KPMG International

REGIONAL TRANSIT AUTHORITY

Statements of Revenues, Expenses and Changes in Accumulated Deficit

For the years ended December 31, 1997 and 1996

	1997	1996
Operating revenues:		
Passenger fares	$ 32,599,690	32,654,612
Sales tax	45,183,461	42,591,757
Other	4,401,268	1,378,908
Total operating revenues	82,184,419	76,625,277
Direct operating expenses:		
Labor and fringe benefits (note 1(a))	59,758,331	57,905,339
Materials, fuel and supplies	6,178,237	8,557,342
Contract services	7,043,132	6,789,961
Insurance and self-insured costs	3,820,133	4,696,432
Utilities	1,540,685	1,664,487
Taxes, other than payroll	856,338	901,190
Rent	131,822	189,632
Purchased transportation	2,461,539	1,584,234
Miscellaneous	1,221,972	866,240
Total direct operating expenses	83,012,189	83,154,857
Depreciation expense:		
Owned premises and equipment	4,084,350	3,265,417
Contributed premises and equipment	9,766,572	6,587,699
Total depreciation expense	13,850,922	9,853,116
Loss from operations	(14,678,692)	(16,382,696)
Nonoperating revenues (expenses):		
Interest income	630,767	1,825,043
Interest expense	(3,939,540)	(3,867,830)
Government operating grants:		
Federal operating subsidy	1,998,000	1,914,262
State Department of Transportation	2,946,219	3,298,625
Planning and technical study grants	712,863	967,732
Total nonoperating revenues	2,348,309	4,137,832
Net loss	(12,330,383)	(12,244,864)
Accumulated deficit:		
Balance, beginning of year	(37,389,798)	(31,732,633)
Credits arising from amortization of contributed premises and equipment	9,766,572	6,587,699
Balance, end of year	$(39,953,609)	(37,389,798)

See accompanying notes to financial statements.

REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows

For the years ended December 31, 1997 and 1996

	1997	1996
Cash flows from operating activities:		
Cash received from operations	$ 32,278,282	32,911,408
Cash received from sales tax	44,042,484	40,457,744
Cash received from other sources	4,341,372	1,411,687
Cash paid to employees and for related expenses	(58,271,247)	(55,122,251)
Cash paid to suppliers	(24,097,651)	(21,683,422)
Cash paid for legal claims	(5,033,441)	(7,754,415)
Net cash used in operating activities	(6,740,201)	(9,779,249)
Cash flows from noncapital financing activities - operating subsidies received from other governments	5,461,057	7,550,375
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(32,094,940)	(17,836,139)
Capital contribution	28,174,481	11,828,724
Interest paid	(3,134,604)	(3,116,226)
Proceeds from sales tax anticipation note	4,000,000	-
Repayment of bonds	(1,630,000)	(1,535,000)
Proceeds of advance refunding agreement	2,918,093	-
Net cash used for capital and related financing activities	(1,766,970)	(10,658,641)
Cash flows from investing activities:		
Purchases of investment securities	(2,357,396)	(12,796,855)
Proceeds from sale and maturities of investment securities	5,031,268	24,792,507
Interest payments received	756,906	1,806,474
Net cash provided from investing activities	3,430,778	13,802,126
Net increase in cash and cash equivalents	384,664	914,611
Cash and cash equivalents at beginning of year	1,482,018	567,407
Cash and cash equivalents at end of year	$ 1,866,682	1,482,018

(Continued)

REGIONAL TRANSIT AUTHORITY

Statements of Cash Flows, Continued

	1997	1996
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	$ (14,678,692)	(16,382,696)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	13,850,922	9,853,116
Amortization of bond issue costs	79,854	79,855
Increase in accounts receivable	(1,380,339)	(1,907,031)
Decrease in prepaid assets	95,021	91,040
(Increase) decrease in inventory	1,433,658	(263,538)
(Decrease) increase in accounts payable and accrued expenses	(6,326,903)	1,554,146
Increase in amounts due to TMSEL	1,487,084	205,278
Decrease in the provision for legal and small claims liability	(1,300,806)	(3,009,419)
Net cash used in operating activities	$ (6,740,201)	(9,779,249)

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, 1997 and 1996, one position on the Commission was 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.

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(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 propriety 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 and amortization is charged to expense over the estimated useful lives of the assets and is determined using the 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.

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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, planning studies, 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 the contributed capital category of fund equity.

(h) Compensated Absences

RTA is obligated to reimburse TMSEL for vacation 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 both December 31, 1997 and 1996, included in current liabilities, was approximately $3 million.

(i) Cash Flows

For the purposes of the statements 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 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

(Continued)

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.

(k) Bond Issuance Costs

Costs related to issuing bonds are capitalized and amortized based upon the methods used to approximate the interest method over the term of the bonds.

Effective with fiscal years in 1994 and thereafter, gains and losses associated with refundings and advance refundings are being deferred and amortized based upon the methods used to approximate the interest method over the life of the new bonds or the remaining term on any refunded bond, whichever is shorter.

(l) Claims and Judgments

The RTA provides for losses resulting from claims and judgments, including anticipated incremental costs. 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.

(m) Use of Estimates

Management of RTA has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(2) Cash and Investments

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

	December 31, 1997		December 31, 1996	
	Restricted	Unrestricted	Restricted	Unrestricted
Cash and money market	$ 3,576,953	1,866,682	2,668,910	1,482,018
Investments -				
U.S. Government Treasury and Agency securities	7,185,947	-	10,621,816	-
Certificates of deposit	439,920	-	320,466	-
Corporate bonds	-	-	265,500	-
	7,625,867	-	11,207,782	-
	$ 11,202,820	1,866,682	13,876,692	1,482,018

(Continued)

Actual cash in banks and certificates of deposit as of December 31, 1997 and 1996, for restricted and unrestricted bank accounts, before outstanding checks and reconciling items, was $5,347,085 and $4,672,541, respectively. Of the total bank balances at December 31, 1997 and 1996, 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 1997 and 1996 totaled $36,213,000 and $23,600,000, respectively.

The carrying value of investment securities as of December 31, 1997 and 1996 approximates market value.

