3.07 GO Transit

Background

Established in 1967, GO Transit operates Canada's largest interregional public transit system, linking Toronto with surrounding regions of the Greater Toronto Area (GTA) comprising Durham, York, Peel, and Halton. Beyond the GTA, it also serves Hamilton and reaches into Simcoe, Dufferin, and Wellington counties and serves a population of more than 5 million. GO Transit has an extensive network of commuter rail services on seven rail corridors, as shown in Figure 1, which carry about 165,000 passengers on a typical weekday. An additional 30,000 passengers travel each weekday on GO Transit buses.

Seventy percent of the track on which GO Transit operates is owned by Canadian National (CN) and Canadian Pacific Railway (CPR)—referred to in this report as the "host railways." The remaining corridors are owned by GO Transit. The two host railways also provide crewing and dispatching for all trains, including trains running on GO Transit-owned lines.

At the time of our audit, GO Transit, or as it is officially called, the Greater Toronto Transit Authority, was governed by the *GO Transit Act, 2001*. The province appoints the GO Transit Board of Directors, which reports to the Minister of Transportation. However, the *Greater Toronto Transportation Authority Act, 2006* (Act), will eventually replace the *GO Transit Act, 2001* once all of its provisions are proclaimed. Under the Act, GO Transit is to operate as a division of the Greater Toronto Transportation Authority (GTTA) without a separate board.

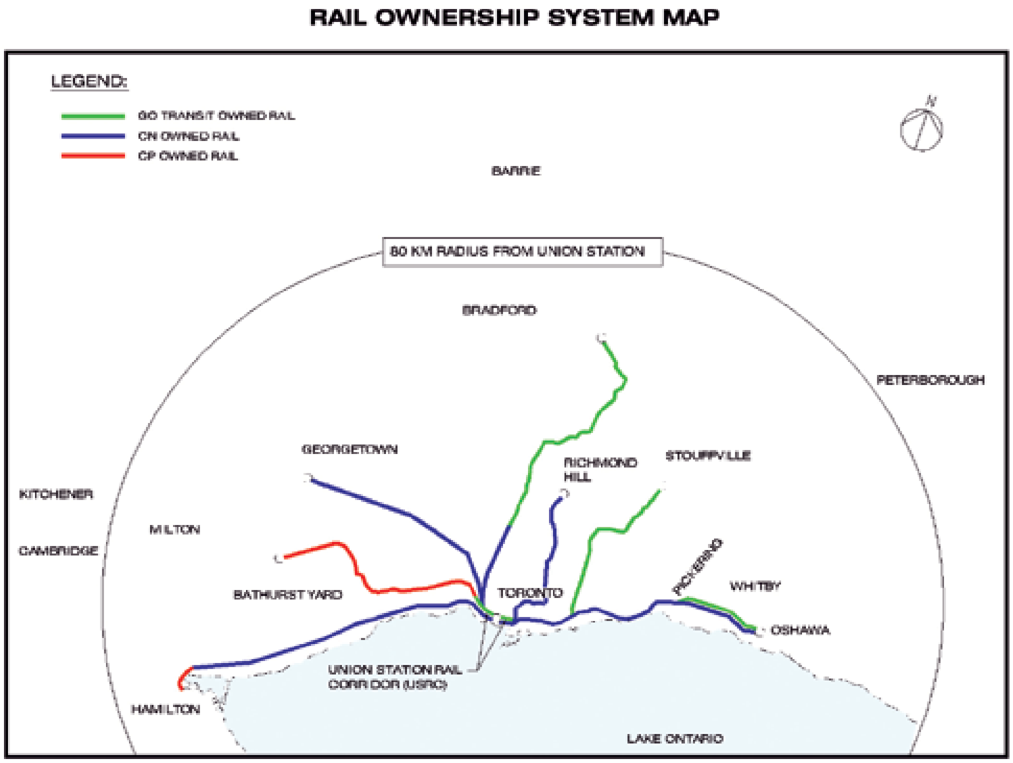
As of March 31, 2007, GO Transit had over 1,200 full-time-equivalent employees and annual operating expenditures of approximately $375 million. Excluding amortization and certain other items costing about $100 million, GO Transit recovers about 90% of the remaining $275 million through passenger fares, and the province subsidizes the remaining portion. For growth and expansion capital costs, the province provides about one-third of GO Transit's capital funding needs, with the understanding that the federal and municipal governments will contribute the remaining two-thirds.

Audit Objective and Scope

The objective of our audit was to assess whether GO Transit had adequate systems and procedures in place to:

- effectively meet service demand and provide reliable and safe rail services to the public; and

Figure 1: Map of the GO Transit Rail System
Source of data: GO Transit



- ensure that such services are delivered with due regard for economy and efficiency.

Given that this was our first audit of GO Transit, our audit focused on rail operations because they comprise over 85% of GO Transit's operations. Bus operations and the acquisition and maintenance of rolling stock were not part of the scope of this audit.

Our audit work included interviews with a majority of the existing and former members of GO Transit's Board of Directors and with appropriate staff, a review and analysis of pertinent information and statistics, and research into the practices of similar transit systems in other jurisdictions. We conducted our audit work primarily at GO Transit's head office in Toronto.

As one aspect of our review and at the request of GO Transit's Chair, we also conducted a detailed review of board governance for GO Transit's Board of Directors. The more significant observations arising from this review are included in this report, and a more detailed report was provided to GO Transit's Board of Directors.

Before beginning our work, we developed audit criteria that we used to attain our audit objective. These were agreed to by the senior management of GO Transit.

Our audit also included a review of relevant audit reports issued by GO Transit's Internal Audit office, which were helpful in determining and prioritizing the scope and extent of our audit work.

Summary

GO Transit's commuter network is a vital part of the transportation system in the GTA. The demand for its services is growing rapidly, with more than a 65% increase in rail passengers over the last

10 years. Until recent years, GO Transit's on-time performance was in the mid-90% range, but delays and overcrowding have become increasingly common. During our audit, between October 2006 and February 2007, there were over 160 train cancellations and 3,400 delays, and GO Transit's on-time performance was only about 85%. While GO Transit has taken some action to address this, more needs to be done to meet service demand and provide reliable rail services.

With respect to meeting service demand and managing on-time performance, we found that GO Transit's capital expenditure plan was based not on projected ridership growth but mainly on expected federal, provincial, and municipal funding. Without a more comprehensive analysis of future demand and trends, there might not be sufficient infrastructure to accommodate the growth in passenger volumes. Some areas could continue to experience serious capacity issues and persistent problems with delays and poor customer service. In addition, without such information, decision-makers from various levels of government will not be in a position to properly assess the cost/benefits of different transportation alternatives and make informed decisions on expansion plans and funding levels on the basis of projected ridership levels.

Seventy percent of the track that GO Transit operates on is privately owned and therefore the host railways must be relied upon to maintain the tracks and rail equipment. Having to operate in this environment has affected GO Transit's operations in a number of ways:

- GO Transit, as well as other commuter rail systems in Canada, expressed concerns that, because it has no competitive alternatives to the existing host railways, it had limited means to deal with what it considered to be high rates, restrictive covenant provisions, and, in some cases, controls over the actual service that are imposed by the host railways. In this regard, for example, GO Transit indicated that freight traffic often has priority over passenger traffic for the use of the same tracks.
- In many cases, improvements in rail service can only be achieved if GO Transit funds expansion on the host railways' own rail infrastructure. For example, of the $580 million that GO Transit planned to spend on rail infrastructure projects over the next 10 years, approximately $475 million is to be spent on expanding rail corridors owned by host railways. The railways will maintain ownership of and control over the improved infrastructure once completed, but GO Transit has no guarantees that it will receive improved service in return.
- The host railways stipulated that they are to perform all required project design and construction work. A fixed price would be negotiated between GO Transit and the railways for each project. As a result, GO Transit did not have the option of following a competitive procurement process for such work.

