

Chicago Transit Authority

**Compliance Examination
December 31, 2005**

**Performed as
Special Assistant Auditors
for the Auditor General,
State of Illinois**

Wolf & Company LLP
Certified Public Accountants

Chicago Transit Authority

Table Of Contents

	PAGE
Authority Officials	1
Management Assertion Letter	2
Compliance Report	
Summary	3
Auditors' Report:	
Independent Accountants' Report on Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes	4-5
Schedule of Findings	6
Supplementary Information for State Compliance Purposes	
Summary	7
Analysis of Operations	
Functions and Planning Program (not examined)	8-10
Average Number of Employees (not examined)	11-12
Service Efforts and Accomplishments (not examined)	13-15
Other Reports Issued Under Separate Cover	
Comprehensive Annual Financial Report for the Year Ended December 31, 2005	
Single Audit Report for the Year Ended December 31, 2005	
Performance Audit Report for the Chicago Transit Authority	

Chicago Transit Authority

Authority Officials

BOARD OF DIRECTORS

Carole L. Brown	Chairman
Susan A. Leonis	Vice Chairman
Henry T. Chandler, Jr.	Board Member
Cynthia A. Panayotovitch	Board Member
Charles E. Robinson	Board Member
Alejandro Silva	Board Member
Nicholas C. Zagotta	Board Member

OFFICIALS

Frank Kruesi	President
Dorval R. Carter	Executive Vice President - Management and Performance
Susan A. Plassmeyer	Executive Vice President - Construction, Engineering and Facilities
Richard N. Winston	Executive Vice President - Transit Operations
Dennis Anosike	Senior Vice President - Budget, Capital and Finance
Lynn Sapyta	Vice President Finance/Comptroller

CTA'S ADMINISTRATIVE OFFICES ARE LOCATED AT:

567 West Lake Street
Chicago, Illinois 60661



567 West Lake Street
Chicago, Illinois 60661-1498
TEL 312 664-7200
www.transitchicago.com

June 28, 2006

Wolf & Company LLP
Certified Public Accountants
2100 Clearwater Drive
Oak Brook, Illinois 60523

We are responsible for the identification of and compliance with, all aspects of laws and regulations that could have a material effect on the operations of the Authority. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Authority's compliance with the following assertions during the year ended December 31, 2005. Based on this evaluation, we assert that during the year ended December 31, 2005, the Authority has materially complied with the assertions below:

- A. The Authority has developed policies and procedures to identify, evaluate and monitor compliance with all applicable laws and regulations which have a material effect on operations.
- B. The Authority has obligated, expended, received and used revenues, grants and similar awards in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law or regulation upon obligation, expenditure, receipt or use.
- C. The Authority has complied, in all material respects, with applicable laws and regulations in its financial and fiscal operations.
- D. Revenues and receipts collected and expended by the Authority are in accordance with applicable state and federal laws and regulations.

President

Acting General Counsel

Senior Vice President Finance/Treasurer

Chicago Transit Authority

Compliance Report
Year Ended December 31, 2005

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

AUDITOR'S REPORT

The Independent Accountants' Report on Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

	<u>This Report</u>	<u>Prior Report</u>
Findings	None	*
Repeated Findings	*	*
Prior Recommendations Implemented or Not Repeated	*	*

* This is the first compliance examination of the Authority conducted under the direction of the Office of the Auditor General in accordance with House Resolution No. 479.

SCHEDULE OF FINDINGS

The Chicago Transit Authority did not have any current year findings.

EXIT CONFERENCE

Authority management waived having an exit conference with the compliance auditors in correspondence dated February 13, 2007.

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE,
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Chicago Transit Authority's (Authority) compliance with the requirements listed below during the year ended December 31, 2005. The management of the Chicago Transit Authority is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Chicago Transit Authority's compliance with these requirements based on our examination.

- A. The Authority has developed policies and procedures to identify, evaluate and monitor compliance with all applicable laws and regulations which have a material effect on operations.
- B. The Authority has obligated, expended, received and used revenues, grants and similar awards in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law or regulation upon obligation, expenditure, receipt or use.
- C. The Authority has complied, in all material respects, with applicable laws and regulations in its financial and fiscal operations.
- D. Revenues and receipts collected and expended by the Authority are in accordance with applicable state and federal laws and regulations.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the *Audit Guide* as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements during the year ended December 31, 2005. As required by the *Audit Guide*, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Authority's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the *Audit Guide*, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. There were no immaterial findings relating to internal control deficiencies that have been excluded from this report.

