



Audit, Risk and Compliance: Operating Contract Reviews

Date: September 19, 2019
To: TTC Audit and Risk Management Committee
From: Head of Audit, Risk and Compliance

Summary

As part of our Compliance Program, the Audit, Risk and Compliance (ARC) Department reviews contracts to assess the adequacy of controls and adherence with key terms and conditions. Contracts are selected for review based on a number of factors, including expenditures and impact on customer service and quality.

Two contract reviews were completed this quarter. The first focused on the expanding use of temporary Customer Service Representatives (CSRs) and the second on the contracting out of Bus Servicing and Cleaning to a third-party vendor.

The use of temporary CSRs offers cost saving opportunities and staffing flexibility for a variety of customer-related activities. However, as customer-facing duties and assigned responsibilities of CSRs expand, associated risks increase. The Board has requested Executive Management to ensure the quality of customer services provided by CSRs remains high.

Effectiveness of the bus service line and cleaning function is critical to meet customer expectations of cleanliness and upkeep of TTC vehicles. Management must derive cost benefits, service reliance and quality to achieve value for money.

Executive Management has acknowledged its need to strengthen contractual risk management and cost containment controls, as well as improve existing vendor management and oversight for both contracts. Management Action Plans have been prepared to address ARC's observations and identified risk/control gaps for both the CSR (Attachment 1) and Bus Servicing and Cleaning (Attachment 2) contracts.

Recommendations

It is recommended that the TTC Audit and Risk Management Committee:

1. Receive this report for information.

Financial Summary

The funding implications related to the Report recommendations are included in the approved 2019 Operating Budget. Any additional funding requirements will be requested as part of the 2020 budget submission.

The CFO has reviewed this report and agrees with the financial summary information.

Equity/Accessibility Matters

There are no accessibility or equity impacts associated with this report.

Decision History

The Audit, Risk and Compliance Department identified in its 2019 Flexible Audit Work Plan, approved by the Audit and Risk Management Committee (ARMC) on February 26, 2019, its intention to review select operating contracts. The department is required to provide the ARMC with an update on the status of planned assurance projects.

[https://www.ttc.ca/About the TTC/Commission reports and information/Committee meetings/Audit Risk Management/2019/Feb 26/Reports/7 An Integrated Strategy %26 Flexible Work Plan 2019.pdf](https://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Committee%20meetings/Audit%20Risk%20Management/2019/Feb%2026/Reports/7%20An%20Integrated%20Strategy%20%26%206%20Flexible%20Work%20Plan%202019.pdf)

Issue Background

Since 2012, the TTC has considered the use of external contractors for the provision of services in a continued effort to look for operational efficiencies to realize savings. As a result, the TTC began contracting out its temporary customer service assistance and bus servicing and cleaning functions to reduce costs.

The use of temporary CSRs at the TTC has evolved from supporting subway closures and diversions to customer wayfinding and assistance with the PRESTO fare payment system. New three-year contracts valued at almost \$15 million for the use of CSRs were awarded in early 2019, and almost \$15 million was spent on prior contracts since 2014. With the Customer Service Agent (CSA) staffing model introduced as part of the TTC's Stations Transformation program, both internal and contracted resource groups are mobile and offer face-to-face customer service.

The TTC began contracting out its bus servicing and cleaning activities in 2012, and incurred \$60.4 million over the five-year contract term. In 2017, a new six-year contract was awarded to the only qualified compliant bidder to service seven garage facilities for a total value of \$91.5 million. The contract was awarded to one vendor as a result of limited bid response and a disqualified bid. The existing contract is being expanded to include the para-transit garage facility for an additional cost of approximately \$1.3

million annually. Management also intends to contract out streetcar servicing and cleaning, and will adopt a similar model as used for buses.

In 2019, ARC commenced its contract reviews to assess the adequacy of contract management controls and compliance with key terms and conditions.

Comments

The objective of our Temporary CSR and Bus Servicing and Cleaning contract reviews was to assess contractual risk management and cost containment controls, as well as vendor management and oversight to ensure associated costs and risks are actively managed.

The results of our audits noted the need for management to strengthen contractual risk management and cost containment controls as follows:

- Service procurement and bid evaluation process must be enhanced to achieve broader bid response and consider vendor pricing, service quality and data management capabilities;
- Contractual and other operational risks must be balanced with the benefits of using contracted supplementary resources and reliance on one service provider; and
- Budget estimation must consider current and anticipated resource needs to prevent cost overruns.

There is also a need to improve vendor management and oversight to ensure contractor performance is in accordance with terms and conditions. Specifically:

- Formal and proactive oversight strategies must be developed to consistently monitor vendor performance;
- Service quality performance measures must be established and embedded into contractual agreements to address performance gaps; and
- In the case of Bus Servicing and Cleaning, new equipment and associated risks must be evaluated to determine the most effective and efficient approach to balance cost and quality of resources.

