

**REGIONAL TRANSPORTATION AUTHORITY**  
(Chicago Transit Authority "CTA")

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE  
AND MANAGEMENT

June 30, 2012

# REGIONAL TRANSPORTATION AUTHORITY

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**REQUIRED COMMUNICATIONS BY THE AUDITOR WITH THOSE CHARGED WITH GOVERNANCE**



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To the Board of Directors  
Regional Transportation Authority  
Chicago, Illinois

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed the close-out grant audits of the Chicago Transit Authority ("CTA") for the periods ended June 30, 2012 and have issued our report thereon dated May 22, 2013. This letter presents communications required by our professional standards.

**OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND GOVERNMENT AUDITING STANDARDS**

The objective of this audit is the expression of an opinion on a portion of the Schedules of Grant Costs Claimed for Reimbursement (the "Schedules") of selected Regional Transportation Authority ("RTA") funded grants to CTA as of June 30, 2012. We conducted the audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards. These standards require that we plan and perform our audits to obtain reasonable, rather than absolute, assurance about whether the Schedules, prepared by management with your oversight, are free of material misstatement, whether caused by error or fraud. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules, assessing accounting principles used and significant estimates made by management, and evaluating the overall presentation of the Schedules. Our audits do not relieve management or the Board of their responsibilities.

As part of obtaining reasonable assurance about whether the Schedules are free of material misstatement, we performed tests of CTA's compliance with certain provisions of its grant agreements with RTA. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on CTA's compliance with those requirements.

**OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS**

At the current time, our responsibility does not extend beyond the audited Schedules identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents.

**PLANNED SCOPE AND TIMING OF THE AUDIT**

We performed the audit according to the planned scope and timing previously communicated to you in our post-audit letter from the prior year.

Board of Directors  
Regional Transportation Authority

***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES***

***Accounting Policies***

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. No new accounting policies were adopted and the application of existing policies was not changed during the period audited. We noted no transactions entered into by CTA 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.

***Accounting Estimates***

We are not aware of any particularly sensitive accounting estimates utilized by management in its preparation of the Schedules.

***Financial Statement Disclosures***

The disclosures in the financial statements are neutral, consistent, and clear.

***DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT***

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

***CORRECTED AND UNCORRECTED MISSTATEMENTS***

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the Schedules that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the financial reporting process. Matters underlying adjustments proposed by the auditor could potentially cause future Schedules to be materially misstated. There were no such misstatements identified.

***DISAGREEMENTS WITH MANAGEMENT***

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

***CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from CTA's management that are included in the management representation letter, and attached as Appendix A to this report.

Board of Directors  
Regional Transportation Authority

***INDEPENDENCE***

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and RTA or CTA that, in our professional judgment, may reasonably be thought to bear on our independence. Relating to our audit of a portion of the Schedules as of June 30, 2012, Baker Tilly Virchow Krause, LLP hereby confirms in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to RTA and CTA and provided no services to RTA or CTA other than the audit of the current year's Schedule of Grant Costs Claimed for Reimbursement and non-audit services which in our judgment do not impair our independence.

***OTHER AUDIT FINDINGS OR ISSUES***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as auditors for the RTA close-out grant audits. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***OTHER MATTERS***

This report is intended solely for the information and use of RTA's management, others within the entity, and is not intended to be, and should not be, used by anyone other than the specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

*Baker Tilly Virchow Krause, LLP*

Oak Brook, Illinois  
May 22, 2013

**OTHER COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE**

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## TWO WAY COMMUNICATION REGARDING YOUR AUDIT

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As part of our audit of the Schedules of the close-out grants at the Chicago Transit Authority ("CTA"), we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

- a. We address the significant risks or material noncompliance, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material noncompliance whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls to determine whether they have been implemented. We will use such knowledge to:
  - > Identify types of potential noncompliance.
  - > Consider factors that affect the risks of material noncompliance.
  - > Design tests of controls, when applicable, and other audit procedures.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs.

- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the Regional Transportation Authority ("RTA") has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- e. Have you had any significant communications with regulators or grantor agencies?
- f. Are there other matters that you believe are relevant to the audit of the financial statements or the federal or state awards?



