Transportation Services - York Region Transit Contract Compliance Audit Report

September 2007

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1.0 Management Summary

We have completed an audit of the following four contracts pertaining to and arranged by York Region Transit (YRT):

Service Provider	*Contract value (millions $)*	*Contract type*
Tokmakjian Inc. (conventional transit)	$80.0	service / maintenance
Laidlaw Transit Limited (conventional transit)	$33.0	service / maintenance
Tokmakjian Ltd. (specialized transit)	$17.5	service / maintenance
Durham Promotions Int'l (bus advertising)	$1.8	revenue

We have concluded that overall, appropriate management controls are in place to ensure contractor compliance with the contracts. Management is currently addressing areas where internal controls can be improved. These areas include obtaining proof of appropriate insurance coverage to ensure adequate coverage as per the contract agreement, increasing compliance monitoring of contractor performance, completing reconciliations of cash payments, verification of advertising revenues received, and providing resolution to identifying responsibility for bus damage and the recovery of payments.

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 co-operation and assistance provided by York Regional Transit management and staff.

2.0 Introduction

As part of our Audit Plan, the Audit Services Branch performed a compliance audit of four YRT contracts. 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 here at the Region. It is one tool that Audit Services uses in assessing where best to locate audit resources.

The Transportation & Works Department – York Region Transit (YRT) Branch at the Regional Municipality of York is responsible for providing:

- Local conventional transit services in all nine York Region municipalities.
- Mobility Plus services to residents of York Region, who, due to a physical or functional limitation, are unable to use local conventional transit services.
- VIVA bus rapid transit (BRT) services.

York Region Transit's mission is "… to provide quality public transit service which support the economic vitality, environmental sustainability and health of the Regional community". To accomplish this task, YRT has entered into a number of contracts that include agreements for conventional and mobility bus service agreements, and bus advertising.

York Region Audit Services Branch selected four (4) YRT contracts on which to perform the compliance audit. Of the four contracts selected, three (3) are service contracts, which account for a value of approximately $130.5 million in expenditures. The fourth is a revenue-generating contract, which provides a revenue stream to the Region of approximately $1.8 million.

3.0 Objectives and Scope

The objectives for the audit included:

1. Determining YRT and service provider contract compliance;
2. For contracts resulting in payments to a vendor, determining if payments are accurate, timely, contain adequate supporting documentation, and have received an adequate level of management approval; and,
3. For contracts resulting in revenue for York Region, determining if billings and collections are accurate, timely, and ensuring that billings contain an adequate level of supporting documentation to support the invoice.

The audit objectives were accomplished through:

- Discussion with management relating to invoice inspection and approvals for payment;
- A review of procedures to ensure compliance with the terms of the contracts; and,
- A review of related process documentation used in the performance audits conducted by YRT staff.

4.0 Detailed Observations

4.1 Updating Insurance Requirements and Reassessing the Need for a Bonded Employee - Tokmakjian Inc. & Laidlaw Transit Limited (conventional transit)

Observations

Section 29 of the contract "Indemnification of Region" lists the insurance coverage required to be provided by the Contractor. At our request, the Finance - Insurance Risk Management Branch was asked to compare the insurance coverage as required under the contract, to the certificates of insurance held on file. The comparison highlighted differences that included omissions of aggregate and per occurrence coverage, and lower than required deductible amounts.

Section 18 of the contract, "Revenues", includes a clause that the Contractor shall provide a bonded employee for revenue recording purposes. YRT management informed us that the contractor has not done this, as their employee does not handle cash.

Recommendations

1. YRT management request, from the contractor, up-to-date proof of insurance that complies with the level of insurance coverage specified in the contract.
2. YRT management review the need for a bonded employee as required under the conditions of the contract. If necessary, the contract should be updated accordingly, pending this review.

Management Response

4.1.1 Management agrees with the recommendation and will confirm differences compared to contractual requirements with Risk Management staff. Requests will then be made to contractors to provide revised certificates which comply with contractual requirements. By Q1 2008.

4.1.2 Management agrees with the recommendation and is currently reviewing the necessity for the use of a bonded employee. Based on the results of this review, revisions to the contract will be initiated if required. By Q4 2007.

4.2 Administration of Contract and Updating Insurance Requirements - Tokmakjian Inc. (Mobility Plus - specialized transit)

Observations

1. Due to insufficient staff resources, review procedures to help ensure the Contractor remains in compliance with the contract have not been performed since March 2006. As stipulated under the terms of the contract, and to determine performance incentive / disincentive payments, YRT is required to monitor Contractor performance using a number of review

procedures that include analysis of various contractor produced reports, random testing / inspections, and customer satisfaction surveys.

2. YRT has never performed a reconciliation to verify the accuracy of the cash fare amounts credited on the Contractor invoice. The Contactor provides a credit for cash fares on their monthly invoices, which has totaled approximately $2,000 / month, however tickets, cash fares, pass numbers, and no-fares received details are not provided.

   Schedule “N” – Contract Payment Requirements stipulates that. “The Contractor's invoice shall show separately the tickets, cash fares, pass numbers and no-fares received. The Contractor must remit all tickets, cash fares and the number of fares received. It is understood that the difference between total fare passengers carried and total fares remitted will be attributed to adult cash fares retained by the Contractor. This amount will be deducted from the totals fee specified on the Contractor's invoice and remuneration adjusted accordingly.”

