

REVENUE RECOGNITION PROCESS AUDIT SUMMARY REPORT

Consolidated Report – Executive
Summary and Individual Reports for
Chicago Transit Authority,
Metra and Pace

May 18, 2016

MOVING YOU



Regional
Transportation
Authority

May 18, 2016

To Michael Zumach
Deputy Executive Director, Audit
Regional Transportation Authority

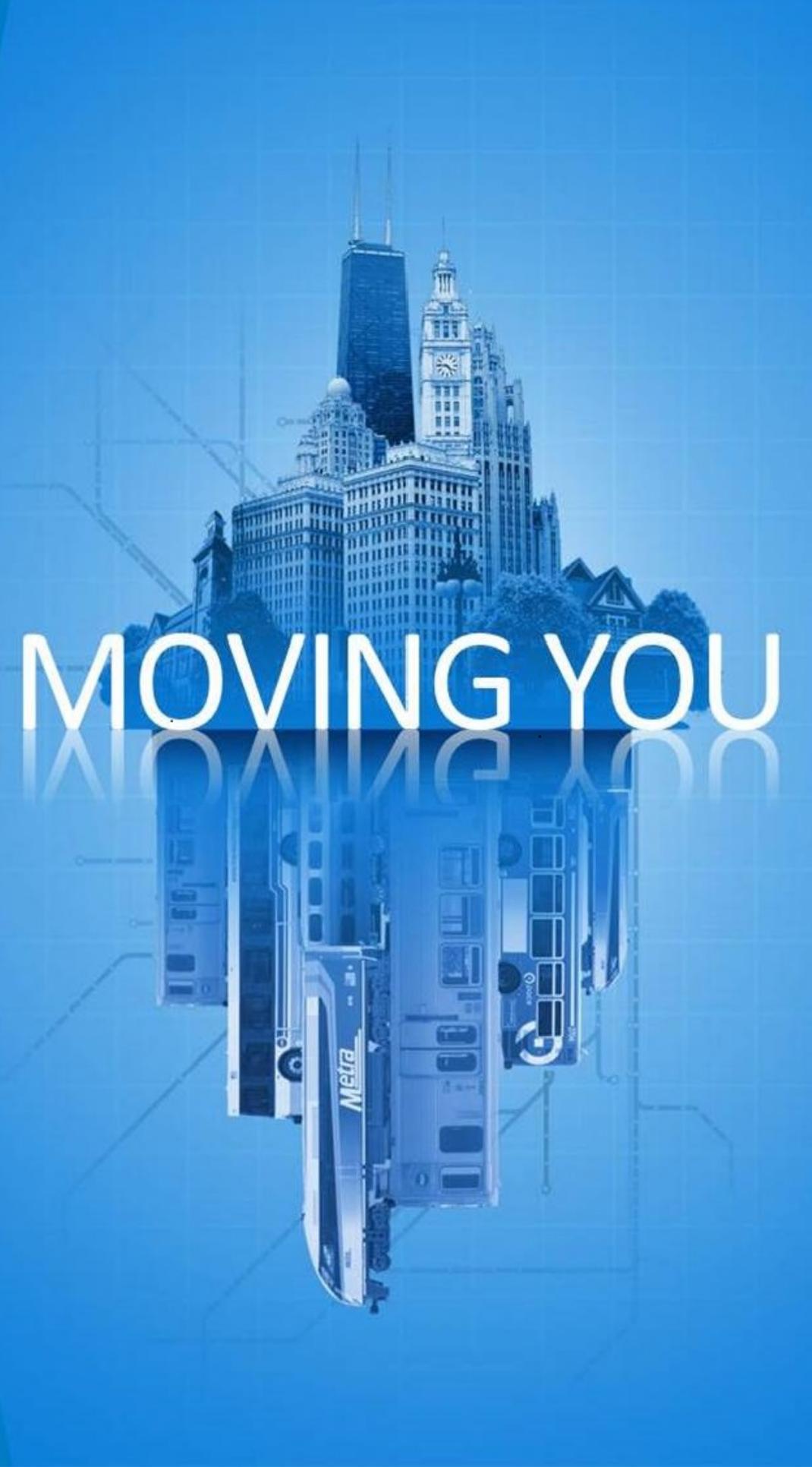
We have completed the Revenue Recognition Process Review for Pace Suburban Bus and Paratransit (Pace), Northeast Illinois Regional Commuter Railroad Corporation d/b/a Metra (Metra), and the Chicago Transit Authority (CTA), Service Boards of the Regional Transportation Authority (RTA) as part of the contracted audit services with Adelfia. Our summary report is attached for your review.

We appreciate the cooperation and assistance provided by your management and staff. Please do not hesitate to contact us, should you have any questions concerning the report.

Respectfully submitted,

Adelfia LLC
Internal Audit Services



The background of the left side of the page features a blue-tinted image of the Chicago skyline, including the Willis Tower and the Wrigley Building. Below the skyline, several Metra commuter trains are shown, with the word 'Metra' visible on one of them. The text 'MOVING YOU' is overlaid in large, white, sans-serif capital letters across the middle of the image.

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EXECUTIVE SUMMARY

A. Background:

The Regional Transportation Authority (RTA) is responsible for conducting audits of each of the Service Boards – Chicago Transit Authority (CTA), Metra Commuter Rail (Metra) and Pace Suburban Bus and Paratransit (Pace) no less than every five years. This oversight responsibility complements the audits conducted by outside entities and the Internal Audit Departments at the Service Boards and the RTA. A system-wide risk assessment was performed at the Service Boards and the RTA through which they identified business risks in their organizations, the results of which were used by the RTA for the development of the Audit Plan. This review of the Revenue Recognition process was included in that plan based upon changes to the fare collection methods utilized by two of the three Service Boards-CTA and Pace.

B. Overall Conclusion:

Overall, the majority of the findings were rated Low and we noted that the fare revenue procedures and controls were adequate. However, opportunities were identified at each of the three Service Boards to strengthen compliance with processes and controls and compliance with the contracts. Of the twelve findings two were rated medium and ten were rated low. Eight findings were process deficiencies and four related to non-compliance with contracts.



EXECUTIVE SUMMARY (CON'T)

C. Objective and Scope:

- The objectives of the Revenue Recognition Audit were a) to identify the new processes for collection of fare monies, b) assess the new revenue recognition procedures, and c) evaluate compliance with the contract requirements, reconciliation procedures, and periodic financial reporting as defined by GASB.
- The scope of the audit included fare revenue at the CTA, Metra and Pace for the period January 1, 2014 through December 31, 2014.
- Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by The Institute of Internal Auditors.

D. Summary of Results: Internal Audit results are summarized below:

Audit Objective	High	Medium	Low	Total
1. Identify new processes for collection of fare monies	-	-	-	-
2. Assess the new revenue recognition procedures	-	-	-	-
3. Evaluate compliance with the contract requirements, reconciliation procedures, and periodic financial reporting as defined by GASB	-	2 (CTA)	3-(Pace) 1-(CTA) 6 (Metra)	12
Total number of findings	-	2	10	12



EXECUTIVE SUMMARY (CON'T)

E. Brief Description of Findings by Service Board

Chicago Transit Authority

1. Link-up pass not associated with monthly Metra ticket upon use. (*Low*)
2. Settlement remittances, although often staggered within 3 business days, did not clearly show that funds settled exactly by the 3rd business day. (*Medium*)
3. Funds obligated in advance were not invoiced by Cubic to CTA and the end of each calendar month and refunded by CTA to Cubic within 3 business days after the receipt of such invoice. (*Medium*)

Metra

1. Unsigned inventory invoice by receiving agent (*Low*)
2. Uncollected incremental fare (*Low*)
3. Vending machine tickets not verified against inventory log (*Low*)
4. Missing weekly inventory report (*Low*)
5. Lack of specific guidelines on annual account audits (*Low*)
6. Improper cut-off of recording vending machine deposits (*Low*)

Pace

1. Settlement of funds from CTA to Pace were not timely remitted. (*Low*)
2. Incorrect mileage information was used to bill the customer in the Vanpool VIP program. (*Low*)
3. Cash counted was not remitted timely by Garda to Pace. (*Low*)

The detailed descriptions of each of the audit findings are included in the respective Service Boards' report.

AUDIT REPORT: REVENUE RECOGNITION PROCESS AT THE CHICAGO TRANSIT AUTHORITY

October 5, 2015



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I. EXECUTIVE SUMMARY - CTA

A. General Conclusion: Overall, we noted that the fare revenue procedures and controls were adequate. However, opportunities were identified to strengthen compliance with processes and controls and compliance with the contracts. We noted two findings rated as Medium and one finding rated as Low which are process deficiencies and non-compliance matters.

B. Objective and Scope: The objectives of the audit include: a) to identify new processes for collection of fare monies, b) assess the new revenue recognition procedures, and c) evaluate compliance with contract requirements, reconciliation procedures, and periodic financial reporting as defined by GASB. The period covered for CTA is January 1, 2014 to December 31, 2014.

C. Summary of Results: Internal Audit results are summarized below:

Audit Objective	High	Medium	Low	Total
1. Identify new processes for collection of fare monies	-	-	-	-
2. Assess the new revenue recognition procedures	-	-	-	-
3. Evaluate compliance with the contract requirements, reconciliation procedures, and periodic financial reporting as defined by GASB	-	2	1	3
Total number of findings	-	2	1	3

D. Brief Description of Findings

1. Link up not associated with monthly Metra ticket upon use.
2. Settlement remittances, although often staggered within 3 business days, did not clearly show that funds settled exactly by the 3rd business day.
3. Funds obligated in advance were not invoiced by Cubic to CTA and the end of each calendar month and refunded by CTA to Cubic within 3 business days after the receipt of such invoice.



II. INTRODUCTION

A. Background

The Regional Transportation Authority (RTA) is responsible for conducting audits of each of the Service Boards – Chicago Transit Authority (CTA), Metra Commuter Rail (Metra) and Pace Suburban Bus and Paratransit (Pace) no less than every five years. This oversight responsibility complements that audits conducted by outside entities and the Internal Audit Departments at the Service Boards and the RTA. A system-wide risk assessment was performed at the Service Boards and the RTA through which they identified business risks in their organizations, the results of which were used by the RTA for the development of the Audit Plan.

The 2014 Annual Audit Work Plan of the RTA includes the Revenue Recognition Audit that will be conducted at the three Service Boards.

This report focuses on the Revenue Recognition Audit for the Ventra and farebox revenue processes in place at the Chicago Transit Authority.

CTA entered into a 12-year agreement with CUBIC to implement the Open Standards Fare System to be used in the CTA rail stations and bus environment, also known as Ventra. This fare system was officially launched in September 2013. However, it was not fully transitioned from the legacy fare system until July 2014.

