QUAD CITY GARAGE
POLICY GROUP

Audited Financial Statements
and Supplementary Information
for the years ended

June 30, 2010 and 2009

McGOVERN & GREENE LLP

CPAs & Forensic Accountants

200 W. JACKSON BLVD. SUITE 2325
CHICAGO, ILLINOIS • 60606
TELEPHONE: (312) 692-1000 • FAX: (312) 692-0128

www.mcgoverngreene.com

QUAD CITY GARAGE POLICY GROUP

Audited Financial Statements and Supplementary Material

for the years ended June 30, 2010 and 2009

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McGOVERN & GREENE LLP
CPAs & Forensic Accountants

Independent Auditor's Report

The Board of Members
Quad City Garage Policy Group
Rock Island, Illinois

We have audited the accompanying financial statements of the Quad City Garage Policy Group as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Quad City Garage Policy Group's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Quad City Garage Policy Group, as of the years ended June 30, 2010 and 2009, and the respective changes in its financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2010 on our consideration of the Quad City Garage Policy Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 22 through 26 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

McGovern & Greene LLP

Chicago, Illinois
September 28, 2010

QUAD CITY GARAGE POLICY GROUP
Management's Discussion and Analysis
for the years ended June 30, 2010 and 2009

About the Financial Statements of Quad City Garage Policy Group

This section of the financial report presents management's discussion and analysis of the Quad City Garage Policy Group's ("Group") financial performance during the fiscal years ended June 30, 2010 and 2009. Please read it in conjunction with the Group's financial statements. The financial statements of the Group are presented on an accrual basis. Accounting principles used are similar to principles applicable in the private sector. The Group's basic financial statements consist of the Statements of Net Assets; the Statements of Revenue, Expenses and Changes in Net Assets; and the Statements of Cash Flows. These statements are the measures used to evaluate the short-term and long-term outlook of the Group's finances and are used in conjunction with the Annual Budget, which is the Group's financial plan for the fiscal year.

The Statements of Revenue, Expenses and Change in Net Assets distinguishes between operating and nonoperating revenues and expenses and separately presents revenues from capital contributions and additions to the principal of permanent and term endowments, special and extraordinary items, and transfers. It reconciles fund net assets at the beginning and end of the financial period, explaining the relationship between the operating statement and the Statement of Net Assets. These statements can be found on page 9 of this report.

The Statements of Net Assets reports the difference between assets and liabilities as net assets. Assets are reported in order of liquidity, or how readily they are expected to be converted to cash, and whether restrictions limit the Group's ability to use the resources. Liabilities are reported based on their maturity, or when cash is expected to be used to liquidate them. Net assets are displayed in three components – invested in capital assets, net oF related debt; restricted; and unrestricted. These statements can be found on pages 10-11 of this report.

The Statements of Cash Flows provides relevant information about the cash receipts and cash payments of the Group during the period. It categorizes cash activity as resulting from operating, noncapital financing, capital financing and investing activities. The total cash generated or used reconciles the prior year cash balance to the current year cash balance as shown on the Statements of Net Assets. These statements can be found on pages 12-13 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The Notes to the Financial Statements can be found on pages 13 - 19 of this report. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information is limited to this Management's Discussion and Analysis and the Schedule of Expenses Compared to Budget on pages 3–8 and 22–26, respectively.

Financial Highlights

The Group is showing a net operating gain for the fiscal year ended 2010 of $28,817 and a net operating loss for the fiscal year ended 2009 of ($15,170). Both are largely due to year end-only accruals for expenses like unrecorded accounts payable. The accruals are required to properly move the effect of expenses that were recorded in the subsequent year from that year to the current one. However, the accruals do not affect invoicing which results in a gain or loss for the current year that is offset in the following. For example:

- The June 30, 2009 the accrual for unrecorded accounts payable was $32,538, an increase of $27,175 from 2008's accrual. This increase inflated the expenses in 2009 without affecting the invoicing. Without this effect on the Groups' reporting it would have shown an operating loss of ($9,807).

- The June 30, 2010 the accrual for unrecorded accounts payable was $6,449, a decrease of $26,089 from the previous year's accrual. This decrease lowered the expenses in 2010 without affecting the invoicing. Without this effect on the Groups' reporting it would have shown an operating gain of $2,728.

Statements of Net Assets

The Statements of Net Assets present the assets and liabilities of the Group similar to the private sector on an accrual basis. Revenues and expenses are recognized when incurred rather than when cash is paid or received. The differences between assets and liabilities as reflected on the Statements of Net Assets represent the financial position of the Group or the net assets. A comparative analysis of the Group's net assets is presented below (Table 1).

Statements of Net Assets (concluded)

Table 1
Net Assets at June 30,
(000's)

	2010	2009
Current and other assets	$ 145	$ 152
Inventories	603	563
Capital assets	12	14
Total assets	760	729
Current and other liabilities	276	278
Total liabilities	276	278
Net assets:		
Invested in capital assets	12	14
Restricted	0	0
Unrestricted	472	437
Total Net Assets	$ 484	$ 451

Overall Financial Position

For the year ended June 30, 2010, the Group's net assets increased by 7.4 percent ($484,325 compared to $450,962). Unrestricted net assets used to finance the Group's operations increased by 8.2 percent ($472,024 compared to $436,402). The Group has no restricted assets. This year's increase of $33,364 in net assets is illustrated in the Changes in Net Assets schedule below (Table 2).

Overall Financial Position (continued)

Table 2
Changes in Net Assets at June 30,
(000's)

	2010	2009
Operating Revenues		
Sale of Maintenance	$ 4,676.3	$ 4,635.6
Total Operating Revenue	4,676.3	4,635.6
Operating Expenses	4,647.5	4,650.7
Surplus/(Deficit) from Operations	28.8	(15.1)
Non-Operating Revenues		
Other	4.6	7.1
Total Non-Operating Revenue	4.6	7.1
Increase (Decrease) in Net Assets	$ 33.4	$ (8.0)

For the year ended June 30, 2010, the Group's operating revenue increased by $43,987. The Group's revenue is based on a direct reimbursement for expenses. Therefore, the increase in revenue is attributable to increased costs of maintenance parts, and the previously identified year-end profit elements.