The regulation of railways falls under federal transportation legislation. However, GO Transit has no formal mechanism for working with the provincial government to directly address the above issues with the federal government. GO Transit needs to work more closely with the provincial Ministry of Transportation to ensure that representations made to the federal government better safeguard its taxpayer-funded railway projects and to ensure adequate access to railway service for the public.

With respect to the acquisition of goods and services, we found that GO Transit has adequate policies in place to help ensure that goods and services were acquired competitively, with due regard for value for money, and through open and transparent processes. However, in practice these policies have in a number of cases not been effective. For example, we noted the following:

- GO Transit had entered into agreements with two consortiums to manage several of its growth capital projects. In one case, GO Transit issued a request for proposals for program-management consultant services and awarded a contract worth $247,000 for the first 12 months. It subsequently extended the contract, through a series of amendments, by seven years, at an additional cost of $25 million to date. Similarly, in the other case, it requested a proposal for 17 months' work and awarded the contract for about $2.3 million. It subsequently extended this contract for three years at an additional cost of $15.2 million to date. We noted that, in both cases, the scope of these projects, outlined in the information provided to potential bidders, clearly stated that they were multi-year projects, yet GO Transit requested bids for work spanning only 12 and 17 months. Since the capital projects under management are to continue up to 2014, the contracts with the consortiums could last for another six years without a further request for proposals.

- In another example, an information technology project initiated in December 2002 was to be completed in November 2003 at a cost of $2.4 million. By the time the system went into production in December 2006, the cost had escalated to $7.8 million.
- Including the amendments to the contracts referred to above, over 60 amendments were made to contracts totalling almost $70 million, or an increase of about 75% of the original contracts' values, in the three years from 2004 through 2006. While GO Transit's Board of Directors approved most of the contract amendments put forward by management, as indicated by our interviews and review of board minutes, a number of members expressed concern over the frequency and size of the amendments but felt they had little choice other than to approve them because the projects, with their increased scope, were already well under way.
- There were numerous instances of suppliers being selected without a competitive process. For example, over $8.6 million was spent on 170 consulting contracts that were single sourced in the 2004/05 and 2005/06 fiscal years.

With respect to governance, we have made recommendations to strengthen accountability and provide for more effective oversight of management and operations. The Board needs to develop a strategic plan that includes specific goals and targets for measuring progress, establish a board subcommittee structure to oversee significant operational issues, evaluate its own performance and that of senior management, and meet all agency accountability reporting requirements established by the province.

In addition to the above observations, we also noted the following:

- While GO Transit's proof-of-payment fare system may appear to be successful, since less than 1% of passengers were found to be riding without a ticket, approximately 60% of all fare inspections were done on off-peak trains, which account for less than 20% of all passengers. In addition, we found significant variations in the enforcement practices of inspectors.
- While an audit by the American Public Transportation Association's (APTA's) Commuter Rail Safety Management Program provided an overall positive opinion on the safety and security of GO Transit's operations, there are additional measures GO Transit could take to further enhance safety and security.

We sent this report to GO Transit and invited it to provide responses. We reproduce its overall response below and its responses to individual recommendations following the applicable recommendation.

OVERALL GO TRANSIT RESPONSE

GO Transit appreciates the audit findings and recommendations issued by the Auditor General. GO is taking action to address most, if not all, of the recommendations. Because most of the assets over which GO Transit's rail system operates are controlled and maintained by other parties, GO is in a difficult position of trying to maximize its services to the public, yet maintain a competitive environment within which it does business. However, within that domain, GO Transit is taking measures to control and optimize its business, and respond more positively to customer service concerns.

In 2008, GO Transit will be reducing its reliance on the railways for providing the crews to operate GO trains. The new operating contract will entail a dedicated team of train operators who will be more customer-focused than the freight railway crews. Likewise, the new train maintenance contract, which will focus more on performance, will be under way. Also in 2008, new locomotives will be brought into service, improving the reliability and environmental footprint of the train. New track infrastructure, funded by all three levels of government, will be nearing completion, which will allow GO more operational flexibility on heavily congested train corridors.

Detailed Audit Observations

SERVICE DEMAND AND ON-TIME PERFORMANCE

Since beginning operations in 1967, GO Transit's commuter network has become a vital part of the transportation system in the GTA and an essential piece of the solution to gridlock and air pollution. The demand for its services is growing rapidly with an increase of more than 65% in rail passengers over the last 10 years. Over 80% of GO Transit's 165,000 weekday rail passengers travel during peak hours to and from Union Station in downtown Toronto.

Until 2004, GO Transit's on-time performance ranged between 93% and 96%, but delays have subsequently become more common. In particular, since 2005, as ridership has increased, on-time performance has decreased. GO Transit has indicated that it made a conscious decision to compromise on-time reliability in order to offer more peak-period service.

GO Transit classifies a train as on time if it arrives at its destination within five minutes of its scheduled arrival time. This practice is consistent with those of other major commuter rail systems, which use a period of within five or six minutes from scheduled arrival time to classify a train as on time. During the period October 2006 through February 2007, over 160 train cancellations and 3,400 delays were recorded. The average length of the delays was 13 minutes. Approximately 2,000 of the delays, which affected approximately 2.6 million riders, occurred during peak hours. During this period, GO Transit's on-time performance averaged only around 85%.

Figure 2 highlights the on-time performance in 2006 of other commuter rail systems in North America. The operating environment of these commuter systems is comparable to that of GO Transit. One major difference, however, is that in GO Transit's case, 70% of the rail corridors are owned by private-sector railway companies, whereas for the U.S. commuter systems listed in Figure 2, the majority of corridors are publicly owned.

GO Transit's most recent customer satisfaction survey, conducted in 2004, revealed that overall satisfaction among core riders dropped from 80% in 1998 to 74% in 2004. The key factors for the decline in customer satisfaction were inadequate peak-period service, declining on-time performance

Figure 2: On-time Performance for Comparable Commuter Rail Systems in North America, 2006

Prepared by the Office of the Auditor General of Ontario

Commuter System	Annual Rail Ridership (million)	2006 On-time Performance (%)
AMT Montreal — commuter rail service linking the downtown core with surrounding communities	15	98.0
Metro North (New York) — suburban commuter railroad service between New York City and its northern suburbs in New York and Connecticut	75	97.8[1]
Northeast Illinois Regional Commuter Railroad, aka METRA (Chicago) — commuter railroad that serves the city of Chicago and the surrounding suburbs	82	96.5[1,2]
New Jersey Transit — statewide public transportation system serving the state of New Jersey, and Orange and Rockland counties in New York—operates bus, light rail, and commuter rail services throughout the state	69	95.1[1,3]
Long Island Railroad (New York) — commuter rail system serving the length of Long Island, New York	82	93.3[1]
GO Transit	**41**	**89.5**
Massachusetts Bay Transportation Authority, aka MBTA (Boston) — commuter rail system in the greater Boston area	38	89.0[3]
Southeastern Pennsylvania Transportation Authority, aka SEPTA (Philadelphia) — provides commuter rail service to Philadelphia and its suburbs	30	88.4[1,3]