Scope and Objective

- The objectives of the Revenue Recognition Audit are to a) identify the new processes for collection of fare monies, b) assess the new revenue recognition procedures, and c) evaluate compliance with the contract requirements, reconciliation procedures, and periodic financial reporting as defined by GASB.
- The scope of the audit includes fare revenue at the CTA, Metra and Pace. For CTA, the period covered is January 1, 2014 through December 31, 2014.



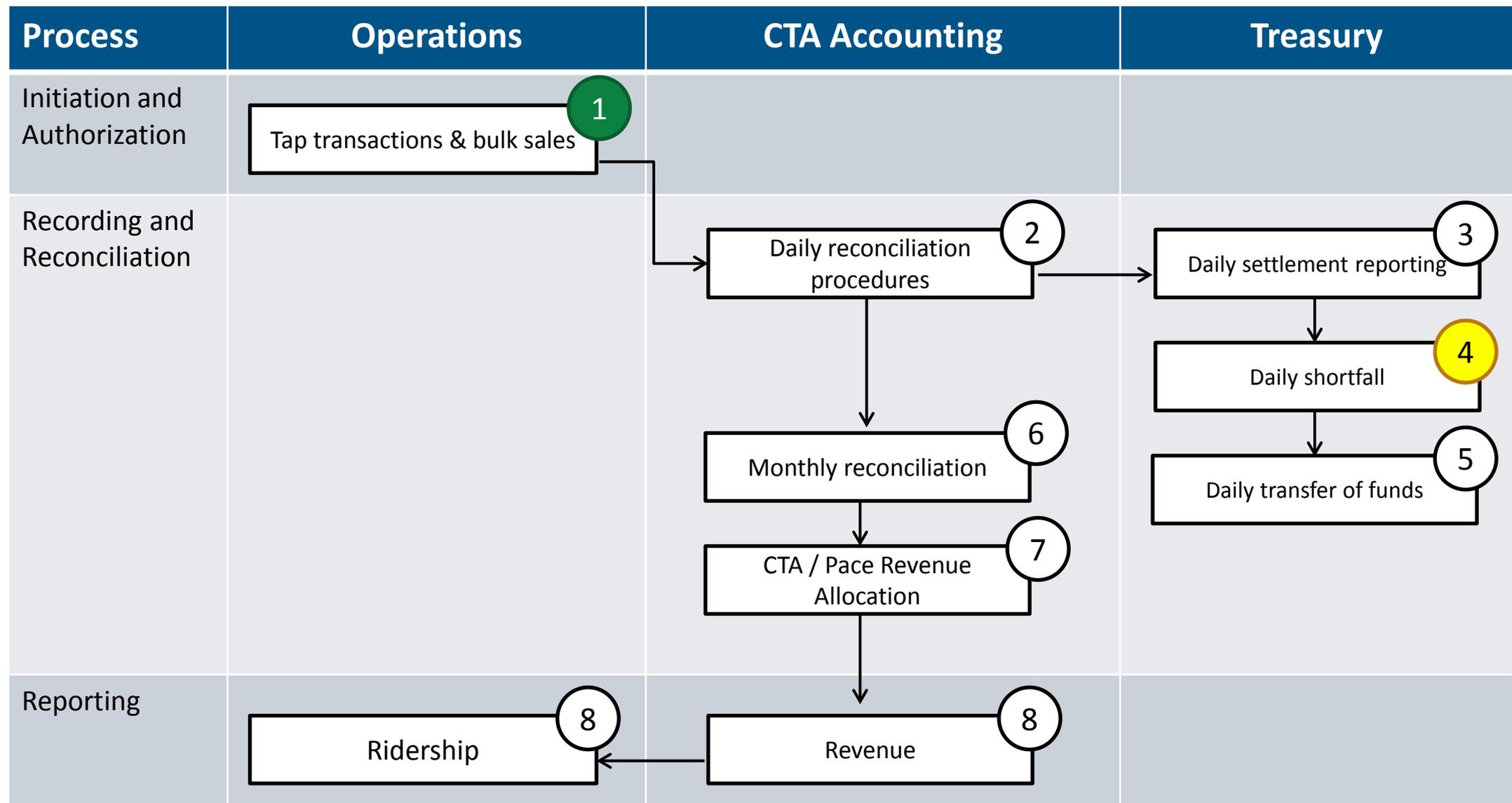
II. INTRODUCTION

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by The Institute of Internal Auditors.

Audit Approach

- Conducted interviews with the following: representatives from CTA Internal Audit, CTA Financial Reporting, Operations, Treasury, Planning & Budget; and Cubic Accounting.
- Obtained and reviewed copies of contracts with Cubic related to fare box revenue and shared revenue agreements with Pace.
- Reviewed the SOC report prepared by Moss Adams, and determined controls tested that were relevant to this audit. Based on tested controls, we determined the additional tests we needed to perform. Interviewed Moss Adams to gain an understanding on how they conducted the tests and the sample sizes used when they tested certain controls related to the revenue recognition audit.
- We held a discussion with the AI Consultants to discuss the Tap Testing Analysis and its relevance to our audit. We inquired about the audit findings on such analysis and if the findings have been corrected and whether it has significant impact on our audit.
- Reviewed daily and monthly fare revenue reconciliation, treasury's daily settlement and daily shortfall process.
- Performed an independent test of taps and traced transactions from initiation to recording to reporting in the Cubic system.
- Conducted a walkthrough of cash count at the Division Warehouse.

III. OVERVIEW OF PROCESSES AND FINDINGS



Finding Categories:



High – Could result in immediate or material loss of assets (e.g. internal or external fraud, error), significant misuse of assets, legal action, regulatory action, material financial misstatements.



Medium – Negatively affects the efficiency and effectiveness of operations and/or financial reporting accuracy; however, the overall impact is minimal.



Low – involves procedural or operational issues that do not materially affect the efficiency and effectiveness of operations.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS																												
<p>1 Tap Transaction and Bulk Sales</p>	<p>To test proper recording of the different types of fare cards sold for CTA, we purchased several kinds of Ventra tickets and passes such as the Single Ride Ventra Ticket, Ventra Card, and Link Up Card.</p> <p>We tested the features of the fare card transaction against the existing criteria established in the system.</p> <table border="1" data-bbox="876 774 2372 1367"> <thead> <tr> <th colspan="2">Fare Card</th> <th>Control Tested</th> <th>Results</th> </tr> </thead> <tbody> <tr> <td>a. Single Ride</td> <td>Ventra Card</td> <td>Ride or transfer will be rejected if value is insufficient.</td> <td>Pass</td> </tr> <tr> <td>b. Multiple Passengers (6 riders)</td> <td>Ventra Card</td> <td>Multiple rides and transfers were recorded accurately.</td> <td>Pass</td> </tr> <tr> <td>c. O'Hare Single Ride</td> <td>Paper Ticket</td> <td>Ticket allowed only 1 ride and 2 transfers</td> <td>Pass</td> </tr> <tr> <td>d. 30-Day Pass</td> <td>Ventra Card</td> <td>A 30-day pass expires 30 days after the date of the first tap.</td> <td>Pass</td> </tr> <tr> <td>e. CTA - 1 Day Pass</td> <td>Paper Ticket</td> <td>A 1-day pass expires 1 day after the time of the first tap</td> <td>Pass</td> </tr> <tr> <td>f. Link-up</td> <td>Paper Ticket</td> <td>A link-up ticket was allowed to be used during rush hours with a Metra monthly ticket.</td> <td>With Observation</td> </tr> </tbody> </table> <p>a) For Single Ride Ventra Card Account without autoloading, we used the card with less than \$2.25 balance and verified that the transfer was rejected until the card was loaded with additional value.</p>	Fare Card		Control Tested	Results	a. Single Ride	Ventra Card	Ride or transfer will be rejected if value is insufficient.	Pass	b. Multiple Passengers (6 riders)	Ventra Card	Multiple rides and transfers were recorded accurately.	Pass	c. O'Hare Single Ride	Paper Ticket	Ticket allowed only 1 ride and 2 transfers	Pass	d. 30-Day Pass	Ventra Card	A 30-day pass expires 30 days after the date of the first tap.	Pass	e. CTA - 1 Day Pass	Paper Ticket	A 1-day pass expires 1 day after the time of the first tap	Pass	f. Link-up	Paper Ticket	A link-up ticket was allowed to be used during rush hours with a Metra monthly ticket.	With Observation
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IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>1 Tap Transaction and Bulk Sales</p>	<ul style="list-style-type: none"> b) For Multiple Passengers Ventra card, we used one Ventra Card to pay for six riders' full fare and two transfers. We traced the transaction to the Patron Account and noted that the rides and transfers were properly accounted for. c) For O'Hare Single Ride Paper ticket, we used the ticket 4 times, and noted that on the 4th attempt, the card was rejected. d) For 30-day Pass, we validated that the count of 30 days starts on the first tap. The card was purchased April 1st, 2015, but was first used on April 4th. Also, after May 5th, the card was rejected. We obtained a copy of the patron's account and validated that the transactions occurred as expected. In addition, we noted proper cut-off of tap transactions. e) For CTA 1 Day Pass, we used the ticket multiple times on June 2nd and verified that the ticket was rejected the following day, June 3rd. f) For Link-up, we performed the following tests: <ul style="list-style-type: none"> i. We used the paper ticket from a Metra Station to ride a bus and noted that the tap on the ticket was accepted. The test was performed during morning rush hour. ii. We used the paper ticket to ride a bus after morning rush hours and it was rejected. iii. We used the paper ticket to ride a bus a mile away from Union Station. The test was performed during morning rush hour.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>1 Tap Transaction and Bulk Sales</p>	<p>Observation #1:</p> <p>Based on our observation, while the Link-up is sold for use with a Metra monthly ticket, the Link-up card is not associated by the Ventra system with the corresponding Metra monthly ticket, nor did the Bus Driver at a minimum visually verify whether the Link-up was being used by a patron who also holds a monthly Metra ticket.</p> <p>The Link-up can be used by anybody apart from the Metra monthly card holder whom it was purchased for. This leads to susceptibility to loss of revenue because the \$55 cost of the Link-up Card is less than a regular \$100 CTA/Pace 30-day pass.</p>