As of both December 31, 1997 and 1996, $600,000 of restricted assets was pledged as collateral to the Louisiana Office of Workman's Compensation.

(3) Accounts Receivable

Accounts receivable consist of the following as of December 31:

	1997	1996
Sales tax	$ 6,511,541	5,370,564
Federal capital grants	5,802,009	11,910,166
State operating subsidy	196,025	-
Passenger (Transpass, Visitour)	953,238	701,194
Property damage	401,736	489,234
Orleans Parish School Board	592,437	523,073
Interest	100,000	226,139
Kenner operating subsidy	164,675	212,933
Other	170,316	63,932
Advertising	46,475	44,705
	14,938,452	19,541,940
Less allowance for uncollectible amounts	(624,506)	(570,062)
	$ 14,313,946	18,971,878

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(4) Property, Buildings and Equipment

A summary of changes in fixed assets follows:

	January 1, 1997	Additions	Deletions	December 31, 1997
Land	$ 9,220,312	-	-	9,220,312
Buildings	86,006,967	-	-	86,006,967
Equipment, primarily transportation vehicles	130,166,303	18,371,014	(18,578,600)	129,958,717
Furniture and fixtures	15,101,031	1,273,967	-	16,374,998
Construction in progress	6,801,870	27,659,021	(20,543,087)	13,917,804
	247,296,483	$ 47,304,002	(39,121,687)	255,478,798
Accumulated depreciation and amortization	(87,778,361)	$(13,850,922)	18,114,641	(83,514,642)
	$ 159,518,122			171,964,156

	January 1, 1996	Additions	Deletions	December 31, 1996
Land	$ 9,220,312	-	-	9,220,312
Buildings	85,176,060	830,907	-	86,006,967
Equipment, primarily transportation vehicles	112,408,903	21,665,552	(3,908,152)	130,166,303
Furniture and fixtures	13,277,974	2,632,523	(809,466)	15,101,031
Construction in progress	4,966,503	5,952,887	(4,117,520)	6,801,870
	225,049,752	$ 31,081,869	(8,835,138)	247,296,483
Accumulated depreciation and amortization	(81,896,323)	$ (9,853,116)	3,971,078	(87,778,361)
	$ 143,153,429			159,518,122

During 1997, the RTA auctioned 169 buses that were substantially depreciated. The resulting loss allocated to the sale is included in miscellaneous expenses.

(Continued)

Construction in progress is composed of the following as of December 31, 1997:

Riverfront Trolley Connector	$ 8,699,436
Canal Street Corridor	4,830,357
Other	388,011
	$ 13,917,804

(5) Long-term Debt

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

	1997	1996
1988 Series, Sales Tax Refunding Bonds, interest rates between 6.8% and 8%, due in annual principal debt service requirements ranging from $915,000 to $2,815,000, final payment due December 2013	$ 26,995,000	27,850,000
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	20,340,733	21,115,733
	47,335,733	48,965,733
Less current maturities	1,735,000	1,630,000
Long-term debt less current maturities	$ 45,600,733	47,335,733

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 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

(Continued)

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. The 1986 bonds are no longer outstanding.

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.

The 1988 bonds will be refunded by the 1998 Bond Series in 1998 as explained below.

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, 1997 and 1996.

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Debt Service Requirements

The following represents the debt service requirements for both the 1988 and the 1991 Bond issues as of December 31, 1997:

	Total Principal	Total Interest
1998	$ 1,735,000	2,902,880
1999	1,850,000	2,790,355
2000	1,970,000	2,667,975
2001	2,105,000	2,535,075
2002	2,245,000	2,390,850
2003-2007	13,885,000	9,298,415
2008-2012	14,420,806	8,758,782
2013-2017	6,566,392	16,607,843
2018-2022	2,558,535	15,983,002
	$ 47,335,733	63,935,177

1998 Bond Series

In September 1997, the RTA agreed to issue, not later than December 1, 1998, $26,080,000 in Sales Tax Revenue Bonds, Series 1998A. The net proceeds of the 1998A Refunding Bonds of $29,786,335 will be used to repay the principal and call premium on the outstanding 1988 Bonds and the anticipated costs of issuance of $827,339. The remaining $2,357,396, representing the present value of the interest savings to the RTA, was released to RTA in December 1997 upon execution of the Forward Bond Placement agreement. A deferred gain of $2,918,093 was likewise recorded in December 1997 and will be amortized beginning in 1998 over the life of the Series 1998A Refunding Bonds.

The Series 1998 Refunding Bonds will be secured by a pledge and lien upon a portion of RTA's one cent sales revenue (one-half of one percent upon items and services subject to the sales tax). As a result of the 1997 effective date of this Forward Bond Placement Agreement, 1988 bond debt service restricted assets had been released by RTA's trustee.

Sales Tax Anticipation Note

In October 1997, RTA entered into a sales tax anticipation note arrangement for $4,000,000 with a local bank to assist RTA in meeting its operating requirements. With a fixed interest rate of 4.35% and collateralized by a pledge of sales tax collections, the terms of the repayment are as follows:

	Total Principal	Total Interest
March 31, 1998	$ 666,667	77,333
April 30, 1998	666,667	12,083
May 31, 1998	666,667	9,667
June 30, 1998	666,667	7,250
July 31, 1998	666,666	4,833
August 31, 1998	666,666	2,417
	$ 4,000,000	113,583

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Cross-Border Sales Leaseback Agreement

In December 1994, the RTA entered into a sales-leaseback agreement for 73 buses which 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 was included in the financing arrangement. RTA anticipates no liability with this agreement.

(6) Fund Equity

(a) Accumulated Deficit

As of December 31, 1997, the RTA's accumulated deficit was $39,953,609.

The Authority's Board of Commissions is committed to improving the financial condition of the Authority, through both increasing revenues and decreasing expenses. A brief discussion of certain of the steps the Authority is taking to accomplish these goals follows.

Revenues - In order to increase operating revenues, the Authority has implemented a marketing campaign to both recapture lost ridership and increase new ridership of the transit system.

Expenses - Beginning in 1996, the Authority has identified and begun to correct inefficient areas of the Authority's operation in order to better control costs and improve operational efficiency. The following is a brief discussion of certain actions the Authority has taken to accomplish these goals.

