



Crowe LLP
Independent Member Crowe Global

Management
Los Angeles - San Diego - San Luis Obispo Rail Corridor Agency
Orange, California

Management of Los Angeles - San Diego - San Luis Obispo Rail Corridor Agency,

In planning and performing our audit of the financial statements of the Los Angeles – San Diego – San Luis Obispo (“LOSSAN”) Rail Corridor Agency (Agency) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered LOSSAN Agency’s internal control over financial reporting (“internal control”) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LOSSAN Agency’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LOSSAN Agency’s internal control. Matters communicated in this letter are classified as follows.

- Deficiency – A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified certain matters that we are required to or wish to communicate to you. We also identified certain other best practice recommendations which you may find of interest.

This communication is intended solely for the information and use of the Board of Directors, management, and others within the organization, and governmental granting agencies and is not intended to be and should not be used by anyone other than these specified parties.

The purpose of this letter is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the LOSSAN Agency’s internal control or on compliance. This letter is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the LOSSAN Agency’s internal control and compliance. Accordingly, this letter is not suitable for any other purpose. LOSSAN Agency’s written response to the deficiencies identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink that reads 'Crowe LLP'.

Crowe LLP

Costa Mesa, California
March 31, 2021

2020-001 Compliance with Joint Powers Agreement Provision 14.0 – Officers and Appointees of the Governing Board and the Agency

Classification:

Deficiency

Observation:

Section 14.2.3 of the Joint Powers Agreement (JPA) requires that the LOSSAN Agency obtain a bond in an amount determined by the Board of Directors (Board) that guarantees faithful performance of the Managing Director. However, the amount of the bond was not determined and a bond was never obtained.

Impact:

The LOSSAN Managing Director is an OCTA employee and covered by general liability policies in place. Given such insurance coverage, management anticipates the bond amount needed would not exceed \$25,000. However, such amounts are ultimately established and approved by the Board.

Recommendation:

We recommend that management strengthen their internal controls to more fully comply with provisions 14.0 of the JPA.

Management Response:

Management acknowledges the deficiency noted by the Auditor. Management will pursue rectifying the deficiency at the first regular Board meeting after the audit findings are presented and seek Board direction regarding either establishing an amount for the required bond or seeking to amend the Joint Powers Agreement.

2020-002 Reduction of LOSSAN Corridor Rail Service

Classification:

Best Practice

Observation:

With the state of the pandemic and the resulting stay at home orders, LOSSAN experienced a 95+% decline in ridership beginning in March 2020. The California State Transportation Authority (CalSTA), LOSSAN's funding agency, advised LOSSAN to operate no more than 50-60% of train miles approved in the JPA's Annual Business Plan. As a result of the severe drop in ridership and guidance from CalSTA, management reduced rail service in April 2020 on a temporary basis until the pandemic ends and emergency orders are lifted. However, section 17.2.7 of the JPA requires a supermajority vote of the Board to reduce rail service levels, which was not formally obtained.

Per our discussion with management, the supermajority vote of the Board requirement in the JPA is intended to address permanent reductions in rail service levels. Section 17.2.7 of the JPA does not address differing approvals required for temporary versus permanent reductions in rail service levels. However, there is evidence of management consistently informing the Board of reduced rail service through inspection of May and June Board meeting agendas.

Recommendation:

As the length of the pandemic is currently unknown, we recommend that management consider adding clarifying language to the JPA to address the need to obtain supermajority vote of the Board when reduction in service levels are temporary in nature or in response to emergency circumstances. Alternatively, if not adding clarifying language to the JPA, it is recommended that management have written documentation to support the interpretation of the JPA as well as consideration of compliance.

Management Response:

Management acknowledges the best practice recommendation noted by the Auditor. General Counsel will provide a legal opinion clarifying the interpretation of the language of the Joint Powers Agreement.

2020-003 Background Checks

Classification:

Best Practice

Observation:

The LOSSAN Agency recruitment process includes procedures to perform background screenings, education and employment verification and reference checks. While background screenings include criminal history checks, we noted that the recruiting process does not include civil history reviews of potential candidates.

Recommendation:

We recommend that management conduct more comprehensive background screenings that includes both criminal and civil reviews of potential candidates. Additional screenings will provide more information for management and the Board to consider and review when assessing candidate qualifications and suitability for the position.

Management Response:

Management acknowledges the best practice recommendation noted by the Auditor. Management will seek Board direction to ascertain whether the Board wishes to undertake additional screening to assess job candidate qualifications and if so, the process under which to undertake said screening.