

APPENDIX 1

PARKS, FORESTRY AND RECREATION DIVISION – CONTROLS OVER FERRY SERVICE REVENUE NEED STRENGTHENING

January 15, 2010



Auditor General's Office

**Jeffrey Griffiths, C.A., C.F.E.
Auditor General
City of Toronto**

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
BACKGROUND	3
AUDIT OBJECTIVES, SCOPE AND METHODOLOGY	4
AUDIT RESULTS	5
A. REVENUE COLLECTION PROCESSES REQUIRE STRENGTHENING	5
A.1 Management Evaluate Alternate Payment Methods	5
A.2 Cash Reconciliation Process Requires Strengthening.....	6
B. INFORMATION PROCESSING SYSTEM REQUIRES SIGNIFICANT CHANGES AND UPGRADES	7
B.1 Lack of Integration of Point of Sale System with Other Information Technology Systems	8
B.2 Lack of User Documentation and Software Support Agreement.....	10
B.3 Need to Automate Ticket Inventory and Ticket Cancellation and Refund Processes	10
C. VALIDATION OF FERRY TICKETS	12
D. INADEQUATE CONTROLS IN BILLING AND COLLECTION OF OUTSTANDING REVENUES	14
E. INFORMATION TECHNOLOGY CONTROLS REVIEW	14
CONCLUSION	15

EXECUTIVE SUMMARY

Why we conducted this audit

The Auditor General's Annual Audit Work Plan included a review of the City's major revenue billing, collection and related processes.

The intent in including the audit of revenue sources in the work plan was to systematically address various City revenue streams over a period of time.

Up to this point, we have conducted audit work on parking tag revenues. A report on parking tag revenues was issued in January 2010. Further work in progress relates to revenue from land transfer taxes. This report will be issued later in 2010.

Included in our work plan is a review of revenue collected in relation to the Toronto Island ferry service. Ferry services are operated by the Marine Operations Unit, a unit within the Parks, Forestry and Recreation Division.

Due to the fact that much of the revenue collected from ferry service is in the form of cash, it was determined that this area should be selected for audit.

Ferry service revenue more than \$6 million

Ferry service revenues are highest during summer months due to the significant increase in passengers visiting the island parks during this period. In 2008, ferry service revenues amounted to \$6.5 million. In 2009, revenues declined to \$4.1 million. The decrease in revenue was primarily due to the City's labour disruption during the 2009 peak season summer months. A third party operator provided alternate ferry service for Toronto Island residents only. The service operated on a reduced schedule during the labour disruption.

Over 90 per cent of revenue collected in cash

The use of debit and credit cards is limited as cash accounts for over 90 per cent of ferry service revenue.

There is a need to minimize cash collection by exploring other payment options

Expanding payment options including debit and credit cards, installing additional debit/credit capable ticket vending machines, and enabling Web-based ticket sales would strengthen ticket sale controls and improve the accounting process.

The existing information technology system is over ten years old and is not compatible with current information processing needs

The existing point of sale system is over ten years old. Manual revenue and cash reconciliation processes are necessary due to limited system capabilities.

Several financial and accounting related processes, such as the control of ticket inventory, control of cancelled tickets and refunds as well as ticket and cash reconciliations are outdated, time consuming and require significant manual processing. These manual processes often result in errors and increase the risk of abuse.

The management of receivables needs improvement

The billing and collection of receivables requires attention and is an area where improvements are required. While the extent of receivables is not significant, we estimate that approximately \$50,000 remains outstanding from ferry services provided from 2008 to the present. There is no formal process in place to follow up on these outstanding receivables.

We have provided 10 recommendations for strengthening financial and accounting controls over ferry service revenues. Certain of our recommendations relate to the replacement or upgrading of the current information technology system. We recognize that the implementation of these recommendations is dependent on the development and review of an appropriate business case by the division and project approval.

Finally, the Auditor General has issued a separate letter to management detailing other less significant and operational issues that came to our attention during the audit. These issues related to reconciliation of monthly passes, vehicle transportation controls and certain cash handling practices.

BACKGROUND

The Marine Operations, a unit within the Parks, Forestry and Recreation Division, operates the ferry service to transport passengers and vehicles between Toronto Harbourfront and the Toronto Islands. The ferry provides the following services:

- Daily public transportation to and from island parks including transportation of Toronto Island Residents as mandated by the Province.
- Transportation to support concessions and partners operating on the Islands.
- Transportation to charter groups, special events and functions.
- Transportation support to various City divisions including Toronto Police Service, Fire Services and Toronto Water.

