

**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> Audit Report 2011-11 - PRESTO - Financial Controls (AUD12002) (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**

- (a) That Report AUD12002 respecting Audit Report 2011-11, PRESTO – Financial Controls, be received;
- (b) That the Management Action Plans as detailed in Appendix “A” of Report AUD12002 be approved; and
- (c) That the General Manager of Public Works be directed to instruct the appropriate staff to have the Management Action Plans (attached as Appendix “A” to Report AUD12007) implemented.

**EXECUTIVE SUMMARY**

The 2011 Internal Audit work plan approved by Council included an audit of PRESTO – Financial Controls. In 2011, the new fare card system (branded PRESTO) became operational in Hamilton. It is expected to replace monthly passes and tickets and provide transit customers with the ability to travel on different transit services in the Greater Toronto Area (GTA) and Hamilton using the same PRESTO card. As most of the financial aspects of fare administration and revenue allocation are with a third party, internal processes were reviewed as to their effectiveness in ensuring the City receives its share of transit revenues.

The results of the audit are presented in a formal Audit Report (2011-11) containing observations, recommendations and management responses. Audit Report 2011-11 is attached as Appendix “A” to Report AUD12002.

**Alternatives for Consideration – Not Applicable**

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

**Financial:** None.

**Staffing:** None.

**Legal:** None.

**HISTORICAL BACKGROUND** (Chronology of events)

In May 2011, the new fare card system (branded PRESTO) became operational in Hamilton. With the use of PRESTO cards, transit customers can travel on different transit services within the GTA – Hamilton and Ottawa areas. The revenue generated by riders using these cards on the HSR is tracked through the PRESTO system and amounts owing are deposited to the HSR bank account. The City relies on the accuracy of the PRESTO system to ensure the correct amounts are remitted.

The audit was scheduled as part of the 2011 Internal Audit work plan approved by Council. The audit fieldwork was completed in November 2011. The results of this audit are attached as Appendix “A” of Report AUD12002.

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**

Appendix “A” to Report AUD12002 includes action plans provided by management of Transit (HSR), part of the Transportation, Energy and Facilities Division of the Public Works Department.

**ANALYSIS / RATIONALE FOR RECOMMENDATION**

(include Performance Measurement/Benchmarking Data, if applicable)

PRESTO cards are either purchased from the HSR ticket office or directly through the PRESTO website. The customers must load selected dollar values onto their cards prior to first uses and must reload the cards as more funds are needed. The HSR Ticket Office collects funds from customers as values are loaded onto cards and deposits these funds into the bank. The PRESTO system tracks this revenue and withdraws it from the HSR bank account.

When boarding buses or trains, customers tap their cards on a fare payment device which calculates the correct fares and deducts them from the riders’ card balances. The transactions are transmitted wirelessly to the PRESTO computer system which determines the amount of revenue generated by riders using the cards on the HSR.

The earned revenue is deposited daily into the HSR bank account. The first five months of operation of the PRESTO card system generated approximately \$210,000 of fare revenue.

The audit set out to assess that controls are in place to ensure the accuracy of the withdrawals and deposits in the HSR bank account and internal procedures are effective in determining the City receives its share of transit revenues.

A formal Audit Report (2011-11) containing observations, recommendations and resulting management action plans was issued. Two recommendations were included in Audit Report 2011-11 (attached as Appendix "A" of Report AUD12002). They were:

- Decrease the number of daily bank transactions in order to reduce the time spent on reconciliations and lessen the amount of bank charges; and
- Create concession fare cards for students and children that can be used immediately upon their sale.

Management and staff have agreed to implement the recommendations. Specific action plans can be found in the attached Audit Report.

#### **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 AUD12002: Audit Report 2011-11

ap:tk

**CITY OF HAMILTON  
INTERNAL AUDIT REPORT 2011-11  
PRESTO – FINANCIAL CONTROLS AUDIT**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
1.	<p><u>Bank Reconciliation Process</u></p> <p>A large number of electronic deposits and withdrawals are made by PRESTO to the City's bank account. The bank's transaction statement is often 10 to 15 pages long with up to 230 transactions per day. Many of the transactions are for small amounts (sometimes as little as a few cents) with limited information explaining the deposit or withdrawal. As a result, the reconciliation of bank transactions carried out by Finance and Administration is very time consuming. In addition, the large number of transactions has resulted in bank service charges of \$10,900 between June and October, 2011.</p>	<p>That HSR management work with PRESTO to reduce the number of individual transactions made to one withdrawal and one deposit per day. PRESTO should then provide reports detailing the transactions.</p>	<p>Agreed. HSR management will work with PRESTO to reduce the number of electronic deposits and withdrawals. Target completion: December 2012.</p>
2.	<p><u>The Sale of PRESTO Concession Fare Cards</u></p> <p>PRESTO does not offer a card strictly for students or children who are charged a reduced fare (i.e. concession fare card). A customer wanting a concession fare must purchase a regular PRESTO card at the Ticket Office and register it as a concession fare card online. The customer must then wait 24 hours before using the card to allow the PRESTO card readers on the buses to recognize it as a concession card so that the proper lower fare is charged. Currently, in an effort to enhance customer service, HSR staff pre-register a minimal quantity of concession cards that can be used immediately. However, this action creates weaker cash controls in that card sales do not match cash receipts due to timing differences, providing opportunities for potential lapping of funds.</p>	<p>That HSR management work with PRESTO to create concession fare cards for students and children that can be used immediately upon their sale.</p>	<p>Agreed. PRESTO is currently working on programming to allow the concession to be set without registration. The release of the software update is expected for June 2012.</p>