

City of Mississauga **Internal Audit Report**

TRANSPORTATION AND WORKS DEPARTMENT
MIWAY TRANSIT DIVISION
TRANSIT REVENUE SECTION
PRESTO CARD REVENUE AUDIT

September 8, 2020

City Manager's Department
Internal Audit Division

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**TRANSPORTATION AND WORKS DEPARTMENT
MIWAY TRANSIT DIVISION
TRANSIT REVENUE SECTION
PRESTO CARD REVENUE AUDIT**

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KPMG LLP, Chartered Accountants, External Auditor

**Transportation and Works Department
MiWay Transit Division
Transit Revenue Section
Presto Card Revenue Audit**

BACKGROUND

Transit fares are a critical user fee revenue source for the City, generating \$88.8M in 2019 (\$86.5M in 2018), with Presto revenues representing \$69.5M in 2019 (\$60.8M in 2018) or 78 percent of total transit revenues. The Presto program automates and facilitates the management of transit fare collections for a number of transit agencies including MiWay.

The Presto program is an operating division of Metrolinx, a regional transportation authority for the Greater Toronto and Hamilton Area (GTHA). Metrolinx was created in 2006 as an agency of the Province of Ontario with the objective of leading the transformation of transportation in the GTHA into an integrated multi-model network. The City of Mississauga's MiWay Transit Division within the Transportation and Works Department implemented, and subsequently administers and manages the program under the terms of the agreement with Metrolinx.

Presto was introduced to replace a number of the Province's aging transit fare collection systems. The Presto system aims to provide a user-friendly fare payment system for all public transit customers and to minimize cash transactions and cash handling. The benefits of the program include efficiencies that support an increase in ridership and better customer service such as faster boarding times, easier transfers, cost savings and elimination of paper tickets.

The program was initiated as a pilot in 2011. The City's Presto card program has grown in terms of program usage adoption and revenues since then, and is entering its second agreement term with Metrolinx. On January 17, 2018, the City signed a new 10-year agreement, along with other transit agencies (York, Burlington, Brampton, Oakville and Durham), which will expire November 27, 2027 with an option to renew.

Presto card revenue was selected for an audit to ensure the program is running efficiently and effectively. Due to the amount of revenue and importance to the City's revenue stream, it is critical to have adequate controls and processes to ensure revenues are properly recorded, monitored and safeguarded. This audit focused on those controls.

The Presto program, including 500 MiWay buses, is supported by the following areas: Transit Revenue, Transit Data Systems, Transit Data Analytics, Transit Enforcement, Bus Operations, Transit Training, and 11 community centres.

SCOPE

The audit examined Presto card revenue generated in 2019, and included transactions from 2018 or earlier as required.

The audit focused on the service areas which support the Presto card revenue program. The

audit plan considered various legislative documents, agreements and contracts, Presto fare card administration, Presto equipment management, Presto ridership rates, Presto revenue accounting, Presto financial and operational reporting, transit fare control processes to support Presto fare evasion management, and facility processes selling and loading Presto cards.

The audit excluded assessment of Presto's back-end processes and financial systems which are covered within Presto's Canadian Standard on Assurance Engagements Report (CSAE3416 Type II SOC I).

The scope also excluded any work conducted by MiWay in its operations that are not related to management and administration of Presto cards, sales and revenues.

OBJECTIVES

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. The purpose of the audit was to ensure that:

- A) Applicable legislation and corporate and departmental policies and procedures are adhered to with respect to the revenue administration;
- B) Accounting for revenues is timely and accurate;
- C) Financial and operational reporting of revenues and ridership are timely and accurate;
- D) There are adequate safeguards and controls over equipment and fare cards;
- E) There are adequate control processes to assist with Presto fare evasion management.

SUMMARY OF OBSERVATIONS

This was the first comprehensive audit for the Presto card revenue program since implementation in 2011.

Two Transit-related audits were completed in 2012: Transit Tickets and Passes; and Transit Coin Room.

During the course of this audit, Internal Audit summarized the observations relating to the five (5) objectives listed above into thirteen (13) recommendations for improvement. Risks and controls were considered under each of the objectives, and the recommendations provided below range from high to medium priority. Internal Audit also identified a few additional process improvement recommendations which were provided to Transit in an internal communication. These process improvement recommendations will also help strengthen and benefit the program.

A detailed list of all observations for each recommendation, including opportunities for improvement, was provided directly to management of the areas involved.