Over one million passengers served annually

The ferries carry over one million passengers annually to Toronto Islands on four passenger ferries and one workboat for passengers and vehicles. The majority of these passengers utilize ferry service during the peak months of June, July and August. Passenger numbers have been relatively constant over the past several years. During the fall and winter months from October to April, the Marine Operations Unit operates ferries on a reduced schedule.

The Marine Operations Unit collects annual revenue of over \$6 million.

The Marine Operations Unit collects annual revenue of over \$6 million.

Ferry service tickets are available using seven ticket sale counters. Currently, only one sales counter has debit and credit card payment capability while the other six sales counters accept cash only. In addition, there are three ticket vending machines. Two vending machines are cash only and one is debit and credit card capable.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Why we conducted this review

The Auditor General's 2009 Audit Work Plan included a review of the City's major revenue billing, collection and related processes. We selected a review of ferry service revenue because of the significant amount of cash collected.

Objectives of the review

The objectives of our review were to determine the adequacy of controls over the administration and collection of ferry service revenues and in particular:

- controls on collection and processing of ferry service revenue.
- controls on follow-up of outstanding revenues.

This review focused on ferry service revenue collection processes administered by the Marine Operations Unit and the Financial Reporting and Accounts Receivable Unit of the Parks, Forestry and Recreation Division and related bank reconciliations performed by Corporate Finance.

Scope limitation

The scope of our review included revenue collection processes in place during 2009. The Marine Operations Unit does not track and maintain cumulative records of cash and sales variances. Consequently, we were unable to review accumulated cash and sales variances for the current year and previous years.

Steps in the review

Our audit methodology included:

- Review of Marine Operations' policies and procedures
- Review of Council reports
- Review of documents and procedures
- Interviews with Marine Operations staff and various staff of related City Divisions
- Review of information technology systems, processes and related data maintained by Marine Operations and Financial Reporting and Accounts Receivable Unit

- Observation of ticket sale processes, dock procedures and security videos relating to cash collection and dock procedures
- Interviews with the related vendors.

We conducted this audit in accordance with generally accepted government auditing standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

A. REVENUE COLLECTION PROCESSES REQUIRE STRENGTHENING

A.1 Management Evaluate Alternate Payment Methods

Over 90 per cent of revenue collected is cash

During 2009 and 2008, annual ferry service revenue was \$4.1 and \$6.5 million respectively. The decline in revenue in 2009 was due to the City’s labour disruption. The Marine Operations Unit collects revenues through seven sales counters and three ticket vending machines. Only one sales counter and one vending machine have debit and credit card capability. The remaining six sales counters and ticket vending machines are cash only.

According to management, ticket sales are primarily on a cash basis because transactions are usually under \$20 and most patrons prefer to pay cash. Therefore, management has continued the practice of accepting cash fares.

Accepting cash as a major source of payment requires extensive cash counting, handling and reconciliation

Accepting cash as a major source of payment requires extensive cash counting, handling and reconciliation. Excessive cash handling also carries the risk of error and the potential for misappropriation.

Because the ferry service is essentially a cash operation, the Marine Operations Unit maintains significant cash on hand to meet the ongoing need for different denominations of bills and coins in peak season. Cash is held in a safe and bank deposits are made on a daily basis.

Management has implemented a number of controls to administer and reconcile revenue collected. However, these controls require strengthening.

Alternative payment options including debit and credit cards, and web-based ticket sales should be considered

In order to minimize the risk of error, reduce cash on hand, and minimize the risk of misappropriation, alternative payment options including the use of debit and credit cards, and Web-based ticket sales should be considered.

Recommendation:

- 1. The General Manager, Parks, Forestry and Recreation, in consultation with the Chief Information Officer, evaluate options for alternative payment methods including the use of debit and credit cards at sales counters and vending machines, as well as Web-based sales.**

A.2 Cash Reconciliation Process Requires Strengthening

Revenue collection systems routinely incorporate a reconciliation process. The reconciliation process is an important control as it compares revenue collected with sales over a specific period. Differences between actual revenue collected and sales records can occur for a variety of reasons including unintentional errors in counting revenue or data entry errors. Differences can also occur because of intentional abuse, error or misappropriation. Routine reconciliations determine differences between revenue collected and sales records so that variances can be investigated and corrected.