Finally, a strategy that clearly links the transitional requirements and long-term vision for using CSRs, in tandem with the CSA staffing model, needs to be in place to ensure associated costs and risks are controlled and mitigated. Service costs and quality performance standards must be considered in order to ensure value for money is achieved.

A detailed report for each of the two contract reviews were provided to Executive Management and are attached to this Report to provide further information on the results of our work (Attachment 3 – CSR Contract Review; Attachment 4 – Bus Servicing and Cleaning Contract Review).

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Attachments

Attachment 1: Management Action Plan – Temporary Customer Service Assistance

Attachment 2: Management Action Plan – Bus Servicing and Cleaning

Attachment 3: Audit, Risk and Compliance: Contract Review – Temporary Customer Service Assistance

Attachment 4: Audit, Risk and Compliance: Contract Review – Bus Servicing and Cleaning

**Management Action Plan (MAP) – Temporary Customer Service Assistance
Accountability – Chief Operations Officer**

Audit, Risk and Compliance Observations

1. **Contractual Risk Management:** A strategy that clearly links the transitional requirements and long term vision for using contracted temporary CSR resources, in tandem with the TTC's Station Transformation CSA staffing model, needs to be in place to ensure associated costs and risks are controlled and mitigated. The benefit of using these more economical resources must be balanced against contractual and other operational risks. CSR training should be re-evaluated to reflect changes in the use of these resources with special consideration given to those expanded duties that can increase safety risks. Contract language should be reviewed and terms and conditions designed to minimize liability exposure and facilitate improved performance management. Weighted price and service quality scoring factors should be established as part of the bid evaluation process, including vendors' recruitment strategies, hiring practices and internal training plans.
2. **Cost Containment Controls:** All users of CSR resources should collaborate to align current and expected future needs to ensure complete budget estimates are prepared for approval. Anticipated activities and expanded CSR service requirements should be considered in combination with historical spending trends. Procurement and final contract documents must be rigorously reviewed and reconciled before issuance to ensure accuracy. A more rigorous process to review work order requests from all CSR user groups to minimize CSR allocation overlaps and ensure costs are allocated based on the nature of work should be established. Signing authorities for each cost centre should be verified and validated. Training costs and records must be tracked and recorded to ensure associated expenses are contained.
3. **Vendor Management and Oversight:** Customer service quality performance measures should be developed and embedded into contractual agreements. Vendors' recruitment strategies and training plans should be evaluated as part of the bid evaluation process to determine whether their existing methodologies support the hiring and training of qualified CSRs. Improvement plans and corrective measures to address noted performance gaps should be established and actively monitored, with results feeding into formal interim and final performance evaluations. To address noted knowledge gaps, informational guides should be prepared for use and distribution to CSRs. Independent processes for confirming CSR attendance need to be improved and consistently followed by all TTC Supervisors.

**Management Action Plan (MAP) – Temporary Customer Service Assistance
Accountability – Chief Operations Officer**

Management Action Plan	
1	<p><u>Strengthen Contractual Risk Management</u></p> <p>(a) The strategic and future use of CSRs will be reviewed in tandem with the TTC’s Station Transformation CSA staffing model.</p> <p>(b) The TTC’s CSR training curriculum will be reviewed annually, and as the need arises due to changes in CSR duties, to ensure expectations and activities are properly reflected.</p> <p>(c) Customer service quality performance measures will be developed, implemented and embedded into future contract documents. Vendor recruitment strategies and training plans will be requested and reviewed as part of the RFP process, including steps taken by the vendor to ensure CSRs possess knowledge of the TTC’s sites, locations and surrounding areas.</p> <p>(d) A CSR vendor scorecard will be developed and managed. Elements include: contract compliance, quality of work completed, past performance, and rating of CSRs per project/shift.</p> <p>(e) In consultation with Materials & Procurement staff, the bid evaluation process will be more defined; and an interim and final contractor performance rating sheet will be completed.</p> <p>(f) Stations staff will monitor CSRs throughout all shifts.</p> <p><i>Responsibility: Manager, Closures & Diversions (Kirpal Parhar) and Head of Stations (Ellen Stassen) - with support from Materials & Procurement</i> <i>Target Completion Date: December 2019</i></p>