The subsections below describe the main goals of our recommendations and a summary of the observations, while Appendix A outlines the detailed recommendations and the action plans proposed by management.

Transit Division and Corporate Finance work together to review and improve financial oversight and processes over transit revenue and accounting (Objectives B and C).

A number of accounting/revenue related observations were identified, ranging from opportunities for improvement to more significant inaccuracies. The major observations include:

- Understatement in the accounting for revenues of \$411K. Presto cash settlements/receipts for Presto reported transactions were properly received. However, the accounting for revenues was understated when compared to YTD Presto Revenue. This variance was primarily due to no reconciliation with the YTD Presto report and unreconciled monthly variances of \$465K charged to a clearing account.
- Unreconciled balance of \$33K in GL 201506-Presto Clearing account.
- Recovery billing errors to the Region of Peel for 50 percent of the Affordable Transit Program (ATP) - 2019 (\$34K under-billed) and 2018 (\$57K over-billed). The errors were due to no formal reconciliation with actual ATP sales.
- Revenues and expenses were charged to incorrect elements (e.g. Presto fare cards charged to rental equipment) and revenues charged to expense elements (e.g. Region of Peel ATP recoveries, Toronto Transit Commission (TTC) advertising revenue).

The root cause for these errors is that accounting processes, originally set up at the start of the program by Transit Revenue staff, have not been recently updated. As a result, small changes accumulated throughout the years and resulted in a complex process that has not been thoroughly analyzed or properly documented. The Transit Director also advised that this situation results from the fact that Transit does not currently have expert accounting support, either internally or through Corporate Finance.

Review, update, and regularly monitor all Presto-related agreements and ensure any deficiencies are investigated and addressed immediately (Objectives A, B, C, D).

There are a number of partnerships associated with the Presto card program: Metrolinx (main agreement), TTC (Route 52-Lawrence West), Region of Peel (50% of Affordable Transit Program [ATP]), and GO Transit (co-fare program through Metrolinx). The review highlighted that some of the requirements are not routinely monitored, with the most relevant items relating to:

- Various agreements for performance standards not being actively monitored on a regular basis, such as insurance requirements for both parties, Presto fare card shipping timelines, banking settlement terms, and annual Payment Card Industry (PCI) credit card certification.
- The TTC agreement, last executed in July 2009, does not reflect the change from manual to electronic fare recognition once vehicles enter the City of Mississauga borders, and the inclusion of transit advertising revenues.
- No formal agreement with Region of Peel on the Affordable Transit Program (ATP) administration and recoveries. (A Corporate Report was approved by Mississauga City Council (September 2017) to initiate the program with the Region of Peel.)

- No identified agreement with GO Transit regarding their co-fare subsidy funding to the City.

The observations highlight some concern regarding impacts on performance standards which may affect revenues and quality of service.

Expand operational analytics, monitoring and reporting to help guide financial and operational strategies (Objectives A, B, C, E).

The Transit Data Management Unit analyzes operations and generates reports on revenues and ridership. While reports focused on ridership and total revenues are routinely prepared, other reports that could better support management's analysis and decisions were not available.

Existing reports do not present a comprehensive analysis identifying sources of losses to enable measures related to loss control. The Transit Director advised that Transit often conducts ad hoc analyses when new programs are implemented, or when specific trends are identified. Ideally, such reports should be part of a periodic review of the overall performance of the division.

Additionally, reports do not include analysis of potential situations of data errors or non-compliance. For instance, Internal Audit noted that during 2019, 90 fare payments were incorrectly recorded as "children," which Transit later explained was due to data errors from Metrolinx.

The lack of monitoring situations as above could impair the quality of reporting and reduce management's ability to detect trends, deviations and emerging issues in a timely manner.

Ensure all invoices from Metrolinx and TTC are provided to Accounts Payable and processed in a timely manner (Objectives A and D).

The existing contracts with Metrolinx and the Toronto Transit Commission (TTC) include, among others, revenue administration, Presto equipment repairs, Presto fare card purchases, and TTC services provided to the City. There was concern regarding the administration of invoices, mainly regarding the following:

- Metrolinx and TTC invoices were being sent directly to Transit and at times not forwarded to Accounts Payable for processing, per best practices. Due to a credit balance on the TTC account/statement, invoices from mid-year 2018 to end of 2019 were retained in Transit and not sent to Accounts Payable for processing. This resulted in \$1.65M in unrecorded expenses and \$1.56M in unrecorded revenues in 2019.
- TTC fare revenues and operational expenses for 2018 and 2019 were applied on the same invoice; therefore, TTC fare revenues were netted against expenses understating both revenues and expenses for those years. The Director, Transit advised that the TTC billing to the City has been on a net basis (revenues and expenses) since agreement execution in 2009.

