

MUNICIPAL AUDITING REPORT

CITY OF ROANOKE

SOUTHWESTERN VIRGINIA TRANSIT MANAGEMENT COMPANY RETIREMENT PLAN AND TRUST

Report Number: 09001

Audit Plan Number: 09101

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October 1, 2008

Members of the Audit Committee:

We have completed our audit of the Southwestern Virginia Transit Management Company retirement plan and trust for the year ending December 31, 2007. This audit was included in our 2008 annual audit plan at the request of Greater Roanoke Transit Company [GRTC] management and was approved by the Audit Committee.

We began preliminary planning for the audit as part of our year-end preparation for all of our annual financial audits. An opening meeting was held with GRTC management on June 9, 2008, with detailed planning completed by June 23, 2008. Test work began the week of June 9, 2008.

Based on management's needs and our analysis of the costs versus benefits of performing certain audit procedures required to opine on financial statements, we decided to conduct a performance audit. Our audit included testing relevant aspects of the investment plan revenues, expenses and ending balances but did not include test work to verify market values reported by the Plan Trustee. We also evaluated the design and operation of controls related to the administration of the retirement plan and trust. GRTC management has requested that this audit be performed on an ongoing, annual basis.

This audit was conducted in accordance with generally accepted government auditing standards issued by the United States Government Accountability Office. The audit was performed by Debbie Noble, Senior Auditor.

Sincerely,

Drew Harmon, CPA, CIA
Municipal Auditor

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EXECUTIVE SUMMARY

Objectives:

The objectives of the audit are as follows:

- To verify that contributions were made in accordance with the Plan documents, union agreement, and any associated contracts.
- To verify that distributions were made in accordance with the Plan documents, union agreement, and any associated contracts.
- To verify that plan expenses were paid in accordance with the Plan documents, union agreement, and any associated contracts.
- To verify that employees who were required to participate were enrolled in the Plan.
- To evaluate the reliability of the financial information reported by the Plan Recordkeeper.

Scope:

The scope of the audit includes Southwestern Virginia Transit Management Company's Retirement Plan transactions occurring between January 1, 2007 and December 31, 2007, as well as December 31, 2007 ending balances.

Conclusion:

We conclude that distributions and associated fees were in accordance with the Plan document and that the associated tax treatment was correct. Plan expenses were substantially in compliance with the Plan document, union agreement, and associated contracts. The December 31, 2007, Trial Balance provided by Reliance through DailyAccess.com is materially correct. Contributions were substantially in compliance with the Plan agreement and union contract.

We noted some minor exceptions in our test work which were communicated to management in a separate letter. We would like to thank GRTC staff for their assistance and cooperation during the audit process.

--End Executive Summary--

BACKGROUND

The Greater Roanoke Transit Company [GRTC] is a private, nonprofit, public service organization wholly owned by the City of Roanoke. GRTC provides a comprehensive range of transportation services for the residents of the greater Roanoke area including bus service along fixed routes, special services for the disabled, and commuter buses providing service between Roanoke and New River Valley. Policy decisions for the company are made by its Board of Directors which is comprised of Roanoke City Council members.

GRTC contracts with FirstGroup PLC to provide senior management professionals for the organization. The general manager and assistant general manager are FirstGroup employees. Bus drivers, mechanics, planners, trainers, office staff and administrators are employees of the Southwestern Virginia Transit Management Company [SVTMC].

SVTMC provides a defined contribution retirement plan for its employees. The plan qualifies as a government plan under Section 457 of the Internal Revenue Code. SVTMC serves as the Plan Sponsor. All full-time employees are required to participate in the Plan upon completion of their 90-day probationary employment period. The required minimum contribution is 3% of annual compensation; however, employees can elect to defer up to 100% of their pretax compensation (not to exceed IRS limitations). SVTMC paid the equivalent of 3% of each employee's annual compensation into the employee's investment account for both union and salaried employees.

Under the current arrangement, Reliance Trust Company serves as the Plan Trustee and DailyAccess.com [DAC] serves as the Plan Recordkeeper. SVTMC contracts with both of these companies for their services. The contracts run in perpetuity or until SVTMC notifies either of the companies of an intent to terminate the contract. SVTMC also retains the services of an investment advisor with Dixon, Hubbard, and Feinour,

Incorporated, Investment Counsel. The investment advisor monitors the performance of investment funds and assists the GRTC Director of Administration and Director of Finance with investment issues or questions as they arise.

