

Regional Transportation Authority

Cash and Treasury Review
July 2014

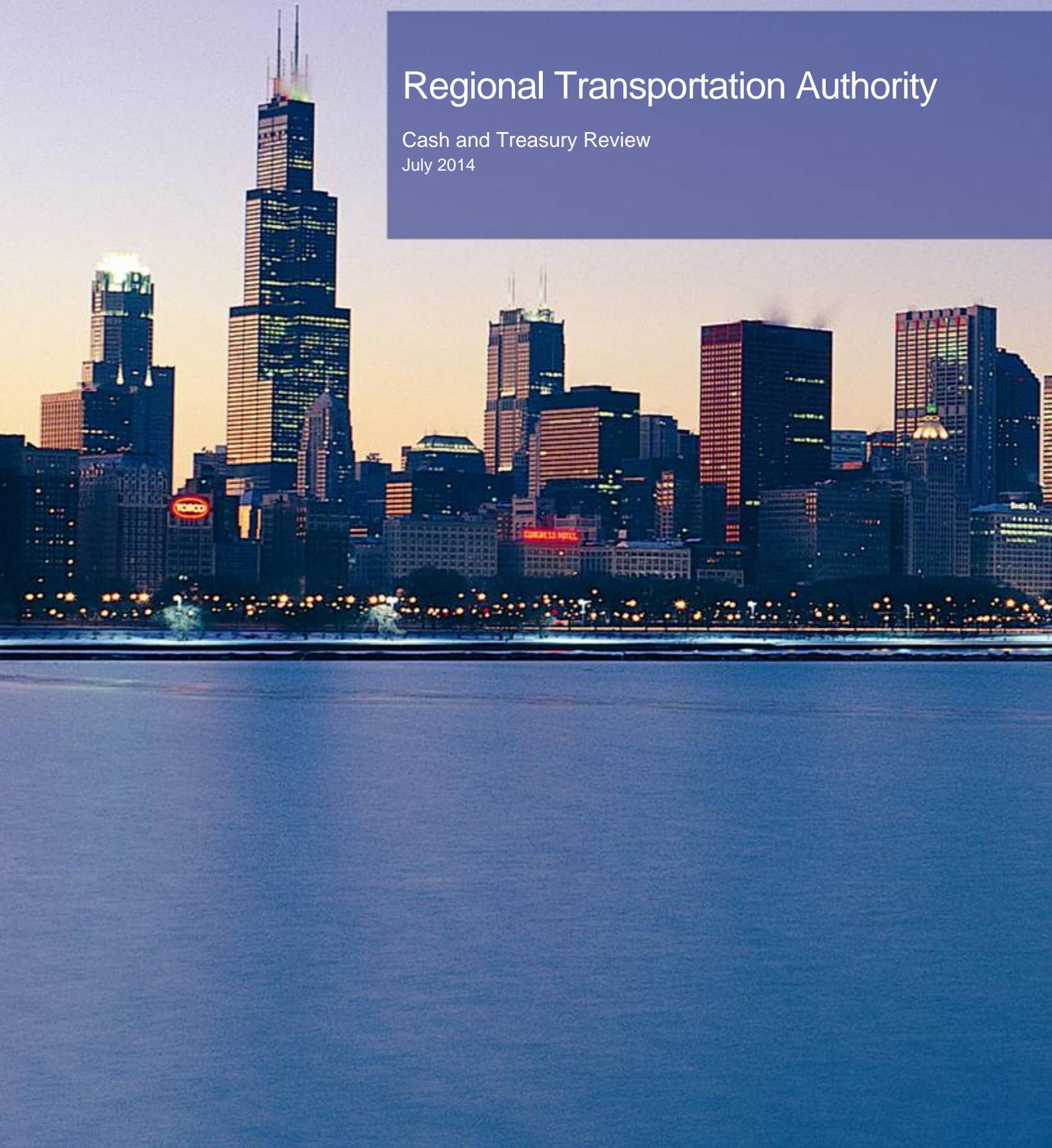




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Background

Objectives: The objectives of this engagement were to assist the Regional Transportation Authority’s (RTA) Internal Audit function in conducting a review of the RTA’s, Pace’s, and Metra’s cash and treasury policies and procedures to help:

1. Assess the effectiveness of internal controls and processes;
2. Evaluate compliance with applicable requirements;
3. Identify leading practices that can be implemented to improve process, if applicable; and
4. Detect compliance and/or process gaps that should be addressed by management.

The internal control objectives were relative to cash receipts, cash disbursements, cash flow forecasts, bank account reconciliation process, investments, cash transaction authority levels, and segregation of duties.

Scope: The scope of this review was January 1, 2012 to May 31, 2013.

Approach: The approach to complete this review was structured into five phases as illustrated below:

Phase	Sub-Task Overview
<p>Conduct Initial Evaluation: The objective of this phase was to conduct scoping activities to help determine the level of audit effort required to meet RTA’s objectives.</p>	<ul style="list-style-type: none"> • Conducted initial planning meeting with the RTA and/or Service Board stakeholders to baseline expectations for the engagement, including confirming the objectives, scope and approach, project team, necessary involvement and support, timeline, and deliverables. • Conducted interviews with appropriate stakeholders to assess the level of audit activity conducted related to the in scope audits and receive input on the perceived risk level to warrant a thorough audit. • Conducted document review of appropriate documentation to include prior audits, reviews, evaluations, risk assessment results, policies and procedures, internal correspondence, etc. within last 2 years to gain an understanding of level of audit activity related to in scope audits. • Conducted analysis of information received from interviews and documentation review.

Phase		Sub-Task Overview
II	<p>Develop Audit Approach & Audit Program:</p> <p>The objective of this phase was to develop the audit program and audit approach based on the level of audit activity previously conducted at the RTA and service boards.</p>	<ul style="list-style-type: none"> • Drafted audit program guide based on our understanding of compliance requirements and other relevant information identified. • Reviewed audit program guide with RTA Project Sponsor to ensure completeness and reasonableness of testing procedures to be conducted. • Received validation of audit program guide form RTA Project Sponsor prior to testing procedures.
III	<p>Execute Audit Approach:</p> <p>The objective of this phase was to execute the audit approach and initiate fieldwork activities.</p>	<ul style="list-style-type: none"> • Executed audits per approved audit program guide requirements. • Documented audit results in a manner that is easily understandable and can be substantiated by supporting documentation.
IV	<p>Review Results of Audit:</p> <p>The objective of this phase was to review and analyze the audit results to formulate observations and recommendations.</p>	<ul style="list-style-type: none"> • Conducted analysis of testing results to formulate into exceptions, trends, and common themes amongst Services Boards.
V	<p>Issue Audit Report:</p> <p>The objective of this phase is to communicate the draft report to applicable stakeholders, solicit feedback, and finalize the report.</p>	<ul style="list-style-type: none"> • Documented observations and recommendations resulting from audits, where applicable. • Discuss draft audit report with Client Sponsor and Key Stakeholders to solicit feedback. • Incorporate Client Sponsor and Key Stakeholders feedback and management responses, as necessary and finalize report for distribution to RTA.

Summary of Results: As a result of this review, there were several observations identified in the areas of compliance, process gaps, and process improvement opportunities. Detailed results are located in the Testing Overview and Observations and Recommendations sections of each Service Board review.

Key themes identified were:

1. Cash and treasury management processes are very manual in nature with an opportunity to leverage technology to help streamline processes, manage documentation, increase operational efficiencies, and promote standardization.
2. Key cash and treasury management practices are not formally documented into policies and procedures.
3. Compliance exceptions were identified related to adherence with existing policies and procedures.



