Ontario Coin Services Inc.
Audit Report

York Region Transit

June / July 2003

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1.0 Management Summary

We have completed an audit of York Region Transit's third party supplier of transit fare media collection, sorting, and bank depositing. Ontario Coin Services Inc.'s procedures and service levels were reviewed at the request of Transit management. The focus of our review was to determine if adequate internal controls exist at Ontario Coin Services Inc. for the secure, timely, and accurate processing of York Region Transit fare media.

The scope of this audit included an on-site tour of the Ontario Coin Services Inc. facility with York Region Transit personnel. Interviews were also performed with appropriate personnel.

Based on the work performed, we noted a number of 'compliance to contract' opportunities that York Region Transit management should pursue with Ontario Coin Services Inc.

A draft copy of this report has been discussed with York Region Transit 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 management and staff of York Region Transit and Ontario Coin Services Inc. for their cooperation and assistance during the course of our audit.

2.0 Introduction

As part of our 2003 Audit Plan, which accommodates special requests from management, the Audit Services Branch has performed an audit of the procedures used by Ontario Coin Services Inc. to collect, handle, and process transit media fare on behalf of York Region (the Region). This audit was requested by York Region Transit management, in response to a change in company ownership at Ontario Coin Services Inc.

The Audit Plan, approved by the Audit Committee, is developed annually by the Audit Services Branch 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.

Ontario Coin Services Inc. processes approximately $15,000 to $20,000 in coins daily for York Region Transit. The coins are picked up daily from four different locations throughout the Region, and are processed for same day deposit into York Region's bank account. The third party was awarded the tendered contract in 2002, with two one-year options available. They are currently operating under the first of the two one-year options.

I t should be noted that with the recent assumption of a couple of GO Transit routes, the revenues generated for processing through Ontario Coin Services Inc. will increase to approximately

$30,000 per day starting in September 2003. Ontario Coin Services normally processes approximately $190,000 per day, and on occasion achieving $200,000 per day. Thus, with the increase in transit fare media revenues, Ontario Coin Services Inc. will be processing near or at capacity on a daily basis. Transit management should ensure that the vendor is equipped to handle the increased processing requirements for the Region.

It was understood that Audit Services would submit an audit report to York Region Transit Operations at the conclusion of our audit. It will be the responsibility of York Region Transit Operations to manage the Vendor's relationship.

3.0 Objectives and Scope

The objectives for this engagement were:

- *Internal*: To understand and document the transit media fare collection, handling, and processing procedures as stipulated in our contract with Ontario Coin Services Inc.
- *External*: To determine compliance with all deliverables and performance of duties as stipulated in the contract.
- *External*: To review the physical security surrounding the transit fare media from the Vendor pick-up location (where the driver at the end of their shift deposits transit fare media) to delivery of the cash to the bank in the form of a deposit.

The audit objectives were accomplished through the following scope:

1. Review of the Ontario Coin Services Inc. contract.
2. Review of the necessary documents, both at the Region and Ontario Coin Services Inc.
3. Interviews with appropriate Region and Ontario Coin Services Inc. personnel.
4. Site visit to Ontario Coin Services Inc. with personnel from York Region Transit Operations.

4.0 Methodology

The approach taken for this phase of the review included:

- Meet with Transit management to determine any concerns and issues with respect to the services supplied by Ontario Coin Services Inc.
- Attend a meeting with Transit and Ontario Coin Services Inc. personnel, together with an on-site tour of the processing facilities.
- Inquire with Transit and / or Ontario Coin Services Inc. on items that would include, but are not limited to procedures, service levels, and billings.

5.0 Detailed Observations and Recommendations

5.1 Contract Compliance Improvement Opportunities

Observations

Below is a table that summarizes contract compliance improvement opportunities that should be addressed to increase the level of internal controls.

Internal control improvement opportunity	Impact	Recommendation
Utilization of Log Books The log books used to record and track transit fare media delivery arriving at the contractors coin processing facility are not being kept. Section 2.2 of the contract specifically requires that once the transit fare media is delivered to the processing facility, the condition of the seal, the recorded information and the opening of the container be verified, signed, and supervised by another member of the vendor's staff and recorded into the logbook.	Logbooks provide a tracking mechanism for transit fare media. This helps to ensure that the media does not get misplaced. When used correctly, log books also provide protection for every individual that handles the coins until they reach the processing facility. Should any questions arise as to the handling before hand, questions can be directed to those individuals responsible.	York Region Transit management should ensure that log books are placed into use immediately, and completed as per the contract requirements. These log books should be made available for York Region Transit review at their request.
Fidelity Bond Requirement The inclusion of a fidelity bond requirement appears to have been used as a remnant from a previous contract template. The fidelity bond requirement indemnifying the Vendor's employees was required by the contract in Section II, 2.3. It had not yet been received from Ontario Coin Services Inc. The fidelity bond was required, in	Fidelity bonds are a debt obligation serving to protect an employer from loss in the event that its employees cause damages through dishonest or negligent action.	York Region Transit management, in co-ordination with Insurance Risk management, should ensure that, in the future, the appropriate clauses are used regarding protection of Region assets. However, transit management should reserve the right to collect the fidelity bond, if it is

