City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER

FINANCIAL AUDIT

Marjorie Landa
Deputy Comptroller for Audit

Audit Report on the Compliance of Transdev North America, Inc. With Its Franchise Agreement

FM15-072A
June 26, 2015
http://comptroller.nyc.gov

THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, NY 10007

SCOTT M. STRINGER
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June 26, 2015

To the Residents of the City of New York:

My office has audited Transdev North America, Inc. (Transdev) to determine whether Transdev properly and accurately reported gross revenue on its monthly revenue reports, correctly calculated and paid its franchise fees to the City in a timely manner, and complied with certain major non-revenue terms of its franchise agreement (the Franchise Agreement) with the Department of Transportation (DOT). We perform audits of City franchisees as a means of increasing accountability and ensuring that they operate in compliance with their agreements.

The audit found significant deficiencies in Transdev's financial records resulting in estimated unreported revenue of $2.6 million from January 2013 through December 2014. Specifically, the audit found that Transdev underreported up to $1.56 million in ticket revenue, did not report $1 million in internet sales, and did not report $50,000 in advertising revenue to DOT. Based on the $2.6 million in potentially unreported revenue identified, we calculated that Transdev owes DOT up to $96,056 in franchise fees. The audit also found that Transdev failed to comply with several of the non-revenue terms of the Franchise Agreement.

The audit makes nine recommendations, including that Transdev follow consistent and proper accounting procedures for the recording and recognition of revenue, completely and accurately report all of the information required by the Franchise Agreement to DOT, and maintain detailed documentation supporting all sources of revenue. Transdev should also ensure its Point of Sales system has the capability to accurately record and track all ticket and voucher sales; remit additional franchise fees owed to DOT of up to $96,056; and adhere to and implement each of the contractual requirements cited in this report, including but not limited to immediately utilizing vehicles that are compliant with the Americans with Disabilities Act. The audit also recommends that DOT conduct a full post-implementation review of Transdev's compliance with the report's recommendations and ensure that all issues cited have been rectified, and recover all payments due from Transdev to the City as identified by DOT's compliance review.

The results of the audit have been discussed with Transdev and DOT officials, and their comments have been considered in preparing this report. Their complete written responses are attached to this report.

If you have any questions concerning this report, please e-mail my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,

Scott M. Stringer

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THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
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Audit Report on the Compliance of Transdev North America, Inc. With Its Franchise Agreement

FM15-072A

EXECUTIVE SUMMARY

This audit examined whether Transdev North America, Inc. (Transdev), properly and accurately reported gross revenue on its monthly revenue reports, correctly calculated and paid its franchise fees to the City in a timely manner, and if it complied with certain major non-revenue terms of the Franchise Agreement. On June 2, 2011, the City of New York, through its Department of Transportation (DOT), entered into a ten-year non-exclusive franchise agreement with Veolia Transportation Services, Inc. (now known as Transdev), to operate and maintain unsubsidized bus lines providing common carrier express bus service to passengers along designated routes between the Borough of Manhattan and LaGuardia Airport (LGA) and John F. Kennedy International Airport (JFK) in the Borough of Queens and between those airports. The Franchise Agreement allows Transdev to subcontract the day to day operations of the bus service to Golden Touch Transportation of NY, Inc. (Golden Touch), doing business as NYC Airporter, a subsidiary of Transdev.

For our scope period of Calendar Years 2013 and 2014, Transdev was required to pay the City 3% of its gross revenue derived from fares and any other source related to the operation of the bus service and 7% percent of the gross revenues derived from advertising. For Calendar Year 2013, Transdev reported $15,614,467 in gross revenue and remitted $474,318 in fees to DOT. For Calendar Year 2014, Transdev reported $16,489,755 and remitted $501,833 in fees to DOT.

Audit Findings and Conclusions

Our audit found significant deficiencies in Transdev's financial records resulting in estimated unreported revenue of $2.6 million from January 2013 through December 2014. Specifically, we found that the total quantity of tickets reported as sold on the monthly revenue reports did not correspond to the amount of revenue reported to DOT, resulting in a potential underreporting of revenue by Transdev of up to $1.56 million. In addition, while Transdev's records indicate that $4.6 million in Internet tickets were sold, it only reported $3.6 million to DOT resulting in an additional $1 million in unreported revenue. Finally, Transdev did not obtain documentation from Vector Media to support the advertising revenue reported. Therefore, we could not determine whether the advertising revenue reported to DOT was complete and accurate. Our analysis of advertising revenue identified $50,000 in unreported revenue for 2013 and 2014. Based on the $2.6 million in potentially unreported revenue identified, we calculated that Transdev owes DOT up to $96,056 in franchise fees.

In addition, we found that Transdev failed to comply with several of the non-revenue terms of the Franchise Agreement. Specifically, Transdev changed ticket rates without authorization from DOT, did not submit monthly revenue reports with the details required, lacked a complaint log, used at least two unauthorized buses that did not comply with ADA standards, did not equip buses with automated passenger counting equipment, did not provide to DOT monthly maintenance reports showing the status of preventative maintenance for the fleet and a report of road calls/breakdowns for the previous month, and did not submit quarterly reports of its performance.

We further found that DOT closely monitored timely payment of monthly franchise fees, charged interest for late payments and ensured that Transdev provided annual audited financial statements and maintained the required insurance, security deposit and letter of credit. However, at the same time, we found that DOT did not sufficiently oversee the Franchise Agreement with Transdev to ensure that Transdev fully complied with all terms and conditions as noted above.

Audit Recommendations

This report makes a total of nine recommendations, six to Transdev and three to DOT, including the following:

Transdev should:

- Follow consistent and proper accounting procedures for the recording and recognition of revenue;
- Maintain detailed documentation supporting all sources of revenue;
- Ensure the POS system has the capability to accurately record and track all ticket and voucher sales;
- Remit additional franchise fees owed to DOT of up to $96,056 ($61,279 in underreported ticket revenue, $30,157 in unreported Internet ticket revenue, and $4,620 unreported advertising revenue); and
- Adhere to and implement each of the contractual requirements cited in this report, including but not limited to immediately utilizing ADA-compliant vehicles.

DOT should:

- Conduct a full post-implementation review of Transdev's compliance with the report's recommendations and ensure that all issues cited have been rectified; and
- Recover all payments due from Transdev to the City as identified by this audit and any additional underpayments identified by DOT's compliance review.

Transdev Response

In its response to the draft report, Transdev stated that it categorically disagrees with the audit findings. Specifically, Transdev disagrees with the finding that it underreported ticket revenue, that it underreported internet ticket sales, that it used unauthorized non-ADA compliant buses, and that it lacked automated passenger counting equipment. Transdev did not specifically address the recommendations. However, Transdev agreed to review advertising revenue records and remit any amounts it determines is due to DOT. In addition, Transdev agreed to adhere to and implement each of the following contractual requirements cited in this report: obtain approval from DOT for future changes in fares, ensure DOT receives all information required regarding monthly revenue reports, implement and maintain a comprehensive complaint log, and ensure all reporting requirements are being met in connection with the required submission of quarterly performance reports.

DOT Response

DOT did not agree with the findings, although it did not address all of them in its response, and it did not specifically address the report's recommendations. Among the findings DOT did address was the finding that Transdev failed to submit complete documentation to DOT as required by its Franchise Agreement. However, DOT did not address several aspects of its inadequate oversight, including the lack of documentation supporting the maintenance of Transdev's buses. DOT stated that the report finding should have been that its oversight of the Transdev Franchise Agreement needs improvement. It maintained that its oversight has not been inadequate.

The full text of both Transdev's and DOT's responses are included as addenda to this report.

AUDIT REPORT

Background

On June 2, 2011, the City of New York, through its Department of Transportation (DOT), entered into a ten-year non-exclusive franchise agreement (the Franchise Agreement) with Veolia Transportation Services, Inc., to operate and maintain unsubsidized bus lines providing common carrier express bus service to passengers along designated routes between the Borough of Manhattan and LaGuardia Airport (LGA) and John F. Kennedy International Airport (JFK) in the Borough of Queens and between those airports. DOT has the option to renew the Franchise Agreement for two additional terms, an initial renewal term of ten years, and a second renewal term of five years. On July 28, 2014, Veolia Transportation Inc. changed its name to Transdev North America, Inc. (Transdev). The Franchise Agreement allows Transdev to subcontract the day-to-day operations of the bus service to Golden Touch Transportation of NY, Inc. (Golden Touch), doing business as NYC Airporter, a subsidiary of Transdev.

The Franchise Agreement requires Transdev to pay the City a percentage of gross revenue as compensation for the franchise as set forth in (a) and (b) below:

a) For revenues derived from advertising: 7 percent of the gross revenues; and

b) For revenues derived from fares and any other source, in any manner, either directly or indirectly arising from or related to the operation of the bus service, including but not limited to sponsorship and/or related fees.

The table below represents the percentages of revenues referenced in paragraph (b) above to be paid to the City from the first year to the twenty-fifth year of the Franchise Agreement.

Table I

Percentage of Gross Revenue

Year	Percent of Gross Revenue to be Paid as Compensation to the City
Year 1 through Year 5	3.00
Year 6	3.15
Year 7	3.30
Year 8	3.45
Year 9	3.75
Year 10 through Year 25	4.00

Compensation to the City shall be paid to DOT monthly, within 15 days after the expiration of the calendar month, except for the last payment which is due 10 days after the expiration, cancelation, or termination of the contract. Additionally, a monthly 1.5 percent late fee is applied to payments not made on or before the due date. The table below shows the amount of reported revenue for calendar years 2013 and 2014, and the fees paid to DOT for the respective years:

Table II

Reported Gross Revenues and Remittances

Gross Revenues Types	Calendar Year Reported		Remittance made to DOT	
	2013	**2014**	**2013**	**2014**
Passenger fares	$ 15,477,530	$ 16,311,255	$ 464,326	$489,338
Advertising	136,500	178,500	9,555	12,495
Other Revenues (fee adjustments)	437	-	437	-
Total Gross Revenues	$ 15,614,467	$ 16,489,755	$ 474,318	$501,833

Routes and Fares

The Franchise Agreement grants Transdev the right to operate and maintain unsubsidized bus lines providing common carrier express bus services to passengers using three designated routes. Route MQ-1 allows NYC Airporter to transport passengers to and from LaGuardia Airport from the borough of Manhattan via the Queens Midtown tunnel, route MQ-2 transports passengers to and from John F. Kennedy International Airport from the borough of Manhattan via the Queens Midtown tunnel, and route Q-53 transports passengers to and from LaGuardia Airport and John F. Kennedy International Airport. Furthermore, the agreement assigns fares for each designated route. Changes may be made to the fares or fare structure subject to the prior written approval of the Department (DOT). The following table details the different routes and their respective rates from the beginning of the contract:

Table III

Routes and Fares

Routes	Trip Type	Initial Rates in 2011	Rates from August 2012	Current Rates as of October 3rd, 2014
MQ-1-La Guardia to and from Grand Central, Penn Station, and Port Authority.	One Way	$ 12.50	$ 13.00	$ 14.00
	Round Trip	$ 22.00	$ 23.00	$ 26.00
MQ-2-JFK to and from Grand Central, Penn Station, and Port Authority.	One Way	$ 15.50	$ 16.00	$ 16.00
	Round Trip	$ 28.00	$ 29.00	$ 30.00
Q-53-JFK to and from La Guardia	One Way	$ 12.50	$ 13.00	$ 13.00
	Round trip	$ 25.00	$ 26.00	$ 26.00

Advertising Revenue

Pursuant to the Franchise Agreement, Transdev is allowed to sell and post advertisements on the exterior and interior of the bus which are subject to the terms and restrictions set by DOT. On August 3, 2011, Golden Touch Transportation of NY, Inc., entered into a Transit Advertising Contract with Vector Media Media Services, LLC (Vector Media), giving the company an exclusive right to advertise on its fleet. The contract requires that Vector Media pay Golden Touch the greater of a minimum annual guarantee or 50% of net advertising revenue.