Regional Transportation Authority



Testing Overview

Testing Overview: To help determine the scope of RTA's audit, an initial assessment was conducted to gain an understanding of the level of previous audit activity related to the in-scope objectives. The initial assessment included interviews and review of relevant documentation, such as prior audits/reviews, evaluations, risk assessment results, policies and procedures, internal correspondence, etc. within last 2 years. As a result of this initial evaluation, it was determined that there were no previous activities conducted at RTA that addressed the current scope of work; therefore, the full audit program was executed to meet the RTA project objectives.

To assess current internal controls, compliance, and processes/practices utilized, the fieldwork activities included the following: (1) Policy and Procedures Analysis and (2) Compliance Testing. Each fieldwork component is summarized below:

Policy and Procedure Analysis: To gain an understanding of the policies, procedures, regulations, etc. related to the cash and treasury function, we conducted multiple internal stakeholder interviews and reviewed documentation for the following in-scope processes: *Cash Disbursements*, *Cash Receipts*, *Bank Account Reconciliations*, and *Cash Flow Forecasts*. Each policy and procedure was rated on a maturity scale to assess the current-state and/or if opportunities existed for improvement. Additional details and results of the analysis can be located in the Policy and Procedures Analysis section of this report beginning on page 8.

Compliance Testing: To gain an understanding the compliance requirements, we conducted multiple stakeholder interviews and reviewed documentation, i.e. policies and procedures and applicable governance documents, for the in-scope processes. The scope period assessed was 1/1/12 – 5/31/13, where a judgmental sample, based on several criteria, was utilized to perform transaction testing, where applicable. Additional details and results of the compliance testing can be located in the Observations and Recommendations section of this report beginning on page 10.

Testing Procedures: Based on the applicable policies and procedures, as well as our understanding of current practices, the following areas were reviewed:

- Cash receipts, including wire and ACH receipts;
- Cash disbursements, including checks, wire and ACH disbursements;
- Cash flow forecasting;
- Investments, including purchases and adherence to portfolio management and reporting policy and requirements;
- Bank account administration, including bank reconciliations; and
- Segregation of Duties.

A summary of the testing procedures performed included the following:

1. Obtained written policies and procedures for the treasury management areas to assess their adequacy.
2. Determined disbursement methods utilized and reviewed the supporting documentation to assess existence, completeness, accuracy, and compliance with regulations, policies and procedures.
3. Determined collection methods utilized and reviewed the supporting documentation to assess existence, completeness, accuracy, and compliance with regulations, policies and procedures.
4. Reviewed supporting documentation for bank account reconciliations to determine if they were completed in accordance to policy.
5. Analyzed information to formulate responses to the defined objectives, identify potential exceptions and develop related recommendations, as applicable.



Policy & Procedure Analysis

The following policies and procedures for RTA was reviewed to assess adequacy related to four (4) in-scope processes as indicated below:

Process	
1	<i>Cash Disbursements</i>
2	<i>Cash Receipts</i>
3	<i>Bank Account Reconciliations</i>
4	<i>Cash Flow Forecasts</i>

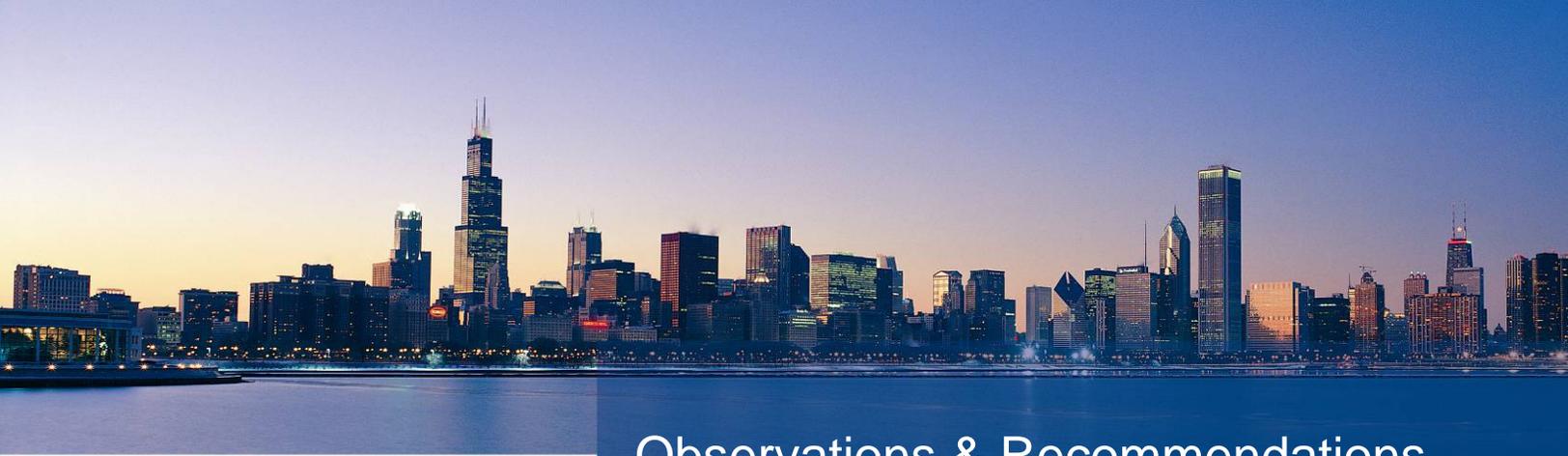
Each policy and procedure was measured with specific criteria to help assess the maturity level of each document ranging from basic to leading practice. The scale criteria utilized is as follows:

Policy and Procedure Maturity Scale	
Basic	Informal policies and procedures not documented.
Developing	High level policy statements setting out central treasury activities. Limited documented guidance on local treasury activities and incomplete procedure documentation.
Established	Well documented group treasury policy and procedures. Limited procedures on treasury activities in local business units.
Leading Practice	Comprehensive policy document for group treasury and the business units.

The results of policy and procedure analysis are as follows:

Category	Process Definitions Testing Criteria	Gap Identified	Gap Description
1 Cash Disbursements	Processes for each disbursement method utilized including check issuance practices; wire transfer control procedures; ACH Payment control procedures; transaction authority levels, fraud controls; reconciliation of accounts; reporting relationships with approving and review duties; position titles assigned to specific processes; key performance indicators and statistics; data entry controls; document management protocols.	Developing	<ul style="list-style-type: none"> Key performance indicators and statistics are not defined in the policies and procedures. Data entry controls are not defined in the policies and procedures. Document management protocols are not defined in the policies and procedures.
2 Cash Receipts	Processes for each collection method utilized including the controls within the paper flow; reporting	Developing	<ul style="list-style-type: none"> Segregation of duties built within the process are not defined in the policies and

Category	Process Definitions Testing Criteria	Gap Identified	Gap Description
	relationships with approving and review duties; position titles assigned to specific processes; key performance indicators and statistics; fraud controls; data entry controls; segregation of duties; documentation management protocols.		<p>procedures.</p> <ul style="list-style-type: none"> Data entry controls are not defined in the policies and procedures. Document management protocols are not defined in the policies and procedures. Key performance indicators are not defined in the policies and procedures.
3	Bank Account Reconciliations Processes for the reconciliation of each account; the segregation of duties built the process; review and approval processes; the frequency of reconciliations; the process for resolution and follow up of identified exception(s); key performance indicators related to the resolution of identified exception(s); the reporting, review, and approval process; document management protocols.	Developing	<ul style="list-style-type: none"> Process for resolution and follow up of identified exceptions are not defined in policies and procedures. Key performance indicators related to the resolution and follow up of identified exceptions are not defined in the policies and procedures.
4	Cash Flow Forecasts Processes for generating the cash flow forecasts; the departments and personnel incorporated into the process; the data and assumptions utilized for the cash flow statement; segregation of duties; review, approval and reporting process; the frequency of completion; comparison of forecast to actual; defined variance tolerances between forecast and actual.	Developing	<p>The following are not defined in the policies and procedures:</p> <ul style="list-style-type: none"> Comparison of forecast to actual and variance tolerances; Assumptions utilized in the forecast; Frequency of completion; and Review, approval and reporting processes.