The cash reconciliation process is a time consuming process

The Marine Operations Unit does not have a formal documented procedure for daily cash reconciliation. The reconciliation process is manual and time consuming. Staff do not routinely investigate or accumulate daily cash variances by month or year. As such, information is not available to determine if revenue losses occur and, if so, to what extent.

Automating the reconciliation process would improve reporting and tracking of cash and sales variances

Automated reconciliations would improve reporting and tracking of variances in cash and sales. Our review of cash reconciliations for the month of August 2009 noted the following:

- Cash shortages and variances are not fully explained on a consistent basis.
- Managers and supervisors do not routinely approve daily reconciliations and explanatory variance memos prepared by staff.

Recommendation:

- 2. The General Manager, Parks, Forestry and Recreation, develop an automated cash reconciliation process. The process should include daily variance tracking of cash shortages and overages, and should report accumulated variances by month, year and cashier. The process should also provide for investigation and reconciliation of unusual variances. Mandatory supervisory review should include sign-off on all reconciliations and variances. Variance reports should be retained in accordance with required record retention time frames.**

B. INFORMATION PROCESSING SYSTEM REQUIRES SIGNIFICANT CHANGES AND UPGRADES

The Marine Operations Unit uses a legacy point of sale system acquired in 1998

The Marine Operations Unit uses a legacy point of sale system for processing ferry ticket sales and revenue collection. The point-of-sale system was acquired in 1998. The system is now over ten years old and is not compatible with current information processing needs.

Our review of the existing point of sale system identified the following:

- Lack of integration of ferry service point of sale system with other City information technology systems.
- Lack of user documentation and software support agreement.
- Need to automate ticket inventory and ticket cancellation and refund processes.

B.1 Lack of Integration of Point of Sale System with Other Information Technology Systems

Debit and Credit Card Payment System

The point of sale system is not integrated with the existing debit and credit card system

The point of sale system does not integrate with the existing debit and credit card payment system. This lack of integration makes it difficult and time consuming to reconcile debit and credit card transactions with total revenue collected and occasionally results in payment variances and errors.

We noted unexplained variances during our sample review of transactions. The Marine Operations Unit does not accumulate daily variances, therefore, we were unable to determine monthly and year-to-date sales variances.

Lack of Integration with the City's Financial System and Redundant Bank Reconciliation Process

The point of sale system is not integrated with the City's SAP financial system. Marine Operations staff submit manually prepared revenue reconciliations and sales summaries along with bank deposit information to the Parks Forestry and Recreation Division, Financial Reporting and Accounts Receivable Unit. This unit is unable to reconcile ferry service revenues with bank deposits due to the lack of access to the point of sale system. Revenue recorded is based on bank deposit slips.

The lack of independent verification of revenue with bank deposits is not an acceptable reconciliation practice as variances may remain undetected

The City Corporate Finance Division reconciles bank accounts based on revenue information updated by the Financial Reporting and Accounts Receivable Unit. This reconciliation process is not useful as revenue is not being reconciled from a separate independent source. Revenue information is being reconciled with the same source that produced the revenue information being reconciled. This is not an acceptable reconciliation practice.

An effective reconciliation process minimizes the risk that variances between actual sales and bank deposits will go unnoticed in a timely manner or remain completely undetected.

The City has implemented the CLASS system for point of sale, facility booking and permits in other units of the Parks, Forestry and Recreation Division. This system is integrated with the City's SAP financial system and the license for the CLASS system is available for Citywide use. Management should evaluate this system for use at the Marine Operations Unit.

Recommendations:

- 3. The General Manager, Parks, Forestry and Recreation in consultation with the Chief Information Officer, conduct a business process review of the Ferry Service/Marine Operations and evaluate options to upgrade or replace the existing information technology system for submission to the 2011 information technology capital process. The review should include:**
 - a. Integration of the point of sale system with other related City systems, such as the debit and credit card system and the SAP financial system.**
 - b. An evaluation of the CLASS management information system as it relates to meeting the needs of Marine Operations.**
- 4. The General Manager, Parks, Forestry and Recreation, implement an interim process to independently reconcile point of sale revenues with bank deposits.**

B.2 Lack of User Documentation and Software Support Agreement

User documentation or a system operating manual for the point of sale system is not available

User documentation is important in understanding any information technology system. The Marine Operations Unit was unable to provide user documentation or a user system manual for the point of sale system. Staff members within the unit have a limited understanding of the system. On several occasions, staff were unable to provide requested information and reports from the system such as variances by cashier and number of tickets sold by fare type.