The Plan's investment structure offers participant-directed investments in twelve investment option funds as of December 31, 2007. During 2007, one of the twelve funds, John Hancock Classic Value, was replaced. Two funds are managed by AllianceBern, International Value A and Small/Mid Cap Value A. Six funds are managed by the American Funds Group, including the Cash Management Trust of America; the Growth Fund of America; the Income Fund of America; the new Perspective Fund; the EuroPacific Growth Fund; and the Bond Fund of America. One fund is managed by Oppenheimer, the Main Street Small Cap Fund N; and one fund is managed by Fidelity, the Emerging Markets Bond Fund. Two funds are managed by AIM, the International Small Company Fund and the Real Estate Fund. All SVTMC and participant contributions are made to these funds consistent with each participant's investment directive. Employees are able to choose specific funds for investing or pre-packaged fund choices based on associated investment risk. The funds included in the packaged choices are at the discretion of SVTMC's investment advisor. However, a vote of the Pension Committee is required to replace any of the twelve funds. Participants notify DailyAccess.com of their investment choices either via their website or through an automated telephone system. All funds are initially invested in the conservative allocation model until the participant otherwise directs them.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives:

The objectives of the audit are as follows:

- To verify that contributions were made in accordance with the Plan documents, union agreement, and any associated contracts.
- To verify that distributions were made in accordance with the Plan documents, union agreement, and any associated contracts.
- To verify that plan expenses were paid in accordance with the Plan documents, union agreement, and any associated contracts.
- To verify that employees who were required to participate were enrolled in the Plan.
- To evaluate the reliability of the financial information reported by the plan recordkeeper.

Scope:

The scope of the audit includes Southwestern Virginia Transit Management Company Retirement Plan transactions occurring between January 1, 2007 and December 31, 2007, as well as December 31, 2007 ending balances.

Methodology:

- Interview the Director of Finance and the Director of Administration for GRTC to verify that our understanding of retirement plan policies and procedures from the prior year audit is unchanged.
- Document any changes in retirement plan policies and procedures from the prior year audit.
- Review the Plan document, union agreement, and related contracts.
- Review prior year work papers.
- Identify significant risks and associated controls in order to evaluate the design of the system of internal controls and plan audit test work.
- Compare amounts disbursed to amounts reported in DAC Summary of Source Type report and GRTC Disbursement Tracking spreadsheet.
- Trace each disbursement to a signed Participant Distribution Election Form in the employee's file.
- Trace each disbursement to the Reliance check register.
- Confirm distributions of funds from the plan were received by the legal owner.
- Determine whether associated disbursement fees were paid and, if so, determine whether they were paid appropriately by the Plan or the Plan Sponsor.

- Recalculate Federal and Virginia withholding on distributions and compare to actual tax withheld.
- Review backup documentation for distributions associated with emergency requests, participant death, or divorce for compliance with Plan document.
- Compare payment of plan expenses to DAC, Reliance, and Dixon, Hubbard, and Feinour, Inc. with Plan document, union agreement, and associated contracts for compliance.
- Compare active participants per DAC report to GRTC Employee Address List as of December 31, 2007.
- Recalculate employee withholdings per Enrollment and Change Application in employees' files for a sample pay period and compare to the amount listed on the Employee List by Deduction report.
- Recalculate mandatory 3% employer contribution for a sample pay period and compare to the amount listed on the Employee List by Deduction report.
- Compare Automated Clearing House [ACH] withdrawals made by Reliance to the GRTC General Posting Journal, the GRTC Deduction/Contribution spreadsheet, the Reliance bank statement, and the DAC Cash Receipt report.
- Identify any funds added or removed during the year.
- Compare beginning fund balances on the Reliance Trial Balance report to the ending fund balances from the prior year.

- Compare total DAC and Reliance ending fund balance on the Reconciliation of Assets report.
- Verify the mathematical accuracy of the Trial Balance report.
- Evaluate system of controls surrounding Microsoft Great Plains financial system and DailyAccess.com website access.

RESULTS

There were no reportable findings.

CONCLUSION

We conclude that distributions and associated fees were in accordance with the Plan document and that the associated tax treatment was correct. Plan expenses were substantially in compliance with the Plan document, union agreement, and associated contracts. The December 31, 2007, Trial Balance provided by Reliance through DailyAccess.com is materially correct. Contributions were substantially in compliance with the Plan agreement and union contract.

We noted some minor exceptions in our test work that were communicated to management in a separate letter. We would like to thank GRTC staff for their assistance and cooperation during the audit process.