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>② Daily Reconciliation Procedures</p>	<p>To ensure the proper flow of recording and reconciliation of daily revenue:</p> <ul style="list-style-type: none">a) We randomly selected 6 dates from 4 different months to test daily reconciliation.b) We obtained the Trial Balance from Cubic's system called CODA and traced ending balance to CTA's various Data Warehouse reports to ensure that Cubic and CTA's records match.c) We then reviewed the analysis performed by CTA's Financial Reporting Accountant specifically on deferred revenue and fare revenue accounts by tracing to supporting sales and usage reports.d) To ensure that the daily trial balances flow properly into the monthly cumulative trial balance, we performed the following procedures:e) We obtained and CTA provided a spreadsheet that shows the beginning balance of the month, daily ending balances, month end balance, and the cumulative balances of each account.f) We agreed the month-end summarized balances to the CODA trial balance and further traced to the Oracle balances.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>3 Daily Settlement Reporting</p>	<p>To ensure that collections of sales revenue are accurately allocated to CTA, PACE, Shared Settlement account:</p> <ul style="list-style-type: none"> a) We obtained and reviewed the Daily Settlement Reports generated from CODA that shows the sales by product class. This report identifies the daily fare sales that will be allocated to CTA, PACE, Shared Settlement Account, Contractor and other accounts. b) We traced and agreed the sales amounts to the relevant Data Warehouse reports and to different supporting documentation. We obtained Cubic’s Retail T+21 worksheet to support the retail sales not due until the 21st business date. We also obtained the WS125 Date Warehouse report to verify the sales amounts. c) We tested the proper allocation of Sales to CTA, PACE and other accounts. This allocation is used as a basis by Treasury when it transfers funds to different bank accounts. d) We tested the accuracy of the sales amounts and allocations to ensure proper calculations. We reviewed different settlement accounts bank statements and confirmed that the settlement funds were accurately transferred.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
4 Daily Shortfall	<p>To ensure proper compliance to contract that sales are collected three business days after the transactions date with the exception of retail which is due on the 21st business day:</p> <ul style="list-style-type: none">a) We obtained and reviewed the Daily Shortfall Report. This report is prepared by CUBIC and forwarded to Treasury daily. The report shows the timing of when cash is collected and deposited versus the date when the sales occurred.b) We obtained the Bank Reconciliation excel file that is updated by Treasury on a daily basis. We agreed the amounts per category (cash/check, ACH, Brinks, credit card etc.) and the ending balance to the bank statement.c) We obtained from Treasury the Transit Fare Revenue CTA Settlement Account file which monitors the daily sales receipts deposited by sales date and agreed the total receipts to the Daily Shortfall report.d) The net shortfall is determined by subtracting the total receipts from the 3rd business day against the total sales of three days prior including miscellaneous adjustments.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES

4 Daily Shortfall

PROCEDURES AND FINDINGS

Observation #2:

Per Cubic Contract Appendix II.3, settlement remittances to CTA will occur on the third business day following the date of sale (Settlement Day). We observed that for 6 out of 6 daily settlement reports reviewed, the remittances although often staggered within 3 business days, did not clearly show that funds settled exactly by the 3rd business day. While there is a daily process to reconcile Cubic's payments against the sales and identify shortfall, it is not fully in compliance with the contract requirement to guarantee settlement in 3 days. In all the instances tested, there were shortfalls as shown below:

Sale Date	Sale Amount	Total receipts from Cubic in 3 business days	Prior Period receipts	Adjustments	Shortfall
03/01/14	\$712,436	\$480,229	\$40,012	(\$1,855)	\$190,340
04/15/14	963,364	678,508	479,962	(1,702)	(196,809)
07/10/14	1,524,914	952,007	721,824	(3,358)	(152,275)
07/11/14	1,654,914	1,027,205	683,103	(3,245)	(58,638)
10/31/14	5,355,049	929,721	4,394,297	(2,650)	28,381
11/01/14	1,018,377	607,960	56,000	(2,805)	351,612

Observation #3:

As of November 1, 2014, CTA now owes Cubic about \$1.9million. Per Appendix II6, in the event that Cubic is obligated to advance its own funds to CTA as part its settlement remittances due to the delayed receipt of funds... such funds will be calculated and invoiced by Cubic to CTA and the end of each calendar month and refunded by CTA to Cubic within 3 business days after the receipt of such invoice.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>5 Daily Transfer of Funds</p>	<p>To ensure that fund transfers are properly authorized, complete and accurate:</p> <ul style="list-style-type: none">a) We obtained the Bank Transfer Letter of Direction and Bank Transfer Letter of Certificate. These letters are needed to transfer funds from the Ventra Services Revenue Account to CTA Expenditure Account, Shared Settlement Account, Dormancy Account, Contractor Account and Pace Revenue Account.b) We obtained the bank statements and verified that the transfers were properly reflected to the different settlement accounts mentioned on the first step.c) We also agreed the settlement funds back to the Daily Settlement Report.d) We determined proper approval of the bank transfer instructions by reviewing the authorized signatories in the bank Master Agreement and noted that the Senior Treasury Manager is included in the list of the authorized signatories.e) We traced and agreed the settlement funds to the Daily Settlement Report noting no exceptions.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>6 Monthly Reconciliation</p>	<p>To ensure proper recording and reconciliation of monthly revenue:</p> <ul style="list-style-type: none">a) We selected four (4) months to test and obtained the monthly packet prepared by Cubic which consists of the monthly Trial Balance and copies of account reconciliation. We reviewed the account reconciliations for unusual transactions and inquired from CTA Accounting about significant reconciling items. We agreed the balances of the account reconciliation to the Monthly Trial Balance.b) We reviewed the journal entry to reallocate the 4100 fare revenue account into different product types. The actual ridership data from Data Warehouse is utilized for the allocation.c) We reviewed the journal entry to load Cubic trial balance into CTA's Oracle system. We obtained the Oracle GL report after the journal entry was posted to ensure proper mapping of the accounts.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>7 CTA / Pace Revenue Allocation</p>	<p>To test allocation of revenue per CTA and Pace in accordance with the shared revenue agreement:</p> <ul style="list-style-type: none">a) We selected the months of July and December 2014. The revenue allocation is performed twice a month every 15th and the last day of the month. We obtained the Express Shared Passes-Calculation file for the months selected.b) We obtained the number of expired passes and the ridership information from Data Warehouse used in the allocation and recalculated to ensure accuracy.c) We agreed the amount of the funds transferred to pay PACE's share of the revenue from the shared revenue settlement bank account. We also ensured that the payment to PACE was processed within three business days as per the shared revenue agreement.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
8 Reporting	<p>To ensure revenue data is analyzed in relation to ridership expectations:</p> <p>We interviewed Budget and Planning representatives and discussed the analyses performed on revenue and ridership. We noted that CTA prepares the following reports for analysis and reporting:</p> <ol style="list-style-type: none">1) Monthly Revenue and Average Fare Reports2) Monthly Financial Results Summary reported to the CTA Board3) System Generated Revenues – Variance to Budget4) Bus Route Ridership Monthly Summary and Year-Over-Year Percent Changes5) Rail Branch Station Entries Monthly Summary and Year-Over-Year Percent Changes6) CTA Financial and Operating Data

V. FINDINGS AND RECOMMENDATIONS

FINDING	RECOMMENDATION
<p>1) Link up not associated with monthly Metra ticket. Category: LOW</p> <p>Based on our observation, while the Link-up is sold for use with a Metra monthly ticket, the Link-up card is not associated by the Ventra system with the corresponding Metra monthly ticket, nor did the Bus Driver at a minimum visually verify whether the Link-up was being used by a patron who also holds a monthly Metra ticket.</p> <p>The Link-up can be used by anybody apart from the Metra monthly card holder for/by whom it was purchased. This leads to susceptibility to loss of revenue because the \$55 cost of the Link-up Card is less than a regular \$100 CTA/Pace 30-day pass.</p>	<p>At present, CTA Ventra and Metra paper ticket cannot be electronically associated. There should be an alternative way to verify that the rider using the Link-up card also has a monthly pass, such as requiring the passenger to show the Metra ticket to the driver.</p>
<p>Management Response: The Link Up pass is accepted by CTA on weekdays only between 6:00AM – 9:30AM and 3:30PM – 7:00PM. CTA’s current procedure states that “bus operators should make a visual inspection of the customer’s Metra monthly ticket”. CTA agrees that the Link Up Pass program is structured in such a way that it is possible to separately use the Link Up pass from the Metra monthly ticket. Paper ticket Link Up pass sales are expected to decrease once the Ventra Mobile Application is launched, as Metra monthly tickets purchased via the App will be loaded into a Ventra Account associated with the monthly ticket purchaser. CTA will continue to investigate possible alternatives to strengthen this program for an upcoming mobile application release.</p>	

III. FINDINGS AND RECOMMENDATIONS

FINDING	RECOMMENDATION
<p>2) Non-compliance with sales settlement terms. Category: MEDIUM</p> <p>Per Cubic Contract Appendix II.3, settlement remittances to CTA will occur on the third business day following the date of sale (Settlement Day). We observed that for 6 out of 6 daily settlement reports reviewed, the remittances although often staggered within 3 business days, did not clearly show that funds settled exactly by the 3rd business day. While there is a daily process to reconcile Cubic’s payments against the sales and identify shortfall, it is not fully in compliance with the contract requirement to guarantee settlement in 3 days.</p>	<p>We recommend that the CTA should enforce the contract agreement with Cubic to ensure that sales are settled in accordance with the terms of the contract.</p>
<p>Management Response: Management has reviewed the finding and will take steps to address the contract compliance related issue with Cubic.</p>	

III. FINDINGS AND RECOMMENDATIONS

FINDING	RECOMMENDATION
<p>3) Non-compliance with sales settlement terms. Category: MEDIUM</p> <p>As of November 1, 2014, CTA now owes Cubic about \$1.9 million. Per Appendix II6, in the event that Cubic is obligated to advance its own funds to CTA as part of its settlement remittances due to the delayed receipt of funds... such funds will be calculated and invoiced by Cubic to CTA and the end of each calendar month and refunded by CTA to Cubic within 3 business days after the receipt of such invoice.</p>	<p>CTA management needs to make a decision on the resolution of the negative shortfall. From the administrative stand point, this will lessen the time and effort put into monitoring the negative shortfall balances. On the side of Cubic, they should comply with the contractual requirements that in case of negative shortfall, they will invoice CTA on a monthly basis.</p>
<p>Management Response: The negative shortfall is comprised of various amounts due to/from CTA and Cubic which includes payment of retailer commissions, card deposits, negative balances and patron adjustments. CTA is in receipt of Cubic's advanced funds and these amounts are monitored and included in our financial reporting on a monthly basis. CTA and Cubic are working towards implementing a process to settle these amounts on a more regular basis.</p>	

AUDIT REPORT: REVENUE RECOGNITION PROCESS AT METRA

March 18, 2016

The background of the right side of the slide features a blue-tinted image of the Chicago skyline, including the Willis Tower. Below the skyline, a Metra train is shown in motion, with its reflection visible on a surface below. The text 'MOVING YOU' is overlaid in large, white, sans-serif capital letters across the middle of the image, with its reflection also visible below.

