

**CITY OF HAMILTON**

**CITY MANAGER'S OFFICE**  
**Audit Services Division**

<b>TO:</b> Chair and Members Audit, Finance and Administration Committee	<b>WARD(S) AFFECTED:</b> CITY WIDE
<b>COMMITTEE DATE:</b> March 19, 2012	
<b>SUBJECT/REPORT NO:</b> Follow Up of Audit Report 2010-04 - Transit Ticket Agents (AUD12006) (City Wide)	
<b>SUBMITTED BY:</b> Ann Pekaruk Director, Audit Services City Manager's Office	<b>PREPARED BY:</b> Ann Pekaruk 905-546-2424 x4469
<b>SIGNATURE:</b>	

**RECOMMENDATION**

That Report AUD12006, respecting the follow up of Audit Report 2010-04, Transit Ticket Agents, be received.

**EXECUTIVE SUMMARY**

Audit Report 2010-04, Transit Ticket Agents, was originally issued in January, 2011 and management action plans with implementation timelines were included in the Report. In January, 2012, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Of the nine recommendations agreed to by management in the original Report and Addendum, five have been completed and four are in progress.

***Alternatives for Consideration – Not Applicable***

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

**Financial:** None

**Staffing:** None

**Legal:** None

**HISTORICAL BACKGROUND** (Chronology of events)

Audit Report 2010-04, Transit Ticket Agents, was originally issued in January, 2011. The Report provided nine recommendations identifying areas for improvement with administering and accounting of funds processed by Transit's own ticket agents as well as those collected by third parties.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following issuance of the original report in order to determine whether action plans committed to by department management have been implemented.

**POLICY IMPLICATIONS**

None.

**RELEVANT CONSULTATION**

The results of the follow up were provided to management responsible for the sale of fare media – Transit, Public Works Department.

**ANALYSIS / RATIONALE FOR RECOMMENDATION**

(include Performance Measurement/Benchmarking Data, if applicable)

The report attached as Appendix "A" to Report AUD12006 contains the first three columns as originally reported in Report 2010-04 along with an added fourth column indicating Internal Audit's comments as a result of the follow up work. The original Addendum section containing two recommendations also contains follow up comments.

Five of the nine recommendations have been fully implemented. These are: 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 daily cash deposits; and the determination and standardization of appropriate cash float balances based on the level of activity of the ticket agents.

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The four in progress recommendations include: the provision of adequate documentation for explaining adjustments made; thresholds above which the adjustments are to be reported and approved by the Supervisor (no threshold exists for fare media quantity adjustments); review of commissions entitlement to third party vendors selling fare media; and the supply of adequate explanations for overages and shortages by the Ticket Agents for Supervisor review.

**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)**

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

***Financial Sustainability***

- ◆ Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner.

**APPENDICES / SCHEDULES**

Appendix "A" to Report AUD12006: Audit Report 2010-04

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**CITY OF HAMILTON  
INTERNAL AUDIT REPORT 2010-04  
TRANSIT TICKET AGENTS  
FOLLOW UP**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (JANUARY 2012)
1.	<p><b><u>Cash Balancing and Reconciliation</u></b>            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).</p>			

**TRANSIT TICKET AGENTS  
FOLLOW UP – JANUARY 2012**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (JANUARY 2012)
1.	<p><b><u>Cash Balancing and Reconciliation (Cont'd.)</u></b></p> <p>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.</p>	<p>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.</p>	<p>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 Dec. 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.</p>	<p>Completed. The MAVIS Daily Transaction report was modified and now contains the date the transaction actually occurred and the date the transaction was posted in MAVIS.</p>

**TRANSIT TICKET AGENTS  
FOLLOW UP – JANUARY 2012**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (JANUARY 2012)
1.	<p><b><u>Cash Balancing and Reconciliation (Cont'd.)</u></b></p> <p>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.</p> <p>The risk of fraud and the lapping of cash is increased if counter funds are not balanced to MAVIS daily sales reports each day.</p>	<p>That Ticket Agents' counter sales be reconciled to MAVIS cash balancing records on a daily basis.</p>	<p>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 Feb. 2011.</p>	<p>Completed. Ticket Agents consistently reconcile their counter sales to MAVIS cash balancing records on a daily basis.</p>

**TRANSIT TICKET AGENTS  
FOLLOW UP – JANUARY 2012**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (JANUARY 2012)
2.	<p><b><u>Weekly Banking</u></b></p> <p>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.</p> <p>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.</p>	<p>That the cash handling procedures requiring the weekly deposit of the Ticket Office funds be strictly enforced.</p>	<p>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.</p>	<p>Completed. Ticket Office funds are consistently deposited on a daily basis.</p>

**TRANSIT TICKET AGENTS  
FOLLOW UP – JANUARY 2012**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (JANUARY 2012)
3.	<p><b><u>Support for Adjustments</u></b></p> <p>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.</p> <p>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.</p>	<p>That adequate comments explaining the reason for adjustments be provided at all times.</p>	<p>Agreed. To be implemented Oct. 1, 2010.</p>	<p>In Progress. Ticket Agents and the Supervisor do not always provide adequate written comments or explanations with respect to adjustments.</p>



**TRANSIT TICKET AGENTS  
FOLLOW UP – JANUARY 2012**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (JANUARY 2012)
3.	<p><b><u>Support for Adjustments (Cont'd.)</u></b> 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.</p>	<p>That management set a dollar threshold above which adjustments must be reported to and bear evidence of approval by the Supervisor.</p>	<p>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 indicates 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 Oct. 1, 2010.</p>	<p>In Progress. A MAVIS adjustments report is generated and emailed to the Supervisor daily which is reviewed and initialled. The Supervisor also reviews and initials the supporting documentation for adjustments greater than \$100. The Manager is notified of any adjustments greater than \$250. No thresholds exist for fare media (tickets and passes) quantity adjustments identified in the MAVIS adjustments report.</p>

**TRANSIT TICKET AGENTS  
FOLLOW UP – JANUARY 2012**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (JANUARY 2012)
4.	<p><b><u>Cash Floats</u></b> 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.</p> <p>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.</p>	<p>That management review cash float balances to determine the appropriate amount of float needed for the level of activity.</p> <p>That, once the appropriate level of cash float has been determined, the cash float carried by the four agents be standardized.</p>	<p>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.</p> <p>Agreed. To be implemented Dec. 15, 2010.</p>	<p>Completed. A till cash float of \$300 was deemed appropriate by management and is reviewed on a periodic basis to ensure that floats are kept at a minimum and sufficient to meet activity levels.</p> <p>Completed. All Ticket Agents are assigned a \$300 till cash float for normal daily cash handling activities.</p>

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INTERNAL AUDIT REPORT 2010-04  
TRANSIT TICKET AGENTS  
FOLLOW UP**

**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.***

***Follow Up Comment:***

***In Progress. The vendor identified in the original audit is no longer receiving a sales commission. Internal Audit identified two additional vendors who should not be receiving commissions. Processes in place to periodically review commission eligibility for the existing vendor list and setup of new vendors are not adequate to detect errors.***

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.

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***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.***

***Follow Up Comment:***

***In Progress. A MAVIS adjustments report is generated and emailed to the Supervisor daily. The Supervisor reviews and initials the report. The Supervisor also reviews and initials supporting documentation for adjustments greater than \$100. The Manager is notified of any adjustments greater than \$250.***

***Adjustments reports are consistently signed by the Supervisor but adequate comments or explanations with respect to overages and shortages are not always provided by the Ticket Agents.***

***Note that no thresholds have been set for media quantity adjustments.***