Labor and fringe benefit costs constitute the largest component of the Authority's annual operating expenses. TMSEL has developed an employee reduction plan to reduce these costs through job eliminations and consolidations and some outsourcing. The Authority expects to begin the new health coverage program in August 1998 and believes that this will significantly reduce health care related expenses of the Authority.

As a result of an analysis of each transit route, RTA made reductions in transit service in September 1996 and in early and mid-1997. These reductions in service did not significantly affect ridership, nor did they expect to affect the safety or efficiency of the transit system. The RTA expects to realize the cost savings of these efforts in 1998. These adjustments are expected to reduce peak operating fleet requirements by a total of approximately fifteen percent.

In 1998, the Authority expects to enter into a Lease Maintenance Agreement in accordance with FTA Circular 49 CFR 639. Lease Maintenance will provide the Authority the opportunity to receive 175 new buses in 1998 and a reimbursement of 80% of the maintenance costs associated with those buses over the next twelve years.

(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, 1995, net	$ 19,560,527	96,251,908	115,812,435
Capital grants earned	-	19,773,705	19,773,705
Transfer of depreciation on capital purchases	-	(6,587,699)	(6,587,699)
Balance at December 31, 1996, net	19,560,527	109,437,914	128,998,441
Capital grants earned	-	21,884,531	21,884,531
Transfer of depreciation on capital purchases	-	(9,766,572)	(9,766,572)
Balance at December 31, 1997, net	$ 19,560,527	121,555,873	141,116,400

(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 and former NOPSI employees over the age of 21 are eligible to participate in the plan. Benefits vest after five years of benefit service. As a result of amended contracts with the transit operators and contract maintenance employees, those members who retire at age 62 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 benefit service; all other employees retiring 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 benefit service. The plan also provides early retirement, postponed retirement, disability and death benefits.

Members of Amalgamated Transit Union Division 1560, effective February 2, 1990, received "30 and Out" Pension Service and contribute 2.23% of gross wages in addition to the 1.00% of their bi-weekly compensation in excess of $254.00 that is currently being deducted.

(Continued)

Members of the Amalgamated Transit Union 1611, effective April 18, 1996, received "30 and Out" Pension Service and contribute 2.45% of gross wages. Members of International Brotherhood of Electrical Working Local 1700-4, effective March 21, 1996, received a "30 and Out" Pension Service and contribute 2.45% of gross wages.

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

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

	1997	1996
Actuarial present value of benefit obligation:		
Vested benefit obligation	$ 66,028,669	59,773,001
Nonvested benefit obligation	5,780,822	3,980,394
Accumulated benefit obligation	71,809,491	63,753,395
Effect of projected future compensation levels	20,474,316	20,147,594
Projected benefit obligation for service rendered to date	92,283,807	83,900,989
Plan assets at fair value	92,761,000	82,724,960
Excess (deficiency) in plan assets over projected benefit obligation	477,193	(1,176,029)
Unrecognized prior service cost	3,494,575	1,198,530
Unrecognized net loss from past experience different from that assumed	(5,137,772)	(420,556)
Unrecognized net asset	(714,625)	(798,600)
Accrued pension cost	$ (1,880,629)	(1,196,655)

Net periodic pension cost included the following components for the years ended December 31, 1997 and 1996 and are as follows:

	1997	1996
Service cost - benefits earned during the period	$ 2,321,768	2,611,845
Interest cost on projected benefit obligation	6,156,857	5,544,680
Actual return on plan assets	(11,130,883)	(8,157,503)
Net amortization and deferral	5,295,389	2,549,759
Net periodic pension cost	$ 2,643,131	2,548,781

(Continued)

The most recent projected pension benefit obligation was computed based on the actuarial valuation performed as of January 1, 1997. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) a discount rate of 7.25% and 7.25% at December 31, 1997 and 1996, respectively, and (c) projected salary increases including an inflation component of 4.25% and 4.0% as of December 31, 1997 and 1996, respectively.

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 $2,543,131 and $2,548,781 in 1997 and 1996, 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 December 31, 1997, the ERISA funding requirement for the plan year 1997 of $3,549,763 is included in amounts due to TMSEL on the balance sheet.

(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 $13,000,000, 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.

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 1997 and 1996, total TMSEL expense relating to the above plan for retirees was $1,375,584 and $1,281,481,

(Continued)

respectively. As of December 31, 1997, 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 three years following December 31, 1997 are as follows:

1998	$ 183,124
1999	108,732
2000	49,088

Total lease and rental payments for the years ended December 31, 1997 and 1996 were $131,822 and $189,632, respectively.

(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.

(c) Grant Commitments

As of December 31, 1997 and 1996, 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, 1997 and 1996 totals approximately $24,000,000 and $32,705,000, respectively, and requires commitments of local matching funds totaling approximately $5,940,000 and $8,200,000, 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 prior to April 1, 1996 and $2,000,000 thereafter; commercial insurance for general liability covers claims in excess of up to $14,000,000 prior to April 1, 1996 and $10,000,000 thereafter. Settled claims have not exceeded this commercial coverage in any of the past four fiscal years. Pursuant to the TMSEL management contract, RTA reimburses TMSEL for its employees' workers' compensation and health care 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.

(Continued)

At December 31, 1997 and 1996, $15,900,279 and $17,201,085, respectively, of accrued general liability and small claim estimates 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, 1997 and 1996.

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	$ 14,331,947	8,160,093	(3,965,662)	18,526,378
1995	18,526,378	5,133,394	(3,449,268)	20,210,504
1996	20,210,504	2,916,465	(5,925,884)	17,201,085
1997	17,201,085	3,220,551	(4,521,357)	15,900,279

Restricted assets in the amount of $2,235,565 at December 31, 1997 and $2,254,606 at December 31, 1996 are available to fund current portions of the aforementioned accrued liabilities.

TMSEL's self-insured reserves for workers' compensation and health benefits are included in amounts due to TMSEL on the balance sheets and total $4,167,943 as of December 31, 1997.