In the absence of user documentation and with limited staff knowledge, the Marine Operations Unit is likely not using all available system features.

Contingency plans are not known in the event the vendor discontinues support for the software

In addition, we were unable to obtain the acquisition and maintenance contract for the ferry service point of sale system. Management is not aware of contractual provisions relating to the software source code and system maintenance in the event the vendor discontinues the software or is unable to provide system support.

Recommendation:

- 5. The General Manager, Parks, Forestry and Recreation, ensure staff are appropriately trained on computer systems routinely used and user manuals are available to staff for training and ready reference. Further, the General Manager, Parks, Forestry and Recreation, in consultation with the Chief Information Officer, determine corporate requirements for future computer system support and maintenance in the event of system failure.**

B.3 Need to Automate Ticket Inventory and Ticket Cancellation and Refund Processes

Lack of Automation for Ferry Ticket Inventory

The Marine Operations Unit maintains a ticket inventory for various categories including:

- Monthly Passes
- Prepaid Passenger Tickets
- Vehicle Transportation Receipts
- Cart Rental Tickets

Maintaining manual ticket inventory records is a tedious and time-consuming process

Ticket inventory is monitored using manual logs. Maintaining manual records of ticket inventory is a tedious and time-consuming process. We noted inconsistencies in maintaining these logs. There were instances where log sheets did not correspond to daily sales and inventory balances.

The automation of the ticket inventory processes will improve efficiencies and accuracy in maintaining sales and inventory records

The automation of ticket inventory processes will improve efficiencies and accuracy in maintaining sales and inventory records. Certain ticket types such as monthly passes, vehicle transportation receipts and cart rental tickets could be replaced with system generated automatic form printing eliminating the need to maintain large volumes of pre-printed paper inventory and related logs.

Recommendation:

- 6. The General Manager, Parks, Forestry and Recreation, in consultation with the Chief Information Officer, evaluate options for automating the ferry service ticket inventory.**

Ticket cancellations and refunds are processed manually

Ticket Cancellation and Refund Process Requires Automation

There are situations when tickets are cancelled by staff. For example, when a ticket is issued in error or a passenger has a last minute change of mind due to illness or emergency. Ticket cancellations and payment refunds are processed manually.

Automation of the cancellation and refund process will improve controls and resolve reconciliation issues

The cancellation process requires staff to document the reason for the cancellation, obtain supervisory approval and document the cancellation as part of the daily reconciliation.

Management does not accumulate these cancellations and refunds. As a result, cumulative total cancellations and refunds by week, month, year or cashier are not available.

The lack of automated cancellation and refund processes increases the risk of error, and misappropriation and results in extra effort to reconcile variances in cash and sales. Automating cancellation and refund processes will improve controls. For the month of August 2009, tickets amounting to \$2,300 were cancelled. Although these cancelled tickets represent a small percentage of total sales, controls are still required to minimize the risk of misappropriation as well as realizing the efficiency benefits associated with automating the process. We noted the following:

- 43 per cent of cancelled tickets approximating \$1,000 did not receive supervisory review
- 74 per cent of cancelled tickets approximating \$1,700 were cancelled with no explanation.

Recommendation:

7. The General Manager, Parks, Forestry and Recreation, in consultation with the Chief Information Officer, evaluate options for:

- a. Automating ticket cancellation and refund processes.**
- b. Implementing a process to analytically review cancelled tickets and refunds.**

Further, the General Manager, Parks, Forestry and Recreation, implement a process to ensure reasons for ticket and ferry pass cancellations and refunds are appropriately documented and are subject to supervisory approval.

C. VALIDATION OF FERRY TICKETS

The ticket verification process is time consuming and validation of passengers becomes difficult and inefficient during the peak season

The design of the existing point of sale system does not support the printing of individual tickets for each passenger in a family or group. The rationale for printing group tickets relates to the time it takes to process the transaction and print the ticket. The system prints a single ticket for an entire family or group detailing the number of passengers on the face of the ticket. Staff review details on each ticket at boarding time.