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I. EXECUTIVE SUMMARY

A. General Conclusion: Overall, we noted that the fare revenue procedures and controls are adequate. However, opportunities were identified to strengthen compliance with processes and controls. We noted six findings rated as Low which are process deficiencies and non-compliance matters.

B. Objective and Scope: The objectives of the audit include: a) to identify processes for collection of fare monies, b) assess the revenue recognition procedures, and c) evaluate compliance with contract requirements, reconciliation procedures, and periodic financial reporting as defined by GASB. The period covered for Metra is January 1, 2014 to December 31, 2014.

C. Summary of Results: Internal Audit results are summarized below:

Audit Objective	High	Medium	Low	Total
1. Identify processes for collection of fare monies	-	-	-	-
2. Assess the revenue recognition procedures	-	-	-	-
3. Evaluate compliance with the contract requirements, reconciliation procedures, and periodic financial reporting as defined by GASB	-	-	6	6
Total number of findings	-	-	6	6

D. Brief Description of Findings

1. Unsigned inventory invoice by receiving agent
2. Uncollected incremental fare
3. Vending machine tickets not verified against inventory log
4. Missing weekly inventory report
5. Lack of specific guidelines on annual account audits
6. Improper cut-off of recording vending machine deposits



II. INTRODUCTION

A. Background

The Regional Transportation Authority (RTA) is responsible for conducting audits of each of the Service Boards – Chicago Transit Authority (CTA), Commuter Rail Division of the RTA and the Northeast Illinois Regional Commuter Railroad Corporation, d/b/a Metra (Metra Commuter Rail or Metra) and Pace Suburban Bus and Paratransit (Pace) no less than every five years. This oversight responsibility complements that audits conducted by outside entities and the Internal Audit Departments at the Service Boards and the RTA. A system-wide risk assessment was performed at the Service Boards and the RTA through which they identified business risks in their organizations, the results of which were used by the RTA for the development of the Audit Plan.

The 2014 Annual Audit Work Plan of the RTA includes the Revenue Recognition Audit that will be conducted at the three Service Boards.

This report focuses on the Revenue Recognition Audit for the fare revenue processes in place at Metra Commuter Rail.

Metra owns and operates four lines: Milwaukee District – North Line, Milwaukee District – West Line, Rock Island and Metra Electric, has trackage-rights or lease agreements to operate Metra trains over freight railroads on three lines: Heritage Corridor, North Central Service and Southwest Service, and has purchase of service agreements with two freight railroads (BNSF and Union Pacific) which operate commuter service on four Metra lines: Union Pacific- North Line, Union Pacific – Northwest Line, Union Pacific – West Line and BNSF Railway.

Scope and Objective

- The objectives of the Revenue Recognition Audit are: a) to identify the processes for collection of fare monies, b) assess the revenue recognition procedures, and c) evaluate compliance with the contract requirements, reconciliation procedures, and periodic financial reporting as defined by GASB.
- The scope of the audit includes fare revenue at the CTA, Metra and Pace. For Metra, the period covered is January 1, 2014 through December 31, 2014.



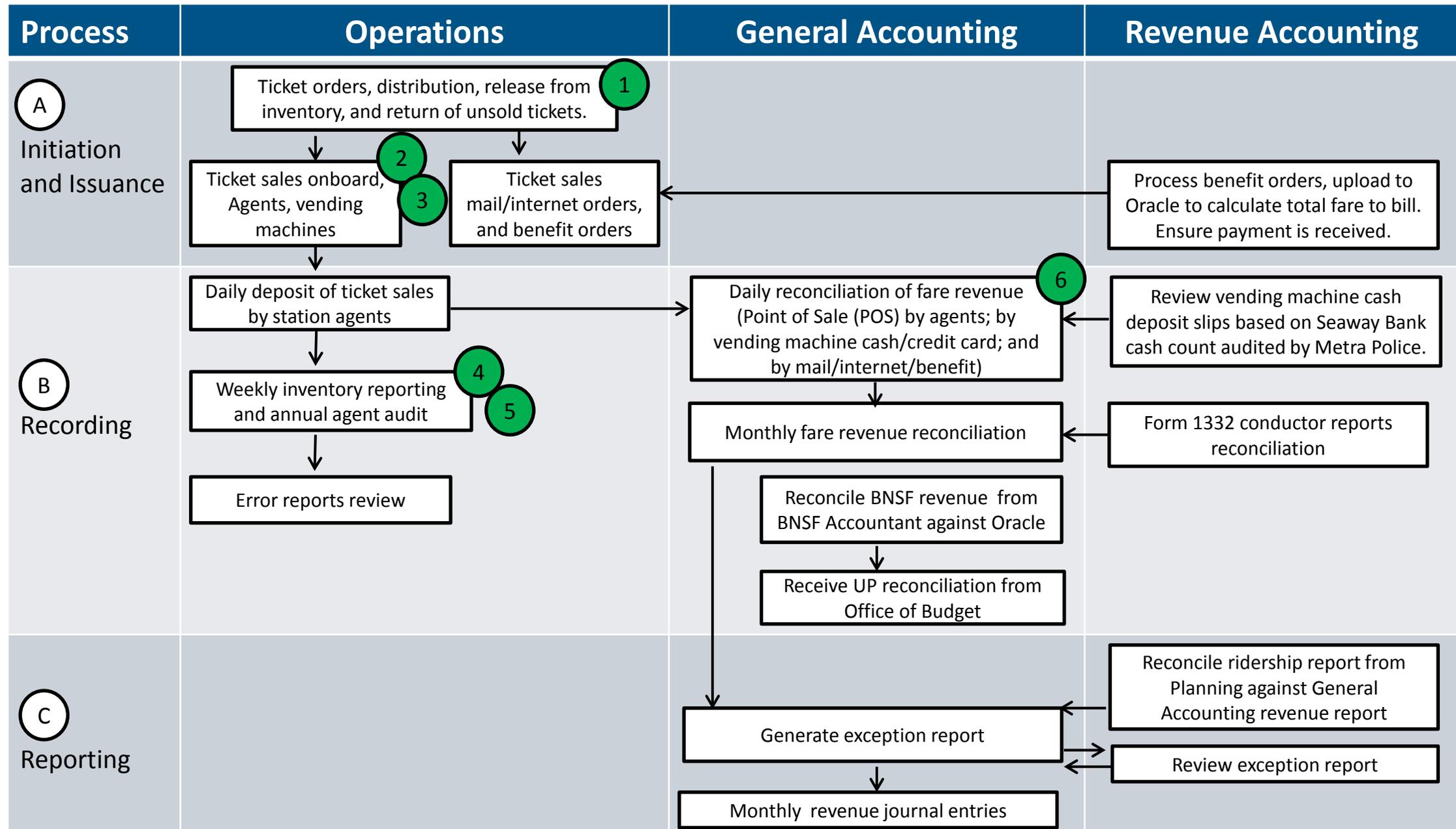
II. INTRODUCTION

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by The Institute of Internal Auditors.

Audit Approach

- Conducted interviews with representatives from Revenue Accounting, General Accounting, Operations, Ticket Services and Transportation Services.
- Obtained and reviewed BNSF and UP contracts, and CTA and Pace Link-up and Plus Bus agreements.
- Obtained and reviewed Minutes of Board Meetings.
- Performed tests on ticket supply distribution to agents, ticket sales and inventory tracking.
- Performed independent tests and observations to ensure proper issuance of tickets by conductors and vending machines.
- Reviewed daily and monthly reconciliations related to the several different sales channels to ensure the reconciliation process was conducted appropriately and revenue was recorded properly.
- Reviewed journal entries and revenue vs. ridership report reconciliation to determine whether reporting was performed properly.

III. OVERVIEW OF RISK AREAS AND CONTROLS



Finding Categories:



High – Could result in immediate or material loss of assets (e.g. internal or external misstatements, etc.)



Medium – Negatively affects the efficiency and effectiveness of operations and/or financial reporting accuracy; however, the overall impact is minimal.



Low – involves procedural or operational issues that do not materially affect the efficiency and effectiveness of operations.



IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>(A) Ticket orders, distribution, release from inventory and return of unsold tickets</p>	<p>To ensure proper release of ticket packets, receipt of ticket packets by station supervisors, and release of tickets from the inventory system.</p> <ul style="list-style-type: none"> a) We randomly selected an agent for five (5) different lines and tested a total of ten (10) invoices. An agent receives two invoices every month: one invoice for monthly/weekend tickets and another for one-way/ten ride tickets. We obtained copies of the invoices returned to Ticket Services to ensure proper acknowledgment by the station supervisors. b) We obtained the signed agent’s copy of the invoice from Revenue Accounting to determine if the invoice was properly signed. We noted an exception. c) We obtained the screenshots showing the release of inventory from Oracle upon receipt of the ticket packets by the station supervisors. <p>To ensure that tickets sold by the agents are properly accounted for and unsold tickets are reported back to Revenue Accounting at the end of the month.</p> <ul style="list-style-type: none"> a) From the invoice, we randomly selected four (4) types of tickets for testing. We accounted for the number of tickets sold by reviewing the activities in Oracle. If the agent switched tickets, we reviewed the Transfer Form to ensure supervisor’s approval. We also reviewed the approved Credit Form for other adjustments. b) We recalculated the quantity of unsold tickets at the end of the month and agreed to the Returned Ticket Stock form noting no exceptions. <p>Observation #1</p> <p>There was an instance of an invoice not signed by the receiving agent due to oversight.</p>