Total operating expenses decreased by $3,287, or less than 1 percent, from 2009 to 2010. A few of the significant line item increases and/or decreases were as follows:

- Employee benefits, including group medical, life and disability insurance, have increased in 2010, by 5.4 percent, or $17,037. This was much lower than the increase affecting the Group in FY 2009. The same approximate 5 percent increase took place across the board for social security and payroll tax related expenditures.
- Fuel costs have dropped 11.9 percent, or $121,865 from 2009 to 2010. The expenditures for diesel fuel in FY 2010 were $903,766 as compared to $1,025,630 in FY 2009, a $121,865 decrease. The decreased cost is attributable to two sources. First, the average price of fuel per gallon decreased from $2.18 in 2009 to $2.15 in 2010. In addition, less fuel was used in 2010, approximately 431,000 gallons, versus close to 437,000 gallons in 2009; a decrease of roughly 6,000 gallons.

Overall Financial Position (concluded)

- Materials and supplies in 2010 were $65,547 higher than 2009, the change from $133,944 in 2009 to $199,491 in 2010. Parts and supplies in 2010 were $46,289 higher than 2009, the change from $783,314 in 2009 to $829,603 in 2010. This total increase of $111,836 is due to the greater service and maintenance required due to the increasing age of the fleets' vehicles.
- Contract Maintenance decreased from $146,267 in 2009 to $124,003 in 2010, a total decrease of $22,264 or 15.2 percent. These services are contracted for rate, not volume and there was a lower volume needed in 2010.
- Utilities were down by 10.2 percent compared to FY 2009 at a cost decrease of $15,899, which is attributable to lower rates.

Budgetary Highlights

There were no differences between the original and final amended budgets for the fund. The total operating expenses were $146,462 lower than budgeted. The variance represents an improved budget to actual comparison from the FY 2009 comparison due to fuel prices remaining more stable during the FY 2010. During the FY 2009, fuel was overbudgeted by $716,870 due to fears of rising fuel costs.

Capital Assets

A comparative analysis of the changes in the Group's capital assets for the year ended June 30, 2010 is presented in Table 4. Net property, plant, and equipment decreased by $2,258. The decrease is solely due to depreciation on the capital assets. There were no additions or disposals during the FY 2010.

Table 4
Capital assets at June 30,
(000's)

	2010	2009
Vehicle Maintenance	$ 11.4	$ 11.4
Installed Machinery & Equipment	95.8	95.8
Radio Equipment	0.0	0.0
Computer Equipment	0.0	0.0
Office Furniture & Equipment	69.9	69.9
Total Property, Plant & Equipment	177.1	177.1
Accumulated Depreciation	(164.8)	(162.5)
Property, Plant, & Equipment - Net	$ 12.3	$ 14.6

Capital Assets (concluded)

Additional information on the Group's capital assets can be found in Note I on page 16 of this report.

Economic Trends

As the new fleet ages and the units are no longer under warranty, the maintenance costs for both entities will likely continue to increase as described in the overall financial position in the above section. Due to the age of the maintenance facility, costs associated with its maintenance: wages, fringes, and contract maintenance, as well as materials and supplies will likely increase.

The Group began using a bio-diesel mixture (B 20) in the spring of 2007. This fuel was cheaper than regular diesel through the 2007 fiscal year. Unfortunately, the rising commodity prices negated the Group's savings in fiscal year 2008. At the present time, the cost of the bio-diesel fuel is \$0.10 to \$0.20 cent per gallon greater than the standard (Ultra Low Sulfur #2) diesel fuel. In addition, increased metal prices are also affecting parts pricing, especially body panels and radiator cores. The Group anticipates additional price increases for both fuel and parts in the coming year. However, MetroLINk and CitiBus are both committed to using bio-diesel as a more environmentally friendly alternative.

Contacting the Group's Management

The financial reports of the Group provide an overview for the public of the financial accountability the Group maintains for the resources received. Further questions concerning this report should be directed to Juan Rodriguez, Director of Maintenance, Quad City Garage Policy Group, 2929 5th Ave., Rock Island, IL 61201.

QUAD CITY GARAGE POLICY GROUP
Statements of Net Assets
at June 30,

	2010	2009
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 30,985	$ (5,982)
Account receivable - City of Davenport	103,006	152,333
Materials and supplies inventory	602,739	562,638
Prepaid expenses and other assets	10,993	5,515
Total current assets	747,723	714,504
Capital assets:		
Property and equipment	177,098	177,098
Less accumulated depreciation and amortization	(164,797)	(162,539)
Net capital assets	12,301	14,559
Total assets	$ 760,024	$ 729,063
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued expenses	$ 213,455	$ 195,520
Due to MetroLINK	62,244	82,582
Total current liabilities	275,699	278,102
Total liabilities	275,699	278,102
NET ASSETS:		
Invested in capital assets	12,301	14,559
Unrestricted	472,024	436,402
Total net assets	$ 484,325	$ 450,961

The accompanying notes are an integral part of these financial statements.

QUAD CITY GARAGE POLICY GROUP
Statements of Revenue, Expenses and Changes in Net Assets
for the years ended June 30,

	2010	2009
OPERATING REVENUE:		
Revenue from sale of maintenance services	$ 4,676,274	$ 4,635,574
OPERATING EXPENSES:		
Wages and related employee benefits:		
Wages	1,085,678	1,070,760
Group medical, life and disability insurance	347,617	330,736
Pensions	73,756	71,338
Social security and other payroll taxes	93,370	88,867
Worker's compensation	52,673	53,630
Other	10,067	11,050
	1,663,161	1,626,381
Other operating expenses:		
Materials and supplies consumed	1,127,761	1,023,170
Fuel and oil consumed	951,923	1,077,291
Contract services	702,908	708,399
Utilities	139,529	155,428
Casualty and liability insurance	23,375	24,319
Lease and rental	2,854	4,453
Depreciation	2,258	1,575
Miscellaneous	33,688	29,728
	2,984,296	3,024,363
Total operating expenses	4,647,457	4,650,744
Operating gain (loss)	$ 28,817	$ (15,170)

The accompanying notes are an integral part of these financial statements.