Operational Requirements

In addition to the fees and compensatory requirements, Transdev must also comply with standards which outline the fleet, recording and report requirements, and advertising guidelines related to the bus service. These standards detail the requirements in relation to the fleet, the regulating bodies, and the various reports and records required by the Department.

Fleet requirements

The Franchise Agreement requires that Transdev maintain a minimum core fleet of twenty nine (29) buses. In addition to the core fleet, Transdev shall maintain a minimum of five (5) spare buses. Transdev shall provide DOT with a detailed list of all vehicles that includes the year, make, and model placed into service. Furthermore, the Franchise Agreement states that all core fleet vehicles used for the purpose of carrying out the operations of the franchise shall be diesel electric hybrid vehicles, have a seating capacity of thirty one (31), and must be fully compliant with the Americans with Disabilities Act (ADA). Spare vehicles must be alternative fuel vehicles or be equipped with the best available after-treatment technology to reduce particulate emissions, shall have a seating capacity of at least twenty five (25), and must be fully accessible and compliant with the ADA. Spare buses must only be used for the purpose of replacing no more than twenty percent (20%) of the core fleet not available due to maintenance on an authorized route on any date. Inclusively, the entire fleet shall be equipped with automated passenger counting equipment.

Recording and Reporting

The Franchise Agreement requires Transdev to submit various reports to DOT during the year. These include the monthly maintenance report showing the preventative maintenance of the fleet and road calls and breakdowns, quarterly complaint logs, and quarterly performance reports. The Franchise Agreement requires Transdev to provide DOT with data and reports of passenger counts upon request. In addition, Transdev is required to submit a monthly revenue report detailing gross revenue received from each source, the number of passengers on each authorized route by hour, the number of passengers paying each fare offered, advertising units sold and corresponding sales price, and advertising revenue forecasts. Transdev is also required to submit annual audited financial statements for the franchise.

Objectives

The objectives of this audit were to determine whether Transdev:

- Properly and accurately reported gross revenue on its monthly revenue reports and correctly calculated and paid its franchise fees to the City in a timely manner, and
- Complied with certain major non-revenue terms of the Franchise Agreement.

Scope and Methodology Statement

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. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit covered January 1, 2013 through December 31, 2014. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with Transdev and DOT during and at the conclusion of this audit. A preliminary draft report was provided to Transdev and DOT, and discussed at an exit conference held on May 28, 2015. On June 2, 2015, we submitted a draft report to Transdev and DOT with a request for comments. We received a written response from Transdev and DOT on June 16, 2015.

In its response to the draft report, Transdev stated that it categorically disagrees with the audit findings. Specifically, Transdev disagrees with the finding that it underreported ticket revenue, that it underreported internet ticket sales, that it used unauthorized non-ADA compliant buses, and that it lacked automated passenger counting equipment. Transdev did not specifically address the recommendations. However, Transdev agreed to review advertising revenue records and remit any amounts it determines are due to DOT. In addition, Transdev agreed to adhere to and implement each of the following contractual requirements cited in this report: obtain approval from DOT for future changes in fares, ensure DOT receives all information required regarding monthly revenue reports, implement and maintain a comprehensive complaint log, and ensure all reporting requirements are being met in connection with the required submission of quarterly performance reports.

Transdev's arguments opposing the findings are unpersuasive. As discussed in the auditor's comments below, Transdev's responses to the audit findings and recommendations are unsupported by evidence, in conflict with its written policies, and in conflict with its accounting and reporting practices.

DOT did not agree with the findings, although it did not address all of them in its response, and it did not specifically address the report's recommendations. Among the findings DOT did address was the finding that Transdev failed to submit complete documentation to DOT as required by its Franchise Agreement. However, DOT did not address several aspects of its inadequate oversight, including the lack of documentation supporting the maintenance of Transdev's buses. DOT stated that the report finding should have been that its oversight of the Transdev Franchise Agreement needs improvement. It maintained that its oversight has not been inadequate.

In its defense of Transdev's performance, DOT attacked the audit process. Specifically, DOT contended that the audit did not adhere to Generally Accepted Government Auditing Standards (GAGAS) and that "despite the report's assertion that the audit was conducted according to (GAGAS), we do not agree that these standards were always met." DOT references GAGAS evidence standards, Section 6.56, stating, "Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions."

However, DOT's attempt to defend its deficiencies by attacking the audit process is misplaced. Contrary to DOT's contention, we strictly adhered to Section 6.56 and obtained "sufficient, appropriate evidence" which provided a reasonable basis for our findings and conclusions. For example, as an illustration of what DOT claimed was a departure from GAGAS Section 6.56, DOT stated that,

> At no point prior to the issuance of the preliminary draft report, did the audit team interview DOT Franchise Unit management officials to discuss and obtain an understanding of the process DOT actually follows to oversee Transdev compliance with the franchise Agreement. Yet, one of the stated audit objectives was to assess DOT's oversight of Transdev compliance with its Franchise Agreement. The report does not include a description of DOT's oversight process. Given the audit objective, this does not meet the sufficiency of evidence stated.

As with a number of the supposed "facts" that DOT asserts in its response, it is mistaken. DOT's oversight was not part of the audit objectives, which were clearly stated at the outset of the audit and in the preliminary draft report and the draft report provided to DOT and Transdev. Our conclusions regarding DOT's oversight were therefore reported as an "Other Issue," rather than a "Finding" since they were outside of our audit objectives.

As the oversight agency, DOT is responsible for ensuring that Transdev comply with the terms of the Franchise Agreement. Thus, as a consequence of Transdev's noncompliance identified during this audit, we were *required* to report those issues and to recommend that DOT undertake corrective actions. According to the New York City Charter Chapter 14, § 365(c), the responsible agency (in this instance DOT) should "monitor the performance of the grantee and enforce the terms and conditions of any franchise, revocable consent or concession under its jurisdiction." Consistent with this requirement, the auditors interviewed DOT's Finance Manager for the Department of Franchises and Street Furniture, the Supervisor of Revenue, the Senior Executive Director of the Department of Franchises and Street Furniture, the Director of the Audit Coordination, and the Auditor General. The knowledge obtained from those meetings as well as the review of records, physical observations and analytical evidence were sufficient to form the basis for our conclusions regarding DOT's oversight.

By way of further arguing that the audit did not adhere to GAGAS, DOT stated,

> The auditors did not contact Transdev's CPA firm to explain why the language in the certified financial statements indicated Transdev followed an accrual basis of accounting when the auditors found that the cash basis of accounting was used by Transdev to record internet sales.

In addition, DOT contended that this finding is not consistent with Generally Accepted Accounting Principles (GAAP) and that "[t]he auditors should have questioned the CPA firm used by Transdev on how they account for the deferred revenue which is the difference between tickets sold and redeemed. The auditors never inquired."

However, rather than questioning the CPA firm, the auditors appropriately questioned the responsible Transdev officials because the financial statements and accounting policies are their responsibility. Pursuant to the American Institute of Certified Public Accountants, Inc. (AICPA)'s *Statement on Auditing Standards No. 1, Responsibilities and Functions of the Independent Auditor; Section 110: "Distinction Between Responsibilities of Auditor and Management .03"*,

> The financial statements are management's responsibility. The auditor's responsibility is to express an opinion on the financial statements. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Accordingly, Transdev, not the CPA firm it retains, is responsible for the accuracy of its information and the accounting policies it implements. Moreover, the scope of the CPA's financial statement audit engagement does not cover Transdev's compliance with the Franchise Agreement. Further, the CPA's audit is not required to and does not attest to the adequacy of Transdev's internal controls.

The full text of both Transdev's and DOT's responses are included as addenda to this report.

FINDINGS

Our audit found significant deficiencies in Transdev's financial records resulting in estimated unreported revenue of $2.6 million from January 2013 through December 2014. Specifically, we found that the total quantity of tickets reported as sold on the monthly revenue reports did not correspond to the amount of revenue reported to DOT, resulting in a potential underreporting of revenue by Transdev of up to $1.56 million. In addition, while Transdev's records indicate that $4.6 million in Internet tickets were sold, it only reported $3.6 million to DOT, resulting in an additional $1 million in unreported revenue. Finally, Transdev did not obtain documentation from Vector Media to support the advertising revenue reported. Therefore, we could not determine whether the advertising revenue reported to DOT was complete and accurate. Our analysis of advertising revenue identified $50,000 in unreported revenue for 2013 and 2014. Based on the $2.6 million in potentially unreported revenue identified, we calculated that Transdev owes DOT up to $96,056 in franchise fees.

In addition, we found that Transdev failed to comply with several of the non-revenue terms of the Franchise Agreement. Specifically, Transdev changed ticket rates without authorization from DOT, did not submit monthly revenue reports with the details required, lacked a complaint log, used at least two unauthorized buses that did not comply with ADA standards, did not equip buses with automated passenger counting equipment, did not provide to DOT monthly maintenance reports showing the status of preventative maintenance for the fleet and a report of road calls/breakdowns for the previous month, and did not submit quarterly reports of its performance.

We further found that DOT closely monitored timely payment of monthly franchise fees, charged interest for late payments, and ensured that Transdev provided annual audited financial statements and maintained the required insurance, security deposit and letter of credit. However, at the same time, we found that DOT did not sufficiently oversee the Franchise Agreement with Transdev to ensure that Transdev fully complied with all terms and conditions as noted above.

Up to $1.56 Million in Underreported Ticket Revenue

Our review of Transdev's monthly revenue reports revealed significant discrepancies between total tickets sold per route and the amount of revenue reported by Transdev. The monthly revenue reports serve as the underlying support for the revenue submitted to DOT and are generated using information derived from the Point of Sales (POS) system. Revenue per route should equal total tickets sold multiplied by the ticket rate. However, when we reviewed these figures, we found that the revenue reported did not correspond to the amount of tickets sold.

For example, in January 2013, Transdev sold 7,641 one-way tickets from Grand Central Station to JFK. At the time, Transdev's rate for this particular route was $16. Based on the quantity of tickets sold and the $16 rate per ticket, revenue generated for this one-way route during the month should equal $122,256 (7,641 tickets multiplied by the $16 rate). However, according to the monthly revenue report, this route only generated $111,543, which is $10,713 less than the amount we calculated, as shown in Table IV.

Table IV

Recalculated Revenue Compared to Actual Revenue Reported

Route	Tickets Sold	Approved Rate	Recalculated Revenue	Actual Revenue Reported to the DOT	Difference
Grand Central Station to JFK	7,641	$ 16	$122,256	$111,543	$10,713

Our audit found a consistent pattern of irreconcilable discrepancies over each of the authorized routes for the 24 months we reviewed. We brought these issues to the attention of Transdev officials, but they were not able to provide an explanation as to the cause of these differences. Subsequently, after a discussion with the POS vendor, Transdev officials stated that the differences identified were due to third-party and commuter book vouchers that were redeemed but lacked a dollar amount on the revenue reports because they were billed separately.[1] However, over the two year period reviewed, third-party voucher revenue totaled only $267,605, which was far less than the discrepancies identified in the audit. Although we considered Transdev's explanation when calculating underreported ticket revenue, it could not be validated and the differences could not be reconciled. As a result, we questioned the full amount of the differences and determined that Transdev did not report ticket sale revenue of $1,006,131 in 2013 and $559,054 in 2014. Therefore, in accordance with Section 4 of the agreement, Transdev owes an additional $42,170 for 2013 and $19,109 for 2014 as illustrated in Table V.