**Management Action Plan (MAP) – Temporary Customer Service Assistance
Accountability – Chief Operations Officer**

Management Action Plan	
2	<p><u>Improve Cost Containment Controls</u></p> <p>(a) Materials & Procurement will be asked to create a checklist that may be used before the issuance of a new contract to ensure accuracy within the document.</p> <p>(b) Going forward, detailed attention will be given to identifying what is required for the contract, taking into account expected Stations work.</p> <p>(c) Closures & Diversions (C&D) will improve its process for monitoring work order requests from all CSR users and make recommendations for minimizing CSR requirements if overlaps are identified.</p> <p><i>Responsibility: Manager, Closures & Diversions (Kirpal Parhar) and Head of Stations (Ellen Stassen) - with support from Materials & Procurement</i> <i>Target Completion Date: December 2019</i></p>
3	<p><u>Consistent Vendor Management and Oversight</u></p> <p>(a) Stations to sustain a consistent sign in process for CSRs, including timely sign in and safety briefing. All timesheets and Safety briefing records are to be submitted to C&D by the TTC Supervisors in a timely manner. Records will also be maintained by those TTC Supervisors responsible for signing in the CSRs. A check box will be created on the sign in sheets.</p> <p>(b) TTC Supervisors will be reminded to arrive in a timely fashion to brief CSRs for assignments and check CSR identification.</p> <p>(c) Stations to establish a process for monitoring CSR floaters, including a sign out process that will require calling the Stations desk from a TTC pax phone. The number will be provided in the CSR training session, as well as, during safety briefings. The Stations desk will provide the sign out sheet to C&D so sign-out times may be verified.</p> <p>(d) The expectation for vendors to provide CSRs with information on sites, locations and surrounding areas where they are being assigned will be communicated. Materials and communication sheets will be prepared to assist CSRs in responding to customer questions.</p> <p><i>Responsibility: Manager, Closures & Diversions (Kirpal Parhar) and Head of Stations (Ellen Stassen) - with support from Materials & Procurement</i> <i>Target Completion Date: April 2020</i></p>

**Management Action Plan (MAP) – Bus Servicing and Cleaning
Accountability – Chief Vehicles Officer**

Audit, Risk and Compliance Observations

- 1. Contractual Risk Management:** The TTC's reliance on one service provider to perform critical bus servicing and cleaning puts service delivery at risk. Service procurement and the contracting process must be evaluated to reduce the risk of service interruption and a loss of flexibility that comes from depending on one service provider. Efforts to solicit broader response and attract robust competition must be made. Contract language should be reviewed and terms and conditions designed to minimize liability exposures and facilitate improved performance management.

- 2. Cost Containment Controls:** Budget estimates for bus servicing and cleaning operations should be based on current and anticipated future needs, and cost impact assessments conducted prior to the approval of any optional and/or additional services to prevent cost overruns. Controls to ensure vendor charges are appropriate and accurately calculated should include regular reconciliation of invoices with supporting documentation, with any noted exceptions being justified prior to approval for invoice payment. Vendor data retention and information technology requirements that are subject to review should be established in the contract to help mitigate third-party data entry error risk.

- 3. Vendor Management and Oversight:** Vendor management and oversight controls must be rigorous to ensure contractor performance is in accordance with terms and conditions. Improvement plans and corrective measures to address noted vendor performance gaps should be established with results feeding into formal interim and final performance measures. Exercising the right to audit vendor records should be considered given the reliance on one service provider, as well as the periodic reconciliation of vendor records to source information with focus on more critical eligibility requirements. A streamlined process for reporting wash rack equipment issues by the vendor to TTC needs to be followed, and maintenance issues addressed promptly to minimize the risk of potential damage to vehicles.

Management Action Plan	
1	<u>Strengthen Contractual Risk Management</u>
(a)	Management, in collaboration with Materials and Procurement (M&P), will explore alternatives to solicit broader bid response in the next procurement process to mitigate the risk of relying on one service provider.
(b)	Discussions with the TTC's bus serving/cleaning vendor regarding data inconsistencies and record retention expectations are in progress. Corrective action plans to rectify identified discrepancies have been taken.

**Management Action Plan (MAP) – Bus Servicing and Cleaning
Accountability – Chief Vehicles Officer**

Management Action Plan	
(c)	<p>New contractual requirements regarding the provision of auditable information to the TTC will be considered as part of establishing the scope of work for the January 2024 contract. In the interim, actions to ensure there is adequate vendor data management for the duration of the contract have been initiated.</p> <p><i>Responsibility: Head of Bus Maintenance and Shops (Al Pritchard) – with support from Materials and Procurement</i> <i>Target Completion Date: December 2019</i></p>
2	<p><u>Improve Cost Containment Controls</u></p> <p>(a) Formal cost estimations and rationale to support change of scope business decisions will be conducted and documented by TTC Contract Representatives.</p> <p>(b) An improved invoice reconciliation process has been put in place to ensure charges are appropriate and supported. Improvement plans to measure and monitor vendor progress in addressing deficiencies has also been established.</p> <p><i>Responsibility: Head of Bus Maintenance and Shops (Al Pritchard)</i> <i>Target Completion Date: December 2019</i></p>
3	<p><u>Consistent Vendor Management and Oversight</u></p> <p>(a) Partial vendor compliance performance monitoring has resumed. All performance requirements will be consistently and fully monitored throughout the duration of the contract by Q1 2020. Improvement plans will be put in place to address service gaps. Cross-training of TTC Staff within the Bus Maintenance group will be initiated to ensure short- and/or long-term resource coverage is available to consistently manage the contract.</p> <p>(b) Enhanced oversight of the vendor's training records and resource administration will be implemented to include random review of source information. Results from these reviews will be used to establish improvement plans and vendor action plans to avoid future discrepancies.</p> <p>(c) Tracking and monitoring of deficiencies reported by the vendor to the TTC will continue, and Key Performance Indicators to measure wash equipment performance and repairs are being established. Vehicle condition will also be monitored to assess damage caused by wash equipment.</p> <p><i>Responsibility: Head of Bus Maintenance and Shops (Al Pritchard)</i> <i>Target Completion Date: April 2020</i></p>



