TO: Chair and Members
   Audit, Finance and Administration Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: January 19, 2011

SUBJECT/REPORT NO:
Audit Report 2010-04 - Transit Ticket Agents (AUD11001) (City Wide)

SUBMITTED BY:
Ann Pekaruk
Director, Audit Services
City Manager’s Office

PREPARED BY:
Ann Pekaruk 905-546-2424 x4469

RECOMMENDATION

(a) That Report AUD11001 respecting Audit Report 2010-04, Transit Ticket Agents, be received; and

(b) That the management actions plans as detailed in Appendix “A” of Report AUD11001 be approved and the General Manager of Public Works direct the appropriate staff to have the plans implemented.

EXECUTIVE SUMMARY

The 2010 Internal Audit work plan approved by Council included the review of administering and accounting of funds processed by Transit’s own ticket agents as well as those collected by third parties. Procedures were assessed as to the strength and adequacy of controls and their effectiveness in mitigating the risks. The audit did not deal with cash fare box revenues.
In 2009, the City’s Transit division generated more than $33 million in revenue of which approximately $24 million was from tickets and passes (fare media) sold through ticket agents. Recommendations resulting from the audit were made to strengthen controls for cash balancing, banking and reconciliation and to safeguard cash assets.

The results of the audit are presented in a formal audit report containing observations, recommendations and management responses. In addition, an Addendum which identifies issues, risks or inefficiencies (not necessarily control deficiencies which appear in the main report) is included and management has been asked to address these points also. The Report and Addendum are attached as Appendix “A” to Report AUD11001.

**Alternatives for Consideration – Not Applicable**

**FINANCIAL / STAFFING / LEGAL IMPLICATIONS** (for Recommendation(s) only)

<table>
<thead>
<tr>
<th>Financial</th>
<th>The risk of fraud and the lapping of cash are increased if counter funds are not balanced each day.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staffing:</td>
<td>None.</td>
</tr>
<tr>
<td>Legal:</td>
<td>None.</td>
</tr>
</tbody>
</table>

**HISTORICAL BACKGROUND** (Chronology of events)

This audit was scheduled as part of the 2009 Internal Audit work plan. However, due to staff vacancies and a lack of adequate resources, the audit was carried forward to the 2010 work plan.

The fieldwork was completed in July, 2010. The results of the audit are attached as Appendix “A” of Report AUD11001.

The Audit, Finance and Administration Committee receives and approves final audit and review reports as part of its responsibilities for the oversight of governance and control.

**POLICY IMPLICATIONS**

None.
RELEVANT CONSULTATION

The attached report includes management action plans which reflect the responses of management and staff responsible for the sale of fare media – Transit, Public Works Department.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

In 2009, the sale of bus tickets (children and adult) and passes (day, monthly and annual) generated approximately $24 million for the City’s Transit division. This fare media is sold through Ticket Agents who work for Transit at the Downtown GO Centre and independent third parties (i.e. variety stores, lottery huts and gas stations).

The audit identified opportunities for improved controls, increased managerial oversight and accountability and potential risk mitigation.

A formal audit report containing observations, recommendations and resulting management action plans was issued and is attached as Appendix “A” of Report AUD11001. Nine (9) recommendations were included in the Report and Addendum. They are as follows:

- Modification of daily transaction reports to reflect transaction dates (date occurred / date posted);
- Reconciliation of ticket agents’ counter sales to cash balancing records on a daily basis;
- Strict enforcement of cash deposit procedures;
- Adequate documentation for explaining adjustments made; a dollar threshold above which the adjustments are to be reported and approved by the Supervisor;
- Determination and standardization of appropriate cash float balances based on the level of activity of the ticket agents;
- Review of commissions entitlement to third party vendors selling fare media; and
- Establishment of a threshold for the investigation, documentation and approval of overages and shortages by the Supervisor.
ALTERNATIVES FOR CONSIDERATION
(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not applicable.

