

Presentation to the Audit and Risk Management Committee

February 15, 2018

**Review of Toronto Transit Commission
Procurement Policies and Practices:**

**A Case Study to Improve Future Wheel-Trans
Accessible Taxi Services Procurement**

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Background

- ▶ TTC Wheel-Trans service provides specialized accessible transit to persons with mobility difficulties
- ▶ More than 40% of all Wheel-Trans service is provided by contracted accessible taxis
- ▶ Current contract term: July 2014 to July 2019



Background



Background

- ▶ The Auditor General included the TTC Audit Committee's request in her 2016 Audit Work Plan as part of a broader audit of the TTC's procurement processes
- ▶ Our report entitled "Review of Toronto Transit Commission Procurement Policies and Practices: Improving Materials Management and Purchasing Policies Can Potentially Result in Significant Savings" was reported to the TTC Board in June 2017

Audit Objectives and Scope

- ▶ **The focus of this review was to identify lessons learned that can help improve the upcoming procurement process for contracted accessible taxi services**

- ▶ Audit Committee request:
 - To review value for money issues raised by the decision to increase the minimum driver rate; and
 - To identify implications for future accessible taxi service procurement

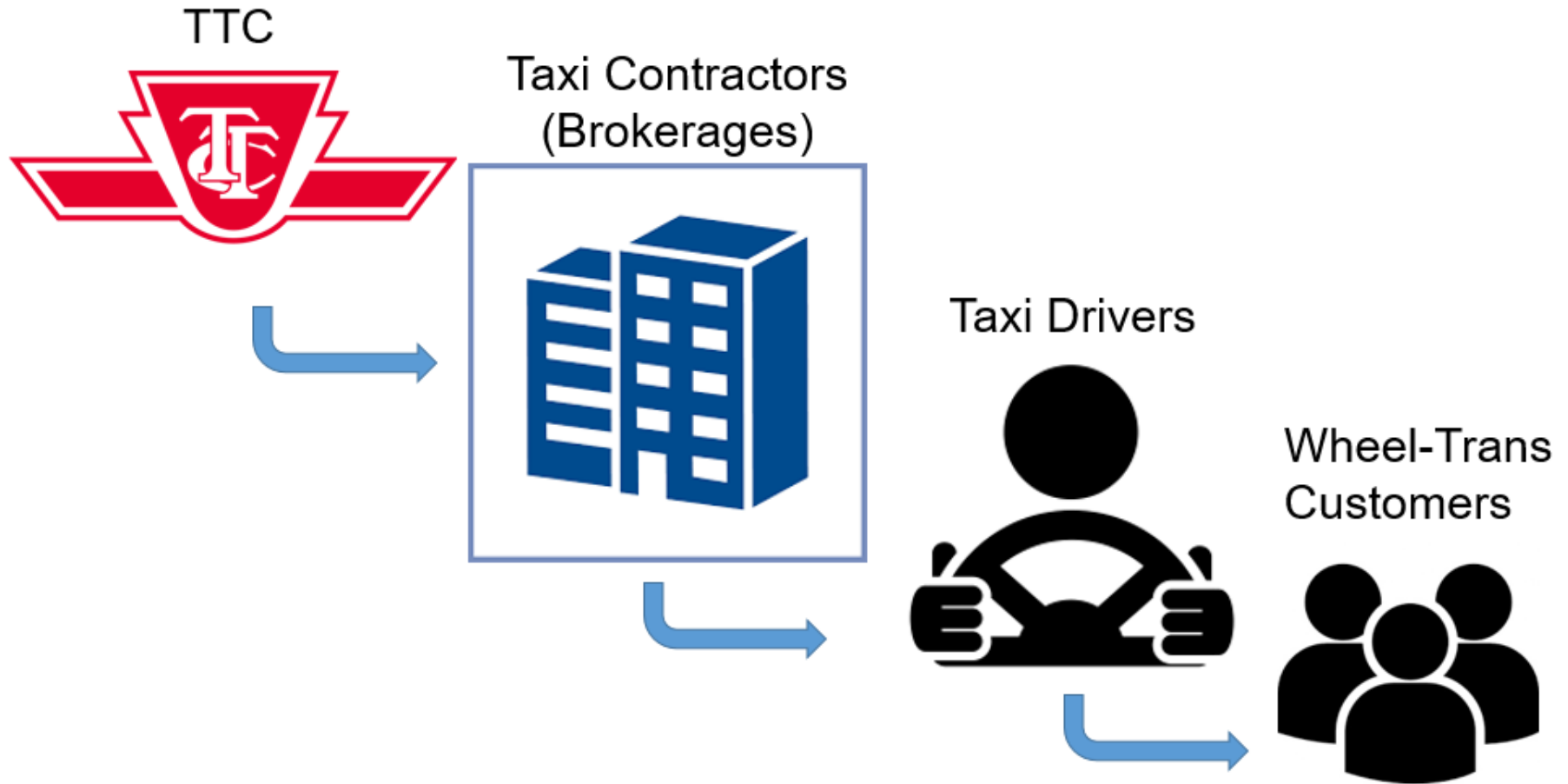
- ▶ Audit objectives aligned with the Audit Committee's request