Toronto Transit Commission

Audit, Risk and Compliance:

Contract Review – Temporary Customer Service Assistance

EXECUTIVE SUMMARY

Background

The TTC began utilizing temporary Customer Service Representatives (CSRs) in 2014 to provide customer service during closures, diversions and special events. The cost of using CSRs for these purposes was significantly less than those incurred prior to 2014 when internal TTC staff were utilized on an overtime basis.

The first CSR contracts were awarded to two vendors at a cost of approximately \$3 million in 2014. In 2015, new contracts were awarded to three vendors for a total value of \$3.5 million. However, due to the expanded use of CSRs for various capital and operating needs, these contracts were extended resulting in total expenditures of \$14.9 million as of April 2019.

New three-year contracts were recently awarded to three vendors for a total of \$15 million. As per the April 11, 2019 Board Report, CSRs were required “to assist TTC customers with information and directions during subway closures, surface diversions, emergencies, implementation of the PRESTO automated fare collection system and other special assignments.” However, the anticipated end-state use of CSRs and their alignment with the Customer Service Agents (CSA) staffing model introduced as part of the TTC’s Stations Transformation program were not articulated, although both resource groups are mobile and offer face-to-face customer service.

Audit Purpose, Objective and Scope

The use of temporary CSRs offers cost saving opportunities and staffing flexibility for a variety of customer-related activities. However, as customer-facing duties and assigned responsibilities of CSRs expand, associated risks increase. The Board has also requested Executive Management to ensure the quality of customer service provided by CSRs remain high. Therefore, in accordance with Audit, Risk and Compliance’s 2019 Flexible Work Plan, the department reviewed the Temporary Customer Service Representatives contracts to assess the adequacy of contractual risk management and cost containment controls, as well as vendor oversight and service performance management.

Overall Conclusion

The use of temporary CSRs has expanded since 2014. A strategy that clearly links the transitional requirements and long-term vision for using these contracted supplementary resources, in tandem with the Stations Transformation CSA staffing model, needs to be in place to ensure associated costs and risks are controlled and mitigated. Service costs and quality performance standards must be considered in order to ensure value for money is achieved. Specifically:

- Changes in needs and requirements for CSR resources must be identified and analyzed to ensure the benefit of using these more economical resources is balanced with contractual risks and exposure to liabilities;
- Vendor management and oversight must be rigorous to ensure contract performance is in accordance with terms and conditions; and

- Service performance quality must be actively monitored to mitigate risk of poor performance by the three CSR vendors.

Summary of Key Management Action Plans

Based on discussions and review of Audit, Risk and Compliance observations, Executive Management has acknowledged its need to strengthen contractual risk management and cost containment controls, as well as improve existing vendor management and oversight.

Provided in this Report are: Detailed observations, identified risk/control gaps and recommended Management Action Plans (MAP) to ensure the use of CSRs provides the TTC value for money in terms of cost and quality.

DETAILED AUDIT OBSERVATIONS

Audit Observation #1:

Contractual risk management and cost containment controls need to be strengthened

CSRs are primarily used for closures, diversions, special events and ongoing assistance with PRESTO, customer information and wayfinding, placing them in direct contact with customers. In addition, the specific contractual clause “assigning CSRs other contract-related duties as required” could introduce safety concerns and union grievances. As per *Bill 18, Stronger Workplaces for a Stronger Economy Act, 2014*, the TTC can be held financially liable if a CSR suffered an injury or accident on TTC properties.

All CSR contracts have been awarded based on lowest price compliant bids. No service quality or performance evaluation criteria have been established and incorporated into the Request for Bid (RFB) process. This can lead to selection of poor performers. While Materials and Procurement (M&P) staff regularly obtains police service clearance letters for each CSR, the duration of time for which these documents are valid is not specified within the contract. This also increases the risk of offenders potentially working on TTC properties performing customer-facing duties.