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS																								
<p>A Ticket sales and issuance on board the train</p>	<p>To test proper issuance of tickets and fare collection on board by conductors, we purchased tickets on board on the following lines and observed whether the proper fare was collected from passengers.</p> <table border="1" data-bbox="779 595 2384 1406"> <thead> <tr> <th>Control Tested</th> <th>Line</th> <th>Zone</th> <th>Results</th> </tr> </thead> <tbody> <tr> <td>• Incremental charge was collected if 10-ride ride was farther than zone designated on the ticket.</td> <td>Rock Island</td> <td>H to A</td> <td>Passed</td> </tr> <tr> <td>• Penalty was charged for 10-ride ticket bought on board from a station with ticketing agent.</td> <td>Milwaukee North</td> <td>A to C</td> <td>Passed</td> </tr> <tr> <td>• Incremental charge was collected if passenger alight beyond the zone designated on the 10-ride ticket.</td> <td>Milwaukee North</td> <td>C to D</td> <td>Failed</td> </tr> <tr> <td>• Proper one-way ticket was issued and proper fare was collected.</td> <td>Heritage Corridor</td> <td>G to A</td> <td>Passed</td> </tr> <tr> <td>• Conductor collected fares and punched one-way and ten-ride tickets, let passengers tap mobile apps, and checked monthly paper tickets from all passengers.</td> <td>Milwaukee West; North Central; Heritage Corridor</td> <td>B to C C to A G to A</td> <td>Passed</td> </tr> </tbody> </table> <p>Observation #2 The conductor did not collect the incremental fare when the passenger alighted beyond the zone designated on the ticket.</p>	Control Tested	Line	Zone	Results	• Incremental charge was collected if 10-ride ride was farther than zone designated on the ticket.	Rock Island	H to A	Passed	• Penalty was charged for 10-ride ticket bought on board from a station with ticketing agent.	Milwaukee North	A to C	Passed	• Incremental charge was collected if passenger alight beyond the zone designated on the 10-ride ticket.	Milwaukee North	C to D	Failed	• Proper one-way ticket was issued and proper fare was collected.	Heritage Corridor	G to A	Passed	• Conductor collected fares and punched one-way and ten-ride tickets, let passengers tap mobile apps, and checked monthly paper tickets from all passengers.	Milwaukee West; North Central; Heritage Corridor	B to C C to A G to A	Passed
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IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>A Ticket distribution, ticket sales and issuance</p>	<p>To test proper issuance of tickets and collection of fares for tickets sold apart from on-board. We performed the following for the different revenue streams.</p> <ul style="list-style-type: none"> a) By Window Sales Agent – we randomly selected an agent to observe while selling tickets at the Union Station. We noted that the tickets were properly issued for the zones purchased and the right fares were collected. b) By Vending Machine – we bought a one-way ticket from the machine at the Union Station. The machine dispensed the right type of ticket for the zone purchased and the passenger’s credit card was charged the proper amount. In addition, we performed a walkthrough of the vending machine ticket replenishment process and noted an exception. c) By Mail/Internet, Bulk Sales and Benefit Fare – we observed the order fulfillment process at the Ticket Services department from the time the approved orders are received, to printing of the tickets, and stuffing of tickets in the mail. <p>Observation #3</p> <p>The blank tickets loaded in one of the vending machines was missing one batch of 1,000 monthly tickets when we compared it to the Vending Machine Ticket Tracking Log. The box of such batch of tickets was mislabeled. As a result, the tickets for the Union Station vending machine were loaded into the Union Pacific vending machine and vice versa.</p>

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>Ⓑ Daily deposit of ticket sales by station agents</p>	<p>To ensure that proper reconciliation of daily revenue is performed by sales agents.</p> <ul style="list-style-type: none"> a) We selected five (5) lines and tested one agent per location for sales at a specific date. We obtained the Point of Sales (POS) Summary report and agreed the total for each type of sales (cash/checks and credit card) to the Daily Sales Report and deposit slips. b) The daily collection for cash and checks together with the forms are sealed in a packet for deposit to the vault. Vault deposits are tracked in the Record of Deposit log. We ensured that every single vault deposit for the dates selected were verified by the lead ticket agent. c) The vault deposit is collected by Garda at designated pick-up times. The actual date, time and amount of pick-up is documented in the Consignment Log form. We agreed the total deposits in the Records of Deposit to the Consignment log noting no exceptions. d) We traced the cash/checks deposits to the CashPro bank statements noting no exceptions. For credit cards, we traced the payments to the separate CashPro bank statement noting timely remittance from the credit card companies.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>B Weekly Inventory Reporting and Annual Agent Audit</p>	<p>To ensure that tickets maintained by agents are properly accounted for.</p> <p>a) We selected five (5) lines and tested one agent per line for a specific week. We obtained the weekly inventory report and reviewed the sign-offs by the agent and supervisor. We noted an exception.</p> <p>b) We obtained the audit reports for three (3) districts and verified whether all agents are audited at least once a year. The audit is conducted by the supervisor and includes actual count of the working fund and the ticket inventory. We noted an exception.</p> <p>Observation # 4</p> <p>The inventory report from the Rock Island line was missing due to oversight. We also noted that, although the supervisors approve the weekly inventory report, the actual tickets reported are not independently verified.</p> <p>Observation # 5</p> <p>In two (2) out of three (3) districts tested, we noted that the annual audit was not performed for all the agents.</p>
<p>B Error Reports</p>	<p>To ensure that errors are properly investigated and timely resolved.</p> <p>We selected five (5) agents from different lines and tested the error reports for specific dates. We verified that the errors were reviewed by the supervisor and properly adjusted in Oracle. We also noted that errors were adjusted timely.</p>

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>Ⓑ Daily and monthly reconciliation procedures</p>	<p>To ensure proper reconciliation of daily and monthly revenues by ticket agents.</p> <ul style="list-style-type: none"> a) We selected five (5) lines and five (5) different dates. The reconciliation for ticket sales is an automated process through the Oracle system in which transactions recorded in Oracle are compared to the uploaded file provided directly by the bank. We obtained the CashPro bank statement and matched the total deposits posted in Oracle. For unreconciled transactions, we obtained the screenshot from Oracle and ensured that manual adjustments were properly made. b) Each line maintains its own bank account where receipts are deposited. After the revenues are reconciled, the monies from each bank account are automatically transferred to the main Metra account daily. We traced the actual sweep into the main account noting no exceptions. c) The reconciliation for credit card sales is also automated. The settlement file from ACI is imported into Oracle and compared against the POS sales record. We reviewed the reconciliation output file called Lockbox and traced payments to the bank statement noting timely remittance by the credit card companies. d) For the monthly reconciliation, we requested the four (4) different months of bank reconciliation for the General Account where the fare revenue from the Main Metra account is ultimately transferred. We reviewed for appropriateness and noted no exceptions.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>B Vending Machine Reconciliation</p>	<p>Ticket sales from vending machines are transmitted from the Kensington Yard System to Oracle every time an audit is performed by the Metra Police. The cash collections are sealed in bags and deposited in Seaway Bank who counts the money. The bank sends an electronic deposit slip to Revenue Accounting after the money is counted. Accounting reconciles the total in the electronic deposit slip to the total of the receipt ledger in Oracle to ensure that fare revenues matched. We obtained the bank reconciliation for two (2) months and reviewed for appropriateness.</p> <p>For credit card transactions, the reconciliation is automatically done in Oracle in which transactions from Datapoint are compared to POS records (orders vs receipt). We selected 25 vending machines on two days from months of July and December. We obtained the Datapoint and Oracle screenshots and agreed the sales numbers. We also traced the payments in the bank statement noting timely remittance from the credit card companies. We noted an exception.</p> <p>Observation # 6</p> <p>We noted a total of 36 transactions related to cash transactions that were deposited in July and December, however were posted in Oracle in the following month. There were 12 (totaling \$35,357) and 24 (totaling \$65,744) deposit slips for the months of July and December respectively.</p>

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>Ⓑ Tickets by Internet, Mail and Benefit Orders Reconciliation</p>	<p>To ensure ticket revenues by internet, mail, and benefit orders are properly reconciled.</p> <ul style="list-style-type: none">a) The reconciliation process for ticket by internet is similar to the credit card transaction for from vending machines, however instead of Datapoint, Cybersource is used. We requested reconciliation documents for 25 days split between July and December. We obtained the Cybersource and Oracle screenshots and agreed the sales numbers. We also traced the payments in the bank statement noting timely remittance from the credit card companies.b) The ticket by mails are reconciled daily together with the cash deposits related to ticket by agent sales. We tested the reconciliation process in the daily reconciliation of revenues by the ticket agents.c) We obtained and reviewed reconciliation documents related to benefit orders for the months of July and December. We matched sales orders from WageWorks, WiredCommuter, Professional Benefit and Westlake Financials to Oracle. We also verified that the cost of the tickets calculated in Oracle matched the payments made in the main account.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>Ⓑ BNSF and UP Revenue Monthly Reconciliation</p>	<p>To review reconciliation process done by Metra in relation to BNSF and UP reported revenues.</p> <p>a) For BNSF, we selected the months of July and December to test. We obtained the excel spreadsheet submitted monthly by BNSF called PSA Exhibit 7-A and compared it to the actual revenue retrieved from Oracle called 7H Report. We recalculated the fare amounts per zone and per ticket type to the fare schedule to ensure accuracy. We traced the total revenue for the year 2014 to Metra's Consolidate Schedule of Operations reports which tied to the audited financial statements.</p> <p>b) For UP, revenues are recognized on a preceding month basis. So income for the month is comprised of prior month's actual revenues, reversal of last month's estimate and accrual for the following month's revenues. We obtained and reviewed the excel spreadsheet from UP called the Passenger Revenue Reconciliation Statements that is reviewed by the Management Analysis Manager to ensure that reconciliation is done appropriately. We traced the total revenue for the year 2014 to Metra's Consolidate Schedule of Operations reports which tied to the audited financial statements.</p>

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>Ⓑ 1332 Reports Monthly Reconciliation</p>	<p>To ensure proper reconciliation of 1332 reports and POS sales.</p> <ul style="list-style-type: none">a) We selected five (5) conductors from different dates for testing. We reviewed the 1332 reports by recalculating the fare amounts to fare schedule. We also matched the total sales with the POS receipt issued by the ticket agent.b) For month-end reconciliation, we obtained the error reports for four (4) different months and verified that errors were resolved prior to month end close.c) We obtained the correction error notices for five (5) conductors to determine that errors are monitored properly by accounting and ensure that conductors are appropriately fixing the errors by submitting corrected 1332 reports. No exceptions noted.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>© Revenues</p>	<p>To ensure that fare revenues are properly recorded in the system.</p> <p>To ensure that there are no unreconciled items, General Accounting generates a sub ledger exception report which is reviewed by Revenue Accounting. The journal entry cannot be posted until the revenues for the month have been reconciled in the Oracle Revenue Accounting System.</p> <p>a) We obtained the journal entries for the months of March, July, October, and December. We compared the journal entry to the general ledger detail to ensure that the transactions posted in the right account code.</p> <p>b) We compared the total revenues from the general ledger to the Consolidated Schedule of Operations and noted that the revenue reported in the Consolidated Schedule of Operations is net of the deferred revenue for the ten ride tickets which are sold towards the end of the month. The revenue is recognized in the following month.</p> <p>c) We traced the 2014 total revenue from the Consolidate Schedule of Operations to the audited financial statements noting that they matched.</p>

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>© Ridership</p>	<p>To ensure ridership data is analyzed in relation to the fare revenue recorded.</p> <ul style="list-style-type: none">a) We obtained preliminary draft report from Strategic Capital Planning (SCP) for the months of July and December. The ridership and revenue numbers are extracted by SCP from Oracle. Revenue Accounting will add the data from General Accounting in the draft report and looks at the variances. Revenue Accounting investigates the variance with SCP if it exceeds the 1% tolerable threshold. We noted for both months that variances did not exceed the tolerable threshold of 1%.b) We agreed the ridership and revenue numbers for the Metra Electric Line to the System Ridership Trend Report submitted to management noting no exceptions.