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## **TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)**

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Also, is there anything that we need to know about the attitudes, awareness, and actions of RTA concerning:

- a. RTA's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. We will perform preliminary financial audit work during the months of July-September. Our final financial fieldwork is scheduled during the fall to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions or wish to provide other feedback. We welcome the opportunity to talk with you.

**APPENDIX A - MANAGEMENT REPRESENTATIONS**



CHICAGO TRANSIT AUTHORITY

567 West Lake Street  
Chicago, Illinois 60661-1498  
TEL 312 664-7200  
[www.transitchicago.com](http://www.transitchicago.com)

REPRESENTATIONS MADE TO BAKER TILLY VIRCHOW KRAUSE, LLP  
IN CONNECTION WITH THE CLOSE-OUT AUDITS OF  
REGIONAL TRANSPORTATION AUTHORITY FUNDED CAPITAL GRANTS  
TO THE CHICAGO TRANSIT AUTHORITY  
("CTA")

CHICAGO TRANSIT AUTHORITY  
("CTA")

May 22, 2013

Baker Tilly Virchow Krause, LLP  
1301 West 22nd Street, Suite 400  
Oak Brook, IL 60523

We are providing this letter in connection with your audits of Regional Transportation Authority ("RTA") funded capital grants CTA-087-97-CD, CTA-122-94-D, CTA-146-01-B, CTA-2002-LD, CTA-2003-3SC2, CTA-2003-LSC2, CTA-2004A-LSC2, and CTA-2004-LSC2, to the Chicago Transit Authority ("CTA") as of June 30, 2012 and for the grant period then ended for the purpose of expressing your opinion on the Schedule of Grant Costs Claimed for Reimbursement. We confirm that we are responsible for the fair presentation of the Schedule of Grant Costs Claimed for Reimbursement. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

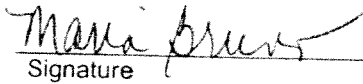
We confirm, to the best of our knowledge and belief the following representations made to you during your audits:

1. We are responsible for the fair presentation of the Schedules of Grant Costs Claimed for Reimbursement for the purpose of complying with Article X, Settlement and Close-out, of the Capital Grant Agreements.
2. We have made available to you all financial records and related data.
3. There have been no communications from RTA or other regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices relative to the projects.
4. There were no material transactions that have not been properly recorded in the accounting records underlying the Schedules of Grant Costs Claimed for Reimbursement.
5. We have adopted and maintained internal controls to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to assure compliance with the terms of the Grant Agreements and to permit the preparation of the Schedules of Grant Costs Claimed for Reimbursement in accordance

with the provisions of the Grant Agreements. We believe the internal controls are adequate and functioning as intended.

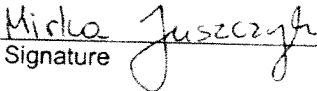
6. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the Schedules of Grant Costs Claimed for Reimbursement. We understand that near term means the period within one year of the date of the Schedules of Grant Costs Claimed for Reimbursement. In addition, we have no knowledge of concentrations existing at the date of the Schedules of Grant Costs Claimed for Reimbursement that make the program vulnerable to the risk of severe impact that have not been properly disclosed in the Schedules of Grant Costs Claimed for Reimbursement.
7. We have identified all accounting estimates that could be material to the Schedules of Grant Costs Claimed for Reimbursement, including key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
8. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts.
9. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
10. We have no knowledge of any fraud or suspected fraud affecting the CTA involving:
  - a. management,
  - b. employees who have significant roles in internal control, or
  - c. others where the fraud could have a material effect on the Schedules of Grant Costs Claimed for Reimbursement.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting the CTA received in communications from employees, former employees, grantors, regulators, or others.
12. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of this audit being undertaken and the corrective actions taken to address significant findings and recommendations.
13. The CTA has satisfactory title to all owned assets acquired with project funds, and there are no liens or encumbrances on such assets nor has any asset been pledged except as made known to you.
14. There are no –
  - a. Violations or possible violations of laws and regulations whose effects should be considered for disclosure in the note to the Schedules of Grant Costs Claimed for Reimbursement.
  - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies.
  - c. Other liabilities or gain or loss contingencies, such as pending litigation, that are required to be disclosed in the note to the Schedules of Grant Costs Claimed for Reimbursement.

