# Fleet Audit Report – York Region Transit

## April 2005

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## 1.0 Management Summary

Audit Services has completed a comprehensive review of York Region's (the Region's) fleet administration processes. The audit engagement identified three distinct fleets at the Region; Transportation & Works York Region Transit (Transit), Health Services Emergency Medical Services (EMS), and Transportation & Works Road Services (Roads). Due to the distinct nature of each of the fleet areas, Audit Services will be reporting opportunities for improvement noted through four separate audit reports. This will help facilitate action plans required from Region management, and establish clear roles in the improvement process.

The opportunities presented in this report represent opportunities existing at Transit. For the purposes of this report, Transit opportunities were considered to be where processes whose subject matter had an impact within the Transit fleet area only, and was best served from a decentralized point within the Region's Transit area. Opportunities highlighted at the other branches and at the corporate level have been reported separately in branch or corporate specific audit reports.

The scope of the Fleet audit included interviewing fleet personnel, reviewing pertinent documentation, and detailed testing of records at a sufficient level from which to draw a conclusion.

Based on the work performed, we noted opportunities for improvement relating to:

- Contract award reporting and administration
- Approval of and supporting documentation for specialized service vehicle contract payments
- Invoicing practices for the purchase of new transit and refurbished vehicles
- Monitoring maintenance, fueling, and repairs for conventional and specialized transit services
- Regional assets (transit vehicles) disposal methodology
- Accounting recognition for late vehicle delivery penalties

A draft copy of this report has been discussed with Transit Fleet management, who have provided us with their comments and who have agreed to take the necessary action to implement the noted opportunities.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

We wish to thank the Commissioners, Directors, and their staff for their co-operation during the course of the audit, and for their assistance in providing Audit Services with timely responses.

## 2.0 Introduction

As part of our 2004 Audit Plan, which accommodates various types of audit projects, consulting engagements, and follow up requests from the Audit Committee and Management, the Audit Services Branch performed an audit of the York Region Transit (YRT) Fleet processes.

The Audit Services Branch uses a Risk Assessment Methodology to develop the Audit Plan annually. This methodology helps to define the level of risks associated with the various strategic projects and processes at the Region, and is one tool that Audit Services uses in assessing where best to allocate audit resources. The York Region Audit Committee approves the Plan.

York Region Transit is one of three York Region fleets supplying citizens with services that have been entrusted into the Region's care. Responsibility for Transit was transferred to the Region in 2001, through the amalgamation of a number of municipally operated transit services. Due to the growth that the Region continues to experience, amalgamation at the Regional level has allowed for increased services including the introduction of new routes, additional service hours, and a more cohesive transit management plan into the future.