V. FINDINGS AND RECOMMENDATIONS

FINDING	RECOMMENDATION
<p>1. Unsigned inventory invoice by receiving agent Rating: <i>Low</i></p> <p>An invoice for monthly and weekend tickets of Milwaukee North District line was not signed by the receiving agent due to oversight.</p>	<p>We recommend that all agents ensure sign-offs on the invoices for proper accountability of tickets.</p>
<p>Management Response: Revenue Accounting agrees with this finding; however, this was not a Metra employee that failed to send the signed invoice to Metra Revenue Accounting. Amtrak is responsible for ticket handling and cash management at the Glenview station, and it was their employee that failed to send the signed invoice. This will not be an issue moving forward, as Amtrak is de-staffing the Glenview station. Metra will take over ticket sales on May 9, 2016.</p>	
<p>2. Uncollected incremental fare Rating: <i>Low</i></p> <p>Out of the seven test rides performed, there was one instance a conductor did not collect incremental fare when passenger alighted beyond the zone designated on the ticket.</p> <p>Metra Transportation Services has an existing train audit process which includes among others observation of fare collection. When issues are noted by the train auditor, a second audit is performed. In addition, Metra has a formal discipline policy.</p>	<p>We recommend conductors ensure proper collection of fare from passengers.</p>
<p>Management Response: Metra Transportation agrees with the finding. A train observation program was implemented in 2015 and will be significantly expanded in 2016.</p>	

V. FINDINGS AND RECOMMENDATIONS

FINDING	RECOMMENDATION
<p>3. Vending machine tickets not verified against inventory log Rating: <i>Low</i></p> <p>The blank tickets loaded in one of the vending machines was missing one batch of 1,000 tickets when we compared to the Vending Machine Ticket Tracking Log.</p> <p>The box of such batch of tickets was mislabeled. As a result, the tickets for the Union Station vending machine was loaded into the Union Pacific vending machine and vice versa.</p>	<p>We recommend Ticket Services ensure the appropriate tickets are loaded into the vending machines. Although the tickets were blank, and no monetary value until validated upon purchase, these tickets should be properly accounted for including immediately resolving any discrepancies.</p>
<p>Management Response:</p> <p>Station Services agrees with this finding and has amended procedures to include confirmation of opening and closing numbers when placing blank tickets into the vending machine. We will ask the Union Pacific to do the same. Additionally, Ticket Services will work with the ticket vendor to ensure accurate labeling of ticket boxes.</p>	

V. FINDINGS AND RECOMMENDATIONS

FINDING	RECOMMENDATION
<p>4. Missing weekly inventory report Rating: <i>Low</i></p> <p>One (1) of five (5) agent inventory report was missing for week 07/07/14 to 07/13/14 in Rock Island District.</p> <p>In addition, we noted there was no independent verification of reported actual inventory by the District Managers.</p>	<p>We recommend agents comply with Operations Manual to complete a weekly inventory report and submit to District Managers.</p> <p>We also recommend that District Managers maintain a monitoring or tracking that ensures weekly reports are performed and submitted.</p> <p>Although the Agents are responsible for discrepancies in weekly inventory, we recommend a proactive control of spot checks or random independent verification.</p>
<p>Management Response: Although each district has a mechanism to ensure compliance with Item P of Bulletin #11 (employee must sign and date inventory report once per week), it appears the agent was off of work on 7/7/14 and failed to send the signed report. A check of subsequent weeks indicates no further issues. The Rock Island will adopt the same tracking method as Chicago Union Station, checking behind the employee tasked with collecting all reports.</p>	

V. FINDINGS AND RECOMMENDATIONS

FINDING	RECOMMENDATION																
<p>5. Lack of specific guidelines on annual account audits Rating: <i>Low</i></p> <p>There is no formal requirement or specific guideline as to whether all accounts should be audited for each district, causing inconsistencies in percentages of accounts audited. See below for selected lines and the number of accounts audited during 2014 :</p> <table border="1" data-bbox="346 880 1462 1157"> <thead> <tr> <th>District</th> <th>No. of Account</th> <th>No. of Accounts Audited</th> <th>Percentage of Accounts Audited</th> </tr> </thead> <tbody> <tr> <td>Metra Electric</td> <td>21</td> <td>10</td> <td>48%</td> </tr> <tr> <td>Rock Island</td> <td>30</td> <td>30</td> <td>100%</td> </tr> <tr> <td>Milwaukee District</td> <td>39</td> <td>19</td> <td>49%</td> </tr> </tbody> </table>	District	No. of Account	No. of Accounts Audited	Percentage of Accounts Audited	Metra Electric	21	10	48%	Rock Island	30	30	100%	Milwaukee District	39	19	49%	<p>We recommend that Ticket Services formalize the guidelines on auditing accounts to include both working fund and ticket inventory stock, as well as consider conducting the audits on an at least once a year cycle for all agents or more frequent as considered necessary.</p>
District	No. of Account	No. of Accounts Audited	Percentage of Accounts Audited														
Metra Electric	21	10	48%														
Rock Island	30	30	100%														
Milwaukee District	39	19	49%														
<p>Management Response: Station Services agrees with this finding; however, it must be noted that 2014 was the first year of our initiative to audit each account on each district. Previous to 2014, accounts were only randomly audited. We did see an improvement in 2015 and look for 100% completion in 2016, as we have grown our audit group to include Communication Supervisors.</p>																	

V. FINDINGS AND RECOMMENDATIONS

FINDING	RECOMMENDATION
<p>6. Improper cut-off of recording vending machine deposits Rating: <i>Low</i></p> <p>Per review of July and December 2014 reconciliation related to cash transactions for vending machines we noted inconsistent posting of transactions in Oracle, resulting in transactions being posted in the following month.</p> <ul style="list-style-type: none"> a) 11 Deposits (related to 11 of 147 vending machines audited) totaling \$35,357 were posted in August of 2014 while deposit slip dates were 07/31/14. b) 23 Deposits (related to 23 of 92 vending machines audited) totaling \$64,286 were posted in January of 2015 while deposit slip dates were as early as 12/19/14. 	<p>We recommend Metra ensure transactions are recorded timely and in the appropriate month and to avoid potential discrepancies in Revenue vs Ridership.</p>
<p>Management Response:</p> <p>6a) 7/31/2014 was on a Thursday. Revenue Accounting promptly posted the transactions on receipt of the audit information from Police and IT departments.</p> <p>6b) Due to problems with the Oracle Revenue Accounting Inventory module the audits were not posted on a timely basis. The issue required the Oracle consultants, AST, to apply a patch that would enable Revenue Accounting to complete the process which took two weeks, resulting in the delay. The Inventory module is now working as intended.</p>	

AUDIT REPORT: REVENUE RECOGNITION PROCESS AT PACE

May 11, 2016



MOVING YOU



I. EXECUTIVE SUMMARY

A. General Conclusion: Overall, we noted that the fare revenue procedures and controls are adequate. However, opportunities were identified to strengthen compliance with processes and controls and compliance with the contracts. We noted three findings rated as Low which are process deficiencies and non-compliance matters.

B. Objective and Scope:

The objectives of the audit include: a) to identify new processes for collection of fare monies, b) assess the new revenue recognition procedures, and c) evaluate compliance with contract requirements, reconciliation procedures, and periodic financial reporting as defined by GASB. The period covered for Pace is January 1, 2014 to December 31, 2014.

C. Summary of Results: Internal Audit results are summarized below:

Audit Objective	High	Medium	Low	Total
1. Identify new processes for collection of fare monies	-	-	-	-
2. Assess the new revenue recognition procedures	-	-	-	-
3. Evaluate compliance with the contract requirements, reconciliation procedures, and periodic financial reporting as defined by GASB	-	-	3	3
Total number of findings	-	-	3	3

D. Brief Description of Findings

1. Settlement of funds from CTA to Pace were not timely remitted.
2. Incorrect mileage information was used to bill the customer in the Vanpool VIP program.
3. Cash counted was not remitted timely by Garda to Pace.



II. INTRODUCTION

A. Background

The Regional Transportation Authority (RTA) is responsible for conducting audits of each of the Service Boards – Chicago Transit Authority (CTA), Metra Commuter Rail (Metra) and Pace Suburban Bus and Paratransit (Pace) no less than every five years. This oversight responsibility complements the audits conducted by outside entities and the Internal Audit Departments at the Service Boards and the RTA. A system-wide risk assessment was performed at the Service Boards and the RTA through which they identified business risks in their organizations, the results of which were used by the RTA for the development of the Audit Plan.

The 2014 Annual Audit Work Plan of the RTA includes the Revenue Recognition Audit that will be conducted at the three Service Boards.

This report focuses on the Revenue Recognition Audit for the processes in place at Pace, specifically Ventra, Van Pool and Fare Box. These processes were all a part of the fare revenue recognition process.

Historically, Pace and CTA have entered into intergovernmental agreements and have cooperated to provide fare programs and fare media to their customers. CTA implemented the Open Standards Fare System (OSFS) to be used in the CTA rail stations and bus environment, also known as Ventra. This fare system was officially launched in September 2013. In June, 2013, Pace and CTA entered into a First Supplement to the OSFS Agreement, dated August 3, 2012 to enable Pace to obtain Equipment and Software and services as component of the OSFS in order to provide its customers with an OSFS for Pace and to further regional transit programs and services.

Scope and Objective

- The objectives of the Revenue Recognition Audit are: a) to identify the new processes for collection of fare monies, b) assess the new revenue recognition procedures, and c) evaluate compliance with the contract requirements, reconciliation procedures, and periodic financial reporting as defined by GASB.
- The scope of the audit includes fare revenue at the CTA, Metra and Pace. For Pace, the period covered is January 1, 2014 through December 31, 2014.



