

# McGladrey & Pullen

Certified Public Accountants

## *Regional Transportation Authority Northeastern Illinois*

Reports Required by Government Auditing Standards and OMB  
Circular A-133 for the  
Year Ended December 31, 2005

Performed as Special Assistant Auditors  
of the Auditor General

# Regional Transportation Authority

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# McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report on Internal Control  
Over Financial Reporting and on Compliance and  
Other Matters Based on An Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

To the Honorable William G. Holland  
Auditor General  
State of Illinois,

To the Board of Directors  
Regional Transportation Authority  
Chicago, Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Regional Transportation Authority ("RTA"), as of and for the year ended December 31, 2005, which collectively comprise the RTA's basic financial statements and have issued our report thereon dated June 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered RTA'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 an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect RTA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-01.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. Further, we noted certain other matters which we have reported to management of the RTA in a separate letter dated June 1, 2006.

### Compliance and Other Matters

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

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the RTA's Board, agency management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Schaumburg, Illinois  
June 1, 2006

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable William G. Holland  
Auditor General  
State of Illinois,

To the Board of Directors  
Regional Transportation Authority  
Chicago, Illinois

### Compliance

As Special Assistant Auditors for the Auditor General, we have audited the compliance of the Regional Transportation Authority ("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, 2005. 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 RTA's management. Our responsibility is to express an opinion on RTA's compliance based on our audit.

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

In our opinion, 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, 2005.

### 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 our audit, we considered 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 our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our 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 reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted certain other matters, which we have reported to management of the RTA in a separate letter dated June 1, 2006.

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the RTA, as of and for the year ended December 31, 2005, and have issued our report thereon dated June 1, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the RTA's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the RTA's Board, agency management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Schaumburg, Illinois  
June 1, 2006

REGIONAL TRANSPORTATION AUTHORITY

Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2005

Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Transportation:			
Pass-Through Illinois Department of Transportation:			
Transit Planning and Research Grant:			
Intelligent Transportation Systems (ITS)	20.514	IDOT Contract #CP97022	\$ 178,375
Intelligent Transportation Systems (ITS)	20.505	ITS-0017 (004)	78,782
			<u>257,157</u>
Technical Assistance Grants:			
Regional Technical Assistance Program (RTAP)	20.512	IL-80-X008 (DPT 174)	60
Regional Technical Assistance Program (RTAP)	20.512	IL-80-X008 (DPT 184)	73,467
Regional Technical Assistance Program (RTAP)	20.512	IL-80-X008 (DPT 185)	7,144
Regional Technical Assistance Program (RTAP)	20.512	IL-80-X012 (DPT 192)	44,517
			<u>125,188</u>
Metropolitan Planning Grants*:			
Unified Work Program (UWP) 2001	20.505	IL-80-X009	67,333
Unified Work Program (UWP) 2002	20.505	IL-80-X010	2,485
Unified Work Program (UWP) 2003	20.505	IL-80-X011	62,232
Unified Work Program (UWP) 2004	20.505	IL-80-X012	208,597
Unified Work Program (UWP) 2005	20.505	IL-80-X013	149,607
Unified Work Program (UWP) 2006	20.505	IL-80-X014	1,600
			<u>491,854</u>
Job Access Reverse Commute (JARC)*:			
Job Access (DuPage, CHAA, AALP, RTA)	20.507	IL-37-X002	78,297
Job Access (Reg Trans Clearinghouse Phase II)	20.507	IL-37-X021	100,000
			<u>178,297</u>
State Planning and Research Program (OPP):			
Central Cook/DuPage Travel Market Analysis	20.205	HPR-66-001-04	48,698
RTCP/RTA SPR-03	20.205	HPR-66-00101	33,921
			<u>82,619</u>
Congestion Mitigation Air Quality (CMAQ)			
RTCP Phase II Implementation	20.057	IL-90-X470	125,906
Total Expenditures of Federal Awards			<u><u>\$1,261,021</u></u>