Table V

Schedule of Underreported Ticket Revenue and Late Fees[2]

Year	Revenue Reported to DOT (Passenger and Internet)	Recalculated Revenue (Total Quantity of Passenger count x rates charged)	Difference	Additional Remittance (3 %)	Late fees (1.5%)	Total remittance due
2013	$ 15,340,014	$ 16,346,145	$ 1,006,131	$ 30,184	$ 11,986	$ 42,170
2014	16,201,272	16,760,326	559,054	16,772	2,337	19,109
Total	$ 31,541,286	$ 33,106,471	$ 1,565,185	$ 46,956	$ 14,323	$61,279

At the exit conference, Transdev officials attempted to further explain the potential causes of the differences, but did not provide adequate supporting evidence to address the discrepancies in underreported ticket revenue. In addition, Transdev officials stated that the rates used in the

[1] According to Transdev, it has negotiated several cross ticket selling agreements (some in writing and some oral) with third party companies such as airlines, hotels, brokers, etc. in which they, the third party vendor, receive discounted pricing for directing passengers to Transdev's express bus service. Airlines will distribute vouchers for bus transportation to passengers whose flights have been diverted from one airport to another. Transdev will then collect the vouchers and bill the airlines at a later date. A commuter book is a booklet sold to airline employees that contains 20 one way vouchers at a discounted rate.

[2] The agreement requires that in the event that any payment is not made on or before the due date, a late fee interest rate of 1.5% per month should be applied from the date such payment is due.

calculation of underreported ticket revenue were inflated due to the use of the retail rate per route, rather than the discounted rates charged to third parties. However, according to Transdev, rates vary among different third parties. Since the vouchers could not be traced to specific third parties, we used the retail rates in our calculations.

Transdev Response: "Management disagrees with the auditors' overall findings and disagrees with the underreporting of ticket revenue of 'up to $1.56 Million'. Management believes that the auditors did not take into account a number of crucial factors that would have caused the reported discrepancy, namely:

Vouchers sold in advance – As a courtesy to some customers, GTT sells vouchers in bulk. An example of this transaction is the sale of voucher booklets for commuters and airline/airport employee booklets. These booklets typically have 20 or 25 individual ride vouchers with discounted fares of $9. The usage of this type of voucher on a ride would cause the ridership count to increase, however no revenue would be recorded. In this transaction, GTT records the sale of these types of vouchers/booklets to the DOT at time of sale, not when the vouchers are redeemed; GTT remits the appropriate portion of the revenue to the DOT.

When used, these pre-paid vouchers are recognized as a 'zero dollar' voucher on the DataTrax system, because the voucher was not generated from the DataTrax solution and has no way of recognizing or differentiating between voucher, airline, etc. the voucher as a third-party voucher, a commuter book voucher, or airline voucher.

The auditors stated that since they were not able to identify what specific type of voucher was recorded as a 'zero dollar' voucher, they would consider all 'zero dollar' vouchers as a discrepancy and use the total number of 'zero dollar' vouchers in their calculation."

"The company has entered into a number of discounted third-party agreements to sell vouchers on the company's behalf, see Exhibit I. These third parties include major airline carriers, bus and rail lines, and concierge management companies. The third-party vouchers are collected by the ticket agent at the time of redemption and a 'zero dollar' ticket is created for that ride. The third-party voucher is forwarded to the accounting department and is used as the basis for preparing invoices for payment. Based on the individual agreements, invoices are submitted on a monthly or quarterly basis for rides that occurred in a subsequent period. Due to the volume of vouchers received, it is not uncommon for a lag time of three months or more for the vouchers to be submitted to the third-party for payment. As a matter of practice, GTT reports to the DOT the total number of vouchers invoiced, and remits the amount owed to the DOT in the month that it is invoiced, regardless of when the third-party remits payment to the company. This timing difference between redemption and invoicing would cause a situation where total riders reported for a specific period does not match the calculated revenue for the period as there would be a larger number of riders for the period, yet no revenue attributed to the 'zero dollar' vouchers issued outside of the DataTrax system by other bus operators, airlines, concierges, etc."

"… The auditors were made aware of the different price points for each bus routes and the various discounts offered. The auditor contends that since they were not able to identify each individual voucher and the proper rate, the auditor would use the highest rate, the 'Approved Retail Rate' in their calculation. The suggestion of using a blended rate was brought up, however the auditor refused to do so, further inflating the amount of the supposed discrepancy.

GTT moved to a new third-party ticketing system in January of 2015. GTT management will work with the new provider to better facilitate the reconciliation of discounted third-party vouchers that are not generated in the system."

DOT Response: "We disagree with this audit finding because the method used to determine whether Transdev paid the correct revenue to the City is flawed. Transdev sells tickets at different rates less than the $16 retail ticket rate used by the auditors in their calculations of underreported revenue. Transdev has discounted cross-ticket arrangements with certain vendors. These ticket pricing agreements establish various prices for tickets, which range from $9 to $13 a ticket, depending upon the vendor. When the auditors multiplied total passenger counts by $16, they overstated Transdev's revenue projections because they used the highest rate possible. No effort was made to use a blended rate in the calculation. Simple math suggests that revenue will be overstated when Golden Touch's discounted rates are applied. By using actual rates charged, the revenue will drop significantly and the overage, if any, may be diminutive."

"… Finally, regarding DOT's oversight of Transdev revenue, DOT reviews and relies on independent, certified financial statements prepared by a third-party accounting firm that is on the Comptroller's approved list of accounting firms for City use."

Auditor Comment: Transdev's attributes the discrepancy between the number of tickets sold and the revenue reported to DOT to voucher booklets sold in advance and lag time in billing for third-party vouchers. However, this claim is not supported by the records Transdev provided during the course of the audit. While Transdev claims that the difference between the number of tickets it sold and the revenue it reported was partially the result of the sale of voucher booklets, during the course of the audit, Transdev did not provide documentation to enable a reconciliation of these tickets sales to the revenue reported. It is incumbent upon Transdev to have a POS system that documents the rates charged and revenue received for each ticket sold. Absent that, Transdev cannot be assured that it is accurately reporting its revenue, DOT cannot be assured that it is receiving the percentage the City is due under the Franchise Agreement, and compliance with the Franchise Agreement can never be fully assessed.

However, even if we were to accept Transdev's claims, there are still over 32,000 tickets unaccounted for and Transdev's records are insufficient to establish the exact revenue received from their sale. According to information provided by the POS vendor, a total of 85,204 "zero dollar" vouchers were redeemed between the periods of January 1, 2013, through December 31, 2014. Over the same period, Transdev reported 18,942 "zero dollar," third-party voucher redemptions resulting in a difference of 66,262 tickets. Transdev further asserts that voucher booklets account for the remaining differences. However, according to the POS system, Transdev only sold 1,642 booklets. Each booklet contains 20 vouchers which results in a potential population of an additional 33,040. Assuming, to Transdev's benefit, that every voucher in each booklet sold was redeemed, there is still a difference of over 32,000 tickets that were redeemed but with no revenue associated to them. This difference is too great to be explained by a lag in billing, since it is almost double the amount reported by Transdev for third-party vouchers sold over the two years reviewed.

Transdev also asserts that each individual voucher in the voucher booklet is scanned and appears on the POS system as a redeemed ticket. However, we were not able to trace the transaction numbers used for the voucher booklets purchased to the redeemed ticket report which also includes transaction numbers. Thus, neither this explanation nor the recording of "zero dollar" vouchers explains the significant discrepancy between tickets redeemed and the revenue reported.

Accordingly, even if the missing tickets and associated revenues are attributed to the third-party vouchers, and each third-party is charged a different rate, Transdev does not maintain records that would have enabled it to assign unreported tickets to a specific party at a specific rate other than the standard rate. We therefore used the standard rate for each trip to determine that the possible underreported revenue is *up to a maximum of* $1.56 million. If Transdev could establish that lesser amounts were received for specific discounted ticket sales, the total underreported passenger revenue could be less. Had Transdev's records and bookkeeping systems been sufficient to enable it to provide a reconciliation of the ticket sales with revenue reported, this would not have been an issue.

With regard to DOT's oversight, DOT stated it reviews and relies on the certified financial statements provided by Transdev. However, it is not clear what type of reliance DOT places on this information since the scope of the CPA engagement does not cover Transdev's compliance with the Franchise Agreement and it does not attest to the adequacy of Transdev's internal controls. Further, the financial statements report revenue on a net basis and do not disclose the components of the deductions from gross revenue. Notwithstanding these issues, Transdev's certified financial statements contain more revenue, even on the net basis, than the amount reported to DOT. DOT's position that "the overage, if any, may be diminutive" is not based on factual or reliable evidence.

$1 Million in Unreported Internet Ticket Sales

Transdev failed to report approximately $1 million in revenue generated from its Internet ticket sales. Our audit found questionable accounting practices, including the use of two separate computer systems to process Internet sales that do not reconcile with each other. As a result, we could not quantify the full extent of the unreported revenue. At a minimum, Transdev should have reported an additional $1,005,220 and based on that, they should have paid DOT an additional $30,157.

For general ticket sales, Transdev uses the cash basis of accounting, which recognizes revenue when cash is received. For Internet sales, Transdev claims to use the accrual basis of accounting for recognizing revenues when services are provided (tickets are redeemed, i.e., when customers ride the bus). However, notwithstanding the fact that all ticket sales eventually result in revenue to Transdev, it does not utilize a deferred revenue account to account for unredeemed tickets as required by Generally Accepted Accounting Principles (GAAP). Further, initial Internet sales are recorded in a computer system that is separate from the POS system. As noted above, these two systems do not reconcile with each other. Consequently, Transdev has failed to report its revenue from Internet ticket sales for tickets that have not been redeemed.

When purchasing tickets through the website, customers receive a voucher which must be presented to a ticket agent at the time of use. When the voucher is used, a ticket is generated which is recorded in the POS system as redeemed. According to Internet vouchers, all sales are final and Internet tickets are only valid for 90 days after purchase. Accordingly, sales from tickets that are not used within 90 days should be recognized as revenue and reported. However, Transdev does not have a system that reconciles the tickets that were sold to the tickets that were actually redeemed. Therefore, there is no way of knowing which specific tickets are outstanding at any given point in time.

In our audit, we compared Internet tickets sold per the initial system (website) to Internet tickets redeemed and reported (POS system) to DOT. Through this comparison, we identified a difference of approximately $1 million or 21 percent of total Internet sales for the two year period. Table VI below provides a breakdown of our findings.[3]

Table VI

Schedule of Internet Tickets Sold Compared to Internet Tickets Redeemed and Reported to DOT

Month(s) and Year	Amount of Revenue for Tickets Sold	Amount of Tickets Redeemed and Revenue Reported	Difference
Jan-Dec 2013	$2,011,299	$1,408,067	$603,232
Jan-14	159,562	128,677	30,885
Feb-14	144,826	144,826	-
Mar-14	203,355	174,270	29,085
Apr-14	204,447	165,492	38,955
May-14	255,621	224,744	30,877
June-14	242,283	206,533	35,750
July-14	261,548	229,150	32,398
Aug-14	262,943	239,139	23,804
Sept-14	212,289	170,971	41,318
Oct-14	239,586	171,721	67,865
Nov-14	222,270	166,880	55,390
Dec-14	230,773	215,112	15,661
Total	$4,650,802	$3,645,582	$1,005,220

As reflected in this chart, there is a $1,005,220 difference in Transdev's reported income for a two-year period ($3,645,582) and the amount of money it generated from Internet sales ($4,650,802). Because of Transdev's failure to maintain its records in a manner that would allow reconciliation of the tickets sold to the ticket sales booked as revenue, we could not determine exactly how much had been unreported at any point in time. Since Internet tickets expire after 90 days, it is not possible for total unredeemed ticket sales to exceed total sales over a 90-day period and still be accurate. However, according to our comparison, there is over $1 million in unearned revenue (unredeemed tickets); but total sales over the last 90 day period in Table VI (October

[3] For presentation purposes, the 2013 results were aggregated.

through December) only amount to $692,629. The difference in actual sales and reported sales suggests a systematic underreporting of Internet ticket revenue to DOT.