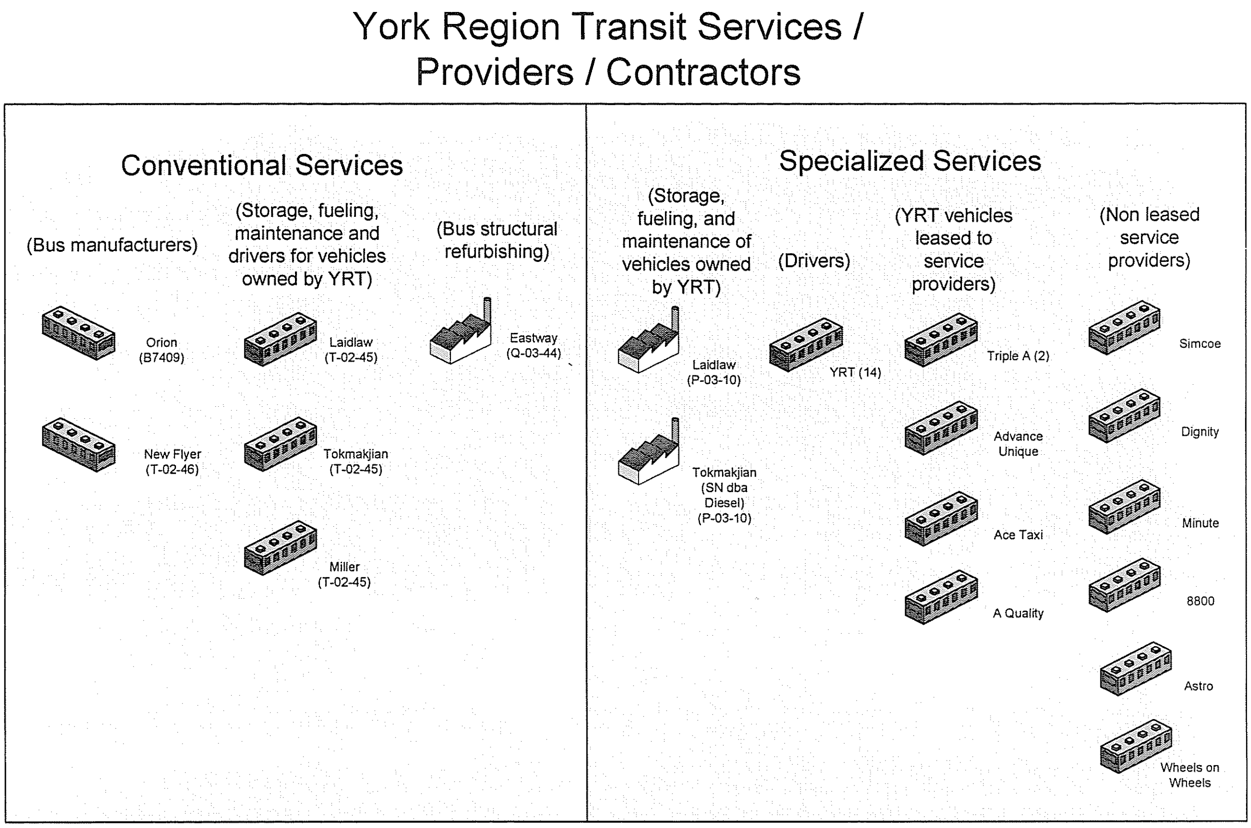
York Region Transit operates two distinct transit services – conventional and specialized (Mobility Plus). Conventional transit services have been contracted to three main suppliers - Miller, Tokmakjian (formerly CanAr), and Laidlaw. These services are provided using both Region and Vendor owned vehicles, and drivers employed by the Vendor. Remuneration for their services is based on contract performance standards, with built-in incentives for exceeding the standards. Each Vendor is also responsible for the refueling and maintenance & repairs of the YRT vehicles assigned to it and used to execute the performance based contracts.

The Toronto Transit Commission is also contracted to the Region to supply transportation services; however this relationship was beyond the scope of this report.

To extend the life of Region owned conventional services vehicles, and maximize the return on its transit investment, YRT will refurbish owned vehicles. The vehicle is taken out of service for extensive body repairs and maintenance. A recent provider of the extensive body repairs and maintenance was Eastway 891731 (Ont) Inc.

A specialized service, or Mobility Plus, is offered through Region owned vehicles driven by YRT drivers, YRT vehicles leased to service providers, or non-leased independent service providers. The storage, fueling, and maintenance of YRT vehicles used for these services is currently contracted to Laidlaw and Tokmakjian.

Below is an illustration of the suppliers used by YRT in their fleet management area. Some of these vendors were involved in our detailed testing.




## 3.0 Objectives and Scope

The objectives of this engagement were to determine if the acquisition, maintenance, disposal, and administration of the Region's Transit fleet is performed in such a manner as to promote:

- ◊ Compliance with related Regional policies.
- ◊ Cost effectiveness and best practices.
- ◊ A strong management internal control structure.
- ◊ An efficient and effective use of information systems technology.
- ◊ Achievement of strategic fleet initiatives and timely reporting of key performance indicators.

The audit objectives were accomplished through:

- Interviews with YRT fleet personnel.
- A review of fleet related documentation.
- Detailed testing of records at a sufficient level.

## 4.0 Methodology

The approach taken for this review was to meet with YRT Operations & Mobility Plus and Finance Supplies & Services, Insurance Risk, and Financial Services personnel to discuss:

1. The acquisition practices used when sourcing vehicles; how requirements were determined.
2. The maintenance and repairs process, and tracking of outsourced services.
3. The method used for the disposition of vehicles once their useful life has been spent and reclamation of salvage value, if any.
4. The administrative policies, procedures, and information technology tools employed to help ensure fleet administration is operated efficiently and effectively.