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for purposes of additional analysis. We have not applied procedures to the Supplementary Information for State Compliance Purposes and, accordingly, we do not express an opinion on the supplementary information.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

Wolf & Company LLP

Oak Brook, Illinois
June 28, 2006

Chicago Transit Authority

Schedule of Findings
Year Ended December 31, 2005

There were no current findings noted during the Compliance Examination for the year ended December 31, 2005.

Chicago Transit Authority

Supplementary Information for State Compliance Purposes
Year Ended December 31, 2005

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

Analysis of Operations

- Functions and Planning Program (not examined)
- Average Number of Employees (not examined)
- Service Efforts and Accomplishments (not examined)

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the auditors have not applied procedures to the Supplementary Information for State Compliance Purposes and, accordingly, do not express an opinion thereon.

Chicago Transit Authority

Functions and Planning Program (Not Examined)
Year Ended December 31, 2005

Agency Functions and Planning Program

The Chicago Transit Authority (CTA) is an independent governmental agency created by an Act of the General Assembly of the State of Illinois on April 12, 1945. The City Council of the City of Chicago has granted the CTA the exclusive right to own and operate a unified local transit system. The CTA began operating on October 1, 1947, after it acquired the properties of the Chicago Rapid Transit Company and the Chicago Surface Lines. During the years between the two World Wars, the viability of privately owned and operated mass transportation in Chicago was in doubt. At the time, two of the three transit companies in Chicago were facing bankruptcy as repeated restructuring efforts failed. Cash shortages caused delays of essential capital investment.

On October 1, 1952, CTA became the sole operator of Chicago mass transportation when it purchased the Chicago Motor Coach system, consolidating all public and private transit companies. In 1974, the Illinois General Assembly created the Regional Transportation Authority (RTA) as a fiscal and policy oversight agency committed to providing an efficient and effective public transportation system. The RTA continues to provide annual fiscal oversight to CTA, Metra, and Pace today.

Today, CTA operates the nation's second largest public transportation system in the United States. The CTA's service area, which is established by statute, covers the City of Chicago and 40 surrounding suburbs with a service population of 3.8 million people. On an average weekday, CTA provides 1.6 million rides or more than 490 million rides annually.

CTA has approximately 2,000 buses that operate over 153 routes and 2,273 route miles. CTA buses provide about 1 million passenger trips a day and serve more than 12,000 posted bus stops. CTA's 1,190 rapid transit cars operate over eight routes and 222 miles of track. CTA trains provide about 600,000 customer trips each day and serve 144 stations. Chicago is one of the few cities in the world that provides direct rapid transit service to two major airports -- O'Hare International Airport and Midway Airport -- from downtown Chicago.

CTA's organizational structure is comprised of three primary groups: Transit Operations, Construction, Engineering and Facilities, and Management and Performance.

Transit Operations

The Transit Operations Division is the largest in the CTA, comprising 72.6% of the overall 2006 operating budget. The Transit Operations Division includes bus and rail operations, planning, training, security, and CTA control center operations. Combined, these divisions operate a 24 hour, 7 day a week, 365 day a year service. The Division also includes vehicle maintenance for bus and rail fleets that provides cleaning, repairs, rebuilds, overhauls, seasonal preparations, and preventive maintenance of all CTA vehicles and equipment. Paratransit Services, which will be transitioned to Pace Suburban Bus Service effective July 1, 2006 due to state legislation passed in 2005, is also included in Transit Operations.

The Bus and Rail Division transit services are operated out of rail terminals located throughout the service area and bus garages that are geographically located in the City of Chicago. In addition to nine terminals where rail service is dispatched and rail cars are cleaned and stored, the Rail Division has a central facility for heavy maintenance in Skokie for major repairs and overhaul of rail cars. The Skokie site is also the location for rail support staff. Similarly, the Bus Division operates service out of eight garages, but has a central location on 77th Street on the south side of Chicago for bus heavy maintenance, repairs and capital overhauls.

Chicago Transit Authority

Functions and Planning Program (Not Examined) (Cont.)
Year Ended December 31, 2005

Construction, Engineering and Facilities Division

The Construction, Engineering, and Facilities Maintenance division is responsible for planning, building, repairing, and maintaining CTA's subway, ground, and elevated rail structures, at-grade rail right of way, signals, stations/platforms, rail yards, rail terminals, bus garages, elevators, escalators, and over 5 million square feet of property. The Engineering and Construction departments also oversee major capital improvements throughout the CTA system, as well as design and planning of future projects.