At the exit conference, Transdev officials presented several possible explanations as to why there is a large discrepancy between internet sales and redemptions. However, they were unable to provide evidence to support their various explanations.

> ***Transdev Response: "***GTT disagrees with the auditor's overall finding and disagrees with the unreported $1 million in ticket sales. GTT believes that the auditor is not taking into account a number of factors that could have caused the reported discrepancy, namely:
>
> **Advanced Bookings vs. Revenue**
>
> Consumers who purchase tickets through the internet typically purchase tickets in advance of their travel. It is not uncommon for a traveler to plan their vacation six to ten months in advance to take advantage of reduced fares for early bookings. Advanced tickets sold in the current period, but redeemed in a future period could cause the gross sales to be higher than revenue earned in the current period. The existence of advanced bookings for future travel was made known to the auditors.
>
> **Credits and Refunds**
>
> The auditors used Gross Sales as the basis for their argument, and did not account for credits, and /or manual check refunds issued.
>
> **Unredeemed Tickets**
>
> Management recognizes that there is a small percentage of tickets and vouchers sold that are never redeemed. Many factors could cause a traveler not to redeem their ticket, from canceled flights to a change in travel plan. Although there is a 90-day redemption window, it is management's business practice to accept all tickets and vouchers presented regardless of purchase date. This practice was reported to the auditors by the independent third-party, Peter Wrona from DataTrax in an email Mr. Wrona sent to the auditors explaining the internet variances the Auditors were questioning.
>
> Management believes that catering to, and being amendable to, the customer will lead to positive reviews and customer loyalty. Regardless of when the internet voucher is presented, if it was past the 90-day redemption window, GTT would remit payment to the DOT for that voucher.
>
> The aforementioned issues were all brought to the auditors' attention prior to the issuing of their report, however GTT was unsuccessful in persuading the auditors to amend their findings. It is the auditors' contention that the company needs to remit payment for all sales, inclusive of future bookings and unredeemed tickets. The auditor further suggests that in cases where there are cancellations, credits, or refunds on the advanced sales, the company should reconcile those adjustments in the next remittance to the DOT. The auditor confirmed that they were able to trace each internet redemption from the ticketing system to the remittance reports to the DOT, without exception. All internet revenue for internet vouchers redeemed was properly submitted to the DOT *WITHOUT EXCEPTION.* [Emphasis in original.]
>
> GTT management will discuss the auditor's findings with their CPA firm."

DOT Response: "We disagree with this audit finding since it is not consistent with Generally Accepted Accounting Principles (GAAP). The auditors compared revenue from tickets sold, to revenue redeemed to determine a variance of unreported revenue. According to GAAP, revenue is supposed to be recorded when the service is delivered, not when it is sold. *Transdev* did just that, and reported revenue when the service was taken. This redeemed revenue should have been compared to the amount reported to DOT. During the exit conference this was mentioned to the auditors and they stated that the redeemed revenue matched perfectly with the amount reported to DOT. The auditors should have questioned the CPA firm used by Transdev on how they account for the deferred revenue which is the difference between tickets sold and redeemed. The auditors never inquired."

Auditor Comment: Transdev's response is speculative, without specific evidence to support it, and, thus, did not provide a definitive explanation for the discrepancy. Further, its response is contradicted by its own written policies which specify that internet tickets are valid for only 90 days from the date of purchase. Transdev's cancellation policy expressly states that "If your travel plans get delayed, then bus tickets are valid for up to ninety (90) days from the date of purchase and are **NON-REFUNDABLE.**" [Emphasis in original.] Indeed, after purchasing an internet ticket the customer is provided with a receipt that lists the specific date the ticket expires. It is unclear why a customer would purchase a ticket online if it automatically expires before they intend to use the service. While Transdev states that "[I]t is not uncommon for a traveler to plan their vacation six to ten months in advance to take advantage of reduced fares for early bookings," it never provided evidence of the number of passengers who purchased their bus tickets that far in advance. Accordingly, we based our findings entirely on the documentation presented, including Transdev's written policy that it presents to its customers.

However, despite its written policy, Transdev stated "[I]t is management's business practice to accept all tickets and vouchers presented regardless of the purchase date." Transdev said that this practice had been confirmed to the auditors by an official from the POS vendor. Its argument is misleading, however. In fact, the POS vendor stated that there were an unspecified number of internet tickets that were recorded with an incorrect expiration date. In the event that this affected a customer due to changed plans or delayed flights, the ticket agent would issue a "zero dollar" voucher. At no point in time did the POS vendor state that acceptance of expired tickets was the general policy.

In the event that the aforementioned scenario took place, however, the number of "zero dollar" vouchers would increase. This would have affected the previous finding, and it would also have resulted in unreported internet revenue to DOT. This is because Transdev uses the value of redeemed internet tickets to report internet revenue. These re-issued vouchers would have been paid for when originally purchased but no revenue would have been recognized at that time. When they were redeemed, however, their redemption would have been recorded with no dollar value, and so no revenue would be reported at that time as well. We were not provided with documentation showing the frequency of this occurrence.

The Franchise Agreement requires Transdev to maintain a complete and accurate set of books and records that would allow the City to determine whether Transdev is in compliance with the Franchise Agreement. However, Transdev did not use a consistent accounting method to account for its revenue. Given the many factors asserted by Transdev that dictate variable ticket prices online and through the sale of vouchers, it is not clear why Transdev would choose to depart from its use of cash basis of accounting for these particular streams of revenue.

In its response, DOT contends that Transdev was following GAAP. As DOT correctly states, GAAP requires revenue to be recognized when the service is provided. However, for Transdev to have properly followed GAAP, it would have had to establish a liability account to track deferred revenue and to recognize revenue for non-refundable tickets when the ticket expires. Transdev does neither.

Advertising Revenue Not Supported

Transdev did not obtain documentation to substantiate that the revenue generated from bus advertisements was complete and accurate. On August 1, 2011, Golden Touch granted Vector Media the exclusive right to sell advertisements on at least 80 percent of its bus fleet. The agreement requires Vector Media to pay Golden Touch the greater of a minimum annual guarantee that increases annually or 50 percent of net advertising revenue. Transdev is required to remit 7 percent of the gross advertising revenues to DOT.

According to Transdev officials, Vector Media only provides a verbal annual summary of net advertising revenue and subsequently remits payment. Transdev's failure to require and maintain a written statement of advertising revenue violates Section 8.1 of Transdev's Franchise Agreement with DOT, which requires Transdev to "maintain complete and accurate books of account and records of the business, ownership, and operations of the Franchisee with respect to the Bus Service, in a manner that allows the City to determine whether the Franchisee is in compliance with the Agreement." Without documentation supporting the amount of revenue generated by Vector Media, there is no assurance that the revenue reported to DOT is complete and accurate.

Although we did not receive adequate documentation, we were able to review canceled checks from Vector Media received by Transdev and based on those, identified $50,000 in payments that were not reported to DOT. Specifically, Transdev collected $173,750 in 2013 and $191,250 in 2014 from Vector Media. However, it failed to report $37,250 in 2013 and $12,750 in 2014 to DOT, thus it owes DOT an additional $3,582 for 2013 and $1,038 for 2014. See Table VII for a breakdown.

Table VII

Schedule of Unreported Advertising Revenue and Late fees

Year	Advertising Revenue Received by Transdev	Revenue Reported to DOT	Unreported Revenue (difference)	Fees owed to DOT (unreported revenue X 7%)	Late fees (1.5%)	Total Fees Owed to DOT
2013	$ 173,750	$ 136,500	$ 37,250	$ 2,607	$ 975	$ 3,582
2014	191,250	178,500	12,750	892	146	1,038
Total	$ 365,000	$ 315,000	$ 50,000	$ 3,499	$ 1,121	$ 4,620

Transdev Response: "Subsequent to the initial report, GTT received supporting documentation from the advertiser and forwarded the information to the auditors. Management agrees that a reconciliation needs to be completed and will remit any amounts due to the DOT."

Transdev Failed to Comply with Major Franchise Agreement Operational Requirements

The audit disclosed that although the Franchise Agreement established multiple operational requirements, Transdev did not adhere to the following requirements:

- **Transdev charged unauthorized rates to its passengers.**

  On October 3rd, 2014, Transdev increased its rates without the prior written approval of DOT, contrary to express requirements set forth in the Franchise Agreement. Section 5.2 of the Franchise Agreement states that "the fares and fare structure, at all times, shall be subject to the prior written approval of the Department." The last rate approval granted by DOT was on August 6, 2012. Detailed information regarding the current rate structure can be found in Table III, Routes and Fares.

  Transdev Response: "In order to increase ridership, increase the number of third-party sellers, and increase awareness, Management has used their discretion in providing a number of price levels and discounts, particularly with the transportation to the airport from the City. These various promotional initiatives were presented to DOT and approved (please refer to Exhibit II)."

  "Management will continue to work closely with DOT to ensure that they are in accord and approve future promotions, as well as, changes in fares."

  Auditor Comment: Transdev's response did not acknowledge or address its unauthorized October 3, 2014, rate increase. As per the Franchise Agreement, Transdev may not unilaterally raise rates without prior written approval from DOT.

- **Monthly revenue reports are not submitted with the detail required as per the agreement.**

  Transdev's monthly revenue report only included a total summary of tickets sold per route for the month. It did not include passengers per hour, the number of passengers paying each fare offered by Transdev, the number of advertising units sold, the type of unit, and the sales price and advertising revenue forecasts. Section 4.3 of the Franchise Agreement requires that, "the Franchisee shall submit with each monthly payment a revenue report in a format and manner acceptable to the Department detailing for the relevant month: (1) the Gross Revenue received by the Franchisee from each source; (2) the number of passengers on each authorized route, including passengers per hour; (3) the number of passengers paying each fare offered by the Franchisee; (4) for all advertising sales, the number of advertising units sold, the type of unit, and the sales price; (5) advertising revenue forecasts for the next three months; and (6) detailed information on the source and amount of any Gross Revenue received by the Franchisee from any source other than fares and advertising."

Transdev Response: "GTT and the DOT have collaborated on the format and data that is reported on a monthly basis. Please refer to Exhibit III containing an email from the then franchise executive director confirming a meeting to review reporting procedures, and format/content of monthly reporting.

We will continue to work closely with the DOT to ensure that they receive all information required."

Auditor Comment: Based on the email attached to Transdev's response, it appears Transdev was providing even less information than it does now. The format for the monthly revenue report is clearly outlined in the Franchise Agreement and should be followed. Had Transdev complied with the requirements set forth in the Franchise Agreement, many of the revenue reporting problems identified in this audit would have been addressed.

- **Lack of a complaint log.**

Sections *6.15* and *6.16* of the Franchise Agreement require Transdev to maintain a log of complaints received from the public whether in writing, by telephone, in person, via e-mail or other electronic means. The log must be provided to the Department quarterly, or more frequently upon Department request. The log must include the date of the complaint, the name, address, and telephone number of the complainant (if provided by the complainant), the nature of the complaint, and a summary of the Franchisee's response. Transdev did not maintain such log, and did not provide DOT with it as required by the Franchise Agreement. DOT officials stated that they did not start requesting the complaint log until January 2015, four years after the start of the Franchise Agreement.

> ***Transdev Response:*** "GTT will work with the DOT to implement and maintain a more comprehensive complaint log in the future."

- **Unauthorized and non-ADA compliant buses used to transport passengers.**

During an unannounced observation conducted on December 22, 2014, auditors purchased round-trip tickets to travel from LGA to JFK, and were directed to a Golden Touch 16 seat Mercedes Sprinter bus. This bus was not listed on the authorized list of vehicles and did not fit the size and passenger requirements set forth in the Franchise Agreement. On their return trip to LGA from JFK, the auditors were directed to a Golden Touch 16 seat Mercedes Sprinter, also not listed on the authorized list of vehicles.