Transit corrected the processing of invoices in early 2020 and Finance prepared an accrual to correct the 2019 accounting records and financial reporting.

Enhance Standard Operating Procedures (SOP's) for daily processing and reconciliation activities to support training, backup and consistency (Objective E).

Eleven selected community centres, the City Centre Transit Terminal, and various Shoppers Drug Mart locations across Mississauga provide customer service and support for Presto card credit loads, Presto monthly passes, and new Presto card sales. Upon inspection of four of these centres and the transit terminals, our main observations were:

- Lack of a comprehensive set of standard operating procedures (SOP's) for critical tasks and processes which assist with training and service continuity. Existing SOP's were limited in content and detail and not widely distributed.
- Inconsistent validation of proof of age at concession locations. Proof of age is only enforced with post-secondary students and varies across the locations.

Not having an updated and thorough set of standard operating procedures in place could impact service continuity or result in inadequate training, inconsistency in processes, and increased probability of error.

Formalize a City contingency plan for Presto Operations, reviewed annually and signed off by Transit Management, as per the Metrolinx Agreement (Objective A).

The current agreement between the City and Metrolinx requires both parties to develop and maintain a contingency plan to ensure the continuity of services and processes relating to Presto. Contingency plans help ensure the continuity of service and data tracking when systems go down or when there is an emergency event that impacts operations.

Internal Audit noted that some contingency instructions do exist on the City side, guiding the responses for when the Presto system was inoperable or impacted (i.e. what would they do if the Presto system was not working, how would they record lost revenues, etc.); however, these instructions have not been included as part of a formal contingency plan, which would ensure a thorough analysis of potential situations, periodic testing, and training for all involved employees.

Recent emergency events (climate disasters, accidents, pandemics, etc.) have placed stronger emphasis on establishing contingency plans for service continuity and support during an event. While the City's responsibility related to Presto is limited, the City is the customer-facing node of this network and therefore might be impacted by any issue related to Presto from a customer service and revenues perspective.

Standardize processes and controls over fare cards and operational cards including administration, inventory, security, distribution, and reconciliation (Objective D).

The Presto system operation is based on fare cards (the Presto card used by riders to load credits and pay for rides) and operational cards (used by employees for administrative tasks in the system). Fare cards are purchased and managed by the Transit Revenue section and distributed through 11 community centres, the City Centre Transit Terminal, and Transit Marketing. Promotional cards are at times pre-loaded with credit and distributed for free to encourage and promote ridership within the City. Internal Audit identified a few observations to improve operations and management of these cards, which include:

- Both fare cards and operational cards were stored insecurely at all locations.
- Transit Marketing through Transit Revenue pre-loads promotional cards (usually, but not always, small amounts - approximately 1,781 cards valuing \$5,500 in 2019). The MiWay Ambassador program includes cards with pre-paid amounts up to \$999. However, a procedure on the cost and distribution of those cards has not been implemented.
- There were no inventory log records (i.e. serial numbers) for various types of cards held at the different facilities, except Transit Revenue.
- Some serial numbers were missing on log sheets – these numbers are useful for tracking and audit purposes.

In addition, the physical and administrative processes around those cards (e.g. inventory control, security of cards) were not consistent across the different facilities.

Correct Harmonized Sales Tax (HST) treatment on the sale of fare cards (Objective A).

Canada Revenue Agency (CRA) guidelines state that charges related to municipal transit services, including the sale of fare cards like the Presto card, are exempt for the purposes of the Harmonized Sales Tax (HST). HST had been applied in error within the CLASS system on all new card sales since 2014. HST of 69 cents was backed out of each \$6 new Presto card sale and remitted to the CRA, resulting in a loss to the City of approximately \$115K for the period 2016 to present (CRA 4-year limitation period).

Internal Audit also noted that the presentation and wording regarding HST application within the Fees and Charges By-law may be subject to interpretation or application errors. Transit-related fees are included in the annual Fees and Charges By-law at face value, without providing specific guidance with regard to the treatment of HST. In a separate section, the by-law states that the fees and charges may be subject to HST, but falls short on either providing specific instructions or establishing the accountability for the HST treatment determination.