\*Denotes major program

See Notes to Schedule of Expenditures of Federal Awards

# Regional Transportation Authority

## Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2005

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### 1. Reporting Entity

The Regional Transportation Authority (RTA) was established in 1974 upon approval of a referendum in its six-county Northeastern Illinois region. The operating responsibilities of the RTA are set forth in the RTA Act (Act). The RTA is a unit of local government, body politic, political subdivision and municipal corporation of the State of Illinois. As initially established, the RTA was an operating entity responsible for providing day-to-day bus and rail transportation services. However, on November 9, 1983, the Illinois General Assembly reorganized the structure and funding of the RTA from an operating entity to a planning, funding and oversight entity. The reorganization placed all operating responsibilities in the Chicago Transit Authority (CTA) and two operating divisions of the RTA: the Commuter Rail Division (Metra) and the Suburban Bus Division (Pace), each having its own independent board of directors. These divisions conduct operations and deal with subsidized carriers. These three entities are defined in the Act as the "Service Boards."

*Programs Subject to Single Audit*—A Schedule of Expenditures of Federal Awards is presented which includes each federal program related to the U.S. Department of Transportation. The Metropolitan Planning Grants (CFDA# 20.505) and Job Access Reverse Commute Grants (CFDA# 20.507) were tested as major programs.

*Fiscal Period Audited*—Single Audit testing procedures were performed for program transactions that occurred during the year ended December 31, 2005.

### 2. Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the RTA and is presented using the accrual basis of accounting. Expenditures are recognized at the time liabilities are incurred. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

Revenues provided to the RTA by the U.S. Department of Transportation are passed through the Illinois Department of Transportation. These funds are used to finance mass transit planning and technical assistance activities.

### 3. Findings and Noncompliance

There were no instances of noncompliance identified in connection with the 2005 Single Audit disclosed in the Schedule of Findings and Questioned Costs.

### 4. Noncash Awards

There were no noncash awards identified in the federal financial assistance to the RTA.

# Regional Transportation Authority

Notes to Schedule of Expenditures of Federal Awards (Continued)  
Year Ended December 31, 2005

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## 5. Payments to Subrecipients

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
Transit Planning and Research Grant:	20.514	\$ 178,375
Technical Assistance Grants:	20.512	7,204
Metropolitan Planning Grants:	20.505	323,820
Job Access Reverse Commute (JARC):	20.507	178,297

# Regional Transportation Authority

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2005

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## PART I - SUMMARY OF AUDITOR'S RESULTS

### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:  
Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_X\_\_\_\_\_ No

Reportable condition(s) identified  
not considered to be material weaknesses? \_\_\_\_\_X\_\_\_\_\_ Yes \_\_\_\_\_ Not Reported

Noncompliance material to  
financial statements noted? \_\_\_\_\_ Yes \_\_\_\_\_X\_\_\_\_\_ No

### Federal Awards

Internal control over major programs:  
Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_X\_\_\_\_\_ No

Reportable condition(s) identified  
not considered to be material  
weakness(es)? \_\_\_\_\_ Yes \_\_\_\_\_X\_\_\_\_\_ Not 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 \_\_\_\_\_X\_\_\_\_\_ No

Identification of major programs:

**CFDA Number**

20.505  
20.507

**Name of Federal Program or Cluster**

Metropolitan Planning Grants  
Job Access Reverse Commute (JARC)

Dollar threshold used to distinguish  
between Type A and Type B programs

\$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_X\_\_\_\_\_ Yes \_\_\_\_\_ No

# Regional Transportation Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2005

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### PART II - FINANCIAL STATEMENT FINDINGS

#### Finding # 05 – 01 Inadequate Internal Control Over Transit Benefit Program

The Authority did not have adequate internal controls over its Transit Benefit Program.

The Authority administers a Transit Benefit Program whereby businesses can provide their employees an opportunity to purchase transit vouchers for transit fares on a pre-tax basis. Businesses purchase the transit vouchers from RTA then resell transit fare to employees on a pre-tax basis. The volume of transit vouchers issued on an annual basis is in excess of \$50 million.