Observations & Recommendations

Observations and Recommendations: The following section illustrates the observations identified as part of the review. The format in which each observation is presented, with its related risk, recommendation and management response is as follows:

Observation #	Title/ area of finding identified.
Observations	Presents supporting detail related to each award for which a finding applies.
Risk Rating	Presents the rating and priority of management's action for the observation/ exception identified as follows.
	<u>High:</u> Should be addressed immediately. A high observation includes control weaknesses that are causing disruption of the process or adversely affecting the organization's ability to achieve operational objectives.
	<u>Medium:</u> Should be addressed in the near term. A medium observation includes process improvement opportunities or control weaknesses that may have an adverse affect on the organization's ability to achieve process objectives.
	<u>Low:</u> Should be addressed/considered by management. A low observation includes process improvement opportunities or minor control weaknesses with a minimal, but identifiable impact.
Risk	Provides the associate potential risk of the current state observation and/or exception.
Recommendation	Provides suggested courses of action aimed at resolution of compliance issues or mitigation of risks to process effectiveness.
Management Response	Captures the department's response to the findings and observations, responsible persons, and timeframe to implement recommendations, if applicable.

Observation #1	Adequacy of Written Policies and Procedures	Risk Rating: HIGH
<p>Observation</p>	<p><u>There was a lack of formal policies and procedures for the cash flow forecast process.</u></p> <p>During the course of the interviews and documentation review, it was noted that RTA did not formally document its policies and procedures for cash flow forecasts. The staff interviewed had an adequate understanding of the process, and practice applied; however, these practices were not formally documented in current policies and procedures.</p> <p><u>The duties and responsibilities for each role/ position were not disclosed in the procedures.</u></p> <p>A review of the provided policy and procedures disclosed that the duties and responsibilities for each role and position involved in the processes were not identified for the following procedures:</p> <ul style="list-style-type: none"> – Cash Receipt Process – Cash Disbursement Process – Bank Account Reconciliation Process – Wire Transfer Process 	
<p>Risk</p>	<p>Lack of formal policies and procedures may pose the risk of inconsistent application and understanding of processes, noncompliance of practice in relation to policy or requirement, and non-retention of institutional knowledge with turnover.</p>	
<p>Recommendation</p>	<p>We recommend Management:</p> <ol style="list-style-type: none"> 1. Formalize policy and procedure documents for the Treasury processes identified above. The policy and procedure documentation should adhere to RTA’s normal review and approval processes and be disseminated to appropriate resources. <p>The expectation is that management actions be formally documented and implemented within 30 days.</p>	
<p>Management Response</p>	<p>The RTA will document its Cash Flow Forecast Process.</p>	

Observation #2	Lack of Segregation of Duties	Risk Rating: HIGH
<p>Observation</p>	<p><u>There was a lack of segregation of duties identified in the cash receipts and disbursement processes.</u></p> <p>The current direct check receipts process allows the Treasurer to receive checks, process for bank deposits, and posting of check details to EVAR (Treasury’s system of record utilized in conjunction with “Great Plains” the accounting system).</p> <p>For adequate segregation of duties, no one individual should:</p> <ul style="list-style-type: none"> • Initiate transaction • Approve transaction • Record transaction • Reconcile balances • Handle assets 	

Observation #2	Lack of Segregation of Duties	Risk Rating: HIGH
Risk	Lack of segregation of duties may pose the risk of undetected accounting errors, inaccurate general ledger balances, asset misappropriation, intentional financial misrepresentation, and/or fraud.	
Recommendation	<p>We recommend Management:</p> <ol style="list-style-type: none"> 1. Implement process in which individual cannot receive, process, deposit and post cash receipts transactions, or 2. Implement mitigating controls which requires additional review/ approval by separate individual for cash receipt process. <p>The expectation is that management actions be formally documented and implemented within 30 days.</p>	
Management Response	<p>Specific recommendations concerning how duties within the cash receipts and disbursement processes could be better segregated, while working within the staffing level constraints, would assist us in our current efforts to review processes, systems, and procedures and implement improvements to reduce paperwork, streamline operations, decrease costs, and improve service delivery. The RTA Cash Receipt Process, RTA Cash Disbursement (Wire Transfer) Process, RTA Payroll Checkbook Process, and RTA AP EFT Process are attached as exhibits. The following is a brief outline of our current processes:</p> <p>Cash Receipt Process</p> <ul style="list-style-type: none"> • The treasurer receives checks either directly in the mail or from program managers within the RTA. • The CFO's assistant scans or makes copies of each check. • The CFO's assistant endorses each check and completes a bank deposit slip and delivers the checks in a locked bag to reception. • A courier picks up the bag of checks from reception and delivers it to the bank. • The controller's staff review each the check and assigns it an account number based on the RTA chart of accounts, and records it in Great Plains. • The controller's staff reconciles the deposits with the monthly bank statement. • The controller reviews and approves the bank reconciliation. <p>Cash disbursement process</p> <ul style="list-style-type: none"> • Accounts Payable Disbursements <ul style="list-style-type: none"> ○ AP receives invoice ○ Project manager and supervisor approve invoice ○ AP processes payment (ACH or check) ○ Controller, CFO, or ED approves disbursements • Service Board Operations Funding <ul style="list-style-type: none"> ○ Treasury staff or Budget staff determines monthly distribution of Sales Tax, PTF funds ○ Treasury staff or Budget staff creates receivable in Great Plains 	

Observation #2	Lack of Segregation of Duties	Risk Rating: HIGH
	<ul style="list-style-type: none"> ○ Treasury staff prepares EFT (ACH or Wire) ○ Treasurer or controller staff approves EFT ○ Controller's staff performs month end reconciliation ○ Controller reviews and approves reconciliation ● Service Board Capital and Grant Funding <ul style="list-style-type: none"> ○ Grants Management determines compliance, recipient, and amount and approves payment ○ Treasury staff prepares EFT ○ Treasurer or controller staff approves EFT ○ Controller's staff performs month end reconciliation ○ Controller reviews and approves reconciliation ● Other EFTs <ul style="list-style-type: none"> ○ Project manager and supervisor approve invoice/payment ○ Treasury staff prepares EFT (ACH or Wire) ○ Treasurer or controller staff approves EFT ○ Controller's staff performs month end reconciliation ○ Controller reviews and approves reconciliation 	

Observation #3	Bank Account Management Exceptions/ Process Improvement Opportunities	Risk Rating: HIGH
<p style="text-align: center;">Observation</p>	<p><u>There were exceptions/ process improvement opportunities identified in the bank account reconciliations process and bank service RFP process.</u></p> <ol style="list-style-type: none"> 1. 8 of the 9, or 88% of the bank account reconciliations reviewed were not completed timely, in accordance with practice. RTA does not have formal policies and procedures for bank account reconciliations; however, desk procedures are maintained which indicated bank account reconciliations are to be completed by the end of the following month. The 8 bank account reconciliation exceptions identified were completed within the range of 1 to 5 months of the requirement. 2. RTA has not completed an RFP for bank account services within the last 10 years. Better practices indicate bank account and fee management services should be rebid every 3 to 5 years to potentially help reduce bank fees and maintain competitiveness. 	
<p style="text-align: center;">Risk</p>	<p>Lack of timely bank account reconciliations may pose the risk of undetected errors in accounting records and undetected irregularities such as unauthorized bank withdrawals.</p> <p>Lack of periodic bank account services evaluation may pose the risk of noncompetitive banking fee expenses and/or unavailable service offerings, i.e. auto-replenish of account.</p>	