Audit Findings

A – VALUE FOR MONEY ISSUES RAISED BY THE
DECISION TO INCREASE MINIMUM DRIVER RATE

B – IMPLICATIONS FOR FUTURE TTC PROCUREMENT

A – Value for Money Issues Raised by the Decision to Increase Minimum Driver Rate



A – Value for Money Issues Raised by the Decision to Increase Minimum Driver Rate

The awarded and amended minimum driver rates, inclusive of HST, for each year of the contract are:

Contract Year	Awarded Rate	Amended Rate
Year 1 (2014/15)	\$2.50 / km	\$2.83 / km
Year 2 (2015/16)	\$2.55 / km	\$2.88 / km
Year 3 (2016/17)	\$2.60 / km	\$2.93 / km
Year 4 (2017/18)	\$2.65 / km	\$2.98 / km
Year 5 (2018/19)	\$2.70 / km	\$3.03 / km

A – Value for Money Issues Raised by the Decision to Increase Minimum Driver Rate

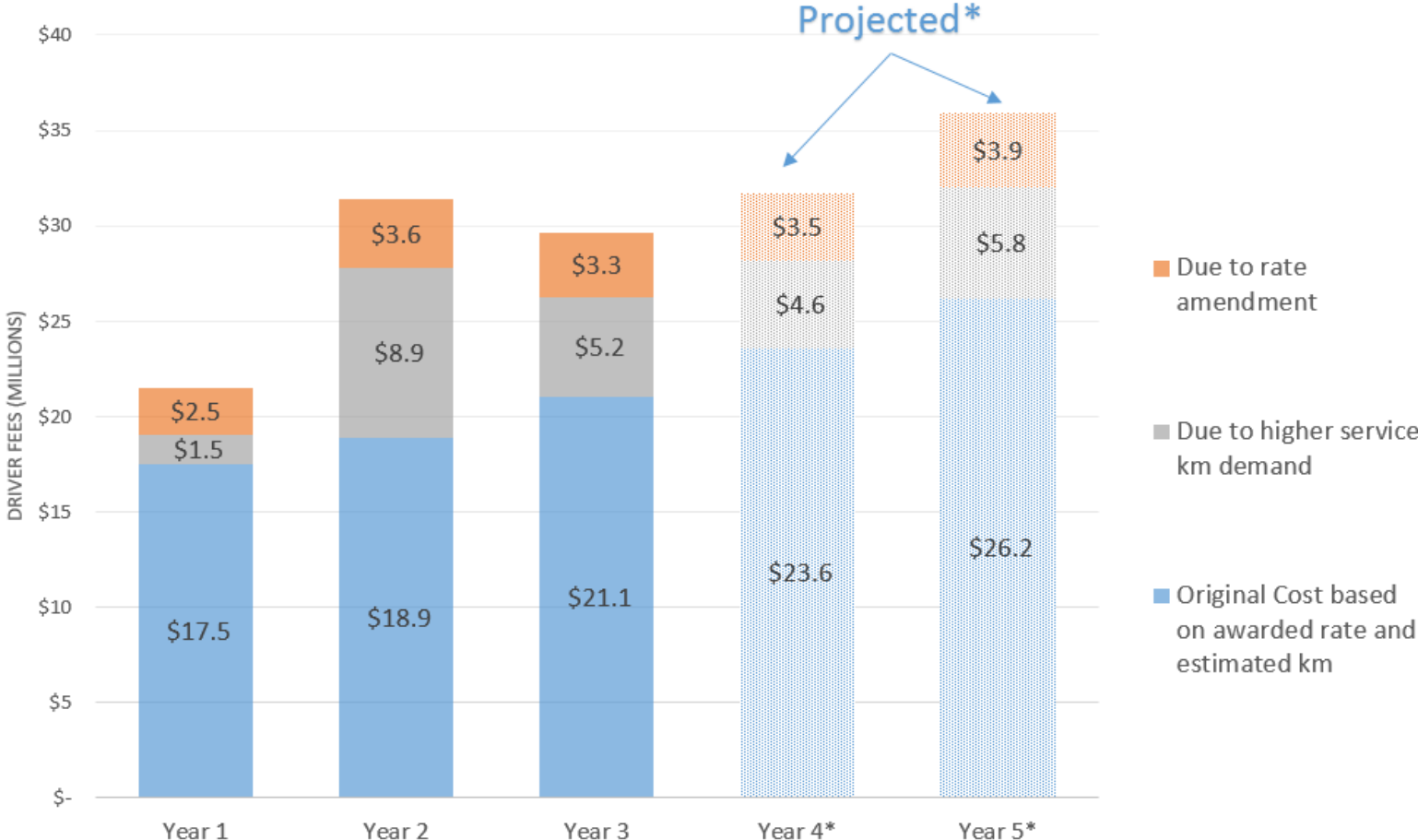
Financial Impact to TTC

- ▶ Projected driver fees will amount to \$150.1 million over the 5-year contract
 - **Includes \$16.8 million due to the rate amendment**
- ▶ Costs based on actual demand would have been paid regardless of rate amendment
- ▶ Impact of rate change was more significant due to higher service demand

Driver cost breakdown	Projected 5-year Cost (in millions)
Original cost based on awarded rate and estimated km	\$107.3
Increased cost due to higher actual service km demand	\$26.0
Increased cost due to rate amendment	\$16.8
Total Driver Costs	\$150.1

A – Value for Money Issues Raised by the Decision to Increase Minimum Driver Rate

Financial Impact to TTC



*Years 4 and 5 projected based on 11.5% Wheel-Trans ridership growth rate (2018 operating budget)

A – Value for Money Issues Raised by the Decision to Increase Minimum Driver Rate

Financial Impact to Accessible Taxi Drivers

- ▶ Driver gross income depends on:
 - service kilometres driven, and
 - the per kilometre rate received from a contractor
- ▶ At the amended rate of \$2.83/km:

Number of Service Kilometres Per Day	Estimated Gross Income (Year 1)
110	\$82,183
160	\$119,539

- ▶ TTC has no control over how contractors distribute service kilometres among drivers

A – Value for Money Issues Raised by the Decision to Increase Minimum Driver Rate

Financial Impact to Taxi Contractors

- ▶ In the first three years of the current contract, each of the four contractors was paid approximately \$1 million per year in management fees
- ▶ No financial impact on contractors from the minimum driver rate amendment

B – Implications for Future TTC Procurement

- ▶ According to TTC Legal and City legal staff, the Board's decision to amend the rate was within its jurisdiction
- ▶ However, the decision raised concerns about the transparency and fairness of the procurement process