1. percentage of commuter trains that arrive within six minutes of the scheduled time (compared to five minutes for other systems)
2. January to June 2006
3. fiscal year ending June 30, 2006

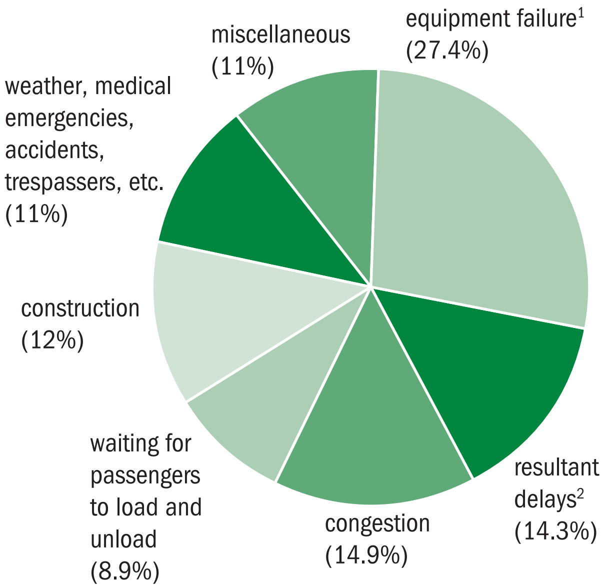
of rail service, and crowding on trains. Since the 2004 survey, there has been a further 9% increase in passengers without any increase in capacity. GO Transit has not conducted a similar customer satisfaction survey since 2004.

Reasons for Train Delays

To determine when trains arrive in a station, GO Transit relies on a combination of logs kept by train crews, video monitoring, and a Global Positioning System. The information on arrival time is manually logged into a CN-owned and -operated computer system used for managing GO Transit's train operations. The system assigns the reasons and responsibilities for delays amongst GO Transit and its operating partners. On the basis of information provided by the system, we noted that the largest cause of delay was failure of equipment (such as switches, signals, crossings, locomotives, and coaches), as shown in Figure 3.

Figure 3: Reasons for Delays, October 2006–February 2007

Prepared by the Office of the Auditor General of Ontario



1. switches, signals, crossings, locomotives, coaches, etc.
2. initial delay results in delays to other trains

A number of these delays—such as those caused by medical emergencies and construction—were beyond GO Transit's control. In addition, because of infrastructure constraints and tight scheduling to meet demand, any difficulty encountered by one train would often result in the delayed arrival of other trains. Almost 15% of the delays were the result of earlier delays by other trains.

As a result of the recent significant decline in on-time performance, GO Transit initiated a review of rail on-time performance and reported the results to its Board of Directors in April 2007. All individual weekday trips were reviewed on a case-by-case basis to identify recurring delays affecting that trip and methods of correcting the problem. GO Transit indicated that this process would be repeated on a quarterly basis to ensure that emergent issues are addressed as promptly as possible.

While the on-time performance review proposed adjustments to individual trips where possible, it also indicated that no single initiative would address any significant portion of the delays and that it was unlikely that service could be improved quickly. In addition, some types of delays are systemic and were not addressed through the individual-trip review. These systemic issues, which include switch and signal problems, rolling-stock-related delays, and train-control issues and procedures, were to be reviewed separately.

RECOMMENDATION 1

In order that appropriate and timely action is taken to ensure the on-time performance of trains, GO Transit should:

- formalize the practice of periodically conducting individual trip reviews;
- follow through with its commitment to carry out a review of systemic issues leading to train delays and develop and implement an action plan with timelines to address each significant systemic issue; and
- conduct an updated customer satisfaction survey to obtain input from customers on ways to improve service.

GO TRANSIT RESPONSE

GO Transit is proactively working with its service providers to address on-time performance issues. GO Transit now has a formal trip review process in place and is working with the railways to remove systemic issues leading to delays. GO Transit is increasing the track capacity of the railways, so more flexibility is available to deal with individual train delays. The province has also committed to upgrading the locomotive fleet, so more reliable equipment is available for service. In the operating area, GO Transit has finalized the selection of a new third-party train operations contract that will ensure dedicated crews and a performance-driven relationship.

With respect to customer surveys, we are now undertaking surveys every two years. Through our complaint-tracking process, we know that customers want more reliable service and more service options. This is a major source of dissatisfaction with our customers. GO Transit is endeavouring to meet customers' expectations.

Capital Planning to Address Growth

Delays due to congestion are indications that the existing rail system is operating beyond its capacity and is not able to handle the growing demand for service. On the basis of a passenger count taken by GO Transit in October 2006, we estimated that, during peak hours, its trains were running at about two million riders over seated capacity in 2006. The Milton line experiences the greatest crowding, with a daily seated capacity of about 19,000 but actual daily ridership of about 21,000.

At the time of our audit, GO Transit was planning to invest approximately $1.7 billion under its growth capital plan over the next 10 years to expand its service. Figure 4 summarizes the nature and amount of the planned expenditures.

This level of capital spending was expected to increase GO Transit's rail capacity over the next 10 years by approximately 40%—or by 15 million annual riders. GO Transit management indicated that, because there was already so much latent demand for its services—that is, there continued to be more riders than capacity to serve them—ridership growth was more closely related to its ability to expand existing train service than to population and employment growth. This will continue to be the case until GO Transit's service catches up with the latent demand.

The priorities for service expansion were driven by factors such as how much funding will be made available by governments and how the host railways react to expansion and growth projects, as opposed to by how much faster one rail corridor is growing than another. There has thus been no formal planning to meet future demand arising from such factors as local population trends, estimated passenger growth by rail corridor, and integration with local transit. Nor has GO Transit planned to address the effects and cost/benefits of different funding levels on meeting demand. Our review of changes in ridership by rail corridor over the last two years indicated significant differences in ridership growth amongst the corridors, as shown in Figure 5.

Without a more comprehensive analysis of future demand and trends, there might not be sufficient infrastructure to accommodate the growth in passenger volumes. Some areas could continue to experience serious capacity issues and persistent problems with delays and poor customer service. In addition, decision-makers from various levels of government will need information of this nature to enable them to properly assess the cost/benefits of different transportation alternatives and make informed decisions on expansion plans and funding levels.

Figure 4: Summary of GO Transit's 10-year Growth Capital Plan, 2006/07–2015/16

Prepared by the Office of the Auditor General of Ontario

Expenditure Type	Amount ($ million)
expansion of rail infrastructure	580.4
purchase of bi-level rail coaches and locomotives	500.5
bus rapid transit	165.5
expansion of GO Transit parking lots	140.3
purchase of property	60.1
growth projects outside the GTA	58.2
new buses	37.0
other system requirements (includes new stations, platform extensions at existing stations, and train storage facilities)	140.7
Total	**1,682.7**

Figure 5: Rail Ridership by Corridor, 2004–2006

Prepared by the Office of the Auditor General of Ontario

Corridor	2004 (000)	2006 (000)	Growth from 2004 (000)	% Growth
Bradford	1,647	2,273	626	38
Stouffville	1,933	2,644	711	37
Georgetown	3,329	3,805	476	14
Richmond Hill	1,814	2,047	233	13
Milton	5,429	6,025	596	11
Lakeshore West	12,863	13,560	697	5
Lakeshore East	10,689	10,811	122	1
Total	**37,704**	**41,165**	**3,461**	**9**

RECOMMENDATION 2

To ensure that an effective strategy is in place to address growing passenger demand, GO Transit should establish a more comprehensive capital planning process that takes into consideration such factors as passenger growth by individual corridor and the impact of different funding levels on meeting service demand.

