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*This work was done as part of annual audit and priced as part of audit*

**PRIVATE AND CONFIDENTIAL**

Mr. Roger Sauvé  
Director of Transit  
City of Greater Sudbury  
PO Box 5000, Station A  
200 Brady St.  
Sudbury ON P3A 5P3

January 21, 2008

Dear Sirs

During the course of our audit procedures at the City of Greater Sudbury (the "City"), we have undertaken a review of the revenue and receivable process of the City's transit operations. Our review was conducted primarily through observation and inquiry of the City's transit employees at the transit office located on Frobisher St. in Sudbury (the "Transit Office").

We have detailed below certain control deficiencies and have recommended the implementation of certain policies and practices as a result of our review.

**1.0 Inventory Control of Ride Cards and Passes**

**Observation**

There are few controls in place over the physical access to ride cards and bus passes. We noted that boxes of cards and passes were kept unsecured in an individual's office. We further noted that although cards and passes are pre-numbered, their numerical continuity is not accurately being reconciled to the physical inventory. An employee of the Transit Office maintains a manual spreadsheet for tracking ride card sales and existing inventory, however, we noted that due to consignment sales and other distributions, the numerical continuity of ride cards and passes was not accurately maintained.

**Implication**

Without appropriate controls over the physical access and controls of ride cards and passes, these items could be misused, stolen or inappropriately accounted for.

**Recommendation**

- Ride cards and passes should be kept in a secure location with access limited to authorized individuals. These individuals should be responsible for the access and distribution of the inventory.



Page 2  
Mr. Sauvé  
City of Greater Sudbury  
January 21, 2008

- Since the ride cards and passes are pre-numbered, an inventory list should be kept up to date and listed in sequential order. The inventory list should be continually updated for the sale and purchase of additional ride cards and passes.

## 2.0 Sale of Ride Cards and Passes

### *Observation*

We noted that the same individual that is responsible for maintaining ride cards and passes inventory is also currently responsible for invoicing and the receipt of cash and cheque payments. We further noted that monthly reconciliations between inventory and sales are not being performed.

### *Implication*

Without appropriate segregation of duties and additional control procedures related to the sale and distribution of ride cards and passes, these items and funds could be misused, stolen or inappropriately accounted for.

### *Recommendations*

- Customer invoicing should be performed by an individual not responsible for inventory or customer payments.
- The collection of customer payments should be performed by an individual not responsible for inventory or invoicing.
- A reconciliation of inventory and sales should be performed on a monthly basis and reviewed and approved by a supervisor. The reconciliation should include the following:
  - Opening inventory of ride cards and passes (Quantity x Value)
  - Add: Purchases of ride cards and passes (Quantity x Value)
  - Less: Sales of ride cards and passes (Quantity x Value)
  - Equals: Ending inventory of ride cards and passes (Quantity x Value)

The sales noted in the inventory reconciliation should be matched to the sales recorded in the general ledger.

The ending inventory noted in the reconciliation should be matched to the inventory list noted in the recommendation in point 1.0 above.



Page 3  
Mr. Sauvé  
City of Greater Sudbury  
January 21, 2008

### **3.0 Consignment Inventory**

#### *Observation*

The City currently has five retailers with which it provides ride cards and passes on a consignment basis. It is our understanding that the consignment terms are used as a result of the retailers desire not to pay in advance for cards it receives. Due to the use of consignment terms, a Transit Office employee must reconcile consignment inventory with sales and regular inventory on a monthly basis. It has been our observation that this cumbersome reconciliation is time consuming and is often inaccurate.

#### *Implication*

As a result of consignment terms used by the five retailers, it is difficult and impractical to prepare a reconciliation of sales and inventory at any point in time.

#### *Recommendation*

We recommend that the City eliminate the policy of providing cards and passes to retailers on consignment and simply extend sufficient credit to these retailers so that they are not required to prepay for the cards received. A credit system is already in place between retailers, the Transit Office and the City which is functioning appropriately for other retailers and could easily be adapted for those retailers currently on a consignment basis.

### **4.0 Unearned Revenue**

#### *Observation*

A Transit Office employee currently prepares a calculation of estimated unearned revenue associated with the ride cards and 31 day passes. This calculation attempts to identify and quantify the value of rides owing to customers. We noted during the course of our review that this calculation is onerous and preliminary attempts have been inaccurate. Transit office employees are unable to obtain timely information on the number of rides owing on 5 and 10 ride cards in the system, while it is difficult and impractical to estimate the timing of when a customer will begin to utilize their 31 day pass.

#### *Implication*

The calculation of estimated unearned revenue is time consuming and likely inaccurate, and therefore provides little reliable information.



Page 4  
Mr. Sauvé  
City of Greater Sudbury  
January 21, 2008

**Recommendation**

We recommend that the City implement a policy to record all sales of ride cards and 31 day passes at the time of the sale. Any unearned revenue associated with the cards, is likely immaterial to the financial statements of the City. The cost of determining the amount of unearned revenue likely outweighs the benefit to the users of the financial information.

\* \* \* \* \*

Should you have any questions or concerns with regards to the items discussed above, please do not hesitate to contact us.

Yours truly

Wayne McDonald, CA

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