The Transit Benefit Program is not meant to generate profits for the RTA. It is a “break even” service provided by the RTA to facilitate transit in the region. Accordingly, the accounting for the Transit Benefit Program is primarily a “pass-through” to the service boards with no significant impact on the income or expenses of the Authority. The only income generated from the program is when transit vouchers expire after 13 months. At that time expired transit vouchers are no longer considered a liability and are recognized as income. A third party service provider is paid \$1,000,000 annually to administer the Transit Benefit Program. All internal staff costs of administering the program are charged to RTA operations and are not separately identified.

During our audit testing we noted several internal control issues relating to the Transit Benefit Program including:

- The third party service organization did not have a SAS 70 Service Auditor’s Report to provide some assurance that internal controls are in place and operating effectively and the RTA did not perform any testing of the internal controls of the service organization.
- In an apparent conflict of interest the third party service organization acts as an administrator of the program for some companies purchasing the transit checks and cards. The third party service organization accepts payments from these companies for the purchase of transit vouchers and performs the voucher printing function and distributes the checks and cards to those companies.
- During our audit of the account balances relating to the Transit Benefit Program there was a write down of approximately \$96,000 in the ending balance of transit voucher inventory due to a discrepancy in the physical inventory and the recorded inventory at the service provider. The cause of this problem is unknown and is currently being investigated by the RTA.
- The transit-check liability was understated by approximately \$200,000 and the transit-check account receivable balance was overstated by \$2.2 million. An audit adjustment was necessary to correct the financial statements. It appears from the limited audit evidence available to date that this misstatement arose from a lack of control over the processing of expired transit checks by the internal Transit Card Department. Essentially, it appears that RTA has been recognizing income for expired transit vouchers that have been subsequently paid or replaced.
- Although the transit vouchers contain a 13-month expiration date, RTA regularly honors vouchers for up to 10 days after their stated expiration date.
- The policy in effect during the audit period permitted the RTA to “shred” expired transit checks with no accounting for the numbers of the shredded documents. Accordingly, if a voucher were not shredded, it could be subsequently presented and honored as if it were cash. This would not be detected by current procedures at RTA.

In order to maintain good business practices the RTA needs to gain an understanding of the internal controls of the third party service organization and obtain some reasonable assurance that the controls are operating effectively. Material account balances should be reconciled frequently and proper supporting documentation should be maintained for the account balances. The transit-check process and accounting thereof should be properly reviewed.

# Regional Transportation Authority

Schedule of Findings and Questioned Costs (Continued)  
Year Ended December 31, 2005

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## PART II - FINANCIAL STATEMENT FINDINGS (Continued)

### Finding # 05 – 01 Inadequate Internal Control Over Transit Benefit Program

The Authority's management stated that it receives inadequate reports from the service organization, the bank and the internal Transit Card Department. The reports received were difficult to reconcile due to timing differences and a lack of coordination among the three entities. The entries made by the RTA Controller Department are based on assumptions of other account activities.

The lack of adequate internal controls over the transit-check process and general ledger accounts results in an increased risk of fraud or misappropriation of assets. (Finding Code No. 05 – 01)

#### Recommendation

We recommend that internal control testing be performed at the third party service organization. The RTA should coordinate with the third party service organization and the bank to implement procedures to provide the Controller Department with relevant and reliable information for proper recording and reconciliation of transactions relating to the Transit Benefit Program.

#### Authority Response

We have reviewed the recommendation and agree that internal control testing be performed at the third party service organization. Arrangements have already been made for this to be completed. The 2006 work plan of the Authority's Audit and Review Division included a proposed audit of the internal controls in place at the service organization. The audit commenced in February 2006 and included an onsite review at the service organization in June. We agree that the RTA should coordinate with the third party service organization and the bank to implement procedures to improve proper recording and reconciliation of transactions relating to the Transit Benefit Program.

# Regional Transportation Authority

Schedule of Findings and Questioned Costs (Continued)  
Year Ended December 31, 2005

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## PART III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.

# Regional Transportation Authority

## Summary Schedule of Prior Audit Findings Year Ended December 31, 2005

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The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs and no uncorrected or unresolved findings exist from the prior audit's Summary of Prior Audit Findings.