(11) Management Fees

Through the competitive procurement process, a new five-year contract between the RTA and METRO became effective November 1, 1997. METRO is to provide management and supervision of the transit system's operations. Management fees and reimbursement of expenses including professional consulting services paid under the previous and current contract to METRO for the years ended December 31, 1997 and 1996 were $660,579 and $423,789, respectively.

(12) Related Parties

The RTA has a standing agreement with the City of New Orleans to provide mutually beneficial services (interagency agreement) through 1997. The RTA offset $1,200,000 in police services provided by the City against related receivables in 1997 and 1996.

The members of the Board of Commissioners were paid a per diem for the attendance at board meetings in calendar years 1997 and 1996 and are

(Continued)

also reimbursed for out-of-pocket expenses resulting from their participation in RTA activities. The amounts received by each Commissioner for the years ended December 31, 1997 and 1996 were as follows:

	Per Diem	Expense Reimbursement	Total
1997:			
Daniel Alfortish	$ 900	1,336	2,236
Dennis DiMarco	750	1,046	1,796
Earline Roth	900	1,739	2,639
Nat Lacour	750	-	750
Charlotte Burnell	750	1,487	2,237
Ronald Gardner	750	1,472	2,222
Robert Tucker	225	1,821	2,046
	$ 5,025	8,901	13,926
1996:			
Daniel Alfortish	900	480	1,380
Dennis DiMarco	900	-	900
Earline Roth	900	-	900
Nat Lacour	600	560	1,160
Thomas Lacour	900	2,020	2,920
Ronald Gardner	825	-	825
Robert Tucker	825	1,968	2,793
	$ 5,850	5,028	10,878

(13) Recent Accounting Pronouncements

In February 1996, GASB issued Statement No. 30, *Risk Financing Omnibus*, which is effective for periods beginning after June 15, 1996. This Statement required the inclusion of specific incremental claim adjustment expenditures/expenses and estimated recoveries in the determination of the liability for unpaid claims and modifies current disclosure requirements. The impact of this pronouncement did not have a material impact on self-insured liability reserves.

In March 1997, GASB issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which is effective for periods beginning after June 15, 1997. This Statement requires governmental entities to report non-external pool investments with a maturity period of greater than one year at fair value. Management is assessing the impact of this pronouncement.

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Fund Equity

For the years ended December 31, 1997 and 1996

	Accumulated Deficit - Reserved and Unreserved	Net Contributed Capital - Local Government	Net Contributed Capital - Federal Government	Total
Balance at December 31, 1995	$ (31,732,633)	19,560,527	96,251,908	84,079,802
Capital grants earned	-	-	19,773,705	19,773,705
Net loss	(12,244,864)	-	-	(12,244,864)
Transfer of depreciation on contributed capital purchases	6,587,699	-	(6,587,699)	-
Balance at December 31, 1996	(37,389,798)	19,560,527	109,437,914	91,608,643
Capital grants earned	-	-	21,884,531	21,884,531
Net loss	(12,330,383)	-	-	(12,330,383)
Transfer of depreciation on contributed capital purchases	9,766,572	-	(9,766,572)	-
Balance at December 31, 1997	$ (39,953,609)	19,560,527	121,555,873	101,162,791

See accompanying independent auditors' report.

REGIONAL TRANSIT AUTHORITY

Schedule of Changes in Restricted Asset Bond Accounts

For the years ended December 31, 1997 and 1996

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

	Capital	Debt Service	Reserve	Total
Ending balance - December 31, 1995	$ 684	382,242	3,257,749	3,640,675
Cash receipts:				
Interest income	34	68,225	220,697	288,956
Sales tax receipts	40,111,665	-	-	40,111,665
Transfer for principal and interest	-	2,920,921	-	2,920,921
Total cash receipts	40,111,699	2,989,146	220,697	43,321,542
Cash disbursements:				
Principal and interest payments	-	(3,041,474)	-	(3,041,474)
Sales tax outflow	(35,861,329)	-	-	(35,861,329)
Transfer for debt service	(4,250,336)	-	-	(4,250,336)
Total disbursements	(40,111,665)	(3,041,474)	-	(43,153,139)
Ending balance - December 31, 1996	718	329,914	3,478,446	3,809,078
Cash receipts:				
Interest income	36	54,297	185,859	240,192
Sales tax receipts	21,100,920	-	-	21,100,920
Transfer for principal and interest	-	2,657,865	-	2,657,865
Total cash receipts	21,100,956	2,712,162	185,859	23,998,977
Cash disbursements:				
Principal and interest payments	(3,864,842)	(3,042,076)	-	(6,906,918)
Sales tax outflow	(17,236,832)	-	-	(17,236,832)
Transfer for debt service	-	-	(3,664,305)	(3,664,305)
Total disbursements	(21,101,674)	(3,042,076)	(3,664,305)	(27,808,055)
Ending balance - December 31, 1997	$ -	-	-	-

(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	Total
Ending balance - December 31, 1995	$ 8,112,498	149,932	1,755,611	10,018,041
Cash receipts:				
Transfer for principal and interest	-	1,715,824	-	1,715,824
Interest income	543,736	27,752	109,348	680,836
Total cash receipts	543,736	1,743,576	109,348	2,396,660
Cash disbursements:				
Transfer for debt service	-	(1,595,255)	-	(1,595,255)
Capital acquisitions and construction cost	(3,844,057)	-	-	(3,844,057)
Total disbursements	(3,844,057)	(1,595,255)	-	(5,439,312)
Ending balance - December 31, 1996	4,812,177	298,253	1,864,959	6,975,389
Cash receipts:				
Transfer for principal and interest	-	1,334,842	3,536,440	4,871,282
Interest income	54,942	35,258	132,914	223,114
Total cash receipts	54,942	1,370,100	3,669,354	5,094,396
Cash disbursements:				
Transfer for debt service	-	(1,594,829)	-	(1,594,829)
Capital acquisitions and construction cost	(4,717,470)	-	-	(4,717,470)
Total disbursements	(4,717,470)	(1,594,829)	-	(6,312,299)
Ending balance - December 31, 1997	$ 149,649	73,524	5,534,313	5,757,486

See accompanying independent auditors' report.

