Transportation & Works – VIVA Transit Fare Media Cash & Inventory Controls Audit Report

March 2007

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1.0 Management Summary

An audit of the Regional Municipality of York's (the Region's) cash and inventory controls over VIVA Transit fare media has been completed. The focus of the review was to determine if appropriate management controls are in place to allow for the secure, timely, and accurate processing of VIVA transit fare media.

Opportunities for improvement have been discussed with management. These areas include updating and completing documentation of procedures and processes, completing reconciliations of cash and non-cash transactions and implementation of more formal inventory count procedures. The recommendations highlighted are currently being addressed by management.

Management was aware of the inadequate reconciliation reports produced by the Revenue Management System (RMS). Work for enhancing the reporting facility is close to completion. Once the more robust reconciliation reporting is in place and recommendations have been addressed, we would conclude that overall, comprehensive and secure fare media cash and inventory controls for VIVA Transit are in place.

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.

Audit Services appreciates the cooperation and assistance provided by Transportation & Works - York Regional Transit – VIVA management and staff.

2.0 Introduction

As part of our Audit Plan, the Audit Services Branch performed an audit of fare media cash and inventory controls for VIVA Transit. The Audit Plan, approved by the Audit Committee, is developed annually by the Audit Services Department using a Risk Assessment Methodology that helps to define the different risks associated with the various processes at the Region. It is one tool that Audit Services uses in assessing where to best locate audit resources.

The Transportation & Works – York Region Transit Branch at the Regional Municipality of York is responsible for the operation of the VIVA Rapid Transit System. Introduced in September 2005, VIVA is an innovative rapid transit system that links Markham, Newmarket, Richmond Hill, Aurora and Vaughan along four key transportation corridors (Yonge Street, Highway 7, Markham North-South Link, and Vaughan North-South Link).

New cash handling and fare media inventory process controls and software were introduced to support VIVA in daily operations. VIVA's monthly cash fare sales are approximately $600,000 with 70% paid for with cash and the remainder by credit or debit cards. An additional $1.5M per month is sold as pre-printed fare media through 100 agents and 17 terminal ticket vending machines located throughout the Region. Cash collection and handling for both distribution channels have been contracted to Avero Security GTA1 Inc.

The inventories of fare media are kept in physically secured areas with restricted access both at YRT and Avero locations. Regular counts are done at both locations, and perpetual inventory records are maintained by YRT to safeguard inventory and to provide current information on inventory quantities.

3.0 Objectives and Scope

The objectives of this engagement included:

- To determine if there are adequate controls over cash collection and handling to help ensure the protection of this asset.
- To determine if there are adequate controls over cash collection and handling to help ensure timely and accurate recording and reporting.
- To determine if there are adequate inventory controls over fare media to help ensure protection of this asset.
- To determine if there are adequate inventory controls over fare media to help ensure complete and accurate recording and reporting.

The audit objectives were accomplished through:

- Discussions with management relating to current cash and inventory controls over fare media.
- Review of related process documentation and reconciliations for cash and inventory.

4.0 Detailed Observations and Recommendations

4.1 Fare Media Cash Processing

Observation

1. Lack of fully useable Revenue Management System (RMS) reports for reconciliation purposes has resulted in an unreconciled cash sales difference of approximately $137,200 between RMS and Avero. The period covered is from August 2005 to October 2006.

   Procedures require that the RMS and Avero cash reports be reconciled and any differences investigated on a daily basis.

2. Bank deposits for the months of October and September 2006 highlighted delays of up to twenty-four (24) days occurring between the date of fare media cash collection by Avero, and the date the deposit was credited by the Royal Bank to the VIVA operating account. The period between cash collection and deposit by Avero was nine (9) days, and the period between deposit and credit to the operating account was fifteen (15) days. The Avero contract stipulates that they are required to deposit cash collections next day.

3. Fund transfer from the VIVA operating account to the York Region account is not made on a regular basis. For the period from May to October 2006 monthly bank balances ranged from $500,000 to over $3,500,000.

4. In spite of the high balances, as noted above, bank service charges are being incurred. Service charges for the months of September and October totaled approximately $1,746.

5. We noted an instance in the October 2006 bank statement where a net shortage was charged to YRT's account. Once Avero has confirmed a daily cash count to YRT, any subsequent discrepancies between the Avero count and the Royal Bank becomes Avero's responsibility. Management has informed us that the above discrepancy will be followed up and that differences of this nature have occurred in the past and have been satisfactorily resolved with Avero.

Recommendation

1. All unreconciled amounts should be investigated on a timely basis, and their resolution documented. All reconciliations should be reviewed and approved by management. This will help to maintain accurate verification and accounting of cash transactions.

2. YRT management should investigate the causes for the delays in deposits, and implement procedures that would help minimize delays.

3. Operating account balances should be reviewed on a regular basis and amounts in excess of a pre-determined balance should trigger automatic transfers to the Region. This will help to improve the Region's cash flow.

4. YRT management should communicate this bank practice to Corporate Finance to determine if this practice is reasonable. Given that the bank has use of the funds, there may be an opportunity for cost savings on some or most bank charges.