CORPORATE STRATEGIC PLAN  (Linkage to Desired End Results)


Financial Sustainability
• Delivery of municipal services and management of capital assets/liabilities in a sustainable, innovative and cost effective manner

APPENDICES / SCHEDULES

Appendix “A” to Report AUD11001

ap:dt
# OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN
---|---|---
1. **Cash Balancing and Reconciliation**

Most of the business handled by Ticket Agents at the HSR Ticket Office involves cash. The flow of fare media (tickets, passes and taxi script) from inventory to sales right up to the receipt of cash is tracked using a system called MAVIS. MAVIS captures a variety of time related information such as the actual transaction date (the ‘time stamp’ date) and the date the transaction is posted in MAVIS for balancing and reconciliation (the ‘posted’ date).

The Daily Transaction Report generated by MAVIS and used by Ticket Agents for balancing refers only to the posted date and does not show the time stamp date (the date the cash was actually received). As such, the integrity of Ticket Agents’ cash balancing records is compromised as transactions that are time stamped as having occurred on one day are posted into MAVIS a few days before or after the balancing date. Several instances were noted, where a day’s cash balancing records included funds received several days before or after the balancing date, raising the risk that prior and subsequent cash receipts may be used to cover rolling cash discrepancies.

The above discrepancies are exacerbated by the fact that although cash handling procedures require each day’s counter sales to be balanced daily, Ticket Agents generally do not balance daily counter sales for two or three days. During unplanned absences (such as when a Ticket Agent has taken time off due to illness), cash is kept for even longer periods in the Ticket Agents’ safe without being balanced or deposited.

The risk of fraud and the lapping of cash is increased if counter funds are not balanced to MAVIS daily sales reports each day.

**Recommendations**

- That the MAVIS Daily Transaction reports that are used for balancing be modified to reflect the date the transaction actually occurred as well as the date that it was posted.
- That Ticket Agents’ counter sales be reconciled to MAVIS cash balancing records on a daily basis.

**Agreed.** MAVIS will continue to be used until the Spring of 2011, at which time most transactions will be processed using the system provided by Presto. The programming change required to MAVIS will be investigated to determine its complexity. Should this be a simple change, programming will be updated by December, 2010. If it is not cost effective to implement the changes to the Daily Transaction Report generated by MAVIS as recommended, it is expected that the daily balancing to be implemented as indicated below would help mitigate the possible risk.