The 2015 contracts were awarded at a cost of \$3.5 million and tripled over 3.5 years to \$14.9 million. While existing TTC policy allowed for incremental increases to be approved as authorization thresholds for each amendment were not exceeded, the cumulative total effect was not transparent to the Board. The expanded use of CSRs contributed to the escalation of costs, with \$1.5 million of the increase attributable to an undetected data entry error. The upset limit of \$15 million for recently awarded contracts was based on historical spending trends. While this amount takes into account costs associated with an ambitious subway closures program, the extent of continued and expanded use of CSRs for stations and PRESTO-transition customer support was underestimated by approximately \$6.3 million over three years.

The TTC reimburses CSR vendors for training costs up to a stated maximum number of participants. A discrepancy in the maximum number allowed as stated in two separate sections of the contract document was noted. This could lead to unanticipated training expenses being incurred. CSR training records and associated costs are also not being monitored and tracked, thereby increasing the risk that failed and ineligible participants will repeat their training at the TTC’s cost.

Incidents where operational and capital charges were misclassified due to poorly defined CSR work order requests were noted during 2018 and 2019. Expenses were also charged to incorrect accounts due to a lack of rigour in validating expense approvals.

Our review of CSR deployment schedules and field observations suggest improvements in the current placement of CSRs could reduce costs. Specifically, the allocation of CSR resources amongst stations is not always commensurate with expected flow of customers, and at times, resource overlaps during subway closures resulted in excessive CSR headcount at some locations.

Audit Observation #1 – Management Action Plan Considerations:

To improve contractual risk management and cost containment controls:

- 1.1 Management should review the current and future anticipated use of CSRs in tandem with the Stations Transformation CSA staffing model. The benefit of using more economical CSR resources must be balanced against contractual risks and exposure to liabilities. CSR training should be re-evaluated to reflect changes in the use of these resources with special consideration given to those expanded duties that can increase safety risks. Contract language should be reviewed and terms and conditions designed to minimize liability exposure and facilitate improved performance management.
- 1.2 Materials and Procurement (M&P), in collaboration with Closures and Diversions (C&D), should establish weighted price and service quality scoring factors as part of the bid evaluation process. For example, vendors' recruitment strategies, hiring practices and internal training plans should be required for submissions and reviewed as part of the bid evaluation process. Interim and final contractor performance evaluations should be documented to track historical performance and be used to guide future award decisions. A reasonable validity period for police service clearance letters should also be stipulated in the contract.
- 1.3 Finance, in collaboration with M&P, should review the *CEO Delegation and Authority for Expenditure Listing*, in particular, required CEO and Board approval thresholds with an aim to improve visibility of cumulative contract amendment costs. Purchase Order Amendments (POAs) that cumulatively or individually increase the value of a contract by a certain dollar value, range or percentage should require disclosure and separate approval.
- 1.4 C&D should collaborate with Stations staff and other users of CSR resources to align current and expected future needs to ensure complete budget estimates are prepared for approval. Anticipated activities and expanded CSR service requirements should be considered in combination with historical spending trends.
- 1.5 Procurement and final contract documents must be rigorously reviewed and reconciled before issuance to ensure accuracy. Management should consider the development and use of a checklist to guide staff in the preparation of key documents.
- 1.6 A process should be established to review work order requests from all CSR user groups to minimize CSR allocation overlaps.

- 1.7 Training costs and records must be tracked and recorded to ensure associated expenses are contained.
- 1.8 A more rigorous process is required to review work orders to ensure costs are allocated based on the nature of work. Signing authorities for each cost centre should be verified and validated.

Audit Observation #2:**Vendor management and oversight needs to be consistent and support contractual compliance**

CSR vendor performance is measured solely on their ability to meet attendance level expectations as outlined in the contract. CSR vendors assign location leads who are responsible for monitoring the attendance of their CSR workers. TTC Station Supervisors are responsible for CSR sign-in and job safety briefings. Controls to ensure accurate attendance reporting, and that CSR job safety briefings are being conducted, are inconsistent, thereby exposing the TTC to CSR time abuse and safety risk liabilities. Specifically, we noted:

- No consistent sign-in process is being followed to record arrival of CSRs designated at non-accessible stations during closures;
- No record of job safety briefings being delivered by TTC Station Supervisors to all CSRs, ie. those that are not formally signed in by TTC Station Supervisors;
- Occasional late arrival of TTC Station Supervisors during sign-in rendering them unable to confirm actual CSR arrival times;
- No verification of CSR photo identification card by TTC Station Supervisors to verify eligibility of CSRs to perform assigned duties;
- No monitoring of CSRs designated as “floaters” who act as mobile location leads due to lack of designated check-ins;
- No CSR sign-out process to indicate safe completion of duties and discharge of responsibilities; and
- Late submission/unsigned timesheets by TTC Station Supervisors hindering ability to reconcile attendance to invoices.