KPMG Peat Marwick LLP

Suite 3600 One Shell Square
New Orleans, LA 70139-3699

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Members of the Board of Commissioners
Regional Transit Authority:

We have audited the general purpose financial statements of the Regional Transit Authority (the Authority), as of and for the year ended December 31, 1997, and have issued our report thereon dated June 12, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated June 12, 1998.

This report is intended for the information of the Authority, the Authority's management and federal awarding agencies and the Legislative Auditor's Office. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

June 12, 1998

KPMG Peat Marwick LLP

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

June 12, 1998

The Board of Commissioners
Regional Transit Authority:

We have audited the financial statements of Regional Transit Authority as of and for the year ended December 31, 1997, and have issued a report thereon dated June 12, 1998. Under generally accepted auditing standards, we are providing you with the attached information related to the conduct of our audit.

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

Member Firm of
KPMG International

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, 1997 based on our audit. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

In addition, in planning and performing our audit, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Furthermore, our audit, including the limited inquiries we made in connection with the Year 2000 issue, was not designed to, and does not, provide any assurance that a Year 2000 issue which may exist will be identified, on the adequacy of RTA's plans related to Year 2000 financial or operational issues, or on whether RTA is or will become Year 2000 compliant. Year 2000 compliance is the responsibility of management.

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. 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, 1997.

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, had 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 RTA's 1997 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

June 12, 1998

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, 1997, and have issued our report thereon dated June 12, 1998. In planning and performing our audit of the financial statements of the RTA, we considered the 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. Appendix C contains management's response to the comments and recommendations which were summarized in Appendix A.

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

Self-Insured Reserves

As part of the current year financial statement audit, we noted the following:

- third-party administrator's report for January was not complete, with significant changes occurring in February and March of 1998;
- reporting inaccuracies that resulted in reporting issues for litigated claims, year-to-date activity and cumulative claim history,
- signed copy of the contract with the workers' compensation third-party administrator could not be located, and
- small claim payment documentation was not always present, such as signature on settlement forms, settlement check copies, signed releases, and reserve support documentation.

In addition, with increased reserve setting authority, the Legal department should retain the final documentation on reserve support.

These matters should be followed-up by management to ensure that the documentation procedures are being followed.

In addition, we recommend that third-party administrator reserves be reviewed monthly to determine the completeness of reserves and investigate unusual changes and/or amounts.

Investments and Cash

As noted in prior years, reconciliation of investment documentation to the general ledger is not occurring routinely during the year. We recommend the following:

- receipt of all bank statements and trustee statements by the Accounting Department first, with copies being forwarded within a reasonable time period to the Treasurer;
- receipt of all supporting bank notices by the Accounting Department for recording transactions on the general ledger;
- recording of accrued interest on a periodic basis during the year;
- review of all NSF and other bank charges on all bank accounts for cause of insufficient funds and develop procedures to reduce the incurrence of such charges;
- reconciliation of all TMSEL and RTA bank accounts within 30 days after month-end, and

- preparation of a monthly cash and investment report by Accounting to be submitted to the Treasurer for his review and approval.

Because of the volume of activity in these accounts, we recommend that investments and all cash accounts be balanced monthly and the Internal Audit Department review the reconciliation process on a test-basis during the year.

Financial Statement Adjustments

Over thirty adjustments were posted by RTA after trial balances were closed for December 31, 1997. To reduce this large volume of adjustments and to ensure more accurate financial information on a timely basis during the year, we recommend:

- reconciliation of all balance sheet accounts to supporting documentation on a monthly basis;

- review of reconciliations by supervisors on a timely basis;

- providing for known and expected events on a monthly basis (e.g., pension accruals, unusual litigation changes, etc.), and

- documented analytical review of balance sheets on a quarterly basis and of the income statements on a monthly basis.

The recommendations should be considered by the Board and management and may require additional efforts and/or more-experienced staff. However, these or similar changes would provide the Board and management with more accurate interim data.

Internal Audit

During 1997, Internal Audit issued several reports on various subjects including personnel, inventory, construction payments, grant compliance, claims documentation, investments, insurance matters and other excellent topics. These reports identified several corrective actions and numerous recommendations.

These reports provided recommendations that are of benefit to RTA. We recommend that a monthly report be issued by the respective departments as to the status of their resolution of the issues identified with deadlines for 100% implementation. This report should be circulated to Internal Audit and the General Manager, with other management members receiving the status reports as needed.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
Year 2000 With the Year 2000 quickly approaching, organizations throughout the country are assessing the technology-readiness. To better ensure that the RTA is ready for the year 2000, the following steps should be undertaken and the results documented: • updating list of software and purpose • performing an assessment of readiness of the software systems for the year 2000 • confirming with commercial vendors that the systems are 2000 ready • developing internal schedules to ensure timeframes on conversions, if necessary, are adequate • determine the amount of funding that may be necessary and when the funds may be needed to address any issues. While this list is not intended to be a complete list of tasks, by documenting its approach to the above and formalizing a plan to ensure that all systems have been considered and addressed, the RTA will be better assured of continued operations on January 1, 2000.	Concur	In-Process	The RTA has updated its list of software and its purpose. RTA's trial balance software is Year 2000 compliant. The maintenance department is in the process of replacing its software with Year 2000 compliant software and it should be completed by the first quarter in 1999. The corporate systems department has found replacement software and is in the purchasing process. The legal and claims department is beginning to evaluate replacement products. The time-keeping and dispatching system for operators is Year 2000 compliant. 75 of RTA's current computers are not Year 2000 compliant and must be replaced.
The Deficit and Cash Flow Projections and Budgeting With the increasing deficit and decreasing cash and investments balances, RTA should develop a plan of action of what additional funds are needed to meet matching requirements and to fund working capital on a day-to-day basis. Management has discussed developing cash flow projections and budgets to	Concur	In-Process	The management and staff have developed short and long-term plans to obtain additional funds for both working capital and matching requirements to help offset the declining