15. We have responded fully to all inquiries made to us by you during the engagement.
16. Your report is intended for the information of the RTA management and Board. However, your report is a matter of public record, and its distribution is not limited.
17. No events have occurred subsequent to June 30, 2012, and through the date of this letter that would require adjustment to, or disclosure in, the Schedules of Grant Costs Claimed for Reimbursement and the note thereto.
18. In regards to the non-attest services, performed by you of preparing the Schedule of Grant Costs Claimed for Reimbursements, we have 1) made all management decisions and performed all management functions; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.



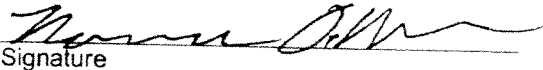
Signature

Manager II, Grant & Property Accounting  
Title



Signature

Manager, Grant Accounting  
Title



Signature

Chief Financial Officer  
Title

**REGIONAL TRANSPORTATION  
AUTHORITY**

CLOSE-OUT AUDITS OF CAPITAL  
GRANTS TO THE CHICAGO TRANSIT  
AUTHORITY ("CTA")

JUNE 30, 2012

**REGIONAL TRANSPORTATION AUTHORITY**

CAPITAL GRANT CTA-2003-LSC2-05

JUNE 30, 2012

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# REGIONAL TRANSPORTATION AUTHORITY

CAPITAL GRANT CTA-2003-LSC2-05

JUNE 30, 2012

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## INDEPENDENT AUDITORS' REPORT

To the Chairman and Members of  
the Board of Directors of  
the Regional Transportation Authority

### **Schedule of Grant Costs Claimed for Reimbursement**

We have audited the accompanying Schedule of Grant Costs Claimed for Reimbursement ("Schedule") of Regional Transportation Authority ("RTA") funded Capital Grant CTA-2003-LSC2-05 to the Chicago Transit Authority ("CTA") as of June 30, 2012 and for the period from October 3, 2003 through June 30, 2012. This Schedule is the responsibility of the CTA's management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit of the Schedule in accordance with auditing standards generally accepted in the United States of America and the standards applicable to audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by CTA's management, as well as evaluating the overall Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

As described the accompanying Summary of Compliance Requirements, this Schedule was prepared for the purpose of complying with Article X, Settlement and Close-out, of the CTA-2003-LSC2-05 Grant Agreement and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule of Grant Costs Claimed for Reimbursement of RTA Capital Grant CTA-2003-LSC2-05 referred to above presents fairly, in all material respects, the information set forth therein in accordance with the Grant Agreement described in the accompanying Note.

### **Compliance with the Grant Agreement**

We have audited the CTA's compliance with the types of compliance requirements set forth in the attached Summary of Compliance Requirements that are applicable to the CTA-2003-LSC2-05 Grant Agreement between the CTA and the RTA, as directed by RTA, for the grant period of October 3, 2003 through June 30, 2012. Compliance with the requirements referred to above is the responsibility of the CTA's management. Our responsibility is to express an opinion on the CTA's compliance based on our audit.

Chairman and Members of the Board of Directors  
Regional Transportation Authority

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 the attached Summary of Compliance Requirements as directed by the RTA. Those standards and guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on grant CTA-2003-LSC2-05 occurred. An audit includes examining, on a test basis, evidence about the CTA'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 the CTA's compliance with those requirements.

In our opinion, CTA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on grant CTA-2003-LSC2-05 for the grant period October 3, 2003 through June 30, 2012.

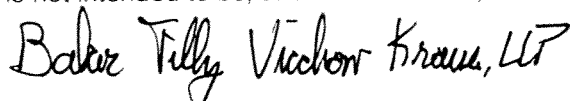
### **Internal Control Over Compliance**

The management of the CTA is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the CTA's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the CTA's internal control over compliance.

A deficiency in internal control over compliance 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 noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a compliance requirement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph in this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the RTA's Management and Board of Directors and is not intended to be, and should not be, used by anyone other than these specified parties.