This process is time consuming and the validation of passengers becomes difficult and inefficient particularly during peak season when groups of people board the ferry at the same time.

In compliance with the Marine Act, Marine Operations staff conduct a manual passenger count at boarding time and record the result in the ship's log.

Our analysis of daily ferry ticket sales with the number of passengers recorded on the ship's log showed variances between the manual count and Marine Operations sales records. We noted the physical passenger count exceeded the number of tickets sold. The ship's log represents manually counted numbers and include patrons such as, children under two years of age and persons with disabilities who board free of charge. These passengers among other categories of non-ticketed passengers are not included in the number of tickets sold in the system. As a result, some reasonable variance between the passenger count and the ticket sale system is expected.

Due to the lack of reliable data related to information recorded in the ship's log and non-ticketed passengers not accounted for in the system we were unable to substantiate the variance.

In order to improve controls and determine an acceptable variance between sales and passenger counts, management should consider as part of its business process and information technology system upgrade review, the option of accounting for passengers boarded free of charge. Passengers allowed free passage should be entered into the ticket sale system at the time of entering paid fares for the group or family, for statistical and reporting purposes.

Recommendation:

- 8. The General Manager, Parks, Forestry and Recreation, review current ticket and dock procedures. Periodic comparisons between tickets sold and the number of patrons recorded as ferry passengers should be conducted, and unusual deviations investigated.**

D. INADEQUATE CONTROLS IN BILLING AND COLLECTION OF OUTSTANDING REVENUES

The Marine Operations charters one of its vessels for private events

The Marine Operations charters one of its vessels for private events. A third party vendor books event charter services. The contract for this vendor expired in 2005. The vendor continues to provide booking services but on an informal basis without a valid contract.

The Marine Operations Unit does not have a process to properly record and track outstanding receivables

The Marine Operations Unit does not have a process to properly record and track outstanding receivables for the charter service vendor. Invoices for 2009 amounts due to the City were never billed to the vendor. Instead, Marine Operations staff rely on the vendor to provide outstanding amounts due to the City. According to the vendor, \$15,000 is due to the City for charter events dating back to June 2009.

Outstanding revenue of \$33,000 for 2008 was not billed and the outstanding amount for 2009 is not known

Similarly, another vendor operating out of the island sells event passes that include an amount for ferry tickets. Passes are collected at boarding time and the vendor is invoiced based on the passes collected. In 2008 outstanding amounts due from this vendor of \$33,000 were not billed and outstanding receivables for 2009 are unknown.

Recommendation:

9. The General Manager, Parks, Forestry and Recreation, develop a process to review and monitor vendor contracts and ensure contracts are renewed on a timely basis.

In addition, the General Manager, Parks, Forestry and Recreation, develop a process to periodically bill and follow-up on outstanding revenues on a timely basis.

E. INFORMATION TECHNOLOGY CONTROLS REVIEW

User access controls need strengthening

Inadequate controls on user access to system data files

Generally accepted information technology practices require that system files containing transaction data be protected from direct user access. Without proper access controls there is a risk for error and abuse. User access should only be allowed through system menus. We noted that system files are directly accessible to users with access to the ferry computer system.

This type of access commonly known as “back-end” access should be available only to system administrators. We understand only limited staff have access to the system, however, given the amount of revenue handled by this system, the security features still require review.

Lack of System Change Management Process

Written procedures for managing changes in the ferry service point of sale system should be developed

The ferry service point of sale system has experienced several system failures during the past number of years. When failures occur the vendor’s system consultant is contacted to identify and service the system problem.

Documentation describing system failure details is not prepared and written procedures for managing system revisions do not exist. Lack of system change documentation is a risk to the integrity of data.

Recommendation:

10. The General Manager, Parks, Forestry and Recreation, in consultation with the Chief Information Officer, evaluate controls on system data and change management processes, and ensure corporate requirements are followed for current and future computer systems.

CONCLUSION

This report contains 10 recommendations related to improvements in ferry service revenue collection and administrative processes.

Implementing the recommendations contained in this report will strengthen controls, improve accountability and result in operational efficiencies and potential cost savings.