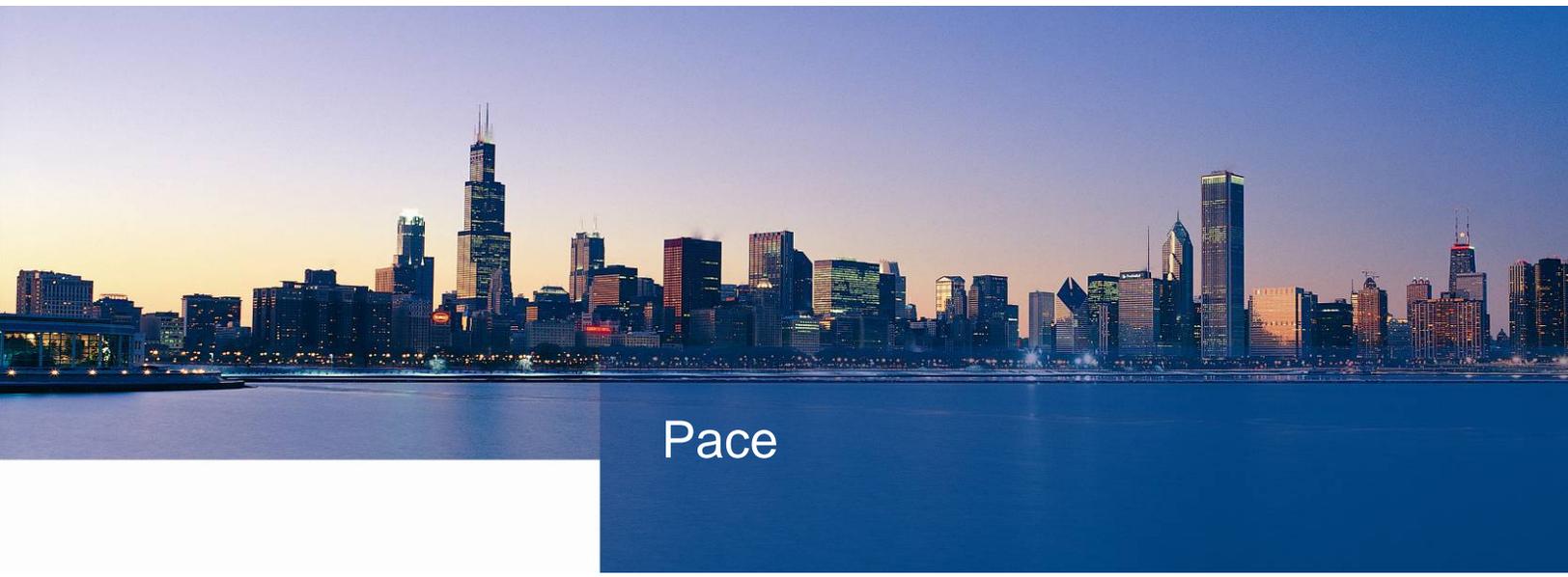
Observation #3	Bank Account Management Exceptions/ Process Improvement Opportunities	Risk Rating: HIGH
<p>Recommendation</p>	<p>We recommend Management:</p> <ol style="list-style-type: none"> 1. Establish formal documented policies and procedures detailing the various steps required for bank account reconciliations. 2. Enforce compliance with the bank account reconciliation practice of completing bank account reconciliations by the end of the following month by implementing additional reviews, approvals, and/or internal reporting. 3. Reevaluate current banking relationship to ensure services provided are competitive and relevant to meeting operational needs and determine if RFP process is necessary to identify alternative solutions. <p>The expectation is that management actions be formally documented and implemented within 30 days.</p>	
<p>Management Response</p>	<p>The controller Division will establish formal documented policies and procedures detailing the various steps required for bank account reconciliations.</p> <p>The RTA's annual external financial audit is conducted from January through June of the following year. During this audit period, reconciliations are deferred (1 to 5 months) for audit assistance. Reconciliations are then caught up by mid-August and remain current until the start of the next audit season. The RTA will review Great Plains functionality and consider expanding direct posting to Great Plains. This will allow bank reconciliations to be performed more timely.</p> <p>The RTA will issue an RFP for banking services later this year. We are currently in the process of determining our operational needs within the Treasury Division and the Finance Department.</p>	

Observation #4	Cash Receipts and Disbursements Exceptions	Risk Rating: LOW
<p>Observation</p>	<p><u>Cash receipt and disbursement were not posted timely and/or compliant with requirements.</u></p> <ol style="list-style-type: none"> 1. 6 out of 50, or 20% of transactions reviewed were not posted to the general ledger by the end of the following month in accordance with practice. <p>RTA does not have formal policies and procedures for cash receipt and disbursements; however, desk procedures are maintained which posting transactions to the general ledger are to be completed by the end of the following month. The 6 transaction exceptions identified were completed within the range of 2 weeks to 4 months of the requirement.</p> <ol style="list-style-type: none"> 2. 1 out of 50, or 2% of transactions reviewed did not have evidence of two different RTA staff initiating and approving the wire transfer. <p>RTA does not have formal policies and procedures for wire transfers; however, the practice indicated is to have two different RTA staff initiating and approving the wire transfer.</p>	
<p>Risk</p>	<p>Lack of timely posting of cash receipts and disbursements may pose the risk that a material misstatement may not be identified in a timely manner. Lack of appropriate approvals of wire</p>	

Observation #4	Cash Receipts and Disbursements Exceptions	Risk Rating: LOW
	transfers may pose the risk that unauthorized transactions may occur.	
Recommendation	<p>We recommend Management:</p> <ol style="list-style-type: none"> 1. Establish formal documented policies and procedures for cash receipts, cash disbursements and wire transfer processes. 2. Enforce compliance with the cash receipts, cash disbursements and wire transfer practices by implementing additional reviews, approvals, and/or internal reporting. <p>The expectation is that management actions be formally documented and implemented within 90 days.</p>	
Management Response	<p>Formal documented policies and procedures for cash receipts, cash disbursements, and wire transfer processes will include enforcement provisions, including additional reviews, approvals, and/or internal reporting. All Cash receipt and disbursement transactions will be posted to the general ledger by the end of the following month in accordance with practice.</p> <ol style="list-style-type: none"> 1. It is believed that the exceptions noted originated during the audit season when completing the audit competes with processing cash receipts and transactions. 2. The requirement of two different RTA staff initiating and approving an EFT (Wire Transfer or ACH) is enforced not only by RTA's Cash Disbursement Policy but also by the Northern Trust website. Information about each wire transfer and ACH, including the initiator and approver, is available for on the Northern Trust website. 	

Observation #5	Investment Purchasing Process Improvement Opportunities	Risk Rating: LOW
Observation	<p><u>The current investment purchasing process is manual and duplicative in nature.</u></p> <p>The current investment purchasing process is as follows:</p> <ol style="list-style-type: none"> 1. RTA initiates investment purchases via email or telephone to the listing of brokers with the desired securities. 2. RTA purchases the desired securities from the broker(s). 3. The purchase is confirmed via the Northern Trusts settlement process (in which the trade settlement date and amount are confirmed). 4. RTA receives the order ticket from the broker and Northern Trust in an electronic format. 5. RTA manually copies the order ticket into a hard copy template, which is retained for the RTA records. 6. RTA manually enters the order ticket information into EVAR. <p>This process is redundant in nature as electronic versions of the order ticket are provided and can be leverage for record retention purposes.</p>	
Risk	Manual processes increase the risk of recording errors, increased staffing effort, and duplication/inefficient processes.	