GO TRANSIT RESPONSE

Current (and previous) government leaders recognize the need and justification for more GO Transit service. Recently, this was reinforced by the "Places to Grow" Growth Plan and the Canada Strategic Infrastructure Fund agreement between the federal and provincial governments for GO Transit expansion. Provincial, municipal, and federal decision-makers now recognize the success of GO Transit and the need for greatly expanded services. GO Transit has expanded as budgets allowed. However, GO Transit's year to year capital funding has been erratic and unstable. It is difficult to aggressively schedule multi-year projects for the expansion of services that are necessary to meet the growing population of the GTA when funding commitments occur on an annual basis.

GO Transit will work toward establishing a more comprehensive capital planning process that takes into account growth by individual rail corridors and the impact of different funding levels on meeting service demand.

Track Congestion and Right of Access

As shown in Figure 3, 15% of the delays during the period October 2006 through February 2007 were due to track congestion. Because the host railways own 70% of the track on which GO Transit operates, GO Transit has to compete with freight traffic and other passenger rail traffic for the use of the same tracks. These host railways also provide crewing and dispatching for all of GO Transit's trains and maintain the tracks and rail equipment.

Sharing rail access and having the host railways operate and maintain its trains and equipment affect GO Transit's operations in many ways:

- According to GO Transit, freight traffic often has priority over passenger traffic with respect to the railways' service because GO Transit accounts for less than 1% of the host railways' revenue. From October 2006 through February 2007, over 500 delays were attributed to congestion and the need to share tracks.
- GO Transit, as well as other commuter rail systems in Canada, has expressed concerns that, because it has no competitive alternatives to the existing host railways, it has little recourse over what it considered to be high rates, restrictive covenant provisions, and, in some cases, controls imposed by the host railways over the actual service that can be provided, such as controls over the scheduling of additional train service.
- GO Transit has to negotiate with the host railways in order to achieve improvements in services, including the operation of additional trains. According to GO Transit, agreement is usually reached only after GO Transit has agreed to fund the expansion of the host railways' infrastructure. For example, of the $580 million that GO Transit plans to spend on projects for the expansion of rail infrastructure over the next 10 years, approximately $475 million is to be spent on expanding rail corridors owned by the host railways. Although the costs of expansion will be funded by GO Transit, the railways will own the assets, collect access fees from GO Transit,

and control the use of the new improved infrastructure once completed. These contributions benefit both the railways' asset base and the movement of freight traffic, yet to date GO Transit has received little formal assurance of service improvements in return for its investment.

- GO Transit's agreements with the host railways stipulated that the railways were to perform all required project design and construction work directly or through their contractors. A fixed price would be negotiated between GO Transit and the railways for each project. As a result, GO Transit did not have the option of following a competitive procurement process to ensure that the work would be done at the most reasonable cost.

The regulation of railways falls under federal transportation legislation and affects GO Transit as well as other commuter rail systems in Canada. While the federal government has recognized these concerns, several previous attempts to provide commuter rail operators with legislative protection have failed. However, in May 2006, Bill C-11 was introduced by the federal Minister of Transportation to amend the *Canada Transportation Act* and the *Railway Safety Act*. A number of the amendments in Bill C-11, passed in June 2007, are aimed at balancing the interests of commuters and urban transit authorities with those of rail carriers. Some of the significant changes include:

- the ability to gain access to the lines of federally regulated railways by means of a dispute resolution mechanism proposed under the legislation;
- the Canada Transportation Agency's authority to determine the amounts to be paid to the host railways for such access;
- the ability of urban transit authorities to purchase a discontinued railway line or corridor offered for sale at net salvage value; and
- the requirement that future contracts between railway companies and public passenger service providers be made available to the public, upon request, in the interest of greater transparency.

Our review and discussions with GO Transit officials indicated that the amendments would help to address many—but not all—of GO Transit's concerns. We also noted that GO Transit had joined with other commuter rail systems in the country to make representations to the federal Ministry of Transportation regarding Bill C-11. However, GO Transit has no formal or regular mechanism for working with the provincial government to ensure that such issues are raised during federal-provincial transportation negotiations.

RECOMMENDATION 3

To ensure that the interest of the public is adequately protected, GO Transit should work proactively with the province to ensure the public's right of access to economical and efficient railway service.

GO TRANSIT RESPONSE

GO Transit recovers almost 90% of its operating costs and continues to grow its ridership base; GO Transit leads the industry in providing an economical service. GO Transit will continue to work with the various levels of government and the rail industry to ensure that an economical and efficient railway service, including appropriate right of access, is provided for the public.

Agreements with Host Railways and Suppliers

The host railways are responsible for maintaining the corridors that they own. In addition, GO Transit has entered into agreements with several major suppliers, including the two host railways, for crewing and maintaining the tracks and facilities it owns, as well as its locomotives and coaches. Over the last five years, about 65% of delays have been attributed by GO Transit to its service providers.

We noted that, in spite of the persistent—and, in some cases, growing—delays that were attributed to the service providers, the terms of the operating agreements between GO Transit and its service providers had not been effective in producing improvements in on-time performance. Specifically:

- According to the agreement with one host railway, GO Transit is to pay the host railway a service-quality incentive that may be increased or decreased on the basis of on-time performance thresholds stipulated for each rail corridor. However, the incentive was capped at a maximum amount that was too insignificant to act as a meaningful incentive relative to the approximately $50 million that GO Transit was paying the host railway annually. Moreover, the busiest rail corridor was excluded from this adjustment.
- The equipment maintenance agreement with a major supplier provides for penalties of up to 3% of the $30-million price for the services for that year if trains are delayed by more than 20 minutes or cancelled as a result of equipment failure. As in the case of the above host railway, the provision had not been effective in ensuring performance, since the number of delays attributed to equipment maintained by this supplier had increased significantly in the last year.
- There was no specific provision in the form of incentives or penalties that GO Transit could apply under a number of agreements with the second host railway and several other suppliers. The operating agreement with that railway simply states that both parties will work together to strive to achieve 100% on-time performance with a minimum of service interruptions that might inconvenience passengers.

GO Transit has taken some action to allow for greater control over its on-time performance. At the time of our audit, it was in the process of assuming responsibility for rail crew operations from the host railways. It was also in a position to enhance the performance clauses of several of the agreements that are coming up for renewal in the near future. For a number of other agreements, however, GO Transit may have little clout in changing the underlying agreements given that it has no alternative but to use the rail lines and services of the owners of the tracks.

RECOMMENDATION 4

To ensure reliable train service, GO Transit should:

- work more effectively with service providers to address persistent delays attributed to them, monitor progress toward reducing the delays, and take appropriate action; and
- review the terms of the agreements with service providers and, where possible, negotiate appropriate changes to future agreements to enhance performance and accountability.

GO TRANSIT RESPONSE

GO Transit is proactively moving forward with measures to improve service delivery. GO Transit will continue to work closely with all service providers to encourage better performance and take corrective measures to address systemic problems. Operating and maintenance agreements are being renewed in 2008. Performance-driven (and penalty-exception) contracts will be strongly considered, if economically viable for GO Transit and the province.

ACQUISITION OF GOODS AND SERVICES

Procurement Practices

Over the two fiscal years ending March 31, 2006, GO Transit's total expenditure on the acquisition of goods and services, excluding the acquisition of rolling stock, amounted to approximately $470 million. Of this, $165 million was related to capital projects undertaken by GO Transit on the host railways' rail systems. GO Transit's agreements with the host railways stipulated that the railways were to perform all required project design and construction work. A fixed price was negotiated for this work, and GO Transit did not have the option of following a competitive procurement process to ensure that it received the best product and price.