Deborah B. Noble, CPA
Senior Auditor



Dawn L. Hope, CPA
Assistant Municipal Auditor

EXHIBIT 1

Plan Highlights

WHO CAN PARTICIPATE?	<p>Participation in the Plan is open to employees who have met the following requirements: For employee and employer profit-sharing contributions:</p> <ul style="list-style-type: none"> ❖ Completed 3 months of service, as defined by the Plan <p>The Plan does not allow participation by employees who are:</p> <ul style="list-style-type: none"> ❖ Part-time employees: less than 30 hours per week <p>Other requirements may also have to be met.</p>
WHEN MAY I JOIN?	<p>On meeting the eligibility requirements, you may join the Plan on the first payroll following completion of three months of service.</p>
HOW DO I CONTRIBUTE TO THE PLAN?	<ul style="list-style-type: none"> ❖ Through payroll deduction, you can make pre-tax contributions from 3% up to the maximum amount of compensation allowable by law. An Internal Revenue Service (IRS) dollar limit also applies. The dollar limit was \$15,500 for 2008. ❖ If you have an existing qualified retirement plan account with a prior employer, you may transfer or roll over that account into the Plan anytime.
CAN I MAKE A CATCH-UP CONTRIBUTION TO THE PLAN?	<p>If you are age 50 or older and make the maximum allowable deferral to your Plan, you are entitled to contribute an additional “catch-up contribution.” The catch-up contribution is intended to help eligible employees make up for smaller contributions made earlier in their career. The maximum catch-up contribution is \$5,000 for 2008. See your Benefits Administrator for more details.</p>
CAN I STOP OR CHANGE MY CONTRIBUTIONS?	<ul style="list-style-type: none"> ❖ You may not stop your contributions for any period. ❖ You may increase or decrease the amount of your contributions any pay period.
HOW DO I BECOME “VESTED” IN MY PLAN ACCOUNT?	<p>Vesting refers to your “ownership” of a benefit from the Plan. You are always 100% vested in your Plan contributions and your rollover contributions, plus any earnings they generate.</p>
HOW ARE PLAN CONTRIBUTIONS INVESTED?	<p>You give investment directions for your Plan account, selecting from investment choices provided under the Plan, as determined by Southwestern Virginia Transit Management Company, Inc.</p> <ul style="list-style-type: none"> ❖ You may change your investment choices anytime.
WHEN CAN MONEY BE WITHDRAWN FROM MY PLAN ACCOUNT?	<p>Money may be withdrawn from your Plan account in these events:</p> <ul style="list-style-type: none"> ❖ Death ❖ Disability ❖ Termination of employment <p>See the Director of Administration for more details about taking withdrawals from the Plan. Be sure to talk with your tax advisor before withdrawing any money from your Plan account.</p>
HOW DO I OBTAIN INFORMATION ABOUT MY PLAN ACCOUNT?	<ul style="list-style-type: none"> ❖ You will receive a personalized account statement quarterly. The statement shows your account balance as well as any contributions and earnings credited to your account during the reporting period. ❖ You will also have access to the automated telephone information system and the <i>DAILYACCESS</i> participant Web site, an interactive Internet site. Both systems are designed to give you up-to-date information about your account balance, contributions, investment choices, and other Plan data. Additional information on how to use the automated telephone system and the Web site will be provided to you.
HOW DO I ENROLL?	<p>Simply complete the enrollment forms and return to the person designated or your Benefits Administrator. Then, enter your investment elections using the automated telephone information system or the participant Web site. Directions for using those systems are found in your information packet.</p>
SUMMARY PLAN DESCRIPTION	<p>The above highlights are only a brief overview of the Plan’s features and are not a legally binding document. Contact your Benefits Administrator if you have any further questions.</p>

EXHIBIT 2

Financial Statements - Statement of Assets

**SOUTHWESTERN VIRGINIA TRANSIT
MANAGEMENT COMPANY, INC.
RETIREMENT PLAN AND TRUST**

**Statements of Assets Available for Retirement Benefits
December 31, 2007 and 2006**

	<u>2007</u> <u>(Unaudited)</u>	<u>2006</u> <u>(Unaudited)</u>
Assets:		
Investments at fair value:		
Cash equivalents	\$ 91,093	\$ 144,876
Mutual funds	1,904,273	1,896,164
Total investments	<u>1,995,366</u>	<u>2,041,040</u>
Assets available for retirement benefits	<u>\$ 1,995,366</u>	<u>\$ 2,041,040</u>

EXHIBIT 3
Financial Statements – Income Statement

**SOUTHWESTERN VIRGINIA TRANSIT
MANAGEMENT COMPANY, INC.
RETIREMENT PLAN AND TRUST**

**Statement of Changes in Assets Available for Retirement Benefits
Years Ended December 31, 2007 and 2006**

	<u>2007</u> <u>(Unaudited)</u>	<u>2006</u> <u>(Unaudited)</u>
Additions to assets attributed to:		
Investment Income		
Net appreciation in Fair Value of Investments	\$ -	\$ 173,666
Interest and Dividends	193,875	142,872
Net Investment Income	<u>193,875</u>	<u>316,538</u>
Contributions		
Employer's contributions	82,585	78,688
Participant's contributions	148,320	150,460
Total Contributions	<u>230,905</u>	<u>229,148</u>
Total Additions	<u>424,780</u>	<u>545,686</u>
Deductions from assets attributed to:		
Net Depreciation in Fair Value of Investments	132,318	-
Benefit Payments	331,184	114,206
Administrative Expenses	6,952	3,712
Total Deductions	<u>470,454</u>	<u>117,918</u>
Net increase in assets available for retirement benefits	(45,674)	427,768
Assets available for retirement benefits:		
Beginning of year	<u>2,041,040</u>	<u>1,613,272</u>
End of year	<u>\$ 1,995,366</u>	<u>\$ 2,041,040</u>