## 5.0 Detailed Observations and Recommendations

## 5.1 Awarding and Administration of Documents Relating to Contracts

### Observation

*YRT Related Observation*

The following contract documentation could not be located, had not been updated, or was not distributed to the correct areas, for the service contracts relating to the following areas:

| Supplier | Contract # | Contract Value | Documentation | Observation |
|---|---|---|---|---|
| ***Refurbishments*** | | | | |
| Eastway 891731 (Ont) Inc. | T-02-29 | $328,128 | Report to Regional Council | Was not reported to Regional Council. |
| | | | Insurance certificate | None submitted. |
| ***Storage & Maintenance*** | | | | |
| Laidlaw | P-03-10 L | $183,822 | Insurance certificate | Does not include garage & garage keeper's coverage. |
| | | | WSIB form | Not collected. |
| S.N. Diesel (a division of Tokmakjian) | P-03-10 TS | $430,172 | Insurance certificate | Does not include garage & garage keeper's coverage. |
| | | | WSIB form | Not collected. |
| ***Vehicle Purchases*** | | | | |
| New Flyer Industries | T-02-46 | $22,751,519 | Report to Regional Council | Was not reported to Regional Council. |
| | | | Insurance certificate | None submitted. |
| | | | Performance bond | Not collected. |

As per the Purchasing Policy, all purchases greater than $100,000 requires being reported to Regional Council.

Proof of insurance coverage is one method the Region has adopted to mitigate the potential risk associated with the supplier not being able to fulfill their obligations.

WSIB forms help to ensure that the supplier is in good standing with the WSIB, and reduce the potential that the Region be held partially or wholly liable should the supplier experience worker safety related issues.

Performance bonds help to ensure the faithful performance of the terms and conditions of the written contract. Although in some circumstances payment for goods is not required until the goods are received, the performance bond can help to reduce the potential impact to the Region from timing delays should the supplier experience a halt or delay in their manufacturing process.

The Region does not currently have assigned responsibility for the collection and monitoring of performance bond documents. At the time of writing this audit report, this issue had been highlighted in the Audit Services' Revenue Audit, and is currently being resolved by Region management. It is anticipated that the agreed policy and procedures will be communicated to the necessary Region personnel in the near future.

*Corporate Related Observations*

There is confusion relating to who is responsible for the collection and maintenance of documents as required by Regional contracts. For example, most contracts require insurance certificates from the vendor. The Finance Insurance Risk Manager may or may not review a draft version of a contract; however they may not be kept abreast of when the contract is issued. As a result, they will not know if and when the contract was issued, nor do they know that an insurance certificate is now required.

The WSIB form is another example of a required document; however the responsibility of collection and regular update is unclear. WSIB forms are valid for 90 days from issue and the contract may extend beyond 90 days.

Without clear responsibility assignments the Region increases the risk that documents are not collected, nor updated as required, thereby increasing the potential liability the Region may be exposed too.

## Recommendation

*YRT Related Observation*

1. All purchases noted as not having been reported to Regional Council should be reported to Council as soon as possible by the Finance Supplies & Services Department.
2. YRT Operations management work with the Finance Insurance Risk Manager to facilitate collection of the highlighted insurance certificates.
3. In the interim, pending corporate review, all necessary WSIB forms be collected by YRT Operations management and kept on file with their copies of the contract.

*Corporate Related Observations*

To alleviate the confusion relating to required contract document submissions, Finance Supplies & Services should champion an attempt to obtain consensus among contracting Region departments to assign responsibilities for the collection and maintenance of documents. Once this consensus has been achieved it should be regionally communicated to contracting departments, and the information included in tender packages.

### Management Response

*YRT Related Observation*

1. *Response from Finance Supplies & Services Branch*: Agreed. Finance Supplies & Services will report the noted purchases to Regional Council through the March 2005 Finance & Administration Report.
2. *Response from York Region Transit:* Contract documents are collected and verified by Supplies and Services before issuance of the purchase order. It is our understanding that Supplies and Services works directly with Risk Management. This current process is satisfactory to YRT. Clarification is needed as this conflicts with the recommendations in this report.
3. *Response from York Region Transit:* Agreed, YRT will, in the interim and pending final resolution will monitor and collect WSIB certificates once the initial one submitted to Supplies and Services has expired.

*Corporate Related Observations*

*Response from Finance Supplies & Services Branch*: Agreed. Finance Supplies & Services will arrange for a meeting of the necessary parties in Q1 2005 with the objectives of identifying the types of contract documents collected, clarifying responsibilities for contract document collection and to whom those documents should be distributed for monitoring and follow up.

## 5.2 Invoicing Practices Relating to Specialized Service Vehicles Contract Payments

### Observation

1. Invoice payments to storage, fueling, and maintenance services suppliers for specialized services transit vehicles are being approved by the Manager of Specialized Services who does not have an approved Signing Authority Authorization Form. Individuals evidencing the appropriateness to pay an invoice must have an appropriately approved Signing Authority Authorization Form.