Notwithstanding the constraints relating to the lack of competitive tenders with the host railways, we noted that GO Transit had adequate policies in place to help ensure that goods and services were acquired competitively, with due regard for value for money, and through open and transparent procedures. Figure 6 summarizes GO Transit's competitive procurement policies.

Although GO Transit's competitive procurement policies were adequate, in practice these policies have not been effective in ensuring value for money in a number of instances. Specifically, we have concerns with GO Transit's procurement practices for a number of its long-term major capital and maintenance projects. For example:

- GO Transit had entered into agreements with two consortiums to manage a number of its growth capital projects for Toronto's Union Station in 2000/01 and for rail corridors in which GO Transit operated in 2003/04. For the Union Station projects, GO Transit issued a request for proposals for program-management consulting services and awarded a contract worth $247,000 for the first 12 months. It subsequently made nine extensions to the contract to 2007/08, with additional costs totalling $25 million to date. For the rail-corridor projects, GO Transit issued a request for proposals for program management and awarded the contract for about $2.3 million for the first 17 months. As it did with the first contract, GO Transit subsequently extended this contract for three years at an additional cost of $15.2 million to date. We noted that, in both cases, the project scope outlined in the information provided to potential bidders clearly stated that these capital projects, estimated to cost in excess of $250 million for the Union Station projects and $500 million for the rail corridors, required multi-year management; yet GO Transit requested bids for only 12 and 17 months, respectively.

Figure 6: Summary of GO Transit's Procurement Policies
Prepared by the Office of the Auditor General of Ontario

Dollar Limit	Procurement Method
<$10,000	• verbal or written quotation from one or more vendors, where possible
$10,000–$20,000	• written quotation from a minimum of three vendors, where possible
$20,000–$100,000	• written quotations or tenders from a minimum of three vendors, where possible (GO Transit must consider a tender for consulting contracts between $50,000 and $1 million; for consulting assignments with an estimated value greater than $1 million, GO Transit must consider a public tender)
>$100,000	• a public tender must be conducted; however, the Procurement Manager may decide to use an invitational tender if there is sufficient justification (such as limited number of qualified vendors) • prior approval for awards of more than $250,000 must be obtained from the Board

GO Transit advised us that, with respect to the Union Station projects, when it acquired a part of Union Station in 2000, the property was functioning at close to capacity and had an estimated 50-year backlog of maintenance and repairs. Therefore, many projects had to be undertaken immediately, with no time for a complete assessment of everything that needed to be done at Union Station. Furthermore, GO Transit indicated that it did not know how much money would be made available by the government and when budget approvals would be given each year for the projects being managed under either assignment. Had it received a long-term funding commitment from the government, it could have developed an implementation strategy and awarded a management contract with firm dates and projects.

We acknowledge that it might not be feasible to delay work on some of the more urgent capital projects, and the funding available could impact the extent and timing of work to be conducted. However, given the long duration of the capital projects, the significant amounts under management, and the fact that GO Transit was aware that the two management contracts would cost many times more than the initial one-year amount, we remain concerned that a more complete tender was not carried out to ensure that all qualified consultants had the opportunity to bid for this work and thereby ensure that value for money was received.

We were also concerned about the open-ended nature of the arrangement in the management contracts as well as of the projects under management. Senior staff at GO Transit negotiated the cost of undertaking the management of various projects on the basis of the numbers and roles of the individuals assigned by the consortiums to the project. Although GO Transit indicated that the fees paid to the consortiums were below those recommended by the Professional Engineers of Ontario, the total fees were not fixed. Approximately $40 million in contract amendments have been awarded to the consortiums to date. Furthermore, we noted that there had been significant increases in the estimated cost of completing the Union Station projects, which at the time of our audit had gone from a budget of $390 million (with a built-in 25% contingency) to $460 million. Without following a competitive tendering process to enable a comparison of the price and quality of services being provided to those available in the open market, GO Transit had little assurance that it received value for money with respect to the price it paid and the services received.

In addition, although the existing contracts with the two consortiums are to expire on March 31, 2008, according to GO Transit's capital plan the projects under management are to continue up to 2014. Therefore, the contracts with the consortiums will in all likelihood last for up to another six years without a further tender. While, in light of the familiarity with the work the consortiums have gained over time, it may not be practical to retender the existing contracts, given the circumstances, sufficient monitoring of the consortiums' work is all the more critical.

- A contract relating to the maintenance of the Union Station rail corridor and the related rail-traffic-control services was initially single-sourced to the previous owners of the corridor in June 2000. According to GO Transit, the previous owners were the only qualified vendor, given their past experience. The initial agreement expired in June 2006; at the time of our audit, GO Transit had not finalized a new agreement. Instead, it was operating on a letter of intent to execute a new agreement with the existing vendor. The original contract stipulated fees of about $5 million annually, while the new agreement is expected to cost about $6.8 million annually over the next six years. While we acknowledge GO Transit's original rationale for single-sourcing the contract, we would have expected that in the six intervening years GO Transit would have been actively seeking other qualified suppliers so as not to be forced into the same single-source situation again. As well, GO Transit had not formally assessed whether the new contract price was reasonable nor considered alternatives, such as the feasibility of developing in-house expertise in the long run so as not to become overly dependent on this one vendor.

- In June 2005, GO Transit awarded a $13.6 million contract to a vendor for the maintenance of GO Transit-owned corridors. GO Transit identified seven potential bidders for the contract, which was publicly tendered. However, only the winning proponent submitted a bid. Given the significant value of this contract and the level of interest, we would have expected GO Transit to investigate why the other potential bidders chose not to submit proposals. In response to our inquiry, GO Transit indicated that its staff did contact the other bidders but failed to appropriately document and file the information obtained.

In addition to our concerns on the procurement of long-term capital and maintenance contracts, we noted that, in the 2004/05 and 2005/06 fiscal years, another $85 million was for contracts that were negotiated or not tendered. For example:

- An amount of $8.6 million was spent on 170 consulting contracts that were single-sourced. In justification of the single sourcing, GO Transit officials often cited the opinion that the rate charged by the consultant was reasonable or that the consultant possessed the necessary skills to complete the assignment. However, without the benefit of a competitive acquisition process, GO Transit could not ensure that all qualified consultants were given fair access and that competitive prices were obtained for the services to be received.
- In addition, we noted a number of instances where the original cost of the consulting assignments was set at $49,500, or just below the limit of $50,000 required for a tender. These contracts were often subsequently extended, resulting in payments two to three times the original amount. For example, in June 2005, a consultant was contracted without a competitive process to serve as the acting manager of a project until a new manager was recruited. The original ceiling price of the contract was $49,500. After the new manager was hired, however, the contract was extended and the value of the assignment increased to nearly $300,000, with new responsibilities.
- We also noted numerous cases of procurements under $10,000 for services that generally have an abundance of suppliers, such as printing, real-estate appraisals, and the installation of signs. However, there was no attempt on the part of GO Transit to obtain verbal or written quotations as suggested by its own procurement policy. Approximately $4.5 million of the non-tendered purchase orders related to procurements under $10,000. GO Transit indicated that the administrative burden of managing these low-value procurements was the reason why no quotations were obtained. To lessen the burden, we believe that it should consider periodically conducting tenders to select vendors that would supply frequently used goods and services for a competitive price and for a specified period, a common practice in the Ontario government.