QUAD CITY GARAGE POLICY GROUP
Statements of Revenue, Expenses and Changes in Net Assets
for the years ended June 30,

	2010	2009
NONOPERATING REVENUES:		
Other income	$ 4,545	$ 7,116
Interest income	2	11
Total nonoperating revenues	4,547	7,127
Increase (decrease) in net assets	33,364	(8,043)
BEGINNING OF YEAR NET ASSETS	450,961	459,004
END OF YEAR NET ASSETS	$ 484,325	$ 450,961

The accompanying notes are an integral part of these financial statements.

QUAD CITY GARAGE POLICY GROUP
Statements of Cash Flows
for the years ended June 30,

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for sale of maintenance services	$ 4,705,262	$ 4,528,448
Wages and benefits paid to employees	(1,655,292)	(1,621,725)
Payments to suppliers for goods and services	(3,017,550)	(2,994,469)
Net cash provided (used) by operating activities	32,420	(87,746)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Other receipts	4,547	7,127
Net cash provided by non-capital financing activities	4,547	7,127
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash (used) for puchase of capital assets	-	(9,560)
Net cash (used) by capital and related financial activities	-	(9,560)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,967	(90,179)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	(5,982)	84,197
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 30,985	$ (5,982)

The accompanying notes are an integral part of these financial statements.

QUAD CITY GARAGE POLICY GROUP
Statements of Cash Flows
for the years ended June 30,

	2010	2009
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating (loss)	$ 28,817	$ (15,170)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:		
Depreciation	2,258	1,575
(Increase) decrease in accounts receivable	28,989	(107,127)
(Increase) decrease in materials and supplies inventory	(40,101)	49,523
(Increase) decrease in prepaid expenses and other assets	(5,478)	3,552
(Decrease) in accounts payable and accrued expenses	17,935	(20,099)
Net cash provided (used) by operating activities	$ 32,420	$ (87,746)

The accompanying notes are an integral part of these financial statements.

NOTE 1 – REPORTING ENTITY

The Quad City Garage Policy Group ("Group") was formed by the City of Davenport, Iowa and the Rock Island County Illinois Metropolitan Mass Transit District ("MetroLINK") under Chapters 34, 85, and 127 of the Illinois Revised Statutes and Chapter 28E of the Iowa Code in 1979. The purpose of the Group is to oversee and operate a joint maintenance and storage facility for transit revenue vehicles and related equipment. The Group uses a facility located in Rock Island, Illinois at 2929 Fifth Avenue. The facility has approximately 75,000 square feet and is jointly owned, 58% by MetroLINK and 42% by the City of Davenport. The facility is used by the Group rent-free.

The Group is administered by a Board of Members ("Board") that acts as the authoritative and legislative body of the entity. The Board is generally comprised of seven members. Three members are appointed by MetroLINK and three members are appointed by the City of Davenport. The City of Davenport and MetroLINK alternate each year in which entity appoints the seventh member. Board members serve a term of one year; there are no term limits for reappointment. At each meeting, there are four voting members – two from MetroLINK and two from the City of Davenport. In addition, there are two alternate members and the Chairperson. No alternates were appointed for 2010, reducing the number of Board members to five for this year.

The Board annually appoints the Chairperson of the Board from existing board members. The Chairperson's responsibilities are to preside at all meetings of the Board; be the chief officer of the Group; perform all duties commonly incident to the presiding officer of a board, commission or business organization and exercise supervision over the business of the Group, its officers and employees.

The Board contracts for a Director of Maintenance and an Assistant Director of Maintenance for the Group. The contracts are passed by resolution of the Board. The Director's main responsibility is acting as chief executive officer of the Group as prescribed by the Board. The Assistant Director's main responsibility is overseeing operations and providing support to the Director as needed.

In accordance with the requirements of Statement No. 14, The Financial Reporting Entity, of the Governmental Accounting Standards Board (GASB), the financial statements must present the Group (the primary government and its component units). Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Funding of Operations

The Group is subsidized by MetroLINK and the City of Davenport based upon the amended Joint Ownership Agreement and Operating Rules for the Group dated May 23, 2000. The latest extension of the agreement has a term of 5 years ending June 20, 2015 and may be renewed or amended at any time. In the event that the agreement is not renewed or amended upon its expiration, liquidation of all assets shall be made within 90 days.

B. Financial Reporting

The accompanying financial statements have been prepared using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow. The financial components of the Group consist of one fund classified as an enterprise fund for financial reporting purposes.

C. Accounting for Proprietary Fund Activities

The Group applies to the enterprise fund activities all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB), issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. FASB Statements issued subsequent to November 30, 1989 are not followed.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

E. Cash and Cash Equivalents

Cash and cash equivalents include all bank accounts with an original maturity of less than three months.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Cash Deposits

The Group maintained its cash deposits at one Illinois financial institution as of June 30, 2010 and 2009. The carrying amount of all deposits was $30,985 and ($ 5,982) at June 30, 2010 and 2009, respectively. The Group's bank deposits are insured by Federal Depository Insurance up to $250,000 per institution.

G. Accounts Receivable

Accounts Receivable represent amounts owed the Group by its two customers for services provided as of the end of the period. As the customers are also the owners of the Group an allowance for doubtful accounts has been deemed unnecessary.

H. Materials and Supplies Inventory

Inventory is stated at the lower of cost (weighted average method) or market, and includes items to support the Group's operations.

I. Capital Assets

Capital assets are stated at historical cost. An asset is capitalized if the cost is greater than $5,000 and has a useful life greater than one year.

Depreciation is provided on the straight-line method at rates that are designed to amortize the original cost of the property over its estimated useful life. The major categories of Group property in service and their estimated useful lives are as follows at June 30, 2010 and 2009:

	Estimated useful life
Vehicle Maintenance – Group	5-10 years
Installed Machinery and Equipment	7-40 years
Office Equipment and Furniture	7 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

J. Compensated Absences

Employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. Accumulated vacation at June 30, 2010 and 2009 was $39,835 and $32,256, respectively.