Section 6.3.1 of the Franchise Agreement states that the core fleet (29 buses) shall have a seating capacity of 31 passengers, and shall be fully accessible and be compliant with the ADA. In addition, the Franchise Agreement requires spare buses (five buses) to have a seating capacity of 25 passengers and like the main fleet, comply with the ADA. The two buses boarded by the auditors were not wheelchair accessible.

The Franchise Agreement also states that "the vehicle list and all changes to the vehicle list throughout the Term shall be subject to the prior written approval of the Department." The Golden Touch buses that were used during our unannounced observation were not identified to DOT and Transdev did not receive written approval for their use.

Transdev Response: "The NYC Airporter core fleet of vehicles are all ADA compliant. The bus specs and vehicles photos have been submitted to the auditors and the DOT.

On December 22, 2014, the date in which the auditors conducted their single unannounced inspection, was one of the busiest days leading up to the Christmas holiday. The run in question was the Q-53 shuttle run, which is the inter-airport shuttle between JFK and LGA Airports. With the core fleet in operation and the dedicated vehicle out of service, we were challenged with either 1) not operating the run for the day which would have caused great disturbance to the hundreds of passengers that utilize that bus run every day to connect to their flights, or 2) use a GTT vehicle to continue the service on time, and uninterrupted knowing that GTT has standby ADA vans on location at each of the airports. Had an ADA passenger required the shuttle services an ADA van would have been dispatched to the curb within minutes to accommodate the passenger. Management made a decision to maintain service, rather than suspend service for a day because of a vehicle mechanical problem. This shuttle run is crucial to the traveling public as it connects the two airports."

Auditor Comment: Transdev's Franchise Agreement unequivocally requires it to only use DOT approved, ADA compliant buses. Although the vehicles on the NYC Airporter's core fleet are ADA compliant, the buses which the auditors boarded were not part of the core fleet or preapproved spare fleet. The agreement requires a spare fleet of five buses which should be readily available should a vehicle be placed out of service. However, Transdev did not comply with this requirement. Had it complied, Transdev would have had an ADA compliant bus available for the runs in question.

- **<u>Buses were not equipped with automated passenger counting equipment.</u>**

Pursuant to Section 6.17 of the Franchise Agreement "all buses shall be equipped with automated passenger counting equipment and data and reports of passenger counts shall be available to the Department on request." During the scope period, the buses used by Transdev were not equipped with automated passenger counting equipment and thus reports of passenger counts generated from an automated system were not available to DOT.

Transdev Response: "The NYC Airporter fleet is equipped with automated passenger counting equipment. The DataTrax solution tracks passenger counts, by day, time of day, day of week, etc "

Auditor Comment: Transdev's response is misleading. The automated passenger counting equipment was not implemented until January 2015. During walkthroughs and interviews, Transdev officials stated that the buses were not equipped with automated passenger counting equipment, notwithstanding a clear requirement for such equipment in its Franchise Agreement.

- **<u>Transdev did not provide DOT with monthly maintenance reports showing the status of preventative maintenance for the fleet, as well as a report of road calls/breakdowns for the previous month.</u>**

Section 6.5 of the Franchise Agreement states "that the Franchisee shall provide the Department with a monthly maintenance report showing the status of preventative maintenance for the fleet, as well as a report of road calls/breakdowns for the previous month." When our office requested the maintenance reports from DOT for October, November and December 2013, DOT officials informed us that they did not have them. DOT began receiving the maintenance reports in October 2014. Prior to October 2014, DOT only received a letter from Transdev stating that the NYS Department of Transportation had inspected each vehicle.

> ***Transdev Response***: "The NYC Airporter fleet is inspected by the DOT every six months. If the vehicle does not pass a rigorous inspection, it is taken off the road until the proper adjustments are made and a negative mark is placed on the company. As part of the DOT inspection there is a review of the maintenance log and all maintenance performed during the period. Although the logs were not submitted to the DOT on a monthly basis, the DOT is acutely aware of the status of each vehicle in the fleet. The information contained within the logs has been made available to the DOT inspectors and can be made available to any party requesting the information. Taking the maintenance logs out of the vehicle would be a violation of the DOT rules, as each vehicle can be pulled over for a surprise inspection by the DOT and the maintenance log would be required to be on hand. GTT will work with the DOT and agree on an adequate level of detail they require on a monthly basis."
>
> ***Auditor Comment:*** Contrary to Transdev's response, DOT was not "acutely aware" of the status of each vehicle. As the record showed, in 2013, Transdev self-reported to DOT that it passed inspection. In 2014, Transdev provided quarterly letters with a sample of only *one* bus inspection. Furthermore, Golden Touch's fleet, which includes those buses used for the operation of this Franchise Agreement, failed inspection over 30 percent of the time during 2013 and were deemed unacceptable by NYS DOT.
>
> It was not until the audit engagement letter was sent that Transdev inquired from DOT whether the information it was providing was adequate. DOT was not provided with inspection reports until after the audit was initiated. While a positive development, the Franchise Agreement requires, that Transdev provide monthly maintenance reports to DOT. Transdev should comply with this requirement.

- **<u>Transdev did not submit quarterly reports of its performance.</u>**

Section 8.8 of the Franchise Agreement states that the "Franchisee shall monitor, record and create reports of its performance including, but not limited to, trip times, public information dissemination, cleanliness of buses and bus stops, graffiti removal, litter collection at bus stops, breakdowns, climate control and on-time performance." These reports must be submitted on a quarterly basis. Both DOT and Transdev stated that they did not request or provide these quarterly reports. DOT stated that they are trying to incorporate the performance reports within the complaint logs that they started requesting in January 2015.

> ***Transdev Response:*** "GTT will work with DOT to ensure all reporting requirements are being met and that they are satisfied with the information that is being provided."

Other Issue

DOT Did Not Adequately Oversee Transdev's Compliance with the Franchise Agreement

DOT did not ensure that Transdev complied with various terms of its Franchise Agreement. New York City Charter Chapter 14, § 365(c), requires the responsible agency (in this instance, DOT) "monitor the performance of the grantee and enforce the terms and conditions of any franchise, revocable consent or concession under its jurisdiction." We found that, as a result of DOT's inadequate oversight, Transdev was allowed to:

- underreport ticket revenue by up to $1.56 million;
- underreport Internet ticket sales by at least $ 1 million;
- underreport advertising revenue by at least $50,000;
- conduct business with a company that does not provide documentation to substantiate revenues and thereby failed to maintain required documentation of revenues;
- charge unauthorized rates to passengers;
- not submit monthly revenue reports with the details required by the Franchise Agreement;

> ***DOT Response:*** "DOT receives the following information each month: gross revenue received by the Franchisee; the number of passengers on each route; and the number of passengers paying each fare. These are the most important aspects of the monthly revenue report; however, we will follow up with Transdev to receive the additional information required by Section 4.3 of the Franchise Agreement."

- not maintain a complaint log;
- use unauthorized and non-ADA compliant buses to transport passengers

> ***DOT Response:*** "…Transdev used the Golden Touch 16 seat Mercedes Sprinter bus, which the auditors rode on December 22, 2014, three days before Christmas, so that passengers would not have to have a long wait time for buses that day. These vehicles were additional vehicles used to accommodate peak holiday demand and are not characteristic of the regular fleet. DOT had not previously approved these vehicles, but their use does not alter the fact that the core fleet had approved spares that are ADA-compliant.
>
> This finding is misleading in that it is using an exception reporting approach based upon a limited number of observations, which may easily lead the reader to believe that many vehicles used in the fleet are not ADA compliant. This finding does, however, suggest that the fleet requirement in the agreement is too low. We can discuss the possibility of adding additional ADA compliant vehicles with Transdev to accommodate increased demand."

Auditor Comment: Rather than challenging the audit approach, DOT should ensure all its buses are ADA compliant. We have no assurance that this was an isolated incident.

- use buses which are not equipped with automated passenger counting equipment;
- not provide DOT with monthly maintenance reports showing the status of preventative maintenance for the fleet, as well as a report of road calls/breakdowns for the previous month ;and
- not submit quarterly reports of its performance.

Adequate oversight by DOT is necessary to ensure that City franchisees are properly carrying out the terms of their agreements and reporting all required revenue to the City. In this case, DOT did not properly oversee the Franchise Agreement, resulting in lost revenue to the City and potential safety risks. Further, DOT's failure to adequately oversee and enforce the terms of the Franchise Agreement may have prevented potential passengers in wheelchairs from utilizing the buses.

DOT Response: "We disagree with this audit finding because there is insufficient evidence to support it. The Franchise Agreement includes 23 items that DOT is supposed to receive from Transdev. DOT receives 18 out of the 23 or 78% of the items mentioned in the agreement. Among other things, DOT receives the majority of the most important items called for in the agreement; DOT gets paid each month on time and if late, collects late fees; has the security fund; receives insurance certificates; receives a detailed monthly report indicating the gross revenue received by Transdev and the revenue calculation due to the city; and receives annual certified third-party financial statements. DOT then matches the total twelve month revenue figures to the certified third-party financial statements issued by Transdev auditors to make sure they reconcile."

"Based on these facts, the report finding should have been qualified to say that DOT's oversight of Transdev's compliance with the Franchise Agreement needs improvement rather than it is inadequate. As the report recommends, we agree to request quarterly performance reports and complaint logs from Transdev moving forward."

Auditor Comments: DOT stated that it "receives the majority of the most important items called for in the agreement" and by its calculation, does not insist that Transdev comply with 22% of the items required by the contract. With this statement, DOT further confirms its inadequate oversight. In addition, DOT did not provide any response to many of the findings in this report including that Transdev failed to provide monthly maintenance reports, that buses were not equipped with automated passenger counting equipment which could have been used to validate the information found in the POS, and that Transdev unilaterally raised its rates.

Further, DOT's response to the findings related to underreporting of revenue highlights the insufficiency of its contract oversight. DOT stated it "reviews and relies on independent, certified financial statements prepared by a third-party accounting firm." However, revenue in the financial statements for the two years under review is greater than what Transdev reported to DOT. Yet, DOT staunchly defends Transdev's failure to report revenue, even though it did not review and attempt to reconcile the same documentation that was reviewed by the auditors.

Finally, DOT did not ensure a complaint log was provided. For many travelers, Transdev's buses are one of the first and last impressions of their experience in the City. This bus operation has a 2 out 5 rating with over 300 reviews online. To avoid repetition in our response, we refer DOT to the bulleted list contained in the section labeled "Other Issue" for its consideration.

RECOMMENDATIONS

We recommend that Transdev:

1. Follow consistent and proper accounting procedures for the recording and recognition of revenue;

2. Completely and accurately report all of the information required by the Franchise Agreement to DOT;

3. Maintain detailed documentation supporting all sources of revenue;

4. Ensure the POS system has the capability to accurately record and track all ticket and voucher sales;

5. Remit additional franchise fees owed to DOT of up to $96,056 ($61,279 in underreported ticket revenue, $30,157 in unreported Internet ticket revenue, and $4,620 unreported advertising revenue); and

6. Adhere to and implement each of the contractual requirements cited in this report, including but not limited to immediately utilizing only ADA-compliant vehicles.

We recommend that DOT:

7. Conduct a full post-implementation review of Transdev's compliance with the report's recommendations and ensure that all issues cited have been rectified;

8. Recover all payments due from Transdev to the City as identified by this audit and any additional underpayments identified by DOT's compliance review; and

9. Continuously monitor Transdev's performance to ensure compliance and enforce the terms and conditions of the Franchise Agreement.

DETAILED SCOPE AND METHODOLOGY

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. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93 of the New York City Charter.