Observation #5	Investment Purchasing Process Improvement Opportunities	Risk Rating: LOW
Recommendation	<p>We recommend Management:</p> <ol style="list-style-type: none"> 1. Reevaluate the current process to incorporate process efficiencies to include: <ul style="list-style-type: none"> • Discontinue the practice of creating a hard copy ticket and retain the original trade ticket for records. • Utilize readily available Optical Character Recognition (OCR) software to copy the trade ticket information directly into the EVAR system. • Save the OCR copy of the trade ticket to be referenced and searched utilizing the built in document search functions of Windows. <p>The expectation is that management actions be formally implemented within 90 days.</p>	
Management Response	<p>The investment purchasing process is part of our effort to map current processes, define requirements, and implement process improvements in the Treasury Division and throughout the Finance Department. Elimination of the hand-completed, hardcopy investment ticket is one of many practices being addressed. Electronic copies of investment tickets will soon replace hand-completed, hardcopy investment tickets. We will investigate the use of OCR software to copy trade ticket information directly into Treasury Desktop and include this functionality when considering a centralized treasury management system and a centralized trading platform.</p>	



Pace



Testing Overview

Testing Overview: To help determine the scope of each service board audit, an initial assessment was conducted to gain an understanding of the level of previous audit activity related to the in-scope objectives. The initial assessment included interviews and review of relevant documentation, such as prior audits/reviews, evaluations, risk assessment results, policies and procedures, internal correspondence, etc. within last 2 years. As a result of this initial evaluation, it was determined that there were no previous activities conducted at Pace that addressed the current scope of work; therefore, the full audit program was executed to meet the RTA project objectives.

To assess current internal controls, compliance, and processes/practices utilized, the fieldwork activities included the following: (1) Policy and Procedures Analysis and (2) Compliance Testing. Each fieldwork component is summarized below:

Policy and Procedure Analysis: To gain an understanding of the policies, procedures, regulations, etc. related to the cash and treasury function, we conducted multiple internal stakeholder interviews and reviewed documentation for the following in-scope processes: *Cash Disbursements*, *Cash Receipts*, *Bank Account Reconciliations*, and *Cash Flow Forecasts*. Each policy and procedure was rated on a maturity scale to assess the current-state and/or if opportunities existed for improvement. Additional details and results of the analysis can be located in the Policy and Procedures Analysis section of this report beginning on page 20.

Compliance Testing: To gain an understanding the compliance requirements, we conducted multiple stakeholder interviews and reviewed documentation, i.e. policies and procedures and applicable governance documents, for the in-scope processes. The scope period assessed was 1/1/12 – 5/31/13, where a judgmental sample, based on several criteria, was utilized to perform transaction testing, where applicable. Additional details and results of the compliance testing can be located in the Observations and Recommendations section of this report beginning on page 22.

Testing Procedures: Based on policies and procedures, as well as our understanding of current practices, the following areas were reviewed:

- Cash receipts, including lockbox, wire and ACH receipts;
- Cash disbursements, including checks, wire and ACH disbursements;
- Cash flow forecasting;
- Investments, including purchases and adherence to portfolio management and reporting policy and requirements;
- Bank account administration, including bank reconciliations; and
- Segregation of Duties.

A summary of the testing procedures performed included the following:

1. Obtained written policies and procedures for the treasury management areas to assess existence and adequacy.
2. Determined disbursement methods utilized and reviewed the supporting documentation to assess existence, completeness, accuracy, and compliance with regulations, policies and procedures.
3. Determined collection methods utilized and reviewed the supporting documentation to assess existence, completeness, accuracy, and compliance with regulations, policies and procedures.
4. Reviewed supporting documentation for bank account reconciliations to determine if they were completed in accordance to policy.
5. Analyzed information to formulate responses to the defined objectives, identify potential exceptions and develop related recommendations, as applicable.



Policy & Procedure Analysis

The following policies and procedures for Pace was reviewed to assess adequacy related to four (4) in-scope processes as indicated below:

Process	
1	<i>Cash Disbursements</i>
2	<i>Cash Receipts</i>
3	<i>Bank Account Reconciliations</i>
4	<i>Cash Flow Forecasts</i>

Each policy and procedure was assessed against specific criteria to help assess the maturity level of each document ranging from basic to leading practice. The scale criteria utilized is as follows:

Policy and Procedure Maturity Scale	
Basic	Informal policies and procedures not documented.
Developing	High level policy statements setting out central treasury activities. Limited documented guidance on local treasury activities and incomplete procedure documentation.
Established	Well documented group treasury policy and procedures. Limited procedures on treasury activities in local business units.
Leading Practice	Comprehensive policy document for group treasury and the business units.

The results of policy and procedure analysis are as follows:

Category	Process Definitions Testing Criteria	Maturity Rating	Gap Description
1 Cash Disbursements	Processes for each disbursement method utilized including check issuance practices; wire transfer control procedures; ACH Payment control procedures; transaction authority levels, fraud controls; reconciliation of accounts; reporting relationships with approving and review duties; position titles assigned to specific processes; key performance indicators and statistics; data entry controls; document management protocols.	Established	<ul style="list-style-type: none"> Data entry controls are not defined in the policies and procedures.
2 Cash Receipts	Processes for each collection method utilized including the controls within the paper flow; reporting relationships with	Established	<ul style="list-style-type: none"> Data entry controls are not defined in the policies and procedures.

Category	Process Definitions Testing Criteria	Maturity Rating	Gap Description
	<p>approving and review duties; position titles assigned to specific processes; key performance indicators and statistics; fraud controls; data entry controls; segregation of duties; documentation management protocols.</p>		
<p>3 Bank Account Reconciliations</p>	<p>Processes for the reconciliation of each account; the segregation of duties built the process; review and approval processes; the frequency of reconciliations; the process for resolution and follow up of identified exception(s); key performance indicators related to the resolution of identified exception(s); the reporting, review, and approval process; document management protocols.</p>	<p>Established</p>	<ul style="list-style-type: none"> • Process for resolution and follow-up of identified exceptions are not defined in policies and procedures.
<p>4 Cash Flow Forecasts</p>	<p>Processes for generating the cash flow forecasts; the departments and personnel incorporated into the process; the data and assumptions utilized for the cash flow statement; segregation of duties; review, approval and reporting process; the frequency of completion; comparison of forecast to actual; defined variance tolerances between forecast and actual.</p>	<p>Established</p>	<ul style="list-style-type: none"> • Variance tolerances are not defined in the policies and procedures. • The assumptions utilized in the forecast are not defined in the policies and procedures.



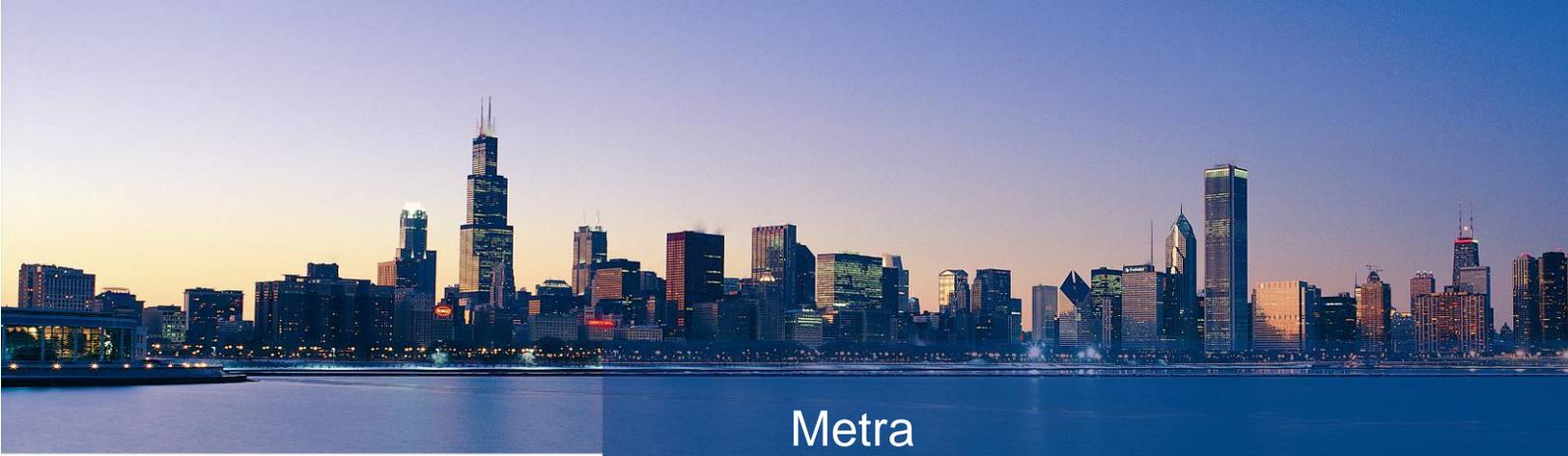
Observations & Recommendations

Observations and Recommendations: The following section illustrates the observations identified as part of the review. The format in which each observation is presented, with its related risk, recommendation and management response is as follows:

Observation #	Title/ area of finding identified.
Observations	Presents supporting detail related to each award for which a finding applies.
Risk Rating	Presents the rating and priority of management’s action for the observation/ exception identified as follows.
	<p><u>High:</u> Should be addressed immediately. A high observation includes control weaknesses that are causing disruption of the process or adversely affecting the organization's ability to achieve operational objectives.</p>
	<p><u>Medium:</u> Should be addressed in the near term. A medium observation includes process improvement opportunities or control weaknesses that may have an adverse affect on the organization’s ability to achieve process objectives.</p>
<p><u>Low:</u> Should be addressed/considered by management. A low observation includes process improvement opportunities or minor control weaknesses with a minimal, but identifiable impact.</p>	Risk
Recommendation	Provides suggested courses of action aimed at resolution of compliance issues or mitigation of risks to process effectiveness.
Management Response	Captures the department’s response to the findings and observations, responsible persons, and timeframe to implement recommendations, if applicable.

Observation #1	Informal Wire Transfer Documentation Processes	Risk Rating: LOW
Observation	<p><u>Current wire transfer processes were identified with opportunities for process improvement.</u></p> <ol style="list-style-type: none"> 1. Currently Pace's process utilizing an informal e-mail inquiry process for obtaining required information for executing a wire transfer. The e-mail does not contain a standard template and/or format detailing the specific information required to initiate the wire transfer. 2. Pace's Wire and ACH policies and procedures states: <i>"A Wire/ACH Transfer Request Form is submitted by the Accounts Payable Department to the Treasury Department for processing. The form should have the Requestor information and manager approval; Accounting should complete the Accounts Payable information."</i> <p>The current practice is the <i>Transfer Request Form</i> is not utilized for wire/ACH transfers within the same banking institution. Pace's current policies and procedures are silent on this practice.</p>	
Risk	<p>Lack of utilizing standard forms/templates in requesting wire transfer information may pose the risk of inaccurate or incomplete information being obtained; inefficiencies in the process leading to increased resource effort; and incorrect processing of wire transfer transactions.</p> <p>Lack of comprehensive policies and procedures that reflect current practices may pose the risk of inconsistent application of the process; and noncompliance policy and procedure documentation.</p>	
Recommendation	<p>We recommend Management:</p> <ol style="list-style-type: none"> 1. Create a standard form to facilitate the wire transfer process to help promote consistency and potential reduction in errors or incomplete information. 2. Assess current practice of wire/ACH transfers within the same banking institution and either formally revise the policy and procedure documentation or discontinue the current practice. The decision rendered should be formally communicated to appropriate stakeholders. <p>The expectation is that management actions be formally documented and implemented within 90 days.</p>	
Management Response	<p>We concur with the observation. Pace is developing a new Electronic Transfer Authorization Form which will be completed by September 1, 2014. The form will be sent to all of our current vendors receiving electronic payments. A binder will be maintained with all the forms so they are filed in one central location. In the future, new vendors will be required to complete the form prior to receiving any electronic payments.</p> <p>We concur with the observation. Pace will develop a transfer form for documenting financial activity within the same banking institution. This procedure will be implemented by September 1, 2014.</p>	

Observation #2	Pace Cash and Treasury Processes are primarily manual in nature.	Risk Rating: LOW
Observation	<p><u>Pace does not leverage a formal Treasury Management system in current operations.</u></p> <p>Pace currently manages 19 bank accounts across 3 banking platforms. The current Treasury Management operation relies heavily on manual processes with minimal direct communication between the internal systems (Oracle Accounting System, etc.) and the banking platforms utilized. Pace also relies on the permissions capabilities inherent in each banking platform rather than applying a consistent approach across all banking platforms.</p> <p>Automating processes through technology can allow greater control over delegated authority and decision making. A Treasury Management System would allow the processing of wires from one site and eliminate the need to log into multiple bank web-sites. Treasury technology can lead to reduced risk, greater visibility, increased operational efficiencies, less time spent on processing and more time spent on strategy and analysis.</p>	
Risk	<p>Lack of utilizing a Treasury Management system poses the potential risk of decreased operational efficiencies, less visibility, and increased time spent of processing.</p>	
Recommendation	<p>We recommend Management:</p> <ol style="list-style-type: none"> 1. Collaborate with the IT department to identify potential solutions that are currently available to allow for Pace's systems to better integrate with the multiple banking platforms. 2. Conduct cost-benefit analysis of acquiring a Treasury Management system. <p>The expectation is that management actions be formally documented and implemented within 90 days.</p>	
Management Response	<p>We concur and will investigate potential technologies that could improve Treasury Management operations. Oracle's Treasury and Cash Management module will be reviewed to determine potential benefits. In addition, Pace is currently out for bid for a new banking services contract (to be awarded in early 2015). With the new banking contract, we will determine if opportunities exist to further automate our treasury processes. Lastly, and if necessary, a stand-alone Treasury Management System will be considered with a cost/benefit analysis performed to determine if such a system is advantageous given the volume of our treasury activity. Our reviews should be completed by the end of the first quarter of 2015 to coincide with a new banking services contract.</p>	



Metra



Testing Overview

Testing Overview: To help determine the scope Metra’s audit, an initial assessment was conducted to gain an understanding of the level of previous audit activity related to the in-scope objectives. The initial assessment included interviews and review of relevant documentation, such as prior audits/reviews, evaluations, risk assessment results, policies and procedures, internal correspondence, etc. within last 2 years. As a result of this initial evaluation, it was determined that there were no previous activities conducted at Metra that addressed the current scope of work; therefore, the full audit program was executed to meet the RTA project objectives.

To assess current internal controls, compliance, and processes/practices utilized, the fieldwork activities included the following: (1) Policy and Procedures Analysis and (2) Compliance Testing. Each fieldwork component is summarized below:

Policy and Procedure Analysis: To gain an understanding of the policies, procedures, regulations, etc. related to the cash and treasury function, we conducted multiple internal stakeholder interviews and reviewed documentation for the following in-scope processes: *Cash Disbursements, Cash Receipts, Bank Account Reconciliations, and Cash Flow Forecasts*. Each policy and procedure was rated on a maturity scale to assess the current-state and/or if opportunities existed for improvement. Additional details and results of the analysis can be located in the Policy and Procedures Analysis section of this report beginning on page 28.

Compliance Testing: To gain an understanding the compliance requirements, we conducted multiple stakeholder interviews and reviewed documentation, i.e. policies and procedures and applicable governance documents, for the in-scope processes. The scope period assessed was 1/1/12 – 5/31/13, where a judgmental sample, based on several criteria, was utilized to perform transaction testing, where applicable. Additional details and results of the compliance testing can be located in the Observations and Recommendations section of this report beginning on page 30.

Testing Procedures: Based on the applicable policies and procedures, as well as our understanding of current practices, the following areas were reviewed:

- Cash receipts, including lockbox, wire and ACH receipts;
- Cash disbursements, including checks, wire and ACH disbursements;
- Cash flow forecasting;
- Investments, including purchases and adherence to portfolio management and reporting policy and requirements;
- Bank account administration, including bank reconciliations; and
- Segregation of Duties.