Two other types of compensated absences that the Group provides are sick leave and holiday hours. Sick leave automatically terminates on the day an employee quits or is terminated. However, if an employee retires, he or she is entitled to 70% of accumulated sick leave hours in excess of 720 up to 2,400 hours, as computed at his or her straight-time hourly rate. Holiday hours are lost at the end of the year if not taken. The Group had no vested sick leave as of June 30, 2010 and 2009.

K. Net Assets

Net assets present the difference between assets and liabilities in the statements of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used by the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use or external restrictions by creditors, grantors, laws or regulations of the other governments.

L. Operating and Non-Operating Revenues

Operating revenues consist of sales of maintenance services to MetroLINK and the City of Davenport as described in the amended Joint Ownership Agreement and Operating Rules.

Non-operating revenues consist of miscellaneous receipts from sales of obsolete parts, oil recycling and vending machine income.

NOTE 3 – PENSION AND RETIREMENT BENEFITS

The Group contributes to the Iowa Public Employees' Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50302-9117.

NOTE 3 – PENSION AND RETIREMENT BENEFITS (concluded)

Through June 30, 2010 plan members were required to contribute 4.30% of their annual salary and the Group was required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. Those percentages are scheduled to increase over the next two years at the following rates:

	07/01/10	**07/01/11**
Member Rate	4.50%	5.38%
Employer Rate	6.95%	8.07%
Combined Rate	11.45%	13.45%

The Group's contributions to IPERS for the years ended June 30 were as follows:

	Contribution	
	Amount	**Percentage**
2008	65,093	6.05%
2009	71,338	6.35%
2010	73,756	6.65%

NOTE 4 – CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2010 is as follows:

	Beginning Balance	**Increases**	**Decreases**	**Ending Balance**
Garage machinery and equipment	$ 107 217	$ 0	$ 0	$ 107,217
Office furnishings and equipment	69,881	0	0	69,881
Total capital assets	177,098	0	0	177,098
Less accumulated depreciation for:				
Garage machinery and equipment	(92,658)	(2,258)	0	(94,916)
Office furnishings and equipment	(69,881)	0	0	(69,881)
Total accumulated depreciation	(162,539)	(2,258)	0	(164,797)
Capital assets, net	$ 14,559	$ (2,258)	$ 0	$ 12,301

NOTE 4 – CAPITAL ASSETS (concluded)

Capital Asset activity for the year ended June 30, 2009 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Garage machinery and equipment	$ 97,658	$ 9,560	$ 0	$ 107,217
Office furnishings and equipment	69,881	0	0	69,881
Total capital assets	167,539	9,560	0	177,098
Less accumulated depreciation for:				
Garage machinery and equipment	(91,083)	(1,575)	0	(92,658)
Office furnishings and equipment	(69,881)	0	0	(69,881)
Total accumulated depreciation	(160,964)	(1,575)	0	(162,539)
Capital assets, net	$ 6,575	$ 7,985	$ 0	$ 14,559

NOTE 5 – RELATED PARTY TRANSACTIONS

The Group's revenue from sale of maintenance services are derived from providing these services to the joint owners, MetroLINK and the City of Davenport. The associated asset, Accounts Receivable – City of Davenport, and liability, Due to MetroLINK, are also with these parties. The following balances were due between the Group and its joint owners as of June 30:

	2010	2009
City of Davenport	$ 108,682	$ 152,333
MetroLINK	(47,356)	(57,773)
Total Related Party Balance Outstanding	61,326	94,560

NOTE 6 – ENTITY RISK MANAGEMENT

The Group is exposed to various risks of loss during its operations. The Group maintains insurance coverage to protect against losses related to real and personal property, general liabilities, crime, automobile liabilities, workers' compensation and catastrophes. Management does not believe the uninsured risks are significant.

In the normal course of business, the Group may become a party to lawsuits in which they defend or settle such actions. When actions are deemed probable of settlement or loss, estimated provisions for losses are provided in the financial statements.

NOTE 7 – OPERATING LEASES

The Group leases office copiers on an annual basis. There is no commitment for future rental payments. Rent expense for these copiers for 2010 and 2009 was $2,854 and $4,453, respectively.

SUPPLEMENTARY INFORMATION

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Fuel station maintenance			
Wages	$ 24,433	$ 16,175	$ 8,258
Materials and supplies	25,000	44,715	(19,715)
Total fuel station maintenance	49,433	60,890	(11,457)
Vehicle operations:			
Fuel	1,085,000	903,881	181,119
Oil	40,300	45,453	(5,153)
Anti-freeze	4,346	5,922	(1,576)
Tires	86,164	81,651	4,513
Total vehicle operations	1,215,810	1,036,907	178,903
Maintenance administration:			
Wages	166,198	175,855	(9,657)
Training wages	2,456	796	1,660
Social security	15,000	15,545	(545)
Pension	12,500	13,771	(1,271)
Health insurance	59,632	63,509	(3,877)
Life insurance	1,200	911	289
Disability insurance	1,650	1,464	186
Unemployment	520	664	(144)
Workman's compensation	485	0	485
Sick leave	8,171	11,073	(2,902)
Holiday	7,750	5,977	1,773
Vacation	15,000	15,922	(922)
Other paid time	250	0	250
Uniform allowance	1,117	888	229
Other fringe benefits	0	0	0
Casual days	2,400	2,094	306
Professional services	189,707	186,265	3,442
Temporary help	885	432	453
Utilities	1,800	1,997	(197)
Miscellaneous	1,250	2,889	(1,639)
Total maintenance administration	$ 487,971	$ 500,052	$ (12,081)

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Service equipment:			
Wages	$ 135,500	$ 111,605	$ 23,895
Cleanup	6,000	4,937	1,063
Social security	6,500	7,133	(633)
Pension	5,000	8,681	(3,681)
Unemployment	650	422	228
Workman's compensation	2,500	0	2,500
Holiday expense	1,750	1,837	(87)
Other paid time	500	48	452
Uniform and tool allowance	1,250	481	769
Other fringe benefits	0	5	(5)
Break time	3,000	3,450	(450)
Casual days	750	1,480	(730)
Contract maintenance	296,822	294,531	2,291
Materials and supplies	27,853	33,145	(5,292)
Total service equipment	488,075	467,755	20,320
Inspection and maintenance:			
Wages	452,500	456,749	(4,249)
Cleanup	19,000	19,420	(420)
Training wages	7,500	11,757	(4,257)
Testing wages	2,000	0	2,000
Social security	67,274	62,349	4,925
Pension	56,004	51,303	4,701
Health insurance	263,933	270,786	(6,853)
Life insurance	4,500	4,011	489
Disability	7,000	6,936	64
Unemployment	1,466	7,257	(5,791)
Workman's compensation	41,033	52,673	(11,640)
Sick leave	35,000	24,388	10,612
Holiday expense	32,500	27,192	5,308
Vacation	65,250	51,391	13,859
Other paid time	9,000	9,557	(557)
Uniform	7,000	5,562	1,438