CTA's Facilities Maintenance Department maintains 287.9 miles of track, 52.3 miles of elevated track structure, 144 stations, 12 rail yards, 8 bus garages, 108 elevators, 146 escalators and over 5 million square feet of CTA property in more than 450 buildings.

Management and Performance Division

CTA's Management and Performance Division provides administrative support to Transit Operations and Construction, Engineering and Facilities through departments including Finance and Treasury, Human Resources, Technology Management and Purchasing/Warehousing, Communications and Marketing, Government and Community Relations.

In addition, CTA's Executive staff, which includes the President's Office, Chicago Transit Board, General Counsel and Inspector General, also provides support and oversight to the CTA. The General Counsel's office provides advice and counsel concerning CTA's legal and financial transactions and handles all accident and worker's compensation claims.

CTA is responsible for providing public transportation services to Chicago and its suburbs. Currently, CTA provides fixed route bus and heavy rail services to Chicago and forty surrounding suburbs.

The governing arm of the CTA is the Chicago Transit Board. The Board consists of four members appointed by the Mayor of Chicago and three members appointed by the Governor of Illinois. The Mayor's appointees are subject to the approval of the Governor and the Chicago City Council; the Governor's appointees are subject to the approval of the Mayor and the Illinois State Senate. The Chairman is elected by the CTA Board. CTA's day-to-day operations are directed by its President.

Annual operating and capital budgets and all major strategic and service related initiatives require CTA Board approval.

Budget and Capital Program Planning:

All CTA business functions are involved in operating budget planning and capital programming. These activities are coordinated by the Executive Vice President of Management and Performance in support of RTA's annual budget and capital program process.

Chicago Transit Authority

Functions and Planning Program (Not Examined) (Cont.)
Year Ended December 31, 2005

Management and Performance Division (Cont.)

CTA Strategic Planning:

Strategic Planning analyzes factors affecting CTA markets in the mid-to-long range and oversees planning initiatives and studies that help CTA to be able to address anticipated future transit market conditions and opportunities. This work includes market research and survey research initiatives, travel demand forecasting, fare policy analysis, bus and rail fleet planning, and alternatives analysis and environmental review for major rail and bus capital asset and service expansions. According to CTA, all CTA long range planning activities are structured to be consistent with relevant regional long range planning processes overseen by the Chicago Metropolitan Agency for Planning and RTA as well as specific planning processes as may be required to maintain eligibility for FTA and IDOT capital grant assistance.

CTA Service Planning:

Service Planning designs, implements and evaluates CTA's bus and rail services throughout the service area. Service Planning uses the Board adopted Service Standards to evaluate service coverage, span of service, service frequency, passenger flow and productivity to determine how a bus route or rail line should be adjusted. Service changes are designed to fit into short and medium range planning activities and to support the longer range goals of the Authority. Service Planning uses a sub-regional study process to design and adjust bus and rail levels in order to ensure comprehensive service throughout the area.

Chicago Transit Authority

Average Number of Employees (Not Examined)
Year Ended December 31, 2005

The CTA staffing averages about 11,000 full-time equivalent staff for the three-year period of FY 2004 through FY 2006. CTA's yearly staffing levels are determined primarily during the annual budget process. The CTA budgets for two main categories of employees: 1) budgeted positions, which include full-time employees that provide maintenance, support and oversight, and 2) Scheduled Transit Operations, (STO) which include bus and rail operators, customer assistants, switchman and yardmasters.

In order to determine budgeted STO headcount, during the annual budget process the CTA determines the service routes and frequency of service it wants to provide given available resources. This schedule is then converted into STO pay hours by the scheduling group through a series of iterations that take into account contractual rules and guidelines. Included in the STO pay hour calculation is a break down of weekday, Saturday and Sunday hours, along with full and part-time operator hours. The total STO pay hours needed is then divided by the forecasted yearly hours worked per operator to determine the headcount for STOs taking into account absence factors.

For 2006, the CTA budgeted for 4,297 Scheduled Transit Operators for Bus and 1,295 Scheduled Transit Operators for Rail, for a total of 5,592 STO employees, or 51.4% of total CTA employees. This number is level with 2005 budgeted STO levels. Non-STO employees were budgeted at 5,295 for 2006, although the CTA Board capped the non-STO positions at the 2005 level of 5,281.