Internal control improvement opportunity	Impact	Recommendation
addition to the insurance specified in Section I, 1.18. This section consists of, in part, employee dishonesty insurance coverage for $1 million.		determined as necessary for additional Region assets protection.
Insurance Requirements The original tender document for the third party services required commercial general liability: $5 million and employee dishonesty: $1 million. The Vendor has supplied $4 million and $100,000 respectively. Based on discussion with Insurance Risk personnel the commercial general liability was reduced based on the amount of funds the Vendor would handle daily on the Region's behalf, and an assumption that any material errors would be noted by month end. With respect to the employee dishonesty coverage, a note dated February 11, 2003 attached to the submitted insurance certificate stated that the Vendor was waiting on a quote to increase employee dishonesty coverage to the required level.	Insurance coverage is a requirement of doing business with the Region and serves for Vendor and Region protection. Insufficient insurance coverage can lead to the Region being held responsible for any shortfalls in coverage.	York Region Transit management should ensure that the appropriate level of insurance is obtained from the Vendor. Insurance requirements should also be clarified with Insurance Risk management. Documentation regarding any decisions made, and the reasoning used, should be kept with the insurance file. Transit management should also consider the increase in daily transit fare media collection, estimated to be approximately 33% or $10,000, anticipated by the recent assumption of a couple of GO Transit service routes, when clarifying insurance level requirements.
Daily Deposit Slips Daily deposit slips are not being faxed to the York Region Transit office on a consistent basis. There are periods when the deposit slips are not submitted daily. As per the contract, deposit slips	Deposit notification is one management tool used to ensure that possible material discrepancies are highlighted and dealt with on a timely basis.	York Region Transit management should liaise with Ontario Coin Services Inc. management to determine how the Vendor can meet the requirements of daily deposit notification.

Internal control improvement opportunity	Impact	Recommendation
are to be faxed daily.		
<u>Security Camera Tapes</u> Security camera tapes are being retained based on a 7-day rotation. Other than the tape being used for that day, previous day's tapes were not available for viewing as they are kept offsite at the owner's home.	Seven days may not be enough history should it become necessary to review plant activities. If the employee is ill, a new fresh tape will not be available in the office for that day's use.	The amount of tape history should be expanded to 30 days. This would help to ensure that a reasonable amount of history is available should the tapes need to be reviewed. Tapes should be stored onsite under lock and key, i.e. a fire rated locking file cabinet or vault. This would help to ensure that a fresh tape is available on a daily basis.
<u>Transit Media Destruction</u> Used transit tickets can be physically removed by hand from the lock box where they are housed until destroyed. An outside party that physically destroys the tickets on a weekly basis owns the lock box.	Used tickets can be removed and sold for reuse.	The lock box should be changed to prevent access to used media, or the tickets should be destroyed on a daily basis, to reduce their exposure to theft. A certificate of destruction should continue to be collected when the media is destroyed.
<u>Vehicle Back Up Plan</u> There is no back up plan to reduce the impact on the timely pick up at locations should the sole vehicle being used to perform transit fare media pick ups become unavailable. Employees may be called upon to use personal vehicles to perform pick-ups.	Transit fare media pick-ups are unduly disrupted. Vehicle insurance coverage may not allow for the personal vehicle to be used for transporting money.	A back up plan should be created to ensure that operations are not unduly disrupted. Employees being requested to pick up transit fare media using personal vehicles should ensure that there are no vehicle insurance coverage impacts.

Management Response

York Region Transit staff concur with the recommendations. The following is the proposed schedule for the implementation of the noted recommendations:

- Utilization of Log Books — Q4 2003
- Fidelity Bond Requirements — Done. Has been noted for future reference.
- Insurance Requirements — Q4 2003
- Daily Deposit Slips — Done. Ongoing monitoring of deposit days.
- Security Camera Tapes — Q3 2003
- Transit Media Destruction — Q3 2003
- Vehicle Back Up Plan — Q4 2003

5.2 Contract Extension / Renewal Reporting

Observation

The exercising of the 1st twelve month option to renew / extend the Ontario Coin Services Inc. contract has not been reported to Council. In February of 2003, York Region Transit exercised the first of the two one-year renewal options, by adding $80,000 to the original $136,000, or an increase of approximately 59%, for a total of $216,000 to be allocated to this contract.

Section 9.1 of the Procurement By-law requires that:

> *Where goods and services have been purchased from a supplier under this by-law, no similar, additional or related goods and services shall be purchased from the same supplier, whether by way of contract extension, renewal, or separate purchase, unless: (a) a report is submitted to Regional Council.*

Recommendation

York Region Transit management should ensure that the extension for an additional year, to the end of 2003, is reported to Council as soon as possible. In the future, should this contract be renewed for the second optional year, 2004, the exercising of the option to renew should be reported to Council soon after the decision has been made.

Management Response

York Region Transit concurs with the recommendation. The reporting will occur by Q1 2004.

Kees Schipper **Commissioner, Transportation & Works**	**Don Gordon** **General Manager, York Region Transit**