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Inspection and maintenance (concluded):			
Tool allowance	$ 3,400	$ 2,991	$ 409
Other fringe benefits	750	140	610
Break time	41,500	40,148	1,352
Casual days	12,500	9,430	3,070
Professional services	5,000	0	5,000
Contract maintenance	66,459	45,485	20,974
Parts and supplies	680,981	796,074	(115,093)
Miscellaneous materials and supplies	51,500	53,862	(2,362)
Utilities - telephone	1,200	560	640
Total inspection and maintenance	1,934,250	2,010,021	(75,771)
Accident repair:			
Wages	10,508	7,384	3,124
Contract maintenance	4,000	2,492	1,508
Parts	18,592	10,299	8,293
Total accident repair	33,100	20,175	12,925
Vandalism repair:			
Wages	650	11	639
Contract maintenance	1,000	4,257	(3257)
Parts	1,100	15	1,085
Total vandalism repair	2,750	4,283	(1,533)
Servicing and fueling:			
Contract maintenance	1,500	12	1,488
Fuel and oil	3,442	2,589	853
Tires	600	612	(12)
Total servicing and fueling	$ 5,542	$ 3,213	$ 2,329

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Maintenance of service vehicles:			
Wages	$ 20,158	$ 8,412	$ 11,746
Contract maintenance	650	2,451	(1801)
Materials and supplies	5,050	3,061	1,989
Total maintenance of service vehicles	25,858	13,924	11,934
Maintenance of fareboxes:			
Wages	9,000	6,911	2,089
Materials and supplies	7,250	14,233	(6,983)
Total maintenance of fareboxes	16,250	21,144	(4,894)
Maintenance of shop, buildings, grounds, and equipment:			
Wages	45,600	62,199	(16,599)
Temporary help	0	0	0
Contract maintenance	51,340	68,724	(17,384)
Custodial services	58,316	55,579	2,737
Parts and supplies	1,653	5,920	(4,267)
Miscellaneous materials and supplies	56,663	68,981	(12,318)
Other expenses	5,300	1,000	4,300
Total maintenance of shop, building grounds, and equipment	218,872	262,403	(43,531)
Security service:			
Contract maintenance	3,784	2,182	1,602
Security system	0	0	0
Total security services	3,784	2,182	1,602
Injuries and damage premiums	$ 0	$ 8,512	$ (8,512)

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Personnel administration:			
Professional services	$ 1,400	$ 1,629	$ (229)
Employee physicals	3,000	2,454	546
Other expenses	4,190	3,455	735
Total personnel administration	8,590	7,538	1,052
General legal services	5,841	0	5,841
General insurance:			
Premium - fire	16,500	14,239	2,261
Premium - fidelity	1,000	624	376
Total general insurance	17,500	14,863	2,637
Data processing services	850	730	120
Finance and accounting services:			
Finance and accounting services	35,000	32,960	2,040
Miscellaneous materials and supplies	200	0	200
Miscellaneous	0	0	0
Total finance and accounting services	35,200	32,960	2,240
Office management - materials and supplies	9,252	8,541	711
General administration:			
Utilities	183,869	136,972	46,897
Travel	6,970	851	6,119
Miscellaneous	24,394	28,429	(4,035)
Lease/rental	17,500	2,854	14,646
Total general administration	232,733	169,106	63,627
Total budgeted expenses	$ 4,791,661	$ 4,645,199	$ 146,462
Depreciation		2,258	
Total expenses		$ 4,647,457	

McGOVERN & GREENE LLP
CPAs & Forensic Accountants

To Board of Members and
Juan Rodriguez, Director of Maintenance
Quad City Garage Policy Group
Rock Island, Illinois

In planning and performing our audit of the financial statements of the business-type activities of the Quad City Garage Policy Group ("Group") as of and for the years ended June 30, 2010 and 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Group's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in the Group's internal control and presented in the Schedule of Findings as 2010-01 through 2010-03 attached to this letter to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the Group's internal control and presented in the Schedule of Findings as 2010-04 through 2010-11 attached to this letter to be significant deficiencies in internal control.

200 W. Jackson Blvd. • Suite 2325 • Chicago • Illinois • 60606-6910 • Tel: 312.692.1000 • Fax: 312.692.0128 • www.mcgoverngreene.com

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Group in a separate letter dated September 28, 2010.

The Group's written response to the significant deficiencies and material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Board of Members, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

McGovern & Greene LLP

Chicago, Illinois
September 28, 2010

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

MATERIAL WEAKNESSES

2010-01: Check Issuance Procedures Create Opportunity for Theft

Our audit procedures found that the current check issuance processes are insufficient to prevent theft or fraud. The Director of Maintenance reviews the list of checks to be issued, but no supporting documentation is provided for review at that time. Upon his authorization, checks are printed and mailed out. The printed checks are not provided to the Director of Maintenance for review prior to mailing, so he cannot stop an unauthorized check from being mailed. The Finance Specialist both prints the checks and mails them out, steps that should be performed by two different individuals. Nor are records maintained of the sequential check numbers already issued to ensure no checks are unaccounted for. On at least one occasion, checks were issued and signed which were not included on the original approval list, and no documentation could be found showing supervisor review or authorization. The supporting invoices are maintained with the check stubs and are supposed to be reviewed by the Director of Maintenance promptly. Our audit team found that at least eight of the check runs of fiscal year 2010 showed no signs of having been reviewed. Nor had any of the check runs of fiscal year 2011 been offered to the current Director of Maintenance for this final review prior to the start of our fieldwork. It should be noted that these circumstances are very similar to those that existed when the former employee's fraud was perpetrated.