Budgeted Positions 2004-2006

	<u>2004</u>	<u>2005</u>	<u>2006</u>
CTA Board	14	14	14
Office of the President	7	6	6
System Safety	17	16	18
Office of the Inspector General	18	17	18
General Counsel	118	108	108
TRANSIT OPERATIONS			
EVP Transit Operations	4	6	6
Bus Operations			
Scheduled Transit Operations - Bus	4,381	4,297	4,297
Other Bus Operations	1,716	1,619	1,631
Total Bus Operations	6,097	5,916	5,928
Rail Operations			
Rail Terminals and Other Rail	1,043	1,003	1,003
Scheduled Transit Operations - Rail	1,372	1,295	1,295
Total Rail Operations	2,415	2,298	2,298
Security, Control Center and Training	238	235	239
Planning	69	63	65
Customer Service and Paratransit	34	33	30
TOTAL - TRANSIT OPERATIONS	<u>8,857</u>	<u>8,551</u>	<u>8,566</u>

Chicago Transit Authority

Average Number of Employees (Not Examined) (Cont.)
Year Ended December 31, 2005

Budgeted Positions 2004-2006

	<u>2004</u>	<u>2005</u>	<u>2006</u>
CONSTRUCTION, ENGINEERING AND FACILITIES MAINTENANCE			
EVP Construction, Engineering and Facilities Maintenance	3	3	3
Engineering	75	71	71
Construction	48	47	45
Facilities Maintenance	1,244	1,194	1,196
TOTAL - CONSTRUCTION, ENGINEERING & FACILITIES MAINTENANCE	<u>1,370</u>	<u>1,315</u>	<u>1,315</u>
MANAGEMENT & PERFORMANCE			
EVP Management and Performance	3	3	5
Communications and Marketing	49	44	46
Govmt. and Community Relations and Affirmative Action	29	26	26
Finance	218	208	196
Human Resources	44	38	42
Employee Relations	19	19	19
Technology Management	268	242	242
Purchasing/Warehousing	284	266	266
TOTAL - MANAGEMENT & PERFORMANCE	<u>914</u>	<u>846</u>	<u>842</u>
TOTAL CTA	<u>11,315</u>	<u>10,873</u>	<u>10,887</u>

Chicago Transit Authority

Service Efforts and Accomplishments (Not Examined)
Year Ended December 31, 2005

Financial Audit and Budget Overview

On an annual basis the CTA is audited by an independent certified public accounting firm. In addition to an audit of the financial statements, the external audit includes a review of the National Transit Database Report and the Single Audit. The RTA and IDOT also conduct audits of grant close-outs on a periodic basis. The FTA conducts a triennial (3 year) review of CTA to determine compliance with current federal regulations. The last triennial review, conducted in 2004, covered 23 different areas including legal, financial, technical, procurement, maintenance, safety and security, planning and satisfactory continuing control. CTA has received unqualified or "clean" audit opinions for the last 10 years and CTA has not had any findings in the last 10 years that had a financial consequence.

The CTA budgets for its capital and operating programs annually with a fiscal year beginning January 1. CTA's capital program consists of projects such as modernization of rail stations, track and structure rehabilitation, bus and rail car purchases, and rail extensions. The total capital budget for 2006 is \$371 million.

CTA's operating budget supports day-to-day operations. The CTA adopted the 2006 Annual Budget on November 9, 2005 and the Regional Transportation Authority (RTA) Board approved the budget on December 15, 2005. The total operating budget for 2006 is \$1.037 billion which is a 4.1% increase over the 2005 and 1.5% higher than 2005 actual expenses of \$1.021 billion. The driving forces behind the growth in the 2006 budget and 2005 actual expenses are market forces such as health care premiums, fuel, electric power, and security costs.

The 2006 budgeted expense for fuel is \$48.0 million or 41.9% higher than 2005 budget of \$33.8 million and 4.8% higher than the 2005 actual fuel expenses of \$45.8 million. Fuel costs have more than tripled since 1999 when fuel expenses totaled \$12.5 million. Security costs have also increased significantly since September 11, 2001; 2006 security expenses are 89% higher than 2000 due to expanded coverage across the system due to a heightened need for security in public transit systems.