Project Management

GO Transit's policy allows for increases to original contract prices if the increases are properly justified and approved by senior management and the Board of Directors. For contracts with an awarded value in excess of $250,000, the policy requires that extensions be approved by the Board if their total exceeds 50% of the original contract value. Contract extensions that change the scope of original contracts and add more than $100,000 to the total contract price must also be brought to the attention of the Board for advice.

We noted that, in the three years 2004 through 2006, over 60 amendments to various original contracts had been presented to the Board. Nearly $56 million was for more than 20 amendments relating to the procurement contracts of the two consortiums for the management of GO Transit's growth-capital construction projects, and the projects they were managing during the three years (mentioned in the preceding section as our first concern about contracts for long-term major capital maintenance projects). The remaining amendments, totalling nearly $12 million, were for consulting and maintenance contracts. In total, the nearly $70 million in amendments represented approximately 75% of the original contract values. As a hedge against unexpected circumstances, it is common in many contracts, such as construction contracts, to provide for contingencies of 10% to 15% of the original contract value. The high number of amendments to GO Transit's contracts and their significant added costs could be indicative of inadequate planning, inadequate upfront cost estimating, and/or weak monitoring of those projects.

We noted that, in one case, the Board had approved six extensions totalling over $1.5 million relating to a contract it had approved for the development of an information technology system, originally initiated in December 2002 for $2.4 million. The system was originally to be implemented in November 2003. There was a significant underestimation of the resources required for the implementation of the system, the complexity of GO Transit's collective bargaining rules, and other technical requirements. It was not until September 2006 that the complete system became operational. The revised estimated cost for the entire project was $7.8 million.

In this regard, we note that the province has provisions whereby the ceiling price of agreements may be increased, provided the increase is justified, documented, and receives the appropriate prior written approval. However, the ceiling price should be allowed to increase only in exceptional circumstances and not to the extent that GO Transit has permitted in many of its agreements in recent years.

Approval by the Board of Directors was given on most contract amendments put forward by management. However, in our interviews with past and present board members and as we found through our review of board minutes, a number of members expressed concern over the frequency and size of the amendments and felt that management's initial scoping of contracts may have been inadequate. Some board members felt they had little choice but to approve contract amendments, since projects were already well under way.

Ensuring Supplier Performance

Typical best practices relating to service provider contracts should detail the services to be provided, expected results, reporting requirements, and provisions to compensate for poor performance. We noted several examples, such as the following, where the service providers did not meet the timelines stipulated in the contracts and yet were still paid in full.

- A company was awarded a $1.2 million contract to expand a GO Transit station parking lot. The contract stipulated that the expansion was to be completed by January 2006. The actual completion date was October 2006.

One reason cited by GO Transit for the delay was the slow work of the contractor; however, the contract did not provide any recourse, such as reduction in the contract amount, for the delays in completion. The contractor was paid in full—GO Transit indicated that, even though it considered making a claim for damages, it did not feel it could prove it suffered a financial loss, and the legal cost of pursuing such a claim would exceed any recovery GO Transit might obtain.

- A supplier was given a $1.8 million single-sourced contract to provide a device that would enable the replacement of switches in the Union Station rail corridor. The main reason GO Transit single-sourced the contract was that the vendor promised delivery of the device by March 31, 2006. The delivery date was crucial for the startup of the switch replacement program in May 2006. However, the supplier delayed delivery of the device by four months without consequences, because the contract did not provide any recourse in the event that the agreed-upon delivery date was missed.

GO Transit indicated that, in situations like this, its recourse was to not invite the service provider to bid on future contracts.

RECOMMENDATION 5

To ensure that value for money is received and GO Transit's acquisition processes are regarded as fair, open, and transparent, GO Transit should:

- follow its internal policies, which require a competitive selection process in acquiring goods and services;
- monitor contracts for adherence to the original price and consider obtaining a separate tender for any significant change in the scope of work in the original contract;
- ensure that contracts have firm ceiling prices, whenever possible;
- conduct a long-term needs analysis on the costs and benefits of hiring consultants and consider alternatives, such as hiring and training staff instead of using consultants; and
- strengthen the terms of contracts with suppliers to ensure satisfactory and timely performance and take appropriate action to ensure that suppliers adhere to contract terms.

GO TRANSIT RESPONSE

GO Transit has a comprehensive and competitive procurement policy that is regularly audited for compliance and reviewed and approved by its Board. The Auditor's staff recognized that GO Transit has good procurement policies in place. It is not always practical or "value-added" to retender as a result of scope changes, especially when the changes result from an unpredictable circumstance. However, we agree that, where there is a significant change in the scope of work, consideration should be given to the practicality of tendering to accommodate the additional work. Extensions to existing work are sometimes required in order to facilitate the delivery of the product to the public in a timely and efficient manner.

With respect to the program-management contracts, the quality of the work is critical. This quality is provided by the unique skills of the consulting staff seconded to GO Transit. They must manage nearly $1 billion of complex and complicated engineering and construction projects over many years. It was not practical for a full-price contract to be defined for this work. To seek new proposals every few years would have been a very ineffective way of staffing up these major program-management assignments.

GO Transit chose a method of contracting that is common to the industry; GO Transit got support for this approach from the Board and staff of the province and the federal government.

Nevertheless, GO Transit will review its current practices and make any necessary changes to strengthen controls over the procurement of goods and services.

SETTING FARES

Fare revenue constituted approximately 95% of all operating revenues (excluding government grants) that GO Transit collected in the 2006/07 fiscal year. GO Transit recovers a significant amount of its operating costs from its operating revenues. At 89.5% in 2006/07, GO Transit's revenue-to-cost ratio is significantly higher than the national average for transit systems in Canada and other countries published by the Canadian Urban Transit Association, as shown in Figure 7. GO Transit bases its fare increases, to a great extent, on maintaining a relatively consistent revenue-to-cost ratio, defined as revenue over cash operating expenditures.

For rail and bus networks alike, fares are determined by a formula that has both fixed and variable components. Different fares are charged and discounts offered according to customer category, length of the trip, and the frequency of travel. Since its creation in 1967, GO Transit has been using a zone fare system. With the rapid expansion of GO Transit's network, this zone fare system has become cumbersome and allows GO Transit little flexibility in setting fares. For example:

- The system has a capacity to handle only 100 zones, of which 97 have already been used.
- GO Transit cannot vary fares between its rail and bus service or charge a premium for express rail service.
- Because zones straddle different lines, a fare increase to one line generally has to be applied across all lines.

In November 2006, after a public tendering process, the Ministry of Transportation awarded a $250 million contract to a consulting firm to develop and maintain the "GTA fare card." This new system is intended to allow commuters to load a dollar value onto a card that can then be used on the various transit systems within the GTA. The contract is for a term of 10 years, with the option to renew for two further three-year terms, and encompasses the initial design and implementation, as well as future maintenance and operation, of the fare-card system. At the time of our audit, this project was in its preliminary stage, with a pilot project expected to begin in Mississauga in July 2007.