**Agreed.** This will require a rescheduling of staff hours and process efficiencies. Discussions will take place with staff and processes will be reviewed during the next few months with all changes being implemented by February, 2011.
<table>
<thead>
<tr>
<th>#</th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Weekly Banking</td>
<td>The Transit Division’s Ticket Office Cash Handling Procedures require that funds collected from the sale of Fare Media be deposited into the City’s bank by armoured car service once every week. It was noted that on several occasions Ticket Agents did not provide the week’s funds to the armoured car service which delayed the deposit by at least an additional week. During this period, the funds were kept in the Ticket Agents’ safe at the Ticket Office. Although, the Ticket Office is reasonably secure, the retention of large sums of cash for extended periods exposes the cash to the risk of theft and a possible manipulation of records to conceal misappropriation and discrepancies. This risk is increased considering that cash is not always balanced and checked daily as reported in item 1. above.</td>
<td>That the cash handling procedures requiring the weekly deposit of the Ticket Office funds be strictly enforced.</td>
<td>Agreed. This was completed on July 12, 2010. The armoured car service is now picking up deposits on a daily basis from the ticket office.</td>
</tr>
<tr>
<td>3. Support for Adjustments</td>
<td>Upon balancing cash balances and fare media stock, Ticket Agents are permitted to create adjustments within MAVIS if cash and fare media on hand does not agree with balances recorded in MAVIS. Comments explaining the reason for the adjustments must be provided for all adjustments processed. On several sampled transactions, it was noted that adjustments were either not explained or the comment provided by the Ticket Agent did not adequately explain the reason for the adjustment. There was no evidence that the adjustments were reviewed and approved by the Ticket Agents’ Supervisor. As Ticket Agents are responsible for receiving, balancing and depositing cash as well as processing adjustments, the risk of manipulation of records and concealment of cash discrepancies is increased if adjustments are not adequately explained and independently reviewed and approved by the Ticket Agents’ Supervisor.</td>
<td>That adequate comments explaining the reason for adjustments be provided at all times.</td>
<td>Agreed. To be implemented October 1, 2010.</td>
</tr>
<tr>
<td>#</td>
<td>OBSERVATIONS OF EXISTING SYSTEM</td>
<td>RECOMMENDATION FOR STRENGTHENING SYSTEM</td>
<td>MANAGEMENT ACTION PLAN</td>
</tr>
<tr>
<td>----</td>
<td>---------------------------------</td>
<td>----------------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>4.</td>
<td><strong>Cash Floats</strong></td>
<td>That management review cash float balances to determine the appropriate amount of float needed for the level of activity.</td>
<td>Agreed. It should be noted that one Ticket Agent is considered part-time. The cash float held by this employee is lower than the full-time Ticket Agents. Cash floats are currently under review. Some have been reduced to $1,000 so that they may be monitored to determine if this level will cause any issues. It is expected that the final level for operating floats will be $500. Once PRESTO is up and running, the floats will be evaluated again.</td>
</tr>
<tr>
<td></td>
<td>On occasion, third party vendors of Transit Fare media return large numbers of unsold bus passes and tickets for cash refunds, requiring Ticket Agents to maintain large cash floats. There is no consistency in the dollar value of the float assigned to the Ticket Agents as the amount varies even though the nature and value of transactions processed by the four agents is generally the same. There is, therefore, no reason why cash floats carried by the Ticket Agents should be different.</td>
<td>That, once the appropriate level of cash float has been determined, the cash float carried by the four agents be standardized.</td>
<td></td>
</tr>
</tbody>
</table>


ADDENDUM

The following items were noted during the course of the audit. Although they do not present internal control deficiencies, they are indicated in this Addendum so management is aware of the issues, risks and inefficiencies and can address them appropriately.

Errors

1. In order to encourage third party vendors to sell HSR fare media to the public, the City’s Transit division grants them a commission of 1% on the value of their sales. In the course of this review, it was noted that a volunteer organization that purchases tickets for use by its volunteers was also granted the 1% commission. As the organization is not a third party agent that resells the tickets to the public on behalf of the City, it should not have been extended the commission. It could not be determined how long this organization had been receiving the commission.

It is recommended:
That management ensure that commissions are extended only to third party vendors selling fare media on behalf of the City’s Transit Division.

Management Response:
Agreed. It is agreed that these types of vendors (volunteer organizations) should not be entitled to commissions. This vendor will be corrected immediately in MAVIS to prevent further commissions from being paid and all other vendors will be reviewed to ensure commissions are warranted.

Overage and Shortages

2. In most instances sampled, cash overages or shortages were reported by Ticket Agents. In one particular case, staff had an unexplained overage exceeding $1,500. Although staff appear to have made efforts to determine the cause of the overage, the results of staff's investigation were not documented nor was there evidence of review and approval by a supervisor for an adjustment. When large variances are not investigated and documented, reported and approved by a supervisor, there is a risk that the use of adjustments as noted in item 3. of the main report will be over-extended.

It is recommended:
That management establish a threshold above which overages and shortages are investigated and reasons documented for approval by the Supervisor.

Management Response:
Agreed. The Supervisor is currently notified daily of all adjustments made in MAVIS. The system generates an automatic email which details adjustments in media and cash, provides any comments and who did the adjustments. A threshold has been set at $100. The original daily documents will be reviewed and signed by the Supervisor once the threshold is surpassed. In addition, the daily email will be reviewed, signed and kept on file by the Supervisor. The Manager will be notified of any adjustments exceeding $250. To be implemented October 1, 2010.