Enhance controls around Presto equipment inventory and maintenance (Objective D).

The Transit Equipment Maintenance Section is responsible, among other items, for managing equipment inventories and repairs, including Presto equipment for both buses and facilities. Properly functioning Presto equipment is critical to the recording of Presto revenues. Internal Audit identified a few observations to improve operations. The major observations include:

- An outdated, manual inventory tracking system that was implemented 10 to 15 years ago.
- Lack of standard operating procedures regarding the administration and maintenance of the equipment inventory log, storage and disposal of spare and obsolete inventory, and administration of Vehicle Complaint Report (VCR) forms.
- No formal inventory counts on Presto equipment and buses against the inventory databases.
- Broken, obsolete, or unusable equipment still in inventory.
- Excel inventory log does not identify the age of equipment for replacement.
- Monitoring of trends of Presto equipment repairs is not performed on a regular basis.

Note that Internal Audit did not review the inventory process and system as a whole; the audit was focused on controls around Presto equipment.

Transit management advised that, as a result of the new operating agreement with Metrolinx, the maintenance and control of Presto equipment will move to Metrolinx during 2020. The Division is currently refreshing the existing equipment, and upon completion of this process, the equipment will no longer be owned or maintained by the City.

CONCLUSION

Based on our observations, Internal Audit opinion is that the control environment around the administration of Presto cards, revenue, and equipment is adequate, but presents some opportunities for improvement and control enhancement that will correct a few accounting/invoice issues, enhance analytics and improve governance of the process.

A total of 13 recommendations resulted from this audit. The table below summarizes the recommendations by classification and priority.

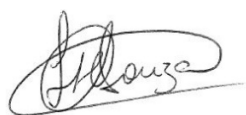
Classification	High	Medium	Total
Efficiency and Effectiveness	0	1	1
Compliance with and Clarification of Corporate Requirements	0	5	5
Operational Control and Financial Reporting	2	1	3
Safeguarding of Assets and Information	0	4	4
Total	2	11	13

Details of the audit recommendations and management comments can be found in Appendix A.

Management has agreed to all the recommendations.

- One (1) has been completed.
- Two (2) are targeted for completion by end of December 2020.
- Three (3) are targeted for completion by end of March 2021.
- Four (4) are targeted for completion by end of June 2021.
- Three (3) are targeted for completion by end of December 2021.

Internal Audit would like to thank the Director, Transit and his team, along with Community Services and Finance management for their time, support, and assistance during this audit.



Luis H. Souza, CPA, CMA, CIA
Director, Internal Audit

Auditor: Mark Beauparlant
Senior Internal Auditor

Rec	Recommendation	Priority (H/M/L)	Comments/Status	Classification
1	That Transit Division and Corporate Finance work together to review, update and improve financial oversight and document the Transit Presto revenue accounting processes.	H	<p>Transit and Corporate Finance will review the revenue accounting processes, adjust and correct the observations raised by Internal Audit, and develop standard operating procedures that will assist in reconciling and reviewing Presto revenues on a regular basis.</p> <p>To be completed by June 30, 2021</p>	Operational Control and Financial Reporting
2	That Transit Operations review, update, and regularly monitor all Presto-related agreements and ensure any deficiencies are investigated and discussed with Metrolinx as soon as identified.	M	<p>MiWay will review the Presto Agreement and establish a process to ensure insurance certificates are current and to review Metrolinx's compliance with the contract.</p> <p>To be completed by June 30, 2021</p>	Compliance with and Clarification of Corporate Requirements
3	That Transit Operations initiate discussions to establish formal agreements with the Region of Peel (ATP Program) and GO Transit (co-fare program).	M	<p>Transit will initiate discussions for a review of the TTC contract, implementation of an ATP agreement with Peel Region and discuss a co-fare agreement with Metrolinx. Action is dependent on the counterparties agreeing to proceed.</p> <p>To be completed by December 31, 2021</p>	Compliance with and Clarification of Corporate Requirements