RECOMMENDATION

The list of checks the Finance Specialist is requesting authorization to issue should be accompanied by all supporting documents. The Director of Finance should review the supporting documents, agreeing all line items over an established amount to be paid with the corresponding invoices for payee, invoice number and amount, as well as general reasonableness in appearance and nature. Other invoices should be spot checked on a haphazard basis. Only authorized checks should be issued. If additional checks are required, they should be subjected to the same review process first. Based upon the authorized disbursement list, the Director of Maintenance should create an expectation for the number of checks to be issued. The expectation of total checks to be issued should be added to the previous run's ending check number to form an expectation for the ending check number for this run. Any variances from these expectations should be investigated, resolved and documented. The Director of Maintenance should also compare the total dollar value of payments authorized to the total dollar value of payments issued (per both the report and the physical checks), treating any variances in the same way. The signed checks should be given to someone besides the Finance Specialist, to be distributed only after the complete review by the Director of Maintenance. Any such reviews should be designated by notation on the face of relevant documents and reports.

MANAGEMENT'S RESPONSE
We agree and will implement the recommended changes to address this finding.

CONCLUSION
Implementation of our recommended changes should address the risk.

2010-02: Continued Variance Between General Ledger Accounts and Perpetual Inventory Records Creates Opportunity for Theft and Billing Issues.

At year end two comparisons are made with regards to inventory – physical inventory to the perpetual inventory system, and physical inventory to the associated general ledger accounts. The difference between the physical inventory and the perpetual inventory was fairly small. However, the difference between the physical inventory and the general ledger accounts was almost $30,000. This value has been high for several years now and while it is corrected prior to the issuance of the financial statements, if it were not it would represent a material misstatement.

RECOMMENDATION
Management needs to investigate the cause of these continued discrepancies. We believe that this issue could be addressed by limiting access to the inventory items in question. We recommend that Management designate an individual to handle all issuances and receipts of inventory items. Mechanics would request the parts they need from this individual and sign for them upon issuance. This should prevent issues due to poor training, research, and inconsistent handling. It would center responsibility with one individual. It would also free up the mechanics to spend more time on actual maintenance and repairs.

MANAGEMENT'S RESPONSE
We agree and will implement the recommended changes to address this finding.

CONCLUSION
Implementation of our recommended changes should address the risk.

2010-03: Improper Accruals for Payroll Create Overbilling Situation

The Senior Administrative Assistant has been accruing for wages that were earned but unpaid at the end of each month, as recommended by the auditors in 2009. However, the accrual was not being recorded properly and as a result work order labor from the payrolls in question was being expensed twice. This resulted in both customers being billed twice for this cost. This was corrected at year end, but could have resulted in material misstatements in the financial statements.

RECOMMENDATION

We provided a template for properly accruing for wages at month-end. We recommend that Management verify that the Senior Administrative Assistant is using this template for her accruals. Management also needs to ensure that there is a resource available for the Senior Administrative Assistant to inquire of if questions arise.

MANAGEMENT'S RESPONSE

We agree and will implement the recommended changes to address this finding.

CONCLUSION

Implementation of our recommended changes should address the risk.

SIGNIFICANT DEFICIENCIES

2010-04: Issues with Zero-Costing Inventory Items May Mean Costs are Not Being Captured.

The audit team had Management investigate the cause of 606 line items from the inventory usage report for the year with a zero cost. 555 of the line items were appropriate zero cost due to their nature. However, fifty-one of them were due to internal control issues. Ten were items that were backed off of work orders at a zero cost instead of the actual cost. Nineteen of them were due to an issue within FleetNet when items are ordered, received and issued on the same day. Five of them were instances where the quantity shown on hand was zero, and physical inventory was higher. When the quantities were corrected, no cost was associated with them. The causes of the other seventeen were unknown. All fifty-one line items represent situations when costs may not have been captured to be properly passed on the appropriate customer.

RECOMMENDATION

Management needs to investigate each of the identified causes of inappropriate zero-cost issuances and design procedures to ensure that all issued inventory is appropriately captured and priced.

MANAGEMENT'S RESPONSE
We agree and will implement the recommended changes to address this finding.

CONCLUSION
Implementation of our recommended changes should address the risk.

2010-05: Accepting Net Deviation of Inventory May Hide Material Issues.

The Deviation Report provided by FleetNet shows the net value of all deviations. This is the value referred to by the Procurement Supervisor when he discusses the accuracy of the perpetual inventory system with regards to physical inventory. However, while the net deviation may not be material, if you were to take the value of all deviations, regardless of positive or negative value, the total deviation is much closer to a material number. By ignoring this effect the Procurement Supervisor, and Management have an unrealistic impression of the total inventory deviation.

RECOMMENDATION
Management needs to ensure that any assessment of the accuracy of the perpetual inventory system when compared to physical inventory is based upon the total value of all deviations regardless of positive or negative value. As these deviations are likely the result of improper handling of inventory by mechanics, this finding supports our recommendation of establishing one individual to handle all inventory issuances and receipts to decrease error rates.

MANAGEMENT'S RESPONSE
We agree and will implement the recommended changes to address this finding.

CONCLUSION
Implementation of our recommended changes should address the risk.

2010-06: Inventory Counting Procedures Could Allow Material Error.

Year-end inventory counting procedures do not include marking items that have already been counted. This could allow for items to be counted twice. Additionally, inventory count is performed solely by verifying the count of items on the count sheets. If there are items on the floor that are not on the count sheets, these procedures will not identify them. Either error could result in a material mistake.

RECOMMENDATION

Management needs to add a step to their physical inventory process where items that have been counted are indicated, likely by a tag. The tag should include information about how counted the item or area so accountability is available when investigating variances. When the physical inventory is deemed complete, an inspection of the areas should be performed to ensure all items are tagged as either counted, or non-inventory. Any deviations should be investigated and resolved.

MANAGEMENT'S RESPONSE

We agree and will implement the recommended changes to address this finding.

CONCLUSION

Implementation of our recommended changes should address the risk.