2. Invoice charges for parts are not supported by documentation that would help to ensure that markups for parts do not exceed 10%, as stipulated in the contracts with each supplier. As per discussion with YRT management, we do not monitor charges for parts to assess if the costs being charged are reasonable.

3. YRT has spent $3,040 in parking lot fees to store four retired vehicles, as per our invoice review. Charges were incurred between September 2003 (one retired vehicle) and February 2004 (four retired vehicles). Retired specialized services transit vehicles normally have very little salvage value. Incurring expenses when they are not active in revenue generation adds unnecessary costs to transit operations.

## Recommendation

YRT management should ensure that:

1. Individuals charged with the responsibility of approving invoices for payment have been delegated the authority through a properly authorized signing authority authorization form.
2. Adequate supporting documentation is available to ascertain that the markups on parts do not exceed 10%.
3. The retired specialized services transit vehicles are removed and sold for residual value or best offer as soon as possible to eliminate any further carrying charges.

## Management Response

1. *Response from Finance Financial Services*: Updated signing authority forms are expected to be submitted for those individuals whose signing authority levels are either to be restated as per their Commissioner, or for those individuals who have moved departments or positions within the region. A database has been set-up to track revisions to signing authorities as they occur.

   *Response from York Region Transit:* Arrangements were undertaken within Mobility Plus in 2004 to ensure individuals charged with the responsibility of approving invoices for payment were appropriately delegated through an approved authorize signing authority.

2. *Response from York Region Transit:* A process to review parts mark-ups was instituted in late 2004 to ensure replacement parts cost reflect acceptable cost levels; i.e. 10% maximum. The 10% figure is used as a general guideline with actual part costs reflective of parts availability, etc.

3. *Response from York Region Transit:* Disposition of retired vehicles will be done in the most timely and feasible manner and vehicles pending disposition where possible will be moved to the Region’s Works yard, space permitting to avoid a storage fee. Once fleet turnover is brought up to a planned program level, retirements will occur as new vehicles are acquired rather than at an unplanned point in time due to being in service longer than design life.

## 5.3 Invoice Payment Practices for New Transit Vehicle Purchases and Vehicle Refurbishments

### Observation

*Purchase of new transit vehicles*
A review of 25 new transit vehicles purchased from New Flyer Industries under contract T-02-46 revealed that signed receiving documents were not submitted with the invoice payment requests for the vehicles. As per discussion with YRT Operations, all vehicles were received in good order before payment requests were made.

The contract for the purchase of the transit vehicles stipulated that the vendor would invoice the Region 90% of the value at delivery and 10% upon the satisfactory inspection and acceptance of the unit(s). The receiving documents were to be signed by Region staff.

*Refurbishment of transit vehicles*
A review of invoice payments for two transit vehicles refurbished by Eastway 891731 (Ont) Ltd under T-02-29 revealed that in both cases, a 10% holdback was not retained by the Region. As per the contract, the Region was to holdback 10%, or approximately $5,500 before taxes, for a period of 45 days.

Refurbished vehicle payments were made without receiving documents signed by Region staff. The invoice should have been substantiated by Region signed documentation, as per the contract. The signed and dated receiving document was to also serve the purpose of identifying the start date of the warranty period (5 years) for the work performed by the supplier.
As per discussion with YRT Operations, YRT Operations and a representative from one of the YRT service contractors physically inspected vehicles.

Early payment of the 10% holdback exposes the Region to the possibility of having to rectify and pay for any vehicle problems not previously noted.

### Recommendation

YRT management should ensure that supporting documentation is collected and included with invoice payment requests, and any holdbacks not paid before they are due.

YRT management should identify the start date of the warranty period for the refurbished vehicles and ensure that the supplier is in agreement with the date. This will help to ensure that dates of coverage will not be brought into question in the future.

Finance Accounts Payable should ensure that all necessary supporting documentation is included with invoices submitted for payment.

### Management Response

*Response from York Region Transit:* YRT will ensure a dated and signed receiving document is attached to the corresponding invoice when signed off for payment.

*Response from York Region Transit:* In cases of refurbished buses a similar dated and signed document will be held on file with YRT to act as a fallback if warranty claims are subsequently made. This will be validated against the daily vehicle recap report submitted by YRT service contractors which records the disposition of out of service buses. Holdbacks if any will be applied as per contract terms.