4	That the Transit Data Management Unit within the Transit Service Development Section expand operational analytics, monitoring and reporting in the following areas: fees and rates, agreement standards, and loss control.	M	Transit agrees with the recommendation. To be completed by December 31, 2021	Operational Control and Financial Reporting
5	That Transit Operations work with Accounts Payable and the partner agencies on the proper handling and treatment of invoices and credit notes. Consideration should be given to the creation of an internal checklist for processed invoices and goods receipts to minimize the risk of duplicate payment submissions.	H	Completed.	Operational Control and Financial Reporting
6	That Transit initiate a review of standard operating procedures at community centres, Transit Terminal, Transit Revenue, and Transit Marketing, and ensure all critical tasks regarding fare card management, proof of age, and sales reporting to support training, backup, and consistency are described with sufficient detail.	M	Transit agrees with the recommendation and will consult with Recreation in the development of Presto card sales procedures in community centres. To be completed by June 30, 2021	Efficiency and Effectiveness
7	That Transit Operations develop a formal contingency plan related to Presto operations, including detailed scenario analysis, periodic testing and training. Transit should also periodically seek assurances from Metrolinx on all roles and responsibilities during an event.	M	Transit agrees with the recommendation. This will be included in the MiWay Business Continuity Plan. To be completed by December 31, 2021	Safeguarding of Assets and Information
8	That Transit, together with the Recreation Division, standardize processes and controls over fare cards and operational cards, including administration, inventory, security, distribution, and reconciliation. Specifically, signatures must be required from the recipients of high-value promotional cards. In particular, the inventory log should be two-fold: a) When staff receive the cards, they should validate that they receive the right amount (e.g. 50 cards per batch), the correct serial numbers (e.g. card 1 serial	M	Transit agrees with the recommendation and will consult with Recreation in the development of the process to manage operational and fare cards. Signature will be required for all promotional cards over \$20 and the inventory process will include that logs are recommended. To be completed by June 30, 2021	Safeguarding of Assets and Information

	<p>#, card 50 serial #), who received the cards, who delivered the cards, and delivery date.</p> <p>b) When cards are sold, the inventory log should identify which card was sold, (e.g. by serial #), date it was sold, and who sold it.</p> <p>The inventory sold at facilities must be reconciled during the end-of-day close process and counted on a periodic basis.</p>			
9	That the Transit Revenue Section, in conjunction with Corporate Finance, establish a procedure to determine and implement the proper HST application, and ensure HST is correctly applied within billing/sales systems on an annual basis and when new fees are introduced.	M	<p>A standard operating procedure will be developed.</p> <p>To be completed by March 31, 2021</p>	Compliance with and Clarification of Corporate Requirements
10	That the Transit Revenue Section work with Corporate Finance/Accounts Payable (AP) on the recovery of HST errors, including the eligible period for recovery.	M	<p>Corporate Finance agrees to the recommendation.</p> <p>To be completed by March 31, 2021</p>	Compliance with and Clarification of Corporate Requirements
11	That Accounts Payable develop documentation available to all City departments on how to determine HST applicability for fees and charges, and that this be reviewed annually as part of the fees and charges update.	M	<p>A standard operating procedure will be developed.</p> <p>To be completed by March 31, 2021</p>	Compliance with and Clarification of Corporate Requirements
12	That Transit Maintenance continue to implement the equipment refresh and transfer the responsibilities to Metrolinx. In parallel, that Transit review the existing inventory to identify equipment that can be disposed of or returned to Metrolinx.	M	<p>The new operating agreement moves us to a fully managed service upon device refresh and MiWay is no longer responsible for Presto device maintenance.</p> <p>Device refresh commences July 22 and will be complete by year end. Additional time will be required because the Presto Maintenance System will be in an immature state. Existing equipment and</p>	Safeguarding of Assets and Information

			<p>parts will be sent for disposal. Metrolinx will own the spare inventory/parts so device tracking will have to be conducted on their platform.</p> <p>To be completed by September 30, 2021</p>	
13	<p>That Transit review its inventory log system in Excel, and consider an upgrade to management software better suited to its needs.</p> <p>Additionally, that Standard Operating Procedures (SOP's) be developed for the administration and maintenance of the equipment inventory log, storage and disposal of spare and obsolete inventory, and administration of VCR forms, and that the SOP's are approved by management annually.</p>	M	<p>Transit has recently implemented Enterprise Asset Management software (May 2020) for its rolling stock asset management. Additional time will be required to work with the vendor on system capability. It is our intention to bring all on-board equipment into this program for asset management purposes.</p> <p>To be completed by December 31, 2021</p>	Safeguarding of Assets and Information