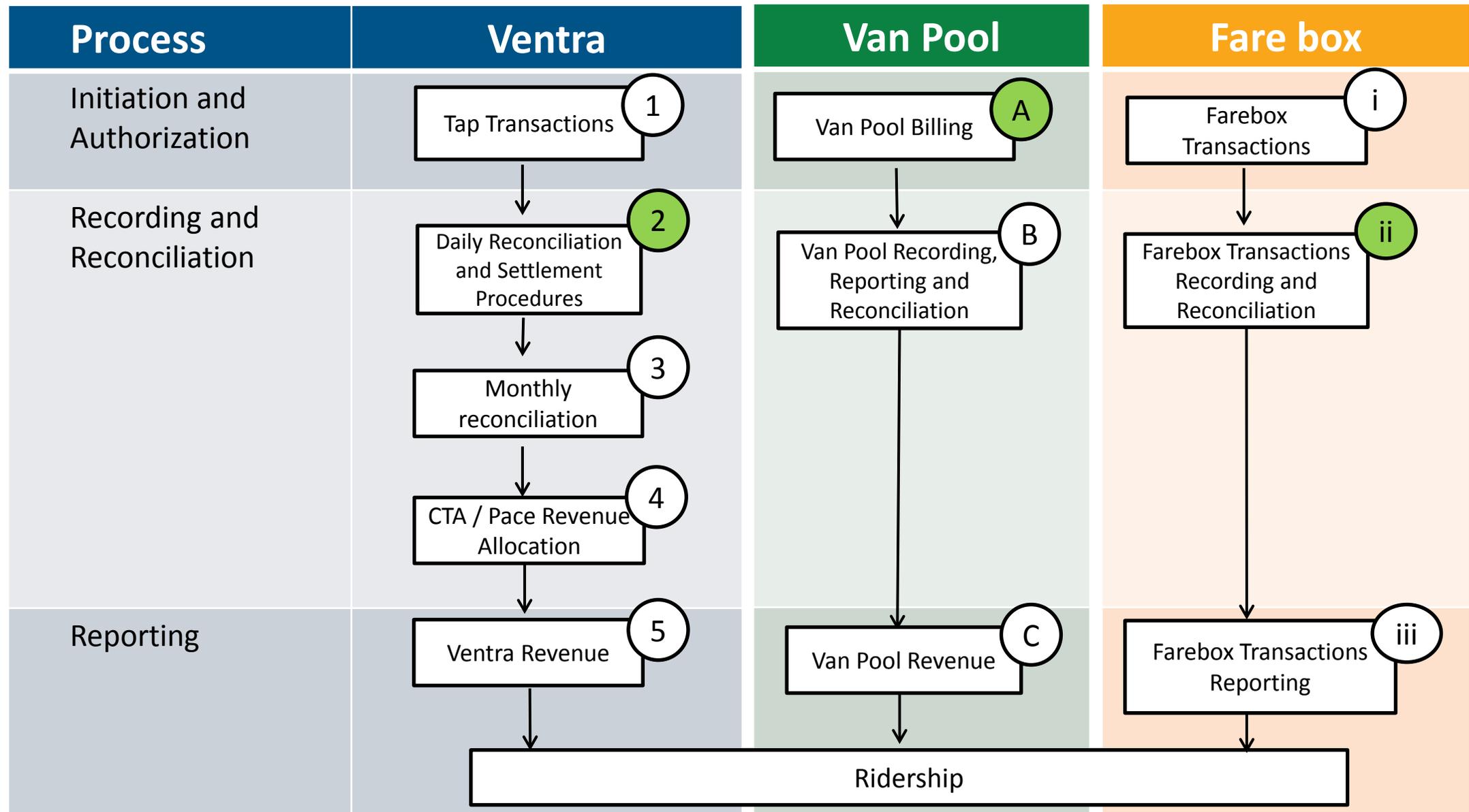
II. INTRODUCTION

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by The Institute of Internal Auditors.

Audit Approach

- Conducted interviews with the following: representatives from Pace Internal Audit, Financial Reporting, Operations, Treasury, and Planning & Budget.
- Obtained and reviewed Intergovernmental Cooperation Agreement with CTA related to deposit and application of funds for Pace fare transactions and allocation of the expired shared revenue.
- Reviewed contract with Garda World related to collection, counting and remittance of fare box revenue from different garages.
- Reviewed SOC report prepared by Moss Adams, and determined controls tested that were relevant to this audit. Based on tested controls, we determined the additional tests we needed to perform. Interviewed Moss Adams to gain an understanding on how they conducted the tests and the sample sizes used when they tested certain controls related to the revenue recognition audit. We identified three (3) complementary user entity controls for Pace that we verified to be in place through the various procedures performed and through observation.
- Reviewed the report issued by CH2M Hill for Tap Testing covering the period June 23, 2014 to June 27, 2014. We inquired about the audit findings on such analysis and if the findings have been corrected and whether it has significant impact on our audit.
- Reviewed daily and monthly fare revenue reconciliation, expired pass allocation, vanpool billing and revenue collection, fare box revenue reconciliation.
- Observed actual cash count in NorthWest Division on October 23, 2014 conducted by Internal Audit and obtained the reconciliation documents.

III. OVERVIEW OF PROCESSES AND FINDINGS



Finding Categories:



High – Could result in immediate or material loss of assets (e.g. internal or external fraud, error), significant misuse of assets, legal action, regulatory action, material financial misstatements.



Medium – Negatively affects the efficiency and effectiveness of operations and/or financial reporting accuracy; however, the overall impact is minimal.



Low – involves procedural or operational issues that do not materially affect the efficiency and effectiveness of operations.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	VENTRA PROCEDURES AND FINDINGS
<p>① Tap Transactions</p>	<p>To test proper recording of the different types of fare cards sold for Pace.</p> <ul style="list-style-type: none">a) Pace and CTA are in the Open Fare System. We did not conduct the tap testing at Pace since that procedure was already performed at CTA. Instead, we reviewed the report issued by CH2M Hill for the tap testing covering the period of June 23-27, 2014. The objective of the audit was to confirm or verify the accuracy of the Ventra card readers and back-office transaction processing. CH2M Hill tested 10 groups of test cards with 5 test cards per group representing different product types for a total of 4,900 transactions. The cards used in the testing were provided by Cubic. The tests were performed primarily in Pace buses with limited testing on CTA vehicles and turnstiles.b) There were four findings that resulted from this pre-test audit. Pace reported the findings to Cubic for further investigation. We obtained the responses by Cubic and noted that the findings were appropriately corrected and addressed.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>2 Daily Reconciliation and Settlement Procedures</p>	<p>To ensure that sales revenue are accurately allocated to Pace and proper reconciliation of daily revenue is :</p> <ul style="list-style-type: none"> a) We randomly selected 6 dates from 5 different months to test daily reconciliation. b) We obtained the Daily Settlement Report provided by Cubic. The report presents the allocation of the revenue between Pace and CTA. This document was tested during our audit of CTA. For the Pace portion, to ensure that the records match, we traced the revenue to the following Data Warehouse reports: WS150-Usage Summary; WS125-Sales Summary; WS120-Sales Payment and WO150 Patron Adjustment Report. <p>To ensure proper compliance to the Intergovernmental Agreement that CTA will transfer funds on the fifth day from transaction date:</p> <ul style="list-style-type: none"> a) We obtained the Summary of Settlement Funds maintained by Treasury. The report summarizes the daily settlement date from CTA, ACH deadline and the actual deposit date. We agreed the daily deposit amount to the Daily Settlement to ensure that the amount to be paid by CTA is properly reported on the Summary of Settlement Funds. b) We obtained the bank statement and traced CTA's transfer matched with the Daily Settlement Report. We ensured timely remittance of funds by reviewing the transfer dates. We noted several dates where actual transfers of funds were delayed by CTA for a day.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS																																					
<p>2 Daily Reconciliation and Settlement Procedures</p>	<p>Observation # 1: Non-compliance with sales settlement terms.</p> <p>Per Intergovernmental Agreement Section 1.05, CTA will remit all transit fare revenues to Pace not later than 2 business days after CTA's receipts of funds. We noted delays in remittance on the following months per review of the Settlement Summary Fund Report:</p> <table border="1" data-bbox="777 763 2372 1352"> <thead> <tr> <th rowspan="2">Months Tested</th> <th rowspan="2">Number of Remittance Made</th> <th colspan="3">Number of delayed remittances per business days</th> <th rowspan="2">Total Number of Delayed remittance</th> </tr> <tr> <th>1</th> <th>2</th> <th>3</th> </tr> </thead> <tbody> <tr> <td>March 2014</td> <td>33</td> <td>13</td> <td>-</td> <td>-</td> <td>13</td> </tr> <tr> <td>April 2014</td> <td>33</td> <td>7</td> <td>1</td> <td>1</td> <td>9</td> </tr> <tr> <td>July 2014</td> <td>32</td> <td>8</td> <td>2</td> <td>-</td> <td>10</td> </tr> <tr> <td>November 2014</td> <td>29</td> <td>6</td> <td>1</td> <td>-</td> <td>7</td> </tr> </tbody> </table>					Months Tested	Number of Remittance Made	Number of delayed remittances per business days			Total Number of Delayed remittance	1	2	3	March 2014	33	13	-	-	13	April 2014	33	7	1	1	9	July 2014	32	8	2	-	10	November 2014	29	6	1	-	7
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IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>③ Monthly Reconciliation</p>	<p>To ensure proper reconciliation of monthly revenue:</p> <ul style="list-style-type: none">a) We selected five (5) months to test and obtained the Monthly Settlement Reporting Summary. This report is an excel spreadsheet prepared to show the accumulation of sales revenue from the Daily Settlement Report. For the samples tested on the daily reconciliation process, we traced the sales revenues to this report to ensure that the numbers inputted are correct.b) The total revenue for the month per sales type (PAYG, Store Value, Pass Sales and Shared Revenue) are reconciled monthly to the various Data Warehouse Reports. On a monthly basis, CUBIC provides Pace with the Sales Group Detail Report that shows the total revenue per sales type. This report is used by accounting to reconcile the total revenue reported on the Monthly Settlement Reporting Summary. We reviewed the reconciliation and noted the amounts agree.c) We reconciled the total daily sales revenue on the Monthly Settlement Reporting Summary to the Accounts Receivable and Cash accounts on the Daily Trial Balance prepared by CUBIC. The deferred revenue and fare revenue accounts are not reconciled due to the different revenue recognition policy of Pace. The deferral and recognition of revenue is done directly in Oracle through journal entries.d) The Monthly Settlement Reporting Summary is the basis for the deferred revenue and fare revenue journal entries. The journal entries are posted on a daily basis. We obtained and reviewed the journal entries to ensure that transactions were properly posted in the Oracle.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
<p>4 CTA / Pace Revenue Allocation</p>	<p>To test allocation of revenue per CTA and Pace in accordance with the shared revenue agreement:</p> <ul style="list-style-type: none">a) We selected the months of July and December 2014. The revenue allocation is performed twice a month every 15th and the last day of the month. We obtained the Express Shared Passes-Calculation file for the months selected.b) We obtained the number of expired passes and the ridership information from Data Warehouse used in the allocation and recalculated to ensure accuracy.c) We agreed the amount of the funds transferred to the Monthly Settlement Reporting Summary and the bank statement. We also ensured that the payment to Pace was processed within five business days as per the shared revenue agreement.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	PROCEDURES AND FINDINGS
5 Reporting	<p>To ensure revenue data is analyzed in relation to ridership expectations:</p> <ul style="list-style-type: none">a) We obtained the Fare Revenue Analysis prepared by accounting monthly for the same five months tested during the Monthly Reconciliation process. Pace performs extensive analysis procedures on fare revenue to ensure the reasonableness of revenues reported particularly the Ventra revenue reported by Cubic. The analysis compares revenues and ridership for three months in every revenue channel on a year to year format.b) We obtained the Revenue Detail Analysis Reports that support the analytics to determine that the numbers used in the analysis are correct.c) We obtained the analytic report where the explanation for significant variances are investigated and documented. The analytic report is emailed to accounting management and service departments that handle fare box and ticket revenue reports.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	VANPOOL PROCEDURES AND FINDINGS
<p>A Van Pool Billing</p>	<p>To test proper billing of customers in the Van pool Incentive program:</p> <ul style="list-style-type: none">a) We selected the months of July and December 2014. We obtained the Sales Edit List from the legacy accounting system MCBA. From the monthly list, we randomly selected ten (10) vanpools groups and 3-5 customers per group to test. The customers selected consist of drivers, back-up drivers and regular riders. For each of the vanpool groups selected, we obtained the Route Information Sheet. For each of the customer selected, we obtained the Account Information and Vanpool Statement, both retrieved from Oracle.b) To ensure that the customers are properly set-up in Oracle and that the same information is carried over to MCBA, we reviewed the Oracle customer account information and agreed the category, vanpool number, fare override and legacy number to the MCBA Vanpool Sales Edit List.c) To test accuracy of the fare billed in the MCBA system, we agreed the roundtrip mileage from MCBA Sales Edit List to the Vanpool Route Information Sheet. We verified that the roundtrip mileage declared on the Vanpool Route Information Sheet is correct by reviewing the attached map. If no map is attached, we verified the mileage online. Then, we traced the fare charged depending on the number of riders per group and the roundtrip mileage amount to the Vanpool Fare Matrix.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	VAN POOL PROCEDURES AND FINDINGS
<p>A Van Pool Billing</p>	<p>To test proper billing of customers in the Vanpool Incentive program: (<i>continuation</i>)</p> <ul style="list-style-type: none">d) To ensure that the billing information and adjustment/credits processed in MCBA interfaced accurately in Oracle, we compared the vanpool number, invoiced amount and credit memo from the MCBA Sales Edit List to the Vanpool Fare Statement generated from Oracle. We also ensured that the e-billing credits, previously granted to credit card paying customers but discontinued in 2013, are no longer deducted on the Vanpool Fare Statement.e) To ensure that the customer's account is current, we obtained the Past Due Invoice Report from Oracle. We scanned the report for past due amount and current balance that exceeds the monthly invoice amount. None were noted. <p>Observation#2: Incorrect mileage information used in billing</p> <p>In one of ten vanpool routes tested for the month of December, 2014, we noted a discrepancy in the roundtrip mileage reported on the Route Information Sheet compared to the MCBA report and Oracle Customer Account. This resulted to the erroneous billing of the fare to three (3) customers.</p>