Privatization Initiatives

Although CTA is prohibited from outsourcing many functions due to union contracts, the agency has several large components of its day-to-day operations provided by private vendors:

- Paratransit (\$29.6 million estimated for January-June 2006)
- Security – Securitas private contractor (\$25.5 million)
- Security – Chicago, Evanston and Oak Park Police Departments (\$8.6 million)
- Revenue Collection Guard Services (\$1.1 million)
- Engine and Transmission Rebuilding (\$7.8 million)
- Bus Inspection (\$3.0 million)
- Selected Janitorial Services (\$0.2 million)
- Workers' Compensation Management (\$4.3 million)
- Elevator Maintenance (\$1.8 million)
- Third Party Administration for Worker's Compensation and Healthcare

As noted earlier, collective bargaining agreements with CTA's two largest unions, Amalgamated Transit Union Locals 241 and 308, currently prohibit most subcontracting or outsourcing of work regularly provided by union members.

Chicago Transit Authority

Service Efforts and Accomplishments (Not Examined) (Cont.)
Year Ended December 31, 2005

Capital Improvements

CTA receives capital funding from the federal government through the FTA, the Illinois State Department of Transportation (IDOT), RTA bonds, and CTA bonds. The capital improvement program is distributed to Rail System Projects, Bus System Projects, Preventative Maintenance and System-wide projects.

In recent years, Illinois FIRST has allowed CTA to make great progress in its capital program. It took CTA from funding only 19% of its capital need in 1999 to funding nearly 60% by 2004. However, with the end of Illinois FIRST, CTA has lost this momentum. Prolonged disinvestment can create a downward spiral of transit performance. As infrastructure and vehicle fleets age, transit trips are delayed, and the quality of service diminishes. As service quality is reduced, riders are inconvenienced and ridership falls. As customers leave the system, revenue levels decrease, making less funding available for service or infrastructure investment. This cycle of service deterioration can be avoided with timely, ongoing capital investment. The loss of capital funding, along with the use of capital funds to plug an operating funding gap, creates a risk to CTA to lose the momentum gained since the late 1990's.

This reassessment of CTA's infrastructure shows that the agency requires significant additional investment during FY 2007-2011 to reach a "State of Good Repair" (SGR).

CTA has based its SGR estimates on the following industry replacement and rehabilitation standards:

- Buses should be rehabbed at 6 years and replaced at 12 years
- Railcars should be rehabbed at quarter- and mid-life intervals and replaced at 25 years
- Rail stations should be comfortable and secure, and should be replaced or rehabbed at 40 years
- Rail lines should be free of slow zones and should have safe and reliable signal systems.
- Maintenance facilities should be replaced at 40 years (or 70 years if rehabbed)
- Service management systems should be modern and reliable

CTA's 2007-2011 Capital Improvement Program (CIP) forecasts no non-federal funds. To match federal funds, CTA will use Toll Revenue Credits. Federal law permits the use of previously incurred highway costs to be used as a credit to match federal transit funds. No additional cash is provided but it does allow CTA to match federal funds. As non-federal funds have disappeared from CTA's capital program, the size of the program has decreased from over \$750 million in 2004 to just over \$400 million in 2006. Without Toll Revenue Credits, CTA's capital program would be only \$40 million in 2007.

Chicago Transit Authority

Service Efforts and Accomplishments (Not Examined) (Cont.)
Year Ended December 31, 2005

Future Plans - Beyond 2006

The Chicago Transit Authority (CTA) began in early 2006 reconstructing platforms and stations on the existing Ravenswood (Brown) Line to accommodate eight-car trains, along with other related capital improvements. The Brown Line extends approximately 9.1 miles from the Kimball Terminal on the north side of Chicago through the "Loop Elevated" in downtown Chicago, and includes 19 stations. The total project cost is \$529.9 million, with a federal New Starts share of \$245.5 million. It is expected to carry 68,000 daily riders by 2020. CTA will also continue work on the Dan Ryan Red Line Rehabilitation project; add new buses to the fleet, upgrade of signals, and other infrastructure improvements such as viaduct repair that will support vital and growing transit needs.

The Chicago region has a world-class surface transportation system with over 24,000 miles of interconnected major roadways and a regional interconnected public transportation network that includes shared use of highway corridors by two transit systems. The CTA has a number of proposed projects to increase access to public service to residents. According to CTA, projects such as the Circle Line, extending the Orange Line from Midway Airport to Ford City, extending the Red Line from 95th to 130th/Stony Island, extending the Yellow Line to Old Orchard shopping center, and establishing a streetcar and bus rapid transit system along the Ogden and Carroll Avenue corridors will benefit customers in the city and suburbs. To achieve this goal, and bring the current system to a state of good repair, CTA will require stable operating and capital funding for the future of this vital system.