2010-07: Cutoff Treatment not in Accordance with GAAP

Generally Accepted Accounting Principles (GAAP) require that expenses be recorded to the period during which the activity took place and the associated revenue was earned. Thus, part of the recording of expenses is to review them to ensure that they are entered to the appropriate period, in compliance with this principle. The usual cause for poor cutoff treatment is the arrival of invoices in a subsequent period. For example, a fuel load might be received on June 29, but the invoice might not be issued until July 1, and not received until July 5. The invoice should be entered to June, not July. Poor cutoff treatment may be due to inattentiveness on the recorder's part, or the arrival of the invoice after the period's records have already been closed. Our audit procedures identified expenses which did not receive the appropriate cutoff treatment. We proposed, and Management authorized us to make, adjustments to correct the treatment of these items.

RECOMMENDATION

We recommend that the Finance Specialist receive additional training on the appropriate cutoff treatment of expenses. In addition, we recommend that Management track the number of invoices arriving after the close of each period, that should properly have been included in that period. If this is a consistent issue, perhaps the close of each period needs to be delayed to accommodate the late arrivals.

MANAGEMENT'S RESPONSE

We agree and will implement the recommended changes to address this finding.

CONCLUSION

Implementation of our recommended changes should address the risk.

2010-08: Work Order Labor Not Clearing Properly

Due to the complexities of QCGPG's system, a clearing account has been set up for the work order labor. As time is entered to work orders, it is recorded as an expense (a debit), and a credit to the clearing account. When payroll is entered all work order time is entered as a lump credit to cash and debit to the clearing account. Thus as soon as the time worked is both recorded and paid, the balance in the clearing account should be zero. This allows for the expense to be entered in detail by the type of work, without burdening the payroll department with that volume of data entry. The balance should not be equal zero at the end of a given period until the hours worked but not yet paid have been accrued for. After that accrual through June 30, 2010, however, the clearing account had almost a $12,000 debit balance. That indicates that roughly $12,000 of labor had been paid, but not yet recorded as an expense via work orders. This conclusion is supported by the fact that the total payroll for the fiscal year 2010 reported to the federal government on Forms 941 was also almost $12,000 higher than the captured payroll expense.

RECOMMENDATION

Management needs to review the balance in the clearing account at the end of each period to ensure that it is reasonably close to zero after all accruals for unpaid labor have been made. Any material variances should be investigated to ensure that all transactions are being captured and recorded correctly.

MANAGEMENT'S RESPONSE

We agree and will implement the recommended changes to address this finding.

CONCLUSION

Implementation of our recommended changes should address the risk.

2010-09: Lack of Controls over the Safeguarding of Accounting System Data

User logins need to be reviewed. Numerous employees have overlapping access. Employees should only have access to modules that are needed to perform daily operations. FleetNet representatives have access to everything. There is too much exposure within the system to allow employees to manipulate and override data.

RECOMMENDATION

Management needs to review user logins and access. What needs to be determined are what employees including the information technology department employees have access to what, and what access should be granted. For certain duties and functions, it is permissible to allow viewing access only.

MANAGEMENT'S RESPONSE

We agree and will implement the recommended changes to address this finding.

CONCLUSION
Implementation of our recommended changes should address the risk.

2010-10: Accounting System Allows for Duplicate Check Numbers Creating Opportunity for Fraud.

In April 2010 check numbers were issued twice, once as vendor checks, and also as payroll checks, in error. The fact that the FleetNet system allows for a check number to be assigned to two different transactions creates an opportunity for fraud. The fact that the duplication was caught due to the bank reconciliation controls keeps this from being a material misstatement.

RECOMMENDATION
Management should contact the vendor that provides and supports FleetNet to see if this is a setting that can be changed.

MANAGEMENT'S RESPONSE
We agree and will implement the recommended changes to address this finding.

CONCLUSION
Implementation of our recommended changes should address the risk.

2010-11: Lack of Documentation of Controls Creates Issues During Personnel Transitions.

The new Director of Maintenance expressed surprise at several of the controls we inquired of from him. There was a lack of documentation of these controls available for him, so he was learning most of them from the other administrative staff. This means that some controls likely are not being performed, which could allow errors to go undetected in the 2011 fiscal year.

RECOMMENDATION
Management needs to document the internal controls it has in place for all positions and procedures so vital controls are not lost when there are changes in employees or positions.

MANAGEMENT'S RESPONSE
We agree and will implement the recommended changes to address this finding.

CONCLUSION
Implementation of our recommended changes should address the risk.

QUAD CITY GARAGE POLICY GROUP
Schedule of Findings
for the year ended June 30, 2010

FINDINGS OF NON-COMPLIANCE

No matters were found.

September 28, 2010

Board of Members and
Juan Rodriguez, Director of Maintenance
Quad City Garage Policy Group
Rock Island, Illinois

The following internal control deficiencies were identified during our audit of the Quad City Garage Policy Group's ("Group") financial statements for the year ended June 30, 2010.

Vendor List Lacks Purge and Review Process

The vendor list needs to be purged or updated to represent accurate vendors and information. The list is susceptible to fraudulent activity and should be maintained on an at least annual basis. Upon review of the list, there were various items that appear to have no use, or management is unaware of the purpose or function of certain accounts. Certain vendors would have more than one account with the same information and appeared to be an oversight by management. There was a vendor account that appeared unusual and per management has not been in use since 2001. Through the audit teams substantive testing, there were many accounts that were not found on the vendor listing, either due to changed names or simply appear differently per the listing.

Recommendation

We recommend that management should consider running a payment history on these accounts to ensure there is no fraudulent activity based on past events of the organization. The review of the vendor listing should include a search for any unusual patterns, such as names that may be similar, but not identical, to names of approved vendors and vendors that have multiple addresses. We recommend a review of vendor files for unusual items, such as vendor invoices that appear different from the norm, consecutive vendor invoice numbers, preprinted and not customized forms, different delivery address, and other unusual patterns. The organization needs to gain assurance that these accounts and the disbursements associated with them fall under ordinary business operations.