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	VANPOOL PROCEDURES AND FINDINGS
<p>Ⓑ Vanpool Recording, Reporting and Reconciliation</p>	<p>To test proper recording, reporting and reconciliation of Vanpool revenue:</p> <ul style="list-style-type: none">a) We obtained the journal entries from Oracle for the months tested, including the Vanpool VIP Revenue Account Activity that shows all the journal entry posted related to vanpool for the month.b) We compared the total amount billed in the MCBA Sales Edit List to the journal entry posted in the Vanpool VIP Revenue Account Activity noting that proper entries were recorded to book deferred revenue for next month's fare.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	FAREBOX PROCEDURES AND FINDINGS
<p> Farebox Transactions</p>	<p>To test that farebox transactions are properly accounted for:</p> <ul style="list-style-type: none">a) We randomly selected 4 dates from 4 different months to test daily pick-up from the garages performed by third-party Garda. The bins from the different garages are collected by Garda in accordance with the bin pick-up schedule established by Pace.b) We obtained the Daily Batch Entry Sheet that Garda prepares and sends to Revenue Accounting twice weekly. The report summarizes the cash counts from the different pick-up locations performed on bin pick-up schedule dates. Garda immediately sends an electronic copy of the cash count report on bins collected to Pace. Pace manually enters the information from the cash count report in Oracle and generates the Farebox Revenue Collection Report. We agreed the Farebox Revenue Collection Report to the Daily Batch Entry Sheet to ensure completeness and accuracy of the input process noting no exceptions.c) We observed a cash count performed by Internal Audit on the NorthWest Division in October 23, 2014. There were no major observations noted on the process of the way the count was conducted.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	FAREBOX PROCEDURES AND FINDINGS
<p>ii Farebox Transactions Recording and Reconciliation</p>	<p>To test that farebox revenues are properly recorded and reconciled:</p> <ul style="list-style-type: none">a) We selected 4 locations from the Farebox Revenue Collection Report to test the reconciliation process performed by each garage. We obtained the Monthly Farebox/Bin Reconciliation Report. This report summarizes the farebox bin reading on specific pick-up dates and the corresponding payments made by Garda. We scanned the report for any variances over or under the threshold set by Pace. If the variance was material, we ensured that investigation was performed by the location representative. We also traced and agreed the bin audit reports for each sample that has differences between the daily farebox revenue and bin reading summary.b) We obtained the daily farebox revenue report generated from the GFI system. This report supports the daily farebox reading numbers on the Monthly Farebox/Bin Reconciliation Report. We ensured that the numbers on both reports match.c) We traced and agreed the cash remittances of Garda to Pace’s bank statement and noted the number of days from pick-up date to actual payment as per contract and noted a few exceptions.

IV. PROCESSES, PROCEDURES AND FINDINGS

PROCESSES	FAREBOX PROCEDURES AND FINDINGS															
<p>ii Farebox Transactions Recording and Reconciliation</p>	<p>Observation #3: Non-compliance with payment remittance terms.</p> <p>Per contract agreement, Garda should remit the funds to Pace 48 hours (2 days) from the time the cash bins are collected from the pick-up locations. We noted during our testing that in 4 out of 4 samples tested, the payments were received 1-3 business days from the deadline dates.</p> <table border="1" data-bbox="792 772 2390 1164"> <thead> <tr> <th>Pick Up Date</th> <th>Actual Fund Settlement</th> <th>Number of Business Days Delayed</th> </tr> </thead> <tbody> <tr> <td>March 14, 2014</td> <td>March 21, 2014</td> <td>3</td> </tr> <tr> <td>October 23, 2014</td> <td>October 29, 2014</td> <td>2</td> </tr> <tr> <td>November 26, 2014</td> <td>December 2, 2014</td> <td>1</td> </tr> <tr> <td>December 2, 2014</td> <td>December 9, 2014</td> <td>3</td> </tr> </tbody> </table>	Pick Up Date	Actual Fund Settlement	Number of Business Days Delayed	March 14, 2014	March 21, 2014	3	October 23, 2014	October 29, 2014	2	November 26, 2014	December 2, 2014	1	December 2, 2014	December 9, 2014	3
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<p>iii Farebox Transactions Reporting</p>	<p>To ensure revenue data is analyzed in relation to ridership expectations:</p> <p>The revenue data is analyzed together with the other revenue channels in the Fare Revenue Analysis performed by Accounting monthly. Please refer to the testing performed for Ventra revenue.</p>															

V. FINDINGS AND RECOMMENDATIONS

FINDING	RECOMMENDATION
<p>1) Non-compliance with Ventra sales settlement terms. Category: LOW</p> <p>Per Intergovernmental Agreement Section 1.05, CTA will remit all transit fare revenues to Pace not later than 2 business days after CTA's receipts of funds. We observed that 4 out of 4 Monthly Settlement Summary Fund Reports reviewed, multiple remittances were delayed for 1-3 days. Although Pace management does not consider this an issue, this practice is still not in compliance with the Intergovernmental Agreement.</p>	<p>We recommend that Pace should coordinate with CTA to ensure that funds are settled timely. Instead of the 2 day requirement, Pace might want to consider changing the agreement for example, to 80% within 2 days, 90% within 3 and 100% within 4 days to be more reasonable.</p>
<p>Management Response:</p> <p>We consider this a low category finding especially since Pace has no control over the timing of the transfer of the funds. Pace acknowledges that there were deposits received later than two business days. Pace contacted CTA when there were delays in receiving funds. In most of the cases, the delays were due to CTA combining the Friday settlement with the Saturday and Sunday settlement and sending it together on one wire transfer on the following Monday. We consider this an acceptable practice. Pace will work with CTA to revise the Intergovernmental Agreement to reflect this.</p>	

III. FINDINGS AND RECOMMENDATIONS

FINDING	RECOMMENDATION
<p>2) Incorrect mileage information used in billing vanpool services. Category: LOW</p> <p>In one out of ten vanpool routes tested for the month of December, 2014, we noted a discrepancy in the roundtrip mileage reported on the Route Information Sheet compared to the MCBA report and Oracle Customer Account. This resulted in the erroneous billing of the fare to three (3) customers.</p>	<p>We recommend that Pace should timely obtain updated Route Information Sheet and thoroughly review it against Oracle and MCBA information to ensure the billing information is up-to-date and correct.</p>
<p>Management Response:</p> <p>Vanpool Staff has requested updated Route Information Sheets from every vanpool driver. Vanpool Staff will also request updated Route Information Sheets on a yearly basis or if the route changes for any reason. The Route Information Sheets will be thoroughly reviewed against Oracle and MCBA to ensure the billing information is correct and up-to-date.</p>	

III. FINDINGS AND RECOMMENDATIONS

FINDING	RECOMMENDATION
<p>3) Non-compliance with payment remittance terms on farebox collections. Category: LOW</p> <p>Per contract agreement, Garda should remit the funds to Pace 48 hours (2 days) from the time the cash bins are collected from the pick-up locations. We noted during our testing that in 4 out of 4 samples tested, the payments were received 1-3 business days from the deadline dates. Even though both Garda and Pace deem the remittance deadline is not attainable, this is still not in compliance with the agreement.</p>	<p>Pace should ensure that Garda comply with the remittance deadline, otherwise, consider amending the contract to include a deadline that is realistic, attainable and reasonable for both parties.</p>
<p>Management Response:</p> <p>We consider this a low category finding. The GARDA contracts indicates that “Pace requires the Contractor to provide payment to Pace and its contracted carriers in a timely manner (within 48 hours)”. We consider the 48 hours to be a suggested timeframe. Pace has acknowledged that receiving funds within 48 hours from the time cash bins are collected is not feasible. With the counting and reconciliation that has to occur, Pace has indicated to GARDA that 4 business days is reasonable. Pace contacts GARDA if there are delays beyond that period and can, at their discretion, invoice GARDA for liquidated damages for delays in receiving the funds. Pace will work on amending the contract with GARDA .</p>	