*Response from Finance Financial Services*: Finance Accounts Payable will monitor bus purchases (and other goods purchases) in the future to ensure that the proper receiving documentation and appropriate receipt of goods signatures are in place. Staff has been communicated to on this issue and follow up testing procedures are in place.

## 5.4 Monitoring of Maintenance, Fueling, and Repair for Conventional Transit Services

### Observation

The maintenance & repair portion of the performance based conventional transit services contracts are not being monitored on an ongoing basis. Without constant monitoring and ongoing issue resolution, YRT fleet management cannot ensure that the Transit fleet is being properly maintained and repaired.

### Recommendation

YRT fleet management ensure that the Transit fleet is being properly maintained and repaired by allocating the necessary resources to ongoing monitoring of repair and maintenance responsibilities as per the contract.

### Management Response

*Response from York Region Transit*: Fleet Technician hired in January 2004 and now conducts review of repairs and maintenance performed by YRT contractors.

## 5.5 Monitoring of Contracted Services for Specialized Transit Vehicle Storage, Fueling and Maintenance

### Observation

Formal monitoring of the various inspection schedules for specialized transit vehicles is not being performed. Monitoring the timing of the kilometer-based inspections helps to ensure that the specialized transit vehicles are being serviced as per the contract details.

Safety data sheets and safety & education training provided by the contractors to their employees have not been submitted. This information, requested as a part of the conditions of the contracts, helps to ensure that contractors are diligent in identifying safety related issues and mitigating the risks associated with them.

**<u>Recommendation</u>**

YRT management should ensure that all specialized vehicles are being inspected promptly as per the contract details through formal tracking of the inspections.

Safety data sheets and information on the safety & education training being provided to contractor employees should be obtained and reviewed by YRT management.

**<u>Management Response</u>**

*Response from York Region Transit:* To help ensure ongoing vehicle availability and contract compliance, inspection intervals will be formally monitored through the billing process.

Safety data sheets and safety & educational training materials provided by the contractor will be requested and reviewed on a regular basis as part of operational and contract requirements.

## 5.6 Regional Asset Disposal Tendering Document and Transit Vehicle Disposal – RFQ-3-51

**<u>Observation</u>**

The Region does not have a boilerplate disposal package that can be used for the disposal of Region assets. As a result, YRT management to dispose of 15 specialized and conventional transit vehicles used a modified request for quote, created by Finance Supplies & Services. The modified request contained a number of errors and unnecessary requirements. For example, insurance requirements that would have resulted in excluding parties from bidding for the vehicles had not been removed. Errors in documents used to solicit business from the public do not project a professional image for the Region. Excluding parties from bidding does not help to ensure that the highest dollar possible was obtained for the vehicles. There is an increased risk of legal action from the excluded parties.

Audit Services offered a number of recommendations to amend the request for disposal, which were accepted by YRT Operations and Finance Supplies & Services management. An addendum was issued for the document.

**<u>Recommendation</u>**

For future transit vehicle disposals performed as solicited private bids, YRT management should use this document as a template. YRT management should also ensure that the template has had Corporate Legal Department review to help mitigate the possibility of any liability issues associated with the disposal.

**<u>Management Response</u>**

*Response from York Region Transit:* Agreed, YRT expressed concern when the initial tender document was issued. For future disposals, YRT will use this document as a template and continue to work with Supplies and Services and Corporate Legal Department to further refine the template where necessary.

### 5.7 Accounting Recognition of Late Penalty Fees

**Observation**

The late delivery of buses allowed YRT to invoke a penalty clause of $150 / business day. The total penalty to Orion for the late deliveries is approximately $215,000. The penalty fee is to be collected and applied as a credit to Operations.

YRT had originally purchased a number of buses from Orion Bus Industries through contract B7409. The contract dates were April 2002 to April 2003. The contract date was then extended in September 2003, when it became apparent that the buses would be delivered late. This is five months after the expiry of the original blanket purchase order.

**Recommendation**

As per generally accepted accounting principles, the $215,000 in late penalties to be collected from Orion should be recognized as 'Sundry Income' and allocated to GL Account #7506001157016500 and not as a credit to Operations.

**Management Response**

*Response from York Region Transit*: Future late penalties, if any, will be credited to the specified account as recommended with appropriate explanations for variances.

| | |
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| *Original Signed* | *Original Signed* |
| **Kees Schipper**<br>**Commissioner Transportation & Works** | **Don Gordon**<br>**General Manager York Region Transit** |
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