Lack of Controls for Safeguarding of Accounting Documents

The Senior Administrative Assistant frequently leaves her office door unlocked. This may have been in part that it was assumed auditors would need access; however there was no discussion of needing such access on a continuous basis. During the course of field work, the office was left unattended more than once, for an extended period of time. Upon the audit team's arrival for internal control documentation, the Senior Administrative Assistant was fulfilling roles of another member within the Group. Throughout that course of time, the office was left open and unattended three (3) times while assisting in other duties. There has been improvement from the prior year, but the issue still exists. The former Director of Maintenance was observed behaving the same way. However, the new Director of Maintenance appeared diligent in this area.

Recommendation

Management needs to review these policies and procedures in place with those in charge of vital documents. Management need to express the importance of what can derive from documents being left unattended including the risk of tampering or documents going awry.

Payroll Checking Run Through Operating Account Creates Opportunity for Duplicated Check Numbers.

Payroll checks are being cleared through the QCGPG operating account. It is an uncommon practice and can create duplicate check numbers if operations continue on. The operating check run is currently in the 37000 series while payroll checks currently run in the 53000 series. At some point the operating account will catch up with the payroll runs, creating duplicate check numbers being cut simultaneously. In addition, there were three instances recently (April 2010, June 2010 and July 2010) where payroll checks were issued with check numbers from the operating check series. The first instance resulted in actual duplication of check numbers in the system (See Significant Deficiency 2010-10 in the Schedule of Findings).

Recommendation

Management should consider creating a separate payroll checking account, possibly with an associated sweep account. Not only will it decrease the risk of running duplicate check numbers, but this will increase efficiency when performing cash reconciliations.

Records Storage

The audit team observed that finance and accounting files on hand from previous audits are very accessible to any individual working or passing through the garage. It is required under GAAP to retain certain files for a given amount of time depending on the imperativeness of the records. The files on hand from preceding audits are located in the north corridor garage behind a rolling gate. In this location the files are exposed to potential damage caused from the elements as they are located close to a garage door that is periodically left open for employee convenience.

Recommendation

Management should consider securing the documents at another location. If no space exists within the facility, the Group may consider professionals that specialize in data and document safeguarding.

Segregation of Duties for Vendor Statements

Currently, the Financial Specialist, who processes accounts payable, also receives and reviews all vendor statements. This practice allows for aging invoices, and any issues they represent, to go unnoticed if the Financial Specialist chooses. Strong internal controls require vendor statements to be directed to someone separate from the payables function. That individual then reviews the statements, and investigates any items that are past acceptable payment terms. The statements should be marked and dated to indicate the review has occurred, and then stored for the fiscal year. All items needing to be addressed should be tracked until acceptably resolved.

Recommendation

The Group should appoint someone who is not the Financial Specialist to review the vendor statements. We would recommend either the Director of Maintenance, or possibly the Administrative Assistant. The individual should receive sufficient training to ensure that they can identify and resolve irregularities.

Inventory Location Descriptions Too General

More descriptive locations should be included on the inventory reports. Locations depicted include the terms “shop” and “cage” and are considered areas with general descriptions.

Recommendation

Part locations should contain more descriptive or precise locations. This will increase efficiency for inventory usage procedures as well as physical count procedures.

Receiving Report Includes Parts Ordered

The receiving reports issued by the FleetNet system include the quantity of items ordered. This allows the person receiving the parts to assume that they have received the quantities ordered instead of focusing on accurately counting the items actually received.

Recommendation

The receiving reports should be revised to exclude quantity ordered. This will ensure that the receiving employee must count the items received without a preconceived notion of how many there should be, thus ensuring a more accurate count. This would require that someone independent of the receiving of parts routinely check for discrepancies between items received and items ordered, investigating any variances.

Inventory Adjustments Not Made at Year End

Our audit procedures determined that the adjustment to bring the year-end inventory account balances into agreement with physical inventory had not yet been made by Management, nor had the absence of the adjustment been noted.

Recommendation

Management should ensure that the end of period accounting procedures include verifying that the general ledger has been adjusted for agreement with the perpetual inventory system. Any significant variances should be investigated, resolved and documented.

No Controls in Place to Identify Obsolete Inventory May Cause Problems in the Coming Year.

Generally, the age of the fleet has meant that obsolete inventory has not been an issue. Even in a part has been stored for a while, as long as that type of bus is in service, the part is needed. This is especially true for the oldest buses, where the parts may no longer be readily available. However, discussions with the Director of Maintenance and Assistant Director of Maintenance suggested that some of the oldest buses are due to be retired in fiscal year 2011. If so, then inventory stocked to support those machines will become obsolete. Currently there are no controls in place to identify such items.

RECOMMENDATION

Management should implement procedures to assess the usability of inventory at least annually. This likely would involve a review of all part numbers in inventory based on the type of bus they are associated with.

Job Descriptions and Titles Need to be Reviewed and Updated.

The audit team identified discrepancies between job duties as performed and the job duties as identified in the job descriptions.

RECOMMENDATION

Management should review all job descriptions and titles and ensure that they are updated to reflect reality. This ensures that all employees know what they are responsible to perform, and may identify duties that are currently unassigned.

Vendor Payments Exceeding Standard Terms.

The audit team noted during disbursement testing that fifty-three out of 145 items reviewed were paid more than 30 days after the invoice date. This likely means that the Group is exceeding the terms extended it by its vendors.

RECOMMENDATION

Management should place more emphasis on meeting the specified payment terms so as not to endanger their relationships with their vendors.

Electronic Signature Controls Not Functioning as Designed.

The audit team noted that during the transition between the former and current Director of Maintenance, the IT person at MetroLINK began handling inserting the electronic signature file into FleetNet when checks were run. That was acceptable during the transition, but the new Director has been issued the rights to the electronic signature and has been in a position to provide this vital control since August 13, but it has not yet occurred.

RECOMMENDATION

The Finance Specialist should return to requesting that the Director of Maintenance provide the electronic signature file for check printing. This is a vital control in the check issuance process and should be performed by someone more intimately involved in the oversight of the process than MetroLINK's IT person.

Review of Bank Reconciliations Lost During Transition of Directors.

The audit team noted while the former Director of Maintenance was noting his review of the bank reconciliation each month, the current Director of Maintenance has not done so since he started. Likely this is a control that did not get communicated to the new director.

Recommendation

The Director of Maintenance must review all bank reconciliations within the first fifteen days of the month to ensure that the proper oversight is in place. This function helps reduce the risk of check fraud.