Oak Brook, Illinois  
May 22, 2013

# REGIONAL TRANSPORTATION AUTHORITY

## SCHEDULE OF GRANT COSTS CLAIMED FOR REIMBURSEMENT CAPITAL GRANT CTA-2003-LSC2-05

For the period from October 3, 2003 to June 30, 2012

Project Element	Project Description	Budget	RTA Portion of Budget	Costs Claimed	RTA Portion of Questioned Costs
67012	Purchase a Min. of 426 Replacement Buses	\$ 1,126,546	\$ 1,126,546	\$ 1,126,546	\$ -
67016	Purchase a Min. of 426 Replacement Buses	4,022,833	4,022,833	-	-
68435	Purchase a min. of 160 of 436 replacement buses	23,972,804	23,972,804	16,390,737	-
68439	Perform Mid-life bus overhaul	11,156,984	11,156,984	11,156,984	-
68442	Upgrade communication system	6,996,000	6,996,000	6,384,939	-
68443	Replace financial systems - Merchandise mart	4,803,920	4,803,920	3,928,628	-
68445	Replace/upgrade escalators and elevators	15,819,352	15,819,352	10,860,465	-
68446	Reconstruct Howard rail station - red line	14,872,823	14,872,823	13,416,415	-
68448	Upgrade and improve bus and rail facilities	2,121,845	2,121,845	2,021,408	-
68572	Replace flange angles - north main line and reven	9,064,595	9,064,595	9,063,538	-
68573	Replace ties - north main line	7,313,935	7,313,935	6,159,432	-
68574	Replace ties - state street subway/red line	460,883	460,883	451,837	-
Total		<u>\$ 101,732,520</u>	<u>\$ 101,732,520</u>	<u>\$ 80,960,929</u>	<u>\$ -</u>
Costs Reimbursed as of June 30, 2012				<u>\$ 80,919,237</u>	

See accompanying notes to this schedule.

# REGIONAL TRANSPORTATION AUTHORITY

## NOTE TO SCHEDULE OF GRANT COSTS CLAIMED FOR REIMBURSEMENT CAPITAL GRANT CTA-2003-LSC2-05

### NOTE 1 – PROJECT STATUS

Through a Grant Agreement dated October 3, 2003, most recently amended on June 2, 2008, the Regional Transportation Authority ("RTA") granted the Chicago Transit Authority ("CTA") \$101,732,520 as its 100% local share for the capital improvement projects listed in the preceding Schedule of Grant Costs Claimed for Reimbursement. The Schedule of Grant Costs Claimed for Reimbursement includes the local share of amounts incurred for each project element through June 30, 2012 and submitted to the RTA for reimbursement. The last requisition to the RTA from CTA prior to July 1, 2012 was dated April 5, 2012. According to CTA, the following projects are open as of June 30, 2012 and have the following status.

<u>Capital Grant</u>	<u>Project Element</u>	<u>Project Completion Date*</u>
CTA-2003-LSC2-05	68435	March 2014
CTA-2003-LSC2-05	68442	March 2013
CTA-2003-LSC2-05	68443	December 2012
CTA-2003-LSC2-05	68445	June 2013
CTA-2003-LSC2-05	68446	March 2013
CTA-2003-LSC2-05	68448	March 2013
CTA-2003-LSC2-05	68572	December 2012
CTA-2003-LSC2-05	68573	September 2013
CTA-2003-LSC2-05	68574	December 2012

\* Project completion date refers to the date that the project element within this specific grant is expected to close.

# REGIONAL TRANSPORTATION AUTHORITY

## SUMMARY OF COMPLIANCE REQUIREMENTS CAPITAL GRANT CTA-2003-LSC2-05

The following sections are the governing compliance requirements, as applicable to the grant close out audit, with respect to Capital Grant CTA-2003-LSC2-05 from October 3, 2003 through June 30, 2012:

### **General Terms and Conditions**

Article II	- The Grantee's Commitment
Article III	- Capital Grant
Article IV	- Method of Funding
Article V	- Accomplishment of the Project(s)
Article VI	- Local Share Provisions
Article VII	- Project Administration and Management
Article VIII	- Requisition, Payment Procedures, and Record Keeping
Article X	- Settlement and Close-out
Article XI	- Procurement
Article XII	- Settlement of Third Party Contract Disputes or Breaches
Article XXII	- Amendment

### **Program Management Guidelines (March 21, 2002)**

- I. Project Reporting
- II. Procurement Review
- V. Use of Force Account

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