5. Resolution of the net shortage charge should be noted on bank reconciliation documents.

Management Response

1. New reconciliation reports are currently being completed by Transit IT Management Services (TMS) staff which will provide an improved tool to facilitate accurate verification and accounting of cash transaction reconciliations. Reports are to be completed and reconciliations finalized by Q1 2007.
2. There have been some delays (mostly involving the "coin pool" process) in the Avero deposits during the timeframe covered. A reminder of their contractual obligations was issued by both Corporate Finance and YRT management. To help ensure prompt recognition and processing of coin pool deposits, YRT management will renew efforts through Corporate Finance to keep this issue highlighted and at the forefront for resolution. Due date Q1 2007.
3. The transfer of funds from the RBC account is the responsibility of Corporate Finance. They are currently working with RBC (new banking partner) to enable more frequent automated fund transfers in lieu of the current telephone based transfer process. Monthly transfers are happening going forward via automatic transfer or telephone banking. Done.
4. YRT management will discuss this bank practice with Corporate Finance to determine if this practice is reasonable, and if there may be any cost savings. Due date is Q1 2007.
5. The process for any net differences has always originated with the reconciliations performed by YRT staff. Avero is then advised and requested to clear the identified amount. As is the practice, this specific item of $10 has been forwarded to Avero for them to action. Staff will ensure that proper notations are made on the reconciliation documents. Done.

4.2 Fare Media Non Cash Processing

Observation

Lack of fully useable Revenue Management System (RMS) reports for reconciliations purposes has resulted in an unreconciled non cash sales difference of approximately $72,478 between RMS and Moneris Merchant Direct. The period covered is from September 2005 to October 2006.

Procedures require that RMS and Moneris Merchant Direct reports be reconciled twice per month and any differences investigated and resolved.

YRT management informed us that they are currently reviewing a software solution to correct the current reconciliation issues.

Recommendation

1. All differences should be investigated and resolved in a timely manner and approved by management. This will help to maintain accurate verification and accounting of non cash transactions.

2. Procedures should be updated to include the performance of review and approval of all adjustments and charges.

Management Response

1. New reconciliation reports are currently being completed by TMS staff which will provide an improved tool to facilitate accurate verification and accounting of non cash transaction reconciliations. Reports are to be completed and reconciliations finalized by Q1 2007.

   The differences noted have been rationalized as primarily due to two factors. One is the charge backs which arrive 1-3 months later (approximately $30,000) and declined transactions (approximately $41,000).

2. Agree with the recommendation. The upgrading of procedures was a known gap prior to the start of the audit and was openly identified to the auditors as an area requiring attention. The external resource that assisted in the initial creation of the documentation was unable to fully finish the task and due to operational issues, staff has not been able to address this item since. This will be addressed by the Revenue Administrator in the next few months. Anticipated due date is Q2 2007.

4.3 Media Control

Observation

1. Documented physical count procedures currently in place are incomplete. Pre-printed forms such as inventory count sheets are not available to assist in transcribing and tabulating counts.

2. Procedures do not require that the person(s) conducting the count is independent of the person maintaining and updating the inventory records.

3. Periodic Avero inventory by YRT staff has not been performed.

Recommendation

1. More detailed procedures and standard forms should be developed to assist in the performance of inventory verification.

2. Inventory controls procedures should be updated to ensure proper segregation of duties.

3. Management should periodically attend Avero physical counts to observe adequacy of count procedures and to verify physical existence of media.

Management Response

1. Detailed procedures provided were draft and have not yet been finalized. As such we will include necessary changes before the final version is issued. We agree that a preprinted form would contribute to the performance of the monthly inventory count. Anticipated due date is Q1 2007.
2. Written procedures will be updated to reflect practice. Due date is Q1 2007.
3. Agree with the recommendation. While YRT staff has attended the Avero premises on an ad hoc basis on two previous occasions, this should be a regularly scheduled activity. We have implemented quarterly visits, effective immediately. Done.

4.4 Documentation of Avero Operating Procedures

Observation

Avero has not yet submitted their operating procedures to YRT for management review. Avero had stated in their RFP submission, Concept of Operations section Item H, part 2a:

> *"Avero will put in writing a complete set of operating procedures for its personnel to follow throughout the term of the contract. Whenever changes are necessary they will be made, even if they occur on a daily basis. Be assured, all procedures will be approved by YRT".*

Recommendation

YRT management should request from Avero, and ensure a review of Avero procedures for adequacy, completeness, and to help ensure Avero procedures are consistent with YRT operational requirements.

Management Response

A copy of the procedures was late in being submitted by Avero. However, they were provided in November 2006. YRT management will review the written procedures, and provide comments to Avero. Due date Q2 2007.

4.5 Documentation of YRT Operating Procedures

Observation

Accountability for documenting and timely updating of operating processes and procedures has not been established. As a result, documented procedures and operational processes in a number of instances are not complete and/or outdated.

Recommendation

Accountability for timely updating of operational processes and procedures be assigned to a single individual to ensure these are kept current.

Management Response

Agree with the recommendation. The upgrading of procedures was a known gap prior to the start of the audit and was openly identified to the auditors as an area requiring attention. The external resource that assisted in the initial creation of the documentation was unable to fully finish the task and due to operational issues, staff has not been able to address this item since. Due to unexpected operational realities during startup, some items will require revision while others are new in response to actual events. This will be addressed and documents finalized by the Revenue Administrator in the next few months. Due date is Q1 2007.

4.6 Spreadsheet Controls

Observation

The VIVA Transit fare media systems uses excel spreadsheets extensively to record and maintain data. Passwords and "read only" controls are in place to ensure integrity of data. However change controls are not used to provide reasonable assurance that unauthorized changes are not allowed.

Recommendation

The excel feature “Track Changes” be used as a detective control to track alterations to entire spreadsheets or individual cells. This would provide added assurance that application changes are made appropriately and that the application performs as intended.

Management Response

Agree with the recommendation. As a control\tracking tool this is a valuable improvement to the existing use. We will implement use of this feature immediately. Done.

Original Signed

Bruce Macgregor

Commissioner Transportation & Works

Original Signed

Don Gordon

General Manager Transit

Original Signed

Bob McClelland

Director Business Support Services

Original Signed

Paul Duggan

Director Audit Services