- ▶ Current accessible taxi contracts will expire in July 2019; a new call document will be issued in 2018
- ▶ Our review identified lessons learned that can help improve the upcoming procurement process

B – Implications for Future TTC Procurement

Including Competitive Bidding on All Price Components

- ▶ A key issue in the last procurement process was the stipulation of a minimum driver rate
- ▶ TTC staff's intent was to balance service quality to customers, fairness to drivers, and fiscal responsibility to taxpayers
- ▶ However, stipulating a minimum driver rate does not allow for fully competitive bidding, which is a cornerstone of a fair and transparent procurement process
- ▶ Furthermore, TTC inserted itself into a role that is normally between the contractors and the driver



B – Implications for Future TTC Procurement

Ensuring Accurate, Complete and Reasonable Financial Estimate of Driver Income

- ▶ TTC staff’s financial analysis to determine the minimum driver rate did not appear to factor in HST remittances
- ▶ When HST is factored in, the difference in potential annual driver net income is \$11,389 (based on 150 km per day)

Amount Driver Receives	Net Income
\$2.5 / km (\$2.21 after HST)	\$46,611
\$2.83 / km (\$2.5 after HST)	\$58,000
Difference	(\$11,389)

B – Implications for Future TTC Procurement

Minimizing Confusion in the Procurement Process

- ▶ 9 addendums were issued; 2 extended the closing deadline
- ▶ Addendum 3 changed the rate to be “inclusive of HST”
- ▶ Issuing addendums is not uncommon; No issues noted by Fairness Commissioner
- ▶ A more thorough review of the call document before issuance could minimize addendums and changes

B – Implications for Future TTC Procurement

Involving Necessary Subject Matter Experts in Procurement Planning

- ▶ Procurement team included representatives from:
 - TTC Wheel-Trans operations
 - TTC Project Procurement Section
 - TTC Legal
 - External Fairness Commissioner

- ▶ Will be beneficial to include additional subject matter experts in planning stage, such as:
 - TTC Finance staff
 - TTC Risk Management staff

Audit Recommendations – Lessons Learned

1. Staff explore strategies that will help maintain stability and quality of driver services without needing to stipulate a minimum driver rate

2. Finance staff should review financial assumptions for accuracy, completeness, and reasonableness

3. A thorough review of draft call document should be done to minimize confusion and changes during the bidding process

4. Finance and risk management staff should review breach of contract provisions and other requirements to ensure they are correctly drafted

- Management agreed with all four of the recommendations

Thank you