Service quality performance criteria are not specified within the contract, making it difficult to evaluate compliance with language and knowledge expectations. For example, vendors are required to hire CSRs that meet the TTC’s expectations, and so it is reasonable that CSRs should be familiar with TTC sites, locations and surrounding areas where they will be assigned to respond to customer inquiries. During field observations, we noted CSRs who were unable to articulate and/or were not aware of points of interest and street locations, inhibiting their ability to effectively provide directions to customers. Without clear performance measures stipulated in the contract, it is difficult to address language and knowledge gap deficiencies.

Audit Observation #2 – Management Action Plan Considerations:

To improve vendor performance and oversight controls:

- 2.1 Independent processes for confirming CSR attendance need to be improved and consistently followed by all TTC Station Supervisors. Special considerations should be given to:
 - Strengthening CSR reporting for duty and end-of-shift sign-out processes (consider use of central stations or hubs for end-of-shift sign-out);
 - Enforcement of on-time arrival, punctual sign-in and submission of accurate/signed timesheets;
 - Verification of CSR photo identification card and confirmation of CSR work eligibility;
 - Submission of daily activity logs by CSR “floaters” indicating time and station visits conducted; and
 - Exploration of technology-based solutions for automated time collection and tracking of mobile resources.
- 2.2 Customer service quality performance measures should be developed and embedded into contractual agreements. Improvement plans and corrective measures to address noted performance gaps should be established and actively monitored, with results feeding into formal interim and final performance evaluations. To address noted knowledge gaps, informational guides (i.e. points of interest by station) should be prepared for use and distribution to CSRs.
- 2.3 The vendor’s recruitment strategies and training plans must be reviewed to determine whether their existing methodologies support the hiring and training of qualified CSRs.



Toronto Transit Commission

Audit, Risk and Compliance:

Contract Review – Bus Servicing and Cleaning

EXECUTIVE SUMMARY

Background

The TTC's Bus Maintenance and Shops (BMS) Department is responsible for servicing and cleaning all buses on a daily basis. The TTC began contracting out its bus servicing and cleaning activities in 2012, reducing related costs compared to when these tasks were performed by TTC employees.

In 2013, the TTC awarded its first bus servicing and cleaning contracts to two vendors at a cost of \$55.7 million for five years. Service was initially implemented at two garage facilities and subsequently to the remaining five locations as permitted by TTC workforce attrition. Changes to fleet allocation and additional cleaning required during the 2015 Pan Am and Parapan Am Games resulted in total expenditures of \$60.4 million at the end of these contracts.

Vehicle cleanliness is measured through a third party and reported publicly as part of the CEO's Report. BMS leverages these performance results to independently evaluate and supplement its internal vendor monitoring process.

In 2017, a new six-year contract was awarded to service seven garage facilities for a total value of \$91.5 million. Limited bid responses and the disqualification of one of two final bid submissions led the TTC to award the contract to the one remaining qualified compliant bid.

The existing bus servicing and cleaning contract is being expanded to include the paratransit garage facility for an additional estimated annual cost of \$1.3 million to the TTC. Management also intends to adopt a similar model for the upcoming contracting out of streetcar servicing and cleaning.

Audit Purpose, Objective and Scope

Effectiveness of the bus service line and cleaning function is critical to meet customer expectations of cleanliness and upkeep of TTC vehicles. Management must derive cost benefits, service reliance and quality to achieve value for money. Therefore, in accordance with Audit, Risk and Compliance's 2019 Flexible Work Plan, we reviewed the Bus Servicing and Cleaning contract to assess the adequacy of contractual risk management and cost containment controls, as well as vendor oversight and service performance management. Our review of the existing Bus Servicing and Cleaning contract is also intended to support Executive Management in enhancing the procurement documents and establishment of internal controls for streetcar servicing and cleaning.

Overall Conclusion

The TTC's reliance on one service provider to perform critical bus servicing and cleaning puts service delivery at risk. A process to consistently monitor vendor service reliability and quality must be in place to ensure costs and risks are actively controlled and mitigated. Specifically:

- Service procurement and the contracting process must be evaluated to reduce the risk of service interruption and a loss of flexibility that comes from depending on one service provider; and
- Vendor management and oversight must be rigorous to ensure contractor performance is in accordance with terms and conditions.

Summary of Key Management Action Plans

Based on discussions and review of Audit, Risk and Compliance observations, Executive Management has acknowledged its need to strengthen contractual risk management and cost containment controls, as well as improve existing vendor management and oversight.

Provided in this Report are: Detailed observations, identified risk/control gaps and recommended Management Action Plans (MAP) to ensure the contracting out of the bus servicing and cleaning function provides the TTC value for money in terms of cost, quality and service reliance.