Figure 7: Average Revenue-to-cost Ratio for Transit Systems in Canada and Other Countries, 2006

Source of data: Canadian Urban Transportation Association

Country	Average Revenue-to-cost Ratio (%)
Canada	62
Germany	60
France	55
Sweden	44
U.S.	39
Italy	33
Netherlands	28

ENSURING PAYMENT OF FARES

Fare Inspections

GO Transit currently operates the fare system for its trains on a proof-of-payment basis. Commuters are required to pay their fares before boarding the trains, and all the stations are barrier free (presentation of a ticket is not required to board a train or bus). Station attendants sell single-ride tickets, multi-ride tickets, and monthly passes. Holders of multi-ride tickets are required to cancel a ride on their tickets before boarding the train. GO Transit enforcement officers conduct periodic inspections on trains, during which they request that all passengers show a valid proof of payment, such as the ticket with the date and time of cancellation stamped on it. A passenger who does not have a valid proof of payment may receive a Provincial Offence Notice of $110 or a warning from the enforcement officer.

GO Transit's overall standard for inspections is to inspect at least 6% of the ridership. In addition, trains for each scheduled departure time are to be inspected at least once every month or twice in any two-month period. We noted that the actual overall inspection rate reported by GO Transit for the period October 2005 to September 2006 was slightly below the standard at 5.18%. We also noted that:

- Approximately 60% of all inspections were done on off-peak trains. Off-peak trains carried less than 20% of all passengers.
- The most inspected corridor had an overall inspection rate of 5.81%, while the least inspected corridor had an inspection rate of 1.53%.
- As many as 76% of weekday peak trains and 64% of weekday off-peak trains did not meet the inspection-frequency standard. The average gap between inspections was 3.2 months. Out of approximately 180 daily trains, 23 had gaps of over six months between inspections; 17 of these were peak-period trains.

GO Transit indicated that its experience has shown that an average inspection rate of 5% would keep fare evasion at a level of around 1%. The actual overall fare-evasion rate for the period October 2005 to September 2006 was below 1%. When a passenger cannot present proof of payment, an inspector can issue either a warning or a fine. We found that some inspectors are significantly more likely to issue fines than others, as shown in Figure 8. On the basis of the GO Transit data, we estimated that the overall chance of receiving a fine if caught without the appropriate proof of payment was about 40%.

GO Transit did not have formal guidelines on when inspectors are to issue a Provincial Offence Notice versus only a warning when passengers do not have valid proof of payment. Such guidelines would ensure that fines and warnings are issued on a consistent basis between inspectors. Some inspectors we interviewed informed us that warnings are often issued instead of fines to avoid confrontations with riders.

GO Transit also did not have a formal policy for dealing with repeat offenders, such as escalating charges for repeat offences. Its information system does track repeat offenders, but the information was not easily made available to inspectors during the course of inspection. Because they would have had to call the dispatcher and wait for a reply, inspectors usually did not request the information.

Collection of Fines

In addition to fines issued for the evasion of fares, GO Transit issues other fines, such as those for parking infractions at stations. GO Transit does not collect outstanding parking fines. Instead, municipalities collect these on behalf of GO Transit. Prior

Figure 8: Percentage Chance of Receiving a Fine, by Inspector, October 2005–September 2006

Source of data: GO Transit

%	# of Inspectors
0–20	11
21–40	19
41–60	21
61–80	10
81–100	5
Total	**66**

to January 1, 2004, the municipalities retained all fines issued. Subsequently, an agreement was reached whereby municipalities now retain 30% of the fines collected as consideration for the collection effort and remit the remaining 70% to GO Transit.

Because GO Transit is entitled to more than two-thirds of the fines, it has a vested interest in ensuring that fines are collected. Also, the deterrent factor would be lost if fines are not collected on a timely basis. However, we noted that GO Transit had not monitored the municipalities' efforts and did not track the amount and age of the fines outstanding. Through our inquiries with the Ministry of the Attorney General, we noted that as of February 26, 2007, there were over 18,500 outstanding fines, totalling nearly $2.3 million, relating to GO Transit.

GO Transit indicated at the time of our audit that it did not have access to the information needed from the Ministry of the Attorney General to monitor fines nor could it compel municipalities to take any action. GO Transit indicated that it had raised this issue with the Ministry of the Attorney General, but the issue has yet to be resolved.

RECOMMENDATION 6

To ensure that inspection and collection efforts are effective and consistent in enforcing payment of fares, GO Transit should:

- review and make appropriate revisions to its inspection guidelines relating to when a fine should be levied on passengers who evade paying their fares;
- make sure inspection coverage and enforcement actions comply with internal inspection standards;
- monitor the results of inspections and take corrective action, where necessary;
- develop a policy with respect to repeat offenders; and
- work with the Ministry of the Attorney General and municipalities to establish a more effective and accountable system for collecting fines.

GO TRANSIT RESPONSE

GO Transit agrees with this recommendation. An assignment has been initiated to review and update the *Operations Manual* for transit enforcement officers and customer attendants. Better guidelines will be provided in the areas of fare inspections and customer service. GO Transit is also expanding its ability to improve training, planning, scheduling, compliance monitoring, and business analysis. Additional staff will be assigned to assist in the pursuit of collecting fines. These staff will work with the Ministry of the Attorney General and municipalities to review policies relating to repeat offenders and the timely collection of fine revenues.

SAFETY AND SECURITY

GO Transit is a voluntary participant in the American Public Transportation Association's (APTA's) Commuter Rail Safety Management Program. This program is designed to provide each participating transit system with a process for the effective implementation and review of a safety plan specific to its needs. In 2004, APTA conducted an audit to assess the level to which GO Transit's safety plan had been implemented and made a number of recommendations. A follow-up audit was conducted in April 2006; while some issues remained, APTA provided an overall positive opinion on the safety and security of GO Transit's operations.

Nevertheless, there are several areas where the safety and security of GO Transit passengers could be better protected, as indicated in the following observations:

- Between October 2004 and September 2006, there were about 2,500 safety and security incidents, including, for example, passenger injuries, illnesses, thefts, cases of harassment, and suspicious packages. While GO Transit investigated each individual case, it did not maintain a complete database that would facilitate analysis of these incidents for the purpose of preventing them in the future. It also had not developed performance indicators for passenger safety to measure progress toward the reduction of safety and security incidents. We noted that a number of commuter passenger rail systems in other jurisdictions have developed indicators such as the rate of customer injuries per million rides.
- We noted that, in the event of extraordinary circumstances in the Greater Toronto Area, GO Transit has three security alert levels that take into consideration the potential or direct threat against GO Transit. They ranged from increasing vigilance up to the cessation of service. Each department within GO Transit is responsible for establishing and updating its own security-escalation procedures. APTA, in its 2004 audit, recommended that all departments within GO Transit periodically conduct a tabletop test where staff talk through managing a simulated security-related scenario. In April 2006, GO Transit conducted its first tabletop exercise, which presented participants with scenarios at all three alert levels. However, following the exercise, there was no formal analysis or report prepared on the performance of the various departments to identify weaknesses and necessary corrective actions.
- Transport Canada performs rail safety inspections of the host railways' tracks and equipment to ensure that the tracks and equipment meet safety standards. We noted that GO Transit had not regularly requested the reports from these inspections, even though it has ultimate responsibility for the quality of its service, which includes the safety of its passengers.
- Over 2,200 cases of theft of vehicles, theft from vehicles, and mischief to vehicles at GO Transit station parking lots have been reported to GO Transit in the last five years. Reports that we obtained from Peel and Halton police indicate that the actual number of incidents was higher than this because not all cases are reported to GO Transit.
- APTA had recommended installation of automated external defibrillators in offices and stations staffed with people trained in CPR. An automated external defibrillator is a portable electronic device that treats potentially life-threatening cardiac arrest. Defibrillators are generally located in public places for use by trained personnel. For every minute that a person in cardiac arrest goes without treatment, the chance of survival decreases by 10%. In response to the APTA recommendation made in 2004, GO Transit indicated that the installation will take six to eight months. However, we noted that no plans had been made to adopt this recommendation.