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
monitor cash needs and has also taken initial steps to reduce cash outflow and expenses for 1997. We applaud these actions and recommend formalizing these processes into written and communicated documents that can be used by upper management and the Board to monitor the progress toward deficit reduction and increased cash and investments balances.			cash flow and investment balances. RTA has successfully obtained a short-term note in order to create a short-term cash infusion. The note will be paid off over a four month period beginning April 1998. The long-term plan includes the reduction of operating expenses by approximately $4.0 million over a two and one half year period. In 1998, management has planned on implementing formal policies and procedures. This will be accomplished in part by having Management Information Systems implement the systems in conjunction with the Finance/Treasury staff. Management and the Board will then have regular periodic cash flow reports to aid them in managing the agency's cash flow and matching funds resources.
Other Audit Reports and Findings During 1997, the RTA was reviewed by FTA in the Financial Management Oversight and Procurement Reviews and State of Louisiana Department of Labor and Office of Worker's Compensation. Each review resulted in a report, the majority of which required corrective actions and strong recommendations. It is our understanding that management is monitoring the progress of these reports; therefore, inclusion herein is not considered necessary.	Concur	In-Process	The Federal Transit Administration engaged the firm of Mitchell & Titus, LLP - Subcontractor to Williams, Adley & Company, LLP to conduct a follow-up to the 1996 Financial Management Oversight review conducted in 1996 by the Milligan Group. As of December 31, 1997, however, the RTA had not received the contractor's report from

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
			the FTA. The report was received during the first quarter of 1998. Consequently, there was not an opportunity to respond to the findings noted.
Prior Year Management Letter Comments There were several 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.			
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 mentioned items would document the RTA's compliance with the sales tax ordinances.	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 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 1997 RTA budget process included an allocation of sales tax revenue. A report will be developed and presented to the Board summarizing the collection/ utilization of sales tax revenue.

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 has undertaken several steps to reduce the deficit in 1997. Health insurance costs are being reviewed for further reduction via a new health insurance plan request for proposal, layoffs of staff occurred, reduction in budgeted expenses, reviewing revisions to the pension, reviewing options to reduce costs of employees' benefits, reductions in schedules on duplicative and nonproductive routes, initiated an aggressive marketing plan to enhance ridership, entered into an agreement with the Plaza Shopping Center for a Plaza Park n' Ride, issued a request for proposals for a lease maintenance service agreement on buses, and considering outsourcing certain areas of Risk Management.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
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 budget 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.	Concur	In-process	The Budget Department implemented the procedure of presenting a draft of the proposed detailed budget to all departments for final input and suggestions. In 1998, the Budget staff, in conjunction with the Accounting department, has begun to review and report budget versus actual variances with explanations in a more timely and efficient manner. Once the above procedures are fully operational and working efficiently, then certainly the next step would be to develop the process and provide the resources for "performance budgeting." This would be considered a long-range goal.
Investments			
To ensure timely recording of transactions and to assist with the reconciliation process, the RTA should maintain a monthly schedule of transfers between bank and investment accounts. The schedule should include the date, account, and amounts transferred in and out, in order to properly reconcile each account. In addition, investment schedules including interest income should be reconciled monthly to the general ledger balances and the Treasurer's outstanding investment reports.	Concur	In-process	The planned upgrade of J.D. Edwards financial management software system will provide for additional applications. A subledger will be established to track bank and investment transactions. Also, the upgrade will enable the Treasury Department to automate its daily and monthly activities, thus providing for a reconciliation with the general ledger.

DISPOSITION OF PRIOR YEARS' MANAGEMENT LETTER COMMENTS

PRIOR YEARS' RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	COMMENT DISPOSITION
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 maintained by Human Resources.	Concur	Implemented	Accounting has been assigned the responsibility of reconciling vacation and sick accruals. The staff communicated with department heads regarding accuracy of the information provided. Balances are presently updated.

MANAGEMENT'S RESPONSE TO CURRENT AND OPEN PRIOR YEAR COMMENTS

Self-Insured Reserves

As part of the current year financial statement audit, we noted the following:

- third-party administrator's report for January was not complete, with significant changes occurring in February and March of 1998;
- reporting inaccuracies that resulted in reporting issues for litigated claims, year-to-date activity and cumulative claim history;
- signed copy of the contract with the workers' compensation third-party administrator could not be located, and
- small claim payment documentation was not always present, such as signature on settlement forms, settlement check copies, signed releases, and reserve support documentation.

In addition, with increased reserve setting authority, the Legal department should retain the final documentation on reserve support.

These matters should be followed-up by management to ensure that the documentation procedures are being followed.

In addition, we recommend that third-party administrator reserves be reviewed monthly to determine the completeness of reserves and investigate unusual changes and/or amounts.

Management's Response

The third-party administrator made unauthorized changes to the January 1998 report, thus the TPA had to correct some of the changes. The MIS department has been advised of the system errors.

The MIS Department has been advised of the errors in the data base which tracks open litigation files. Every attempt has been made and will continue to be made to ensure that the information contained in the quarterly report is accurate.

Documentation for legal case reserves is kept in the master file in the Legal Department. Individual legal files also include reserve information.

Investments and Cash

As noted in prior years, reconciliation of investment documentation to the general ledger is not occurring routinely during the year. We recommend the following:

- receipt of all bank statements and trustee statements by the Accounting Department first, with copies being forwarded within a reasonable time period to the Treasurer;
- receipt of all supporting bank notices by the Accounting Department for recording transactions on the general ledger;

- recording of accrued interest on a periodic basis during the year;

- review of all NSF and other bank charges on all bank accounts for cause of insufficient funds and develop procedures to reduce the incurrence of such charges;

- reconciliation of all TMSEL and RTA bank accounts within 30 days after month-end, and

- preparation of a monthly cash and investment report by Accounting to be submitted to the Treasurer for his review and approval.

Because of the volume of activity in these accounts, we recommend that investments and all cash accounts be balanced monthly and the Internal Audit Department review the reconciliation process on a test-basis during the year.

Management's Response

Reconciliation of all bank accounts are current to date included as part of the monthly financial statement and analysis reports. Also, effective with the bank reconciliation for May 1998, Accounting will begin providing the Treasurer with a copy of all bank reconciliations. Accounting will continue providing the Treasurer with copies of monthly investment statements.