The scope of this audit covers the period from January 1, 2013, through December 31, 2014.

To obtain an understanding of the Franchise Agreement, we reviewed the Franchise Agreement between the City of New York and Veolia Transportation Services, Inc., now Transdev, dated June 2, 2011. To gain an understanding of the payment process and operation of the franchise, we conducted walk-through meetings with NYC Airporter and DOT officials. Specifically, we interviewed the Controller, the Director of Operations, the Accounting Manager, and an Accountant at Transdev. Further, we interviewed the Supervisor of Franchise Revenues and the Finance Manager of Franchises and Street Furniture at the Department of Transportation. The results were documented in memorandums.

To observe and gain an understanding of the actual operation of the franchisee, we conducted unannounced observations of the sale points at JFK and La Guardia airports, on December 8, 15, 22, and 26, 2014. The auditors also purchased tickets and rode the buses from LGA to JFK, from LGA to Port Authority, and from Port Authority to Newark Airport on a Coach Line Bus (Newark Airport Express) and vice versa. To further evaluate the operations of the franchise, we also conducted an announced walkthrough of the operations process in which we accompanied ticket agents and validators during their shift and their end of the day closing process.

To achieve our objective, we obtained the monthly POS reports for 2013 and 2014. We also obtained the corresponding vendor remittances submitted to DOT, which are used to calculate the amount due to the Department. Furthermore, we obtained the internal financial statements, income statements, and general ledger for the franchise. To determine whether the information found on these reports was complete, we reconciled the revenue amounts found on all reports.

To determine whether revenue was completely and accurately reported, and the correct percentage of the franchise fee was paid to DOT, we judgmentally selected two days in 2014, specifically October 6th and October 10th, to reconcile ticket agents' cash and credit card sales receipts to the daily POS information e-mailed to Transdev.

To conduct an in-depth analysis of ticket sales and ensure that the correct rates per routes were being charged and to conduct data reliability analysis, we obtained the actual tickets collected from the ticket agents for October 6th and October 10th, 2014. We scheduled the tickets sold for these two days and verified that the applicable rates were being charged.

To determine if the information found on the POS system was accurately and completely recorded and reported, we obtained a list of rates authorized by DOT. Prior to using the rates to recalculate all the POS reports for 2013 and 2014, we recalculated the price for each route by dividing the revenue received related to specific routes by the number of tickets sold. We then used the applicable rates to recalculate the POS reports and recalculated the remittances due to DOT.

To determine whether Internet revenue was completely and accurately reported, and the correct percentage of the franchise fee was paid to DOT, we obtained the monthly Internet sales reports generated using the Supershuttle (Internet) system and compared this data to the data found in the monthly remittances submitted to DOT. To further test the accuracy and completeness of the information found on the POS system, we extracted the Internet sales recorded by the POS system for five days and compared the information to the Internet sales found in the Supershuttle system. We calculated the differences between these two systems and assessed the additional remittance which should be paid to DOT.

To determine if all third-party vouchers were reported on the remittances submitted to DOT, we compared the detailed invoice list provided by Transdev to the third party voucher support found on the remittances. Discrepancies were noted between the two sets of information.

To determine if advertising revenue was completely and accurately reported, and the correct percentage of the franchise fee was paid to DOT, we compared the checks received from Vector Media for 2013 and 2014 to the advertising revenue reported to DOT. We found differences between payments received by Transdev and what was reported to DOT. We calculated the additional remittance due to DOT based on the differences.

To ensure that the vehicles operating on the designated routes satisfied the minimum requirements, we looked at vehicle inspection reports and verified if the operating vehicles were on the list of DOT approved vehicles. We also verified if core vehicles have a seating capacity of at least 31, spare vehicles have a seating capacity of 25, and if all vehicles are in compliance with the Americans with Disabilities Act. We noted several vehicles did not comply with these standards.

GOLDEN TOUCH transportation

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June 11, 2015

Marjorie Landa
Deputy Comptroller for Audit
City of New York
Office of the Comptroller
Municipal Building, 1 Centre Street
Room 1100
New York, NY 10007

Dear Deputy Comptroller Landa,

We are in receipt of your letter dated June 2nd, 2015 containing a draft audit report in connection with our franchise agreement with the city of New York.

Golden Touch Transportation of NY, Inc. (GTT), is the subcontractor, and operator of the day to day bus services on behalf of Transdev, in connection with the Franchise Agreement with the New York City Department of Transportation (DOT).

Since taking over the bus services, GTT has made every effort to work within the spirit of the Agreement and has always acted in the best interest of its passengers and its partnership with the DOT. As a result, both GTT and the DOT have benefited from the strong working relationship and open lines of communication.

It's important to note, prior to GTT taking over the services this Franchise had stagnant growth with year over year revenues hovering at, or about, $8.0 Million. GTT's sales initiatives, coupled with good service, that is both reliable and affordable, and a new fleet of vehicles, have proven to be a successful formula for consistent growth. 2014 revenues reached $16.4 Million; representing an 85% growth since the commencement of the Agreement in July of 2011.

Equally important to note, the Franchise Agreement calls for the use of independent third party reports which are acceptable to the DOT, which demonstrate that the report of gross revenue included in the monthly revenue report is accurate. Said reports are generated by DataTrax, and have always accompanied GTT's monthly revenue submissions. The independent third party report calculates the amount due to DOT in accordance to the Agreement. This cashiering system is the system that both GTT and the DOT have come to rely upon to keep accurate records of the bus service transactions.

Gross revenue calculations, along with the percentage of gross revenue to be paid as compensation to DOT were generated by the independent third party solution.

As previously stated to the auditors, GTT categorically disagrees with their audit findings. We have taken the liberty of addresses each of their audit items below:

$1.5 Million in Unreported Ticket Revenue
Management disagrees with the auditors' overall findings and disagrees with the underreporting of ticket revenue of "up to $1.56 Million". Management believes that the auditors did not take into account a number of crucial factors that would have caused the reported discrepancy, namely:

Vouchers sold in advance – As a courtesy to some customers, GTT sells vouchers in bulk. An example of this transaction is the sale of a voucher booklets for commuters and airline/airport employee booklets. These booklets typically have 20 or 25 individual ride vouchers with discounted fares of $9. The usage of this type of voucher on a ride would cause the ridership count to increase, however no revenue would be recorded. In this transaction, GTT records the sale of these types of vouchers/booklets to the DOT at time of sale, not when the vouchers are redeemed; GTT remits the appropriate portion of the revenue to the DOT.

When used, these pre-paid vouchers are recognized as a 'zero dollar' voucher on the DataTrax system, because the voucher was not generated from the DataTrax solution and has no way of recognizing or differentiating between voucher, airline, etc. the voucher as a third-party voucher, a commuter book voucher, or airline voucher.

The auditors stated that since they were not able to identify what specific type of voucher was recorded as a 'zero dollar' voucher, they would consider all 'zero dollar' vouchers as a discrepancy and use the total number of 'zero dollar' vouchers in their calculation.

Management implored the auditor to reconsider since as it relates to commuter books sold, the sale of the entire commuter book was recognized during the month the commuter book was sold and the proper funds were remitted to the DOT. Management questioned the auditor's logic and judgment since in this case the auditor would assume that every voucher in every commuter book sold was used in the month the commuter book was sold, which is *NEVER* the case.

Based on the auditors' incorrect methodology and company's actual business practice, any commuter book voucher redeemed and coded as a 'zero dollar' voucher would be included in the auditor's assessment. However, the revenue would have already been captured and reported to the DOT at the point of sale, thus any such voucher should not be seen as an exception.

The inclusion of these types of transactions into the auditors' calculations inflates the number of supposed discrepancies and double-counts the revenue.

Lag time in billing to third-parties –
The company has entered into a number of discounted third-party agreements to sell vouchers on the company's behalf, see Exhibit I. These third parties include major airline carriers, bus and rail lines, and concierge management companies. The third-party vouchers are collected by the ticket agent at the time of redemption and a 'zero dollar' ticket is created for that ride. The third-party voucher is forwarded to the accounting department and is used as the basis for preparing invoices for payment. Based on the individual agreements, invoices are submitted on a monthly or quarterly basis for rides that occurred in a subsequent period. Due to the volume of vouchers received, it is not uncommon for a lag time of three months or more for the vouchers to be submitted to the third-party for payment. As a matter of practice, GTT reports to the DOT the total number of vouchers invoiced, and remits the amount owed to the DOT in the month that it is invoiced, regardless of when the third-party remits payment to the company. This timing difference between redemption and invoicing would cause a situation where total riders reported for a specific period does not match the calculated revenue for the period as there would be a larger number of riders for the period, yet no revenue attributed to the 'zero dollar' vouchers issued outside of the DataTrax system by other bus operators, airlines, concierges, etc.

The auditors were made aware of this situation and were presented with stacks of original vouchers that had yet to be invoiced, some dating back five months. GTT contends that not taking unbilled vouchers into account further inflates the auditors' assumptions and calculation discrepancies.

Methodology used by auditor in calculating discrepancy is incorrect:
According to the report, the auditors used the 'Approved Retail Rate' for each route in their calculations. However, the auditors are not taking into account various rates and discounts at which tickets are currently being sold please refer to Appendix, Exhibit I, letter from DOT approving various discounted fare agreements. For example, in order to entice customers to purchase a round trip ticket, a three dollar discount is offered on the return trip. In addition, third-party sellers have negotiated rates whereby the third-party may sell the ticket at the 'Approved Retail Rate', however remit a lower rate back to GTT. For example, a retail rate of $16 for a particular route could be sold by a third-party with only $9 in revenue being remitted to GTT. Exhibit II of the Appendix represents a pricing chart for various routes that have been approved by DOT.

The auditors were made aware of the different price points for each bus routes and the various discounts offered. The auditor contends that since they were not able to identify each individual voucher and the proper rate, the auditor would use the highest rate, the 'Approved Retail Rate' in their calculation. The suggestion of using a blended rate was brought up, however the auditor refused to do so, further inflating the amount of the supposed discrepancy.

GTT moved to a new third-party ticketing system in January of 2015. GTT management will work with the new provider to better facilitate the reconciliation of discounted third-party vouchers that are not generated in the system.

$1 Million in Unreported Internet Ticket Sales
GTT disagrees with the auditor's overall finding and disagrees with the unreported $1 Million in ticket sales. GTT believes that the auditor is not taking into account a number of factors that could have caused the reported discrepancy, namely:

Advanced Bookings Vs. Revenue
Consumers who purchase tickets through the internet typically purchase tickets in advance of their travel. It is not uncommon for a traveler to plan their vacation six to ten months in advance to take advantage of reduced fares for early bookings. Advanced tickets sold in the current period, but redeemed in a future period could cause the gross sales to be higher than revenue earned in the current period. The existence of advanced bookings for future travel was made known to the auditors.

Credits and Refunds
The auditors used Gross Sales as the basis for their argument, and did not account for credits, and /or manual check refunds issued.

Unredeemed Tickets
Management recognizes that there is a small percentage of tickets and vouchers sold that are never redeemed. Many factors could cause a traveler not to redeem their ticket, from canceled flights to a change in travel plan. Although there is a 90-day redemption window, it is management's business practice to accept all tickets and vouchers presented regardless of purchase date. This practice was reported to the auditors by the independent third party, Peter Wrona from DataTrax in an email Mr. Wrona sent to the auditors explaining the internet variances the Auditors were questioning.

Management believes that catering to, and being amendable to, the customer will lead to positive reviews and customer loyalty. Regardless of when the internet voucher is presented, if it was past the 90-day redemption window, GTT would remit payment to the DOT for that voucher.