3. At our request, the Finance - Insurance Risk Management Branch was asked to compare the insurance coverage as required under the contract, to the certificates of insurance held on file. The comparison highlighted differences that included omissions of aggregate and per occurrence coverage, and lower than required deductible amounts.

   Schedule “A” of the contract “Insurance Requirements” details the contractor insurance requirements.

<u>Recommendations</u>

1. To ensure that the Region’s mission “to provide quality public transit service” is being supported, YRT management put in place the audit procedures to effectively monitor the Contractor’s level of performance and allow for a complete and accurate calculation of incentive / disincentive payments.

2. A reconciliation of monthly cash fare revenues should be performed by YRT to verify the accuracy of the cash fare amounts credited by the Contractor. To facilitate the reconciliation, the Contractor should provide invoice details and remit all tickets, cash fares and the number of fares received, as per the terms of the contract.

   YRT management should consider using the YRT prepared "Ridership Report" to support the verification process.

3. YRT management request that the Contractor provide up to date proof of insurance that complies with the level of insurance coverage specified in the contract.

<u>Management Response</u>

4.2.1 Management agrees with the recommendation. In conjunction with the hiring of an inspector (2008 budget request), procedures will be performed to comply with the performance tracking provisions of the contract. By Q2 2008.

4.2.2 Management agrees with the recommendation. A new process was initiated as of September 1, 2007, that YRT staff are present when the contractor removes the fares collected from the fareboxes. The content is then transported to the YRT office and monies are counted/deposited by Finance staff. Mobility Plus staff count/record the tickets and use the data for reporting purposes. Done.

4.2.3 Management agrees with the recommendation and will confirm differences compared to contractual requirements with Risk Management staff. A request will then be made to the contractor to provide a revised certificate which complies with the contractual requirements. By Q4 2007.

4.3 Untimely Guaranteed Minimum Monthly Payments, Reporting of Gross Sales, and Recovering Bus Damage Related Payments - Durham Promotions International (bus advertising)

Observations

1. Durham Promotions has been making regular Guaranteed Minimum monthly payments thirty-five (35) days late since October 31, 2005.

2. Upon YRT management informing Durham Promotions that the Region's Audit Services Branch had requested the accounting for the "Gross Sales Amount" for the four quarters, year ended September 30, 2006, the report was received in February 2007. However, our review of the report indicated that it contained limited detail as to the calculation used to determine Gross Sales amount.

   The Region subsequently received a $58,000 associated payment on February 26, 2007.

Section 9 of the contract states:

- The contractor shall pay to the Region the Guaranteed Minimum Annual Revenue, or 60% of the contractor's Gross Sales, whichever is the greater amount;
- **The contractor shall pay one-twelfth (1/12) of the Guaranteed Minimum Annual Revenue to the Region in monthly installments payable on the last day of each month,** the first monthly installment commencing October 31, 2005; and
- The contractor shall provide an accounting process for the calculation of the Gross Sales Amount, which is satisfactory to the Region. **Within thirty (30) days of the end of each quarter throughout the term of this Agreement, the Contractor shall provide to the Region an accounting of the Gross Sales Amount.** If that quarter's Gross Sales Amount is greater than the Guaranteed Minimum Annual Revenue amount payable for such quarter, then the Contractor shall pay the difference to the Region contemporaneously with its accounting submission.

3. A dispute with Durham Promotions concerning establishing responsibility for payment for damages caused by removal of advertising materials (decal damage) has been ongoing since Q4 2006. All amounts for paint repair damages have been paid by the Region and to-date have totaled $2,900.

Section 5 (d) of the contract - "Contractor's Rights and Responsibilities Respecting Vinyl and Frame Advertising" - stipulates that the Contractor is responsible for any damage to a bus arising from the Contractor's installation or removal of advertisements and for the cost of any repairs. YRT management has informed us that they have been attempting to ascertain whether the problem is caused by the advertisements or is the fault of the paint application and / or paint type.

Recommendations

1. Management investigates the basis for delays in payments and instructs Durham Promotions as to the contractual payment requirements for both Guaranteed Minimum Revenue and Gross Sales amounts.

2. Details as to the calculation used to determine Gross Sales amount be requested from the Contractor and YRT management reconcile the details of Durham Promotions calculations to ensure accuracy and completeness of the payment received.

3. YRT management ensures that the resolution and recouping of the $2,900 payments made to date is performed in a timely manner.

Management Response

4.3.1 Management agrees with the recommendation. An investigation has been completed and payments are now being made in accordance with contractual requirements. YRT Finance staff are monitoring payments on a go-forward basis. Done.

4.3.2 Management agrees with the recommendation. An audit of DPI revenues and the associated calculations by an external audit firm has been arranged through Audit Services. The audit is scheduled for mid-October 2007. By Q4 2007.

4.3.3 Management agrees with the recommendation and has completed an investigation into the bus paint damage caused by the decal removal process. A meeting with DPI to resolve the issue is to be scheduled. By Q4 2007.

Original signed	*Original signed*
Don Gordon	**Paul Duggan**
General Manager Transit	**Director Audit Services**