A summary of the testing procedures performed include the following:

1. Obtained written policies and procedures for the treasury management areas to assess their adequacy.
2. Determined disbursement methods utilized and reviewed the supporting documentation to assess existence, completeness, accuracy, and compliance with regulations, policies and procedures.
3. Determined collection methods utilized and reviewed the supporting documentation to assess existence, completeness, accuracy, and compliance with regulations, policies and procedures.
4. Reviewed supporting documentation for bank account reconciliations to determine if they were completed in accordance to policy.
5. Analyzed information to formulate responses to the defined objectives, identify potential exceptions and develop related recommendations, as applicable.



Policy & Procedure Analysis

The following policies and procedures for Metra was reviewed to assess adequacy related to four (4) in-scope processes as indicated below:

Process	
1	<i>Cash Disbursements</i>
2	<i>Cash Receipts</i>
3	<i>Bank Account Reconciliations</i>
4	<i>Cash Flow Forecasts</i>

Each policy and procedure was measured with specific criteria to help assess the maturity level of each document ranging from basic to leading practice. The scale criteria utilized is as follows:

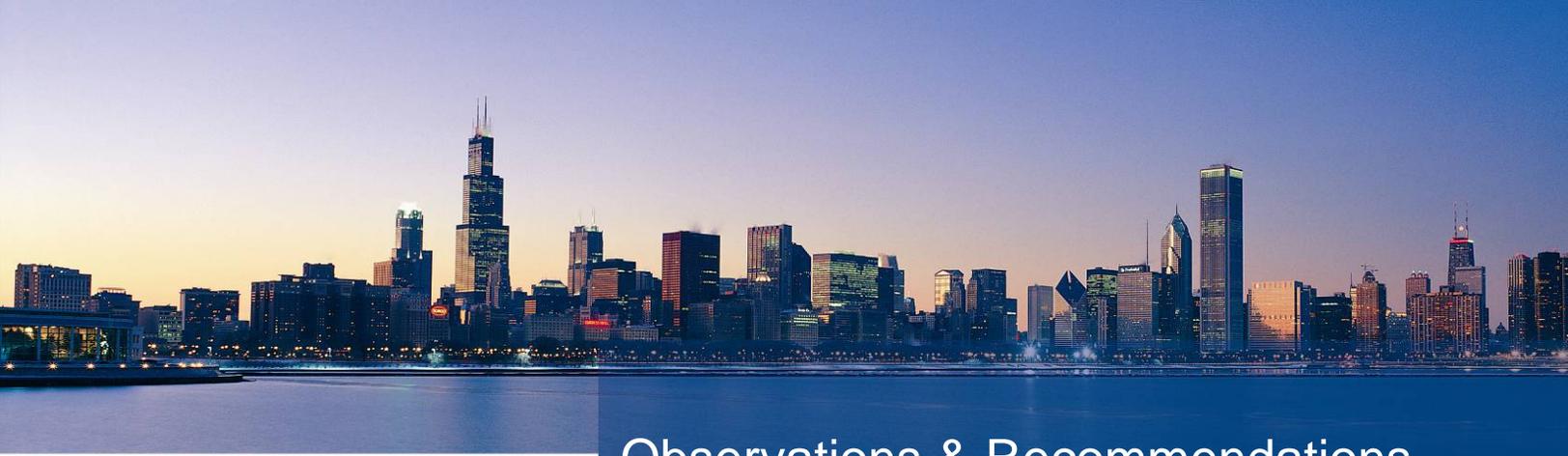
Policy and Procedure Maturity Scale	
Basic	Informal policies and procedures not documented.
Developing	High level policy statements setting out central treasury activities. Limited documented guidance on local treasury activities and incomplete procedure documentation.
Established	Well documented group treasury policy and procedures. Limited procedures on treasury activities in local business units.
Leading Practice	Comprehensive policy document for group treasury and the business units.

The results of policy and procedure analysis are as follows:

Category	Process Definitions Testing Criteria	Gap Identified	Gap Description
1 Cash Disbursements*	Processes for each disbursement method utilized including check issuance practices; wire transfer control procedures; ACH Payment control procedures; transaction authority levels, fraud controls; reconciliation of accounts; reporting relationships with approving and review duties; position titles assigned to specific processes; key performance indicators and statistics; data entry controls; document management protocols.	Developing	<ul style="list-style-type: none"> Key performance indicators and statistics are not defined in the policies and procedures.
2 Cash Receipts*	Processes for each collection method utilized including the controls within the paper flow; reporting relationships with approving and review duties; position titles assigned to specific processes; key performance indicators and	Developing	<ul style="list-style-type: none"> Key performance indicators are not defined in the policies and procedures.

Category	Process Definitions Testing Criteria	Gap Identified	Gap Description
	statistics; fraud controls; data entry controls; segregation of duties; documentation management protocols.		
3	Bank Account Reconciliations* Processes for the reconciliation of account; adequate segregation of duties; review and approvals; frequency; performance indicators related to the resolution of identified exception(s); the reporting, review, and approval process; document management protocols.	Basic	<ul style="list-style-type: none"> Process not formally defined in policies and procedures.
4	Cash Flow Forecasts* Processes for generating the cash flow forecasts; the departments and personnel incorporated into the process; the data and assumptions utilized for the cash flow statement; segregation of duties; review, approval and reporting process; the frequency of completion; comparison of forecast to actual; defined variance tolerances between forecast and actual.	Basic	<ul style="list-style-type: none"> Process not formally defined in policies and procedures.

** Note: Policies and Procedures are in draft format awaiting Chief Financial Officer final approval/ sign-off.*



Observations & Recommendations

Observations and Recommendations: The following section illustrates the observations identified as part of the review. The format in which each observation is presented, with its related risk, recommendation and management response is as follows:

Observation #	Title/ area of finding identified.
Observations	Presents supporting detail related to each award for which a finding applies.
Risk Rating	Presents the rating and priority of management’s action for the observation/ exception identified as follows.
	<p><u>High:</u> Should be addressed immediately. A high observation includes control weaknesses that are causing disruption of the process or adversely affecting the organization's ability to achieve operational objectives.</p>
	<p><u>Medium:</u> Should be addressed in the near term. A medium observation includes process improvement opportunities or control weaknesses that may have an adverse affect on the organization’s ability to achieve process objectives.</p>
<p><u>Low:</u> Should be addressed/considered by management. A low observation includes process improvement opportunities or minor control weaknesses with a minimal, but identifiable impact.</p>	Risk
Recommendation	Provides suggested courses of action aimed at resolution of compliance issues or mitigation of risks to process effectiveness.
Management Response	Captures the department’s response to the findings and observations, responsible persons, and timeframe to implement recommendations, if applicable.