The aforementioned issues were all brought to the auditors' attention prior to the issuing of their report, however GTT was unsuccessful in persuading the auditors to amend their findings. It is the auditors' contention that the company needs to remit payment for all sales, inclusive of future bookings and unredeemed tickets. The auditor further suggests that in cases where there are cancellations, credits, or refunds on the advanced sales, the company should reconcile those adjustments in the next remittance to the DOT.
The auditor confirmed that they were able to trace each internet redemption from the ticketing system to the remittance reports to the DOT, without exception. All internet revenue for internet vouchers redeemed was properly submitted to the DOT *WITHOUT EXCEPTION.*

GTT management with discuss the auditor's findings with their CPA firm.

Advertising Revenue Not Supported
Subsequent to the initial report, GTT received supporting documentation from the advertiser and forwarded the information to the auditors. Management agrees that a reconciliation needs to be completed and will remit any amounts due to the DOT.

Failure to Comply with Major Franchise Agreement Operational Requirements

Unauthorized rates charged to passengers
In order to increase ridership, increase the number of third-party sellers, and increase awareness, Management has used their discretion in providing a number of price levels and discounts, particularly with the transportation to the airport from the City. These various promotional initiatives were presented to DOT and approved (please refer to Exhibit II).

Despite the logistical challenges and the increase in competition, GTT has continued to grow the NYC Airporter brand and service.

Management will continue to work closely with DOT to ensure that they are in accord and approve future promotions, as well as, changes in fares.

Monthly revenue reports are not submitted with the detail required as per agreement
GTT and the DOT have collaborated on the format and data that is reported on a monthly basis. Please refer to Exhibit III containing an email from the then franchise executive director confirming a meeting to review reporting procedures, and format/content of monthly reporting.

We will continue to work closely with the DOT to ensure that they receive all information required.

Lack of Complaint Log
GTT will work with the DOT to implement and maintain a more comprehensive complaint log in the future.

Unauthorized and non-ADA complaint buses used to transport passengers
The NYC Airporter core fleet of vehicles are all ADA compliant. The bus specs and vehicles photos have been submitted to the auditors and the DOT.

On December 22, 2014, the date in which the auditors conducted their single unannounced inspection was on one of the busiest days leading up to the Christmas holiday. The run in question was the Q-53 shuttle run, which is the inter-airport shuttle between JFK and LGA Airports. With the core fleet in operation and the dedicated vehicle out of service, we were challenged with either 1) not operating the run for the day which would have caused great disturbance to the hundreds of passengers that utilize that bus run every day to connect to their flights, or 2) use a GTT vehicle to continue the service on time, and uninterrupted knowing that GTT has standby ADA vans on location at each of the airports. Had an ADA passenger required the shuttle services an ADA van would have been dispatched to the curb within minutes to accommodate the passenger. Management made a decision to maintain service, rather than suspend service for a day because of a vehicle mechanical problem. This shuttle run is crucial to the traveling public as it connects the two airports.

Buses were not equipped with automated passenger counting equipment
The NYC Airporter fleet is equipped with automated passenger counting equipment. The DataTrax solution tracks passenger counts, by day, time of day, day of week, etc.

GTT did not provide DOT with monthly maintenance reports showing the status of preventative maintenance for the fleet, as well as a report of road calls/breakdowns from the previous month
The NYC Airporter fleet is inspected by the DOT every six months. If the vehicle does not pass a rigorous inspection, it is taken off the road until the proper adjustments are made and a negative mark is placed on the company. As part of the DOT inspection is a review of the maintenance log and all maintenance performed during the period. Although the logs were not submitted to the DOT on a monthly basis, the DOT is acutely aware of the status of each vehicle in the fleet. The information contained within the logs has been made available to the DOT inspectors and can be made available to any party requesting the information. Taking the maintenance logs out of the vehicle would be a violation of the DOT as each vehicle can be pulled over for a surprise inspection by the DOT and the maintenance log would be required to be on hand. GTT will work with the DOT and agree on an adequate level of detail they require on a monthly basis.

GTT did not submit quarterly reports of its performance
GTT will work with DOT to ensure all reporting requirements are being met and that they are satisfied with the information that is being provided.

In conclusion, I would like to thank the auditors for their time and review of this franchise.

GTT is committed to being a good business partner and to delivering great service to its loyal passengers. We will continue to work closely with DOT and all the City Agencies in this effort.

Sincerely,

GOLDEN TOUCH TRANSPORTATION OF NY, INC.

J. Herrschaft

Josephine Herrschaft
Vice President

NEW YORK CITY DOT

Department of Transportation

POLLY TROTTENBERG, Commissioner

June 16, 2015

Ms. Marjorie Landa
Deputy Comptroller for Audits
Office of the New York City Comptroller
1 Centre Street, Room 1100
New York, N.Y. 10007

Re: The New York City Comptroller's Draft Audit Report on the Compliance of Transdev North America, Inc. with Its Franchise Agreement (FM15-072A)

Dear Ms. Landa:

Thank you for the opportunity to comment on the Draft Audit Report on the Compliance of Transdev North America, Inc. with Its Franchise Agreement. We have attached NYC Department of Transportation's (DOT's) written response to the report findings and recommendations. The written response by Transdev North America Inc. is also attached separately.

We have reviewed the report and after much consideration, we have concluded that it contains serious shortcomings. These shortcomings are incorporated in our written response. The NYC Department of Transportation recognizes the importance of audit reports and considers report findings/recommendations as an effective means of improving the effectiveness of agency operations. However, in this case we do not believe that the report is especially useful since the audit approach and methodology used is flawed which resulted in unfounded findings.

Although we do not agree with most of the report findings, there are certain components of the report recommendations with which we are in agreement. In these instances, the Department will certainly take the report recommendations into account and continue to work with Transdev to ensure further compliance with the Franchise Agreement. Should you wish to discuss our response further, I can be reached at 212-839-4408.

Best Regards,

Amy Hutner

Amy Hutner
Auditor General
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NYC Department of Transportation's (DOT) Written Comments to The NYC Comptroller's Audit Report (FM15-072A) Compliance of Transdev North America, Inc. with Franchise Agreement

OVERVIEW

DOT does not agree with most of the findings, conclusions, and recommendations contained in this report. DOT reached its conclusion because the methodology used to meet the audit objectives is flawed. Upon review of the draft audit report, we have concluded that most of the findings are unfounded since they are based upon inaccurate, partially correct, or incomplete information which affects the validity of the analysis and report findings. In addition, the audit report is based upon exception reporting. While this may be an acceptable reporting method, it is an approach which should be so stated in the report methodology section and does not exempt the auditors from presenting a balanced/accurate report based upon Generally Accepted Government Auditing Standards (GAGAS).

It should be noted that despite good faith efforts made to express our concerns regarding the factual accuracy of the report findings, no substantive revisions were ultimately made. As a result, the report does not provide a balanced, accurate, and objective assessment of DOT's oversight of Transdev compliance with its Franchise Agreement. Nor does it contain accurate findings with respect to its primary audit objective which was to assess whether Transdev accurately paid the City the total revenue required pursuant to the terms of its Franchise Agreement. In addition, from an audit perspective, despite the report's assertion that the audit was conducted according to (GAGAS), we do not agree that these standards were always met. (See Audit Process and Protocol section for details).

I. COMMENTS ON REPORT FINDINGS

$1.5 million in unreported ticket revenue

We disagree with this audit finding because the method used to determine whether Transdev paid the correct revenue to the City is flawed. Transdev sells tickets at different rates less than the $16 retail ticket rate used by the auditors in their calculations of underreported revenue. Transdev has discounted cross- ticket arrangements with certain vendors. These ticket pricing agreements establish various prices for tickets, which range from $9 to $13 a ticket, depending upon the vendor. When the auditors multiplied total passenger counts by $16, they overstated Transdev's revenue projections because they used the highest rate possible. No effort was made to use a blended rate in the calculation. Simple math suggests that revenue will be overstated when Golden Touch's discounted rates are applied. By using actual rates charged the revenue will drop significantly and the overage, if any, may be diminutive. This finding should be recalculated using the actual rates charged. DOT alerted the auditors to this issue, but they never recalculated the projected revenue.

In addition, at the exit conference, Transdev mangagement officials explained to the auditors that books of third-party vouchers were recorded as only one sale, and that subsequent redemption of the individual tickets within the books was not recorded separately. This practice could account for a discrepancy in revenue, but the auditors did not incorporate it into their report. In order to fully reconcile total revenue, additional audit steps needed to be conducted to review other financial records related to vouchers, i.e. non-point of sale revenue. This information was not available in the Data Trax system. The auditors erred in relying solely on Data Trax data to complete the reconciliation process. As a result, this finding is not based upon sufficient evidence and consequently the finding is not valid.

Finally, regarding DOT's oversight of Transdev revenue, DOT reviews and relies on independent, certified financial statements prepared by a third-party accounting firm that is on the Comptroller's approved list of accounting firms for City use.

$1 million in Unreported Internet Ticket Sales

We disagree with this audit finding since it is not consistent with Generally Accepted Accounting Principles (GAAP). The auditors compared revenue from tickets sold, to revenue redeemed to determine a variance of unreported revenue. According to GAAP, revenue is supposed to be recorded when the service is delivered, not when it is sold. Transdev did just that and reported revenue when the service was taken. This redeemed revenue should have been compared to the amount reported to DOT. During the exit conference this was mentioned to the auditors and they stated that the redeemed revenue matched perfectly with the amount reported to DOT. The auditors should have questioned the CPA firm used by Transdev on how they account for the deferred revenue which is the difference between tickets sold and redeemed. The auditors never inquired.

Unauthorized and non-ADA compliant buses used to transport passengers

DOT disagrees with this audit finding. Section 6.3.1 of the Franchise Agreement states that the core fleet of 29 buses and 5 approved spares shall be compliant with ADA. All of the vehicles earmarked for this agreement are ADA compliant. During the holiday season, however, demand for trips to and from the airport is very high. Transdev used the Golden Touch 16 SEAT Mercedes Sprinter bus, which the auditors rode on December 22, 2014, three days before Christmas, so that passengers would not have to have a long wait time for buses that day. These vehicles were additional vehicles used to accommodate peak holiday demand and are not characteristic of the regular fleet. DOT had not previously approved these vehicles, but their use does not alter the fact that the core fleet and approved spares are ADA-compliant.

This finding is misleading in that it is using an exception reporting approach based upon a limited number of observations, which may easily lead the reader to believe that many vehicles used in the fleet are not ADA compliant. This finding does, however, suggest that the fleet requirement in the agreement is too low. We can discuss the possibility of adding additional ADA compliant vehicles with Transdev to accommodate increased demand.

Advertising revenue not reported

Transdev receives a fixed amount or 1/12 of the total ad revenue each month The additional advertising revenue must be documented by Vector Media and sent to Transdev. Transdev then must provide this additional revenue, if any, to DOT. DOT will follow up to ensure that supporting documentation for the basis of Transdev's advertising revenue is available for review.

Monthly revenue reports are not submitted with the detail required as per the agreement

Section 4.3 of the Francshise Agreement requires "the Franchisee to submit with each monthly payment a revenue report in a format and manner acceptable to the Department detailing for the relevant month:

> (1)The Gross revenue received by the Franchisee from each source;(2) the number of passengers on each Authorized Route, including passengers per hour;(3) the number of passengers paying each fare offered by the Franchisee; (4) for all advertising sales, the number of advertising units sold, the type of unit, and the sales price; (5) advertising revenue forecasts for the next three months; and (6) detailed information on the source and amount of any Gross

> Revenue received by the Franchisee from any source other than fares and advertising. The Franchisee shall also provide to the Department, simultaneous with the submission of the monthly revenue report, a report from an independent third party reasonably acceptable to the Department demonstrating that the report of Gross Revenue included in the monthly revenue report referenced above is accurate. The Franchisee shall provide to the Department copies of all advertising contracts, sponsorship contracts, or other agreements providing Gross Revenue within thirty (30) days of the effective date of any such agreement.