DETAILED AUDIT OBSERVATIONS

<p><i>Audit Observation #1:</i></p>	<p>Contractual risk management and cost containment controls need to be strengthened.</p>
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The TTC currently relies on one service provider (TBM Service Group Inc.) to perform its bus servicing and cleaning function. Two bids were received from prior contract vendors, however, one was deemed non-compliant. As per Management, the inability of companies to meet staffing and bond requirements also led to the limited number of bid responses.

The existing scope of bus servicing and cleaning activities includes “Daily Servicing and Cleaning” and “Special Cleaning” with an option for “Mid-Day Cleaning”. All buses parked in the service yards require servicing and cleaning before the first morning scheduled service. The vendor uses its own information technology system (SAMS) to record the quantity of buses cleaned at each TTC garage facility. These records are then used by the vendor to invoice for daily work performed.

We were unable to reconcile SAMS records with the quantity of “Daily Servicing and Cleaning” charged per the February, March and April 2019 invoices (i.e. charges for 345 buses could not be reconciled during our review period). Prices charged also differed from the pricing schedule outlined in the contract, triggering the need for the TTC to administer late pricing adjustments. “NIL” buses (invalid TTC bus numbers) and buses that were cleaned multiple times on the same night were also invoiced during this period. While Management explained that a TTC Operator may pull out a cleaned bus for maintenance and then return the vehicle back to the yard where it can be inadvertently cleaned again, it is less likely that buses will intentionally be cleaned more than twice in one night. This suggests SAMS records are not reliable to support invoice charges.

Further, records in SAMS are retained for a limited period of 60 days and the TTC does not have direct access to the data. As per the contract, *“TTC may inspect TBM’s records as necessary at any time prior to the contract and thereafter for a two-year period.”* Therefore, SAMS records and other vendor documents must be retained for the potential of TTC audits. The requirement for vendors to provide a suitable information technology system and retain data for a defined period has not been established or incorporated into the Request for Bid (RFB) process to evaluate vendor data management capability.

Controls designed to ensure charges are appropriate and properly supported have not been established, thereby increasing the risk that invoicing errors and anomalies will go undetected. For example, an approximate \$90,000 charge invoiced for total quantity of “Special Cleaning” could not be reconciled to work orders completed during the period between November 2018 to July 2019. Also, per the contract, a “Special Cleaning” is to be performed for each bus every 45 days, plus/minus five days. During the same review period, we noted 62% of “Special Cleaning” were not performed in accordance with this requirement, but rather every 38 days on average. Per Management, the industry average for performing a “Special Cleaning” is every 30 days. Therefore, Management regards the increased frequency as acceptable.

However, the vendor did not obtain prior approval to alter the initial schedule. Management subsequently revised the requirement to be every 35 days, plus/minus five days, but only communicated this new expectation to the vendor informally. Approximately \$290,000 in additional costs will be incurred in 2019 as a result of this change in frequency and \$1.1 million annually for the remaining period of the contract. However, Management intends to evaluate the results of the additional cleaning prior to proceeding with this as a permanent change to the cleaning frequency schedule. “Light lens cleaning” is also being considered to further improve interior bus cleanliness at an estimated cost of \$173,000 for 2019.

Finally, we noted approximately \$1.7 million was incurred from October 2018 to April 2019 for “Mid-Day Cleaning” as part of an initiative to improve bus cleanliness, post morning service. SAMS records for these charges are no longer available, and therefore, costs could not be substantiated. Costs for this additional service were also

not included in the original contract value. Third party bus cleanliness audit results did not substantiate improved bus cleanliness, and therefore, Mid-Day Cleanings were discontinued.

Based on our analysis of actual spending, we project an approximate \$1 million over spending of the total pre-authorized contract amount. However, no formal financial impact assessment has been conducted.

Audit Observation #1 – Management Action Plan Considerations:

To improve contractual risk management and cost containment controls, Management should:

- 1.1 Aim to solicit broader bid response and attract robust market competition by strengthening its procurement process. For example, consider expanding bid advertisements to other mediums (i.e. newspaper media) and extending the initial length of bid response time to allow potential bidders sufficient time to prepare and submit bids where complexity of scope and requirements is anticipated.
- 1.2 Include as part of the bid evaluation process, a factor to assess a vendor's ability to manage data via a reliable and auditable technology system. The use of technology-based solutions to automate the bus servicing and cleaning operations should also be explored in order for the TTC to control its data.
- 1.3 Review contract language, and design terms and conditions, to minimize liability exposures and facilitate improved performance management. For example, consider imposing penalties for failure to provide auditable information in relation to any of the specified performance measures, and enforce liquidated damages associated with contract requirements to address vendor non-compliance.
- 1.4 Ensure budget estimates for bus servicing and cleaning operations are based on current and anticipated future needs; and perform a cost impact assessment prior to the approval of any optional and/or additional services to prevent cost overruns.
- 1.5 Establish controls to ensure vendor charges are appropriate and accurately calculated. For example, consider regularly reconciling invoices with the contractual price schedule, actual quantity records and completed work orders. Exceptions such as multiple cleaning of buses must be reasonably justified prior to approving invoices for payment. Also, consider requiring the vendor to comply with data retention requirements as per contract and have its information technology system subject to review for purposes of identifying opportunities to reduce data entry errors (i.e. check and balance for NIL bus numbers, multiple cleans, etc.).