The Treasurer will provide Accounting with daily investment information to record accrued interest income and investment activity.

Financial Statement Adjustments

Over thirty adjustments were posted by RTA after trial balances were closed for December 31, 1997. To reduce this large volume of adjustments and to ensure more accurate financial information on a timely basis during the year, we recommend:

- reconciliation of all balance sheet accounts to supporting documentation on a monthly basis;

- review of reconciliations by supervisors on a timely basis;

- providing for known and expected events on a monthly basis (e.g., pension accruals, unusual litigation changes, etc.), and

- documented analytical review of balance sheets on a quarterly basis and of the income statements on a monthly basis.

The recommendations should be considered by the Board and management and may require additional efforts and/or more-experienced staff. However, these or similar changes would provide the Board and management with more accurate interim data.

Management's Response

All balance sheet accounts are being analyzed monthly and explanations and/or adjustments provided to the Senior Director. The Accounting Department has always provided for expenses such as pension and litigation changes on a monthly basis. In fact, this year the auditor did not record an adjustment to increase reserves for litigation. Pension cost was increased based upon the receipt of the current pension valuation. On a monthly basis analytical comments related to the balance sheet and income statement are submitted to the staff in writing. Additionally, prior to the release of the monthly income statement the Deputy General Manager, Treasurer, Senior Director of Accounting and Director of Budget review and analyze the financial statements.

Internal Audit

During 1997, Internal Audit issued several reports on various subjects including personnel, inventory, construction payments, grant compliance, claims documentation, investments, insurance matters and other excellent topics. These reports identified several corrective actions and numerous recommendations.

These reports provided recommendations that are of benefit to RTA. We recommend that a monthly report be issued by the respective departments as to the status of their resolution of the issues identified with deadlines for 100% implementation. This report should be circulated to Internal Audit and the General Manager, with other management members receiving the status reports as needed.

Management's Response

Internal Audit will meet with management to discuss the format of the status reports and will provide a summary of all open findings to the General Manager for his distribution along with a status report format to be used. On future audit reports, a follow-up report will be issued to the General Manager in order that status reports from the involved departments can be obtained timely.

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REGIONAL TRANSIT AUTHORITY
NEW ORLEANS, LOUISIANA

SINGLE AUDIT REPORTS
FOR THE YEAR ENDED DECEMBER 31, 1997

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CURTIS A. MORET
CERTIFIED PUBLIC ACCOUNTANT

616 GIROD STREET, SUITE 100S
NEW ORLEANS, LOUISIANA 70130
(504) 523-1028

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To The Board of Commissioners
Regional Transit Authority

I have audited the accompanying Schedule of Expenditures of Federal Awards of the Regional Transit Authority (the RTA) for the year ended December 31, 1997. This Schedule of Expenditures of Federal Awards is the responsibility of the management of the RTA. My responsibility is to express an opinion on this Schedule of Expenditures of Federal Awards based on my audit. The accompanying Schedule of Expenditures of Federal Awards 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the Schedule of Expenditures of Federal Awards is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Expenditures of Federal Awards. 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 Expenditures of Federal Awards of the RTA taken as a whole. This Schedule of Expenditures of Federal Awards is not a required part of the RTA's general purpose financial statements and is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and , in my opinion, based on my audit and the report of other auditors, the Schedule of Expenditures of Federal Awards 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 15, 1998

REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 1997

FEDERAL GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT CONTRACT NUMBER	FEDERAL SHARE OF TOTAL AUTHORIZED AMOUNT	GRANT RECEIVABLE AT 12/31/96	FEDERAL SHARE OF EXPENDITURES	FEDERAL FUNDS RECEIVED	ADJUSTMENTS	GRANT RECEIVABLE AT 12/31/97
DEPARTMENT OF TRANSPORTATION								
FEDERAL TRANSIT ADMINISTRATION (FTA)								
Capital Improvement Grants:								
	20-500	LA-03-0049	18,600,000	4,038,788	(2,585,259)	278,387	(1,131,066)	44,076
	20-500	LA-03-0052	9,643,943	92,535	(75,832)	91,751	75,832	784
	20-500	LA-03-0053	2,000,000	64,719	228,382	273,308	0	19,793
	20-500	LA-03-0054	14,235,000	4,186,974	7,035,957	10,991,647	0	231,284
	20-500	LA-03-0055	2,354,728	257,649	416,917	805,888	362,128	230,806
	20-500	LA-03-0056	2,943,618	300,407	736,648	588,998	(352,431)	95,626
	20-500	LA-03-0060	2,720,085	86,043	1,274,276	961,091	0	399,228
	20-500	LA-03-0061	3,763,200	975,535	1,278,219	1,743,317	56,825	567,262
	20-500	LA-03-0062	1,970,462	0	1,975,130	1,852,165	0	122,965
	20-500	LA-03-0070	2,125,226	0	3,202,837	852,626	0	2,350,211
	20-500	LA-03-0071	2,000,000	0	2,684	0	0	2,684
	20-500	LA-03-0072	7,734,800	0	55,293	0	0	55,293
			70,091,062	10,002,650	13,545,252	18,439,178	(988,712)	4,120,012
Capital and Operating Assistance Grants:								
	20-507	LA-26-7000	240,000	0	5,166	0	0	5,166
	20-507	LA-90-0124	3,160,216	10,473	0	0	(10,473)	0
	20-507	LA-90-0142	120,000	7,432	(1,782)	(1,782)	(7,432)	0
	20-507	LA-90-2113	118,000	198	0	0	0	198
	20-507	LA-90-2124	120,000	1,419	0	0	(1,419)	0
	20-507	LA-90-0154	9,580,295	32,804	3,893,255	3,929,832	41,196	37,423
	20-507	LA-90-0161	3,520,000	33,959	2,753,230	2,772,498	(11,525)	3,166
	20-507	LA-90-0171	2,505,000	548,351	457,897	980,576	0	25,672
	20-507	LA-90-2171	620,000	82,728	199,708	177,435	0	105,001
	20-507	LA-90-0186	7,552,000	0	1,746,716	1,335,099	0	411,617
	20-507	LA-90-2188	460,000	0	29,696	9,920	0	19,776

The accompanying notes are an integral part of this schedule.