DOT receives the following information each month: gross revenue received by the Franchisee; the number of passengers on each route; and the number of passenger paying each fare. These are the most important aspects of the monthly revenue report; however, we will follow up with Transdev to receive the additional information required by Section 4.3 of the Franchise Agreement.

<u>DOT did not adequately oversee Transdev compliance with the Franchise Agreement</u>

We disagree with this audit finding because there is insufficient evidence to support it. The Franchise Agreement includes 23 items that DOT is supposed to receive from Transdev. DOT receives 18 out of the 23 or 78% of the items mentioned in the agreement. Among other things, DOT receives the majority of the most important items called for in the agreement; DOT gets paid each month on time and if late, collects late fees; has the security fund; receives insurance certificates; receives a detailed monthly report indicating the gross revenue received by Transdev and the revenue calculation due to the City; and receives annual certified third party financial statements. DOT then matches the total twelve month revenue figures to the certified third party financial statements issued by Transdev auditors to make sure they reconcile.

In addition, to support this finding the report lists multiple items as evidence of inadequate DOT oversight. However, one of the items cited as evidence i.e. the $1.5 million dollars of underreported revenue is inaccurate and should not be used as supporting evidence for the finding.[1] This significant inaccuracy, in conjunction with the report not mentioning the documents DOT does receive pursuant to the Franchise Agreement, means that there is insufficient information to support this finding as currently written, based upon GAGAS evidence standards. It is for this reason we disagree with the finding and consider it to be unfounded.

Based on these facts, the report finding should have been qualified to say that DOT's oversight of Transdev's compliance with the Franchise Agreement needs improvement rather than it is inadequate. As the report recommends, we agree to request quarterly performance reports and complaint logs from Transdev moving forward.

<u>II. COMMENTS ON AUDIT PROCESS AND PROTOCOLS:</u>

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[1] The underlying cause of the auditor's miscalculation of Transdev's sales revenue is (1) the reliability of Data Trax financial data on "non-point of sale revenue sources" and (2) the auditors not fully completing the reconciliation of sales revenue for voucher/booklet revenue. There is no mention of this matter in the report.

1. Adherence to Generally Accepted Government Auditing Standards (GAGAS)

This report asserts that the audit was conducted in accordance with GAGAS. However, the following information provides evidence in which the audit process followed on this assignment did not adhere to specific generally accepted government auditing standards .

Evidence Standards: Section 6.56 of GAGAS states: "Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions". Section 6.57 goes one step further and defines "sufficient" and "appropriate" evidence as follows:

> "Appropriateness is the measure of the quality of evidence that encompasses its relevance, validity and reliability in providing support for findings and conclusions related to the audit objectives...Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions related to the audit objectives. "

The following examples of the use of evidence in the report are inconsistent with the above referenced audit standards:

- At no point prior to the issuance of the preliminary draft report, did the audit team interview DOT Franchise Unit management officials to discuss and obtain an understanding of the process DOT actually follows to oversee Transdev compliance with the Franchise Agreement. Yet, one of the stated audit objectives was to assess DOT's oversight of Transdev compliance with its Franchise Agreement. The report does not include a description of DOT's oversight process. Given the audit objective, this does not meet the sufficiency of evidence standard.

- The auditors did not contact Transdev CPA firm to explain why the language in the certified financial statements indicated Transdev followed an accrual basis of accounting when the auditors found that the cash basis of accounting was used by Transdev to record Internet sales.

- The auditors were able to successfully reconcile revenues generated from "point of sale" sources based upon Data Trax reports, which accounted for approximately 80% of Transdev's reported revenues during the period. Yet, this information was not included in the draft report. This omission is particularly misleading, because it does not present a purported deficiency in the proper context. This omission misleads the reader to draw incorrect conclusions as to the pervasiveness of the purported deficiency.

- The auditors did not complete a full reconciliation of Transdev revenue based upon all revenue sources. Transdev officials explained to the auditors the limitations of Data Trax revenue data for "non-point of sale revenue". To finalize this process, the auditors could have reviewed financial records available in Transdev's finance office, and reconciled "non- point of sale" reported revenues generated through coupon/voucher booklets sold. Had this additional audit step been performed, the conclusions would have been based upon a complete reconciliation process. Without this additional information it is premature to draw conclusions on the accuracy of reported revenues.

Information System Controls: According to sections 6.27 and 6.2 of GAGAS Field Work Standards for Performance Audits, auditors:

> "Should determine which audit procedures related to information systems controls are needed to obtain sufficient, appropriate evidence to support the audit findings and conclusions. The following factors may assist auditors in making this decision:
>
> a. the extent to which internal controls that are significant to the audit depend on the reliability of information processed or generated by the systems. "... (6.27);
>
> "Audit procedures to evaluate the effectiveness of significant information systems controls include: (1) gaining an understanding of the system as it relates to the information: and (2) identifying and evaluating the general, application, and user controls that are critical to providing assurance over the reliability of the information required for the audit.

- The auditors relied extensively upon Data Trax's sales revenue data in its efforts to determine whether Transdev paid the City accurately based upon the Franchise Agreement. This data is generated from an automated cashiers system. However, while Data Trax's point of sale revenue is accurate, Data Trax's reporting on "other sources of Transdev's sales revenue, is not reliable. [2] Yet, the auditors used unreliable data from Data Trax to reconcile Transdev revenue without taking additional steps to complete the process. It does not appear as if any consideration was made to test the reliability of the system in reporting revenue data, which is inconsistent with this standard.

2. Audit Protocols

A. **Meeting Participants**: Despite DOT requests to the contrary, the auditors did not hold joint meetings with DOT and Transdev officials. Had this approach been taken, it would have helped resolve some of the audit issues earlier in the process and allowed more time for auditors to analyze Data Trax revenue data and complete a full reconciliation of revenue sales. In short, the fact that auditors and auditees did not meet together to discuss outstanding issues hindered the audit process since it became much more cumbersome and time consuming to resolve outstanding issues.

B. **Communicating Information Requests:** The audit team expressed concern that they had difficulty obtaining sales revenue data from Transdev accounting and finance staff. However, if that was the case, the auditor's request for Data Trax revenue

[2] The auditors were informed that Data Trax should not be used for reconciliation purposes since it does not focus on the appropriate unit of analysis, i.e. "tickets" and does not record any dollar value for revenue generated from non-point of sale sources.

data should have been elevated to DOT's Director of External Audit. However, no contact was made to DOT's External Audit Director to resolve this issue. Although information was provided to the auditors, it was late in the audit process and given time constraints, may have been a factor which contributed to the auditors not reconciling non-point of sale revenue.

C. **Consideration of Agency Comments to Preliminary Draft Report:** DOT recognizes that according to audit protocol, the Comptroller's Office clearly has discretion on whether to incorporate DOT's recommended/proposed changes to the report. To communicate our concerns, we held a 3.5 hour exit conference. At the meeting our concerns regarding the report findings were discussed along with identified reporting errors. We believe it is in our mutual interest to ensure that the report is factually correct. That being said, despite attempts by DOT and Transdev officials to highlight factual errors in the report and provide supporting documentation to reflect our position, minimal revisions were made to this draft report based upon our discussions with the audit team. This resulted in report findings that are unfounded and reflects an ineffective report issuance process.

Appendix

Exhibit I – Letter from DOT Approving Discounted Rates

NEW YORK CITY DOT **Department of Transportation**

JANETTE SADIK-KHAN, Commissioner

July 5, 2011

By Post and Email

Tom Herrschaft
Veolia Transportation Services, Inc.
45-02 Ditmars Blvd., Suite 19
Astoria, NY 11105

Re: Request for Approval of Special Fares for Certain Groups

Dear Mr. Herrschaft:

In accordance with Section 5.2 of the Franchise Agreement between Veolia Transportation Services, Inc., and the New York City Department of Transportation (DOT), DOT hereby approves your request for approval of special fares for certain groups, namely, senior citizens, military personnel, college students, children, adults traveling with two or more children, and airline and airport employees, as described in your letter of June 17, 2011 (attached).

Sincerely,

Anne Koenig
Executive Director

Attachment
c: General Counsel, Veolia Transportation Services
Josephine Herrschaft
Owiso Makuku
Franco Esposito
Michael Barone

NYC Department of Transportation
Office of Franchises, Concessions and Consents
55 Water Street, New York, NY 10041
T: 212.839.6550 F: 212.839.9894/95
www.nyc.gov/dot

Exhibit II – NYCAA Rate Chart

Type of Passenger	Type of Trav	MQ-1	MQ-2	Q-53	Source
		LGA	JFK	Inter-Airport	
Standard	O/W	$ 12.50	$ 15.50	$12.50	Contract
Standard	R/T	$ 22.00	$ 28.00	$25.00	Special Fares Approval 7/5/11
Seniors, military, students, ages 4-17	O/W	$ 10.00	$ 12.00	$10.00	Special Fares Approval 7/5/11
Seniors, military, students, ages 4-17	R/T	$ 18.00	$ 20.00	$19.00	Special Fares Approval 7/5/11
Children, ages 0-3	O/W	$ -	$ -	$0.00	Special Fares Approval 7/5/11
Children, ages 0-3	R/T	$ -	$ -	$0.00	Special Fares Approval 7/5/11
4 or more, including 2 or more children	O/W	$ 35.00	$ 50.00		Special Fares Approval 7/5/11
4 or more, including 2 or more children	R/T	$ 65.00	$ 90.00		Special Fares Approval 7/5/11
Airline & airport employees	Monthly unlimited pass	$ 199.00	$ 259.00		Special Fares Approval 7/5/11
Airline personnel w/ ID	Booklet of 20	$ 170.00	$ 170.00	$170.00	Special Fares Approval 7/5/11
MetroNorth combo	O/W	$ 9.50	$ 12.50	$9.50	Joint Ticket Approval 7/5/11
MetroNorth combo	R/T	$ 19.00	$ 25.00	$22.00	Joint Ticket Approval 7/5/11
Coach USA combo (Newark)	O/W	$ 12.00	$ 12.00		Joint Ticket Approval 7/5/11
Coach USA combo (Newark)	R/T	*24	*24		Joint Ticket Approval 7/5/11
Short Line combo	O/W	$ 11.25	$ 19.80		Joint Ticket Approval 7/5/11
Short Line combo	R/T	$ 13.95	$ 25.20		Joint Ticket Approval 7/5/11
Short Line (Children, ages 5-12)		$9.00	$10.80		
Hotel combo	O/W	$ 9.00	$ 10.00		Joint Ticket Approval 7/5/11
*GTT Retains $12 on Round Trip Bookings					

Exhibit III – Correspondence with DOT dated 8/12/11 asking for collaboration of information needed to monthly revenue report

From: Koenig, Anne [mailto:akoenig@dot.nyc.gov]
Sent: Friday, August 12, 2011 6:06 PM
To: Josephine Herrschaft
Cc: Rahman, Syed
Subject: RE: RE: DOT July 2011 Remittance

Josephine, thanks for the revised reports. I'd like to arrange a time early next week for a conference call with you and Syed, and anyone else you'd like to include, to talk about our comments on the format of the reports. These are some of the subjects we'd like to discuss:

1. More details to support the totals in the Contract Sales Summary
2. A breakdown of the credits on the Remittance
3. In the Ticket Sales Summary, adding columns to indicate the fare paid and the route number

To help clarify matters, I put together the attached chart of the current fares, as described in Tom's requests of 6/17/11, which we approved on 7/5/11. Please review the chart and confirm that it accurately details the current fares.

What's a good time for us to talk? We're available Monday at noon or at 2:30, and Tuesday between 2 and 4 pm.

Enjoy your weekend. Hope the weather is as beautiful there as it is in NYC.

Anne Koenig
Executive Director
Franchises, Concessions and Consents
Department of Transportation
55 Water Street, 9th Floor
212-839-6552