Observation #1	Contradictory Language of Ordinance NIRC 11-05	Risk Rating: HIGH
<p>Observation</p>	<p><u>Sections of Ordinance NIRC 11-05 are contradictory in guidance related to dual approvals for disbursements.</u></p> <p>Sections 1-B and 2 of the Metra Board Ordinance 11-05 contain contradictory language related to authority of disbursements and the requirement of individual or dual signatures. The language from the respective Ordinance sections are as follows:</p> <p>Section 1-B of Metra Board Ordinance 11-05 states:</p> <p><i>“With respect to amounts equal to or greater than \$10,000.00, two signatures are required and signatures must include: either the CFO or the Director, and either the Executive Director/Chief Executive Officer (“CEO”), the General Counsel, or a Deputy Executive Director are hereby endowed with the above mentioned powers. For purposes of this section only, the CEO and the CFO may designate in writing any other position of the Corporation to make such transfers and endorse checks.”</i></p> <p>Section 2 of the Metra Board Ordinance 11-05 states :</p> <p><i>“The CFO and the Director each have the individual necessary authority to invest and execute documents (instructions, wires, transfers, and other instruments) for the transfer of funds to any bank or financial institution (“Bank”) holding Corporation deposits. In addition, the CFO and the Director each have the individual authority to enter into agreements with any Bank on behalf of the Corporation to open and close accounts with respect to such deposits, investments and transfers, including agreements protecting any Bank against the consequences of relying on instructions given pursuant to this Ordinance, provided that such Bank provides continuation of such transfer to the CFO or Director of the Corporation; and, provided further, that all transactions set forth in this paragraph comply with statutory limitations regarding investment restrictions, the Corporation’s applicable procurement regulations, and the Corporation’s investment policy.”</i></p> <p>This observation related to Metra’s Ordinance language. The related internal controls were reviewed separately with no exceptions noted.</p> <p>Currently, Metra has policies and procedures in draft format awaiting Chief Financial Officer approval/ sign-off.</p>	
<p>Risk</p>	<p>Inconsistent policy language can pose the risk of noncompliance with the policy and/or inconsistent operational practices.</p>	
<p>Recommendation</p>	<p>We recommend Management:</p> <ol style="list-style-type: none"> 1. Review the ordinance language and determine the appropriate revisions to ensure consistency. Once determined, the revised language should be formally approved and adopted via the ordinance approval process. Subsequent Metra policies and procedures should be reviewed/revised to ensure appropriate adherence to the ordinance. <p>The expectation is that management actions be formally documented and implemented within 30 days.</p>	
<p>Management Response</p>	<p>The matter regarding contradictory language will be reviewed with Metra Law to determine future action.</p>	

Observation #2	Timeliness and Approval of Policies and Procedures	Risk Rating: LOW
<p>Observation</p>	<p><u>For key Treasury Management activities, policies and procedures were not provided timely and appeared to be approved after the scope period of this review.</u></p> <ol style="list-style-type: none"> 1. During fieldwork activities, there were no formally documented policies and procedures related to bank account reconciliations and the cash flow forecast process provided for review. Stakeholders were able to articulate practices utilized to execute the respective processes and maintained informal desk procedures for bank account reconciliations. <p>Subsequent to the completion of fieldwork activities, process flows related to bank account reconciliations were provided for review. The process flows contained a “prepared by date” of 6/20/2012, and an “approved by date” of 5/28/14. The area indicating the approver of the process flows only contained the word “name”.</p> <ol style="list-style-type: none"> 2. During fieldwork activities, the policies and procedure documentation for cash disbursements and cash receipts provided for review consisted of high level statements, with limited guidance on activities, protocols, and/or incomplete procedure steps. <p>Subsequent to the completion of fieldwork activities process flows related to cash disbursements and cash receipts were provided for review. The process flows contained a “prepared by date” of 7/23/2012, and an “approved by date” of 1/21/2014. The area indicating the approver of the process flows only contained the word “name”.</p>	
<p>Risk</p>	<p>Lack of established formal or complete policies and procedures may pose the risk of inconsistent practices in executing tasks, noncompliance of requirements, and non-retention of institutional knowledge.</p>	
<p>Recommendation</p>	<p>We recommend Management:</p> <ol style="list-style-type: none"> 1. Continue completion and implementation of draft policies and procedures for the various Metra processes. 2. Ensure policies and procedures for the bank account reconciliation and cash flow forecasting processes contain sufficient details to execute the process, and adhere to Metra’s process for approval and dissemination. Policies and procedures should be assessable to all stakeholders in the process to help promote consistent execution of responsibilities and compliance with applicable requirements. 3. Revise policies and procedures for cash disbursements and cash receipts to incorporate sufficient details on requirements, activities, protocols and procedure steps. Policies and procedures should be assessable to all stakeholders in the process to help promote consistent execution of responsibilities and compliance with applicable requirements. 4. Ensure policy and procedure documentation is appropriately approved in accordance with organizational guidelines containing appropriate approval validation, i.e. approval date, approver name. <p>The expectation is that management actions be formally implemented within 60 days.</p>	
<p>Management Response</p>	<p>Metra is in the process of reviewing its cash procedures. Metra has just signed a new banking agreement and will be transitioning to a new bank. This bank has policies, procedures and systems which are different from the previous bank. As such, Metra will not spend too much time working on the policies and procedures related to the old system, but it will work to have</p>	

Observation #2	Timeliness and Approval of Policies and Procedures	Risk Rating: LOW
	<p>solid policies and procedures with regard to the new system.</p> <p>Formal policies and procedures for the Bank Account reconciliations are stated and set forth in Metra's Accounting Manual (DRAFT). Its flow charts clearly define separate roles for review and approval covering dates and signatures. Further definition of the Cash flow forecasting process is in progress. Metra continues to update procedures and policies to include providing additional detail and more timely approvals of draft procedures. Metra does not believe that any control gaps exist at the present time.</p>	

Observation #3	Bank Account Reconciliation Testing Exceptions	Risk Rating: LOW
Observation	<p><u>Bank Account Reconciliations were not completed timely based on desk procedure guidance.</u></p> <p>4 of the 12, or 33% of the bank account reconciliations reviewed were not completed timely, by the end of the following month in accordance with practice.</p> <p>Metra does not have formal policies and procedures for Bank Account Reconciliations; however, desk procedures are maintained which indicated bank account reconciliations are to be completed by the end of the following month. The 4 bank account reconciliation exceptions identified were completed within 2 months of the requirement.</p>	
Risk	<p>Lack of timely bank account reconciliations may pose the risk of undetected errors in accounting records and undetected irregularities such as unauthorized bank withdrawals.</p>	
Recommendation	<p>We recommend Management:</p> <ol style="list-style-type: none"> 1. Establish formal documented policies and procedures detailing the various steps required for bank account reconciliations. 2. Enforce compliance with the bank account reconciliation practice of completing bank account reconciliations by the end of the following month by implementing additional reviews, approvals, and/or internal reporting. <p>The expectation is that management actions be formally documented and implemented within 90 days.</p>	
Management Response	<p>Starting In 2012, there were circumstances outside of Metra control causing delays in the completion of Bank reconciliations. The Bank experienced system problems and thereby changed their banking software several times. This caused reconciling differences that carried forward into 2013 requiring research and adjustments. Since we already explained this to Internal Audit, we question why this key bit of information was omitted. With Metra's revised Closing Schedule and new Banking Procedures, Bank Reconciliations are now finished within a month or less.</p>	



Process Improvement Opportunities

Process Improvement Opportunity #1	Cash Receipt Ticket by Mail Process
<p>Observation</p>	<p><u>Process improvement opportunities were identified in the cash receipt ticket by mail process.</u></p> <p>The current process to receive ticket cash receipts includes the following:</p> <ol style="list-style-type: none"> 1. Ticket cash receipts may be mailed directly to the banking institution for processing. 2. Ticket cash receipts may be mailed to the Metra headquarters for processing. Once processed then ticket cash receipts are deposited to the banking institution. <p>Receiving ticket cash receipts at the Metra headquarters incorporates additional manpower/effort for processing and depositing when there is a current avenue in place for direct bank submission by the customer.</p>
<p>Risk</p>	<p>Lack of efficient processes may pose the risk of timing processing times, increase data entry errors, and/or increased operational/ resource cost.</p>
<p>Recommendation</p>	<p>We recommend Management:</p> <ol style="list-style-type: none"> 1. Streamline the ticket cash receipt process by requiring all ticket cash receipts to be directly mailed to the banking institution. <p>The expectation is that management actions be formally implemented within 90 days.</p>
<p>Management Response</p>	<p>Metra's invoice card for Ticket by Mail customer's is being revised to instruct customers to not send cash. Any cash received is delivered to the Station Ticket Office for deposit. Mailed ticket payments are received in eight different Post Office boxes and are processed either in-house, utilizing remote deposit scanners or delivered directly to the bank. We believe our cash processes have sufficient safeguards and we did not read anything in the audit report which appeared to provide any specific examples which contradicted that belief. It is Metra's future plan to have all Post Office box deliveries sent to the bank for processing and deposit.</p>

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