REGIONAL TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 1997

FEDERAL GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT CONTRACT NUMBER	FEDERAL SHARE OF TOTAL AUTHORIZED AMOUNT	GRANT RECEIVABLE AT 12/31/96	FEDERAL SHARE OF EXPENDITURES	FEDERAL FUNDS RECEIVED	ADJUSTMENTS	GRANT RECEIVABLE AT 12/31/97
Capital and Operating Assistance Grants:								
	20-507	LA-90-2142	182,400	(138)	0	0	138	0
	20-507	LA-90-2154	40,000	22,351	0	0	0	22,351
	20-507	LA-90-2161	200,000	114,879	36,021	46,389	(88,564)	15,947
	20-507	LA-90-4186	1,914,000	0	1,996,320	1,914,000	0	82,320
	20-507	LA-90-0113	13,614,750	730,130	563,918	1,516,712	705,997	483,333
	20-507	LA-90-0103	2,683,148	322,929	(20,535)	0	167,633	470,027
			46,629,809	1,907,515	11,659,610	12,680,679	795,551	1,681,997
			116,720,871	11,910,165	25,204,862	31,119,857	(193,161)	5,802,009

The accompanying notes are an integral part of this schedule.

REGIONAL TRANSIT AUTHORITY

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 1997

NOTE 1 - Summary of Significant Accounting Policies

The Schedule of Expenditures of Federal Awards for the Regional Transit Authority of New Orleans, Louisiana (RTA) has been prepared on the accrual basis in accordance with generally accepted accounting principles. The major programs of the RTA are the Federal Transit Capital Improvement Grants.

NOTE 2 - Adjustments

The adjustments primarily represent expenditures made by the RTA which were recorded as receivables in current and prior years, but not reimbursed by the Federal Transit Administration (FTA). Additionally, similar project costs have been transfered between various grants.

CURTIS A. MORET
CERTIFIED PUBLIC ACCOUNTANT

616 GIROD STREET, SUITE 100S
NEW ORLEANS, LOUISIANA 70130
(504) 523-1028

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
Regional Transit Authority

I have audited the Schedule of Expenditures of Federal Awards of the Regional Transit Authority (the RTA) for the year ended December 31, 1997, and have issued my report thereon dated May 15, 1998. 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.

Compliance

I have audited the compliance of the RTA with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 1997. The RTA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the RTA's management. My responsibility is to express an opinion on the RTA's compliance based on my audit.

I conducted my audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the RTA's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the RTA's compliance with those requirements.

In my opinion, the RTA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 1997. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs.

Internal Control Over Compliance

The management of RTA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the RTA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited 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 over compliance and its operation that I consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Curtis A. Moret

Curtis A. Moret
May 15, 1998

REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 1997

Summary of Auditor's Results:

Federal Awards

Internal Control over major programs: Material weaknesses identified	No
Reportable conditions identified not considered to be material weaknessess	None Reported
Type of auditor's report issued on compliance for major programs.	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	Yes
Major program	Federal Transit Capital Improvement Grant CFDA number 20-500
Dollar threshold used to distinguish between Type A and Type B programs	$785,858
Auditee qualified as low risk auditee	Yes

REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 1997

	Program/Requirements	Findings/Noncompliance	Questioned Costs
97-1	Federal Transit Capital Improvement Grant CFDA Number 20-500	According to OMB Circular A-87, in order to be reimbursed for indirect costs, a cost allocation plan and/or indirect cost rate proposal must be prepared and submitted to the cognizant agency Federal Transit Administration (FTA) for approval. During 1997, the RTA requested reimbursement for indirect cost and fringe benefit cost incurred with respect to allowable labor costs. However, the RTA determined the amount of indirect and fringe benefit costs based on rates computed using 1994 financial data. I recommend that the RTA update its indirect and fringe benefit cost rate to insure that the proper charges are being submitted to the FTA.	- 0 -

	Program/Requirements	Findings/Noncompliance	Questioned Costs
97-2	Federal Transit Capital Improvement Grant CFDA Number 20-500	The RTA has a policy that checks of $100,000 or more must be manually signed by two authorized individuals. During my testing of 40 grant related disbursements, I noted that six (6) checks had one manual signature and one signature facsimile. Also, one (1) check had only one manual signature. Consequently, the RTA is not following its own check issuance procedures. I recommend that the RTA exercise greater diligence in adhering to its established check signing procedures.	- 0 -

REGIONAL TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 1997
(CONTINUED)

Status of Prior Year Findings

There were no prior year findings.

CORRECTIVE ACTION PLAN

Federal Transit Administration (FTA)

The Regional Transit Authority (RTA) respectfully submits the following corrective action plan for the year ended December 31, 1997

Name and address of independent public accounting firm: Curtis A. Moret, CPA, 616 Girod Street, New Orleans, Louisiana 70130

Audit period: January 1, 1997 - December 31, 1997

The findings from the May 15, 1998 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAMS AUDITS

Federal Transit Administration
Federal Transit Capital Improvement Grant - CFDA No. 20-500

Findings:

97-1 Indirect & Fringe Benefit Cost Rate

Recommendation: The Regional Transit Authority (RTA) should update its indirect and fringe benefit cost rate to insure that the proper charges are being submitted to the Federal Transit Administration (FTA).

Action Taken: The Regional Transit Authority agrees with this audit comment and will implement the recommendation immediately.

Regional
Transit
Authority

6700 Plaza Drive,
New Orleans,
Louisiana
70127-2677

Administration
504-242-2600
Facsimile
504-248-3637

FINDINGS - FEDERAL AWARD PROGRAMS AUDITS CONT'D

97-2 Non-compliance with Manual Check Signing Policy

Recommendation: The RTA should exercise greater diligence in adhering to its established check signing policy.

Action Taken: The Regional Transit Authority agrees with this audit comment and will implement the recommendation immediately.

If the Federal Transit Administration has questions regarding this plan, please contact me at (504) 248-3830.

Sincerely.

REGIONAL TRANSIT AUTHORITY

LeRoy R. Bailey

LeRoy R. Bailey
General Manager

LRB/nd

Attachments