Audit Observation #2:	Vendor management and oversight needs to be consistent to support contractual compliance.
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The current vendor is responsible for the performance of work, management of human resources and administration of employee training as per the contract. Vendor work performance is measured by their ability to comply with bus cleaning, work area cleanliness and supply and equipment maintenance expectations. However, we noted performance measures and monitoring plans are not consistently conducted to ensure quality expectations are met.

Specifically, BMS has completed two bus cleaning assessments since awarding the contract in December 2017. Prolonged monitoring gaps increase the risk of declining service quality. While quarterly third party bus cleanliness audits were conducted and leveraged by BMS to partly measure vendor performance, assessment criteria used by the third party differ from that of BMS. Consequently, results reported may not provide the same level of quality assurance as expected per the contract. To provide further insight into this matter and achieve improved alignment, Management has requested Audit, Risk and Compliance to review and compare bus cleanliness assessment methodologies. The current five-year contract for Third Party vehicle cleanliness audits was awarded in 2018 for \$500,000.

Using the BMS bus cleanliness assessment checklist, we conducted independent checks at four garage facilities. Our observations were consistent with those of BMS and the Third Party. For example:

- We noted the following most common deficiencies:
 - Bus exteriors were not properly washed (i.e. dirty windows, visible streaks);
 - Operator areas and floors were not cleaned (i.e. trash on floor, dusty dashboards, dirty operator mirrors/visible streaks);
 - Passenger floors, ledges and/or windows were not cleaned (i.e. trash on floor, dirty windows/visible streaks); and
 - TTC media were not replenished (due to low stock inventory caused by TTC's reduced material printing).
- Cleaning of those parts of the vehicle that can affect driver and customer safety must be emphasized (i.e. operator mirrors/blind spots).
- Bus exterior cleanliness was vastly deficient for the majority of buses checked. Exterior cleaning relies on the effectiveness of wash rack equipment. Per the BMS Co-ordinator – Contracts and Q/A (Co-ordinator) and Management, operational issues have been attributed to equipment maintenance and delays in equipment repairs, particularly at garages with newer wash racks (i.e. Arrow Road Garage). We confirmed wash rack defects occur frequently at Arrow Road Garage, often caused by malfunctioning soap dispensers, improper positioning of brushes, and at times, a

total malfunction of both south and north line wash racks due to broken waterlines. During our June 2019 bus cleaning observations at the same garage, we received comments from the vendor's on-site supervisor and confirmed that the south line wash rack had been out of service for more than two months. Poor quality of wash rack equipment and frequent maintenance requirements has led to deteriorating cleanliness of buses.

Data quality and poor record-keeping of employee information, qualification and training (employee file) by the vendor hinders the TTC's ability to confirm whether contractors are properly trained and qualified as per contract requirements. For example, based on our review of April, May and June 2019 employee files, we noted the following irregularities:

- Employee training records and driving abstracts were past due increasing safety risks and potential liabilities;
- Inconsistencies within employee records from month to month;
- Completion of role-specific training requirements were not evident in employee training records; and
- Employee training records included items that could not be substantiated, and files could not be reconciled with source documents.

The co-ordinator performs a limited review of vendor employee files to ensure data completeness and validity of dates associated with driver's licence, driver's abstract, site operator certificates and annual training requirements. However, no further reconciliation between source information and employee files are conducted to validate submitted records.

Audit Observation #2 – Management Action Plan Considerations:

2.1 To strengthen existing vendor management and oversight, Management should:

- Develop a more formal and proactive strategy to consistently monitor performance to ensure contract compliance;
- Establish and actively monitor improvement plans and corrective measures to address noted performance gaps with results feeding into formal interim and final performance evaluations;
- Allocate sufficient resources to provide assurance that required performance measurements and monitoring are carried out regularly to address poor- or non-performance;
- Exercise the right to audit vendor records given the reliance on one service provider; and
- Periodically reconcile sample employee file records to source information, giving special focus on more critical eligibility requirements.

2.2 To determine the most effective and efficient approach to balance cost and quality of resources, Management should:

- Perform a risk review and continue its investigation of new equipment that can potentially improve the quality of washes and wash rack maintenance reliability;
- Formally track and monitor wash rack issues and consider streamlining the reporting of defects between the vendor, TTC Garage Management, Plant Maintenance and Harvey Shop for accountability and to accelerate maintenance response; and
- Consider assessing and tracking vehicle conditions through periodic inspections to assess potential damage caused by wash rack equipment.