RECOMMENDATION 7

To further enhance the safety and security of passengers, GO Transit should:

- perform periodic systemic analysis of past safety and security incidents to determine whether measures can be taken on certain types of commonly recurring risks;
- formally analyze and report on the effectiveness of its simulated security exercises; and
- implement safety and security measures identified through audits on a timely basis.

GO TRANSIT RESPONSE

GO Transit acknowledges that one simulation, conducted in April 2006, was not appropriately documented. Since that time, responsibility for all simulated security and safety exercises has been given to GO Transit's System Safety Office and comprehensive reporting on the results of exercises has occurred.

With respect to the implementation of safety and security measures periodically identified through audits, GO Transit will continue to review each safety and security audit recommendation in the context of the overall operation and the best practices shared between various police and security forces, other operating railways, and Transport Canada.

Although GO Transit has a record of 2,200 claims for automobile damage or theft in its parking lots, this must be taken in the context of more than 50 million cars parked. Of those 2,200 claims, many are for minor acts of vandalism and theft. However, GO is proactively working with Crime Stoppers, local police, and its own security forces to deter incidents.

BOARD GOVERNANCE

Corporate governance commonly refers to the process by which organizations are directed, controlled, and held to account. As with most Crown agencies and public-sector organizations, GO Transit's Board of Directors is responsible for the strategic direction of the organization and is accountable for overseeing its actions and performance.

Effective governance requires that appropriate mechanisms be established by the board to enable effective decision-making, ensure clear accountability, and provide for regular review and assessment of management and operations. Although the specific practices, functions, and activities of a board will, and are expected to, differ according to the particular context of the organization, a board's work must ensure that the key governance elements of setting strategic direction and providing corporate oversight are performed.

At the time of our audit, GO Transit's Board of Directors was in a period of transition, given the establishment of the Greater Toronto Transportation Authority (GTTA), under which GO Transit was soon to operate as a division. As a result, the Board had experienced significant membership turnover in the months before our audit, and several of the long-serving regional representatives had been appointed to the new GTTA Board of Directors, resulting in a number of vacancies on the GO Transit Board. Accordingly, the Board felt that a review of its governance practices would be timely.

Board Composition

GO Transit's Board of Directors is appointed by the Minister of Transportation. At the time of our audit, the Board was composed of a chair, six citizen members, and six members appointed from the regions that GO Transit serves. These latter six members are elected members of their regional/municipal councils. Like all board members, they are expected to fulfill their fiduciary duties in the best interests of GO Transit. This can create an inherent potential conflict for regional/municipal members. While the regional members' comprehensive knowledge of their respective municipalities provides invaluable insight for GO Transit's operations, they may, on occasion, be asked to approve proposals that could negatively impact their municipality, even though the proposals are aimed at serving the best interests of GO Transit and the public it serves. Our discussions with several current and former board members confirmed that this potential conflict did create considerable challenges for the Board.

We noted several instances where such conflicts arose and found that the Board spent significant time on regional/municipal issues and concerns. For example:

- Significant meeting time was spent on an ongoing issue regarding legislation affecting the ability of municipalities to levy higher development charges for GO Transit's growth capital projects. As this is an issue between the province and the municipalities over which GO Transit has little control or influence, this may not have been the most productive use of the Board's limited amount of meeting time.
- A potential conflict arose when the Board discussed the creation of a regional transit system that would negatively impact GO Transit's bus routes and profitability.

Strategic Planning and Risk Assessment

A key component of good governance is to set agreed-upon strategic priorities, to assess and minimize major risk areas facing the organization, and to take advantage of perceived opportunities through a strategic-planning process. GO Transit's Board holds an annual "strategic session" in January of each year. However, we found that not all board members attend, and no formal documented plan is produced as a result of the session.

A letter from the Minister of Transportation in January 2005 outlining expectations specified that "a significant priority of the Board must be the development of a new Strategic Plan that will provide the focus and direction to achieve the goals of increased ridership, expanded service, better integration, customer service excellence and improved financial performance." While GO Transit's management does produce a 10-year capital growth plan and presented a "Ten Year Strategic Plan" to the Board in January 2006, neither of these documents contains all the features of a robust, formal strategic plan similar to those expected in the business plans of all provincial Crown agencies. For example, in the case of GO Transit, a strategic or business plan should include a risk assessment and strategies for mitigating the risks identified, the resources required to meet GO Transit's goals and objectives, and targets and performance measures.

Board Oversight

Our review noted that the Board could be providing more rigorous oversight of GO Transit's overall performance and of various specific operational issues, especially in more high-risk areas, such as meeting service demand, addressing the results of safety audits, and procurement. While a strong reliance on management is normal, a board must ensure that its processes provide effective monitoring and oversight to enhance accountability.

Many boards often delegate authority to subcommittees to more effectively deal with complex or specialized issues and to use directors' time more efficiently. The advantage of a committee structure is that it allows for specialist areas to be debated in detail by members with the appropriate knowledge or skills. The key points can then be presented to the full board for ratification, making more effective use of board members' time.

In this regard, we noted that GO Transit's committee structure is limited, with only an audit committee in place at the time of our review. While some ad hoc committees have been formed to address various issues, these met informally, as required, with no documentation or minutes maintained. Rather than being structured as a subcommittee of the Board, GO Transit's Executive Committee is structured as a monthly meeting of the Chair, the Vice Chair, and senior management to set the board agenda and discuss the issues that will be brought to the Board's attention.

The establishment of a more formal standing-committee structure could be a useful method for the Board to more fully review and debate issues of particular significance to governance or operations, thereby ensuring more rigorous oversight. This is particularly relevant given GO Transit's growth and the many challenges noted in this report in areas such as on-time performance, capital planning, and procurement. Board members we met with suggested three potentially useful committees: governance, procurement/contracting, and human resources/labour relations.

Performance Evaluation

We noted that the annual performance evaluation of the CEO is currently carried out by the Chair and that the Board does not participate in deciding the resulting CEO compensation and annual bonus. Best practices would suggest including the input of all board members or a human-resources subcommittee of the Board in this evaluation.

Further, we noted that the Board does not conduct any evaluation of its own governance practices. Again, best practices suggest that such periodic evaluations can be useful in addressing any specific issues that arise—such as member absenteeism or participation styles—and in facilitating any required changes in board practices to ensure that the governance needs of the organization are effectively fulfilled. We were informed that such an evaluation process is being considered.

Our review also noted that few ongoing governance training and development opportunities have been provided to board members in the past. A more formalized orientation process and occasional governance-training workshops would enhance overall governance practices and ensure that board members have a consistent perspective on the role and responsibilities of the Board.

RECOMMENDATION 8

To provide more effective governance, GO Transit's Board of Directors should:

- approve a formal strategic plan setting GO Transit's strategic direction and share it with the Ministry of Transportation and the Greater Toronto Transportation Authority (GTTA);
- establish a committee structure that supports the Board with more detailed review of and advice on significant matters relating to overall governance and oversight;
- ensure more effective oversight of GO Transit's overall performance, as well as of specific operational issues, such as procurement and contract management; and
- consider adopting certain governance best practices such as enhanced performance-evaluation processes and a more formal orientation for new board members, as well as periodic governance-training workshops.

GO TRANSIT RESPONSE

The GO Transit Board is grateful to the audit team of the Office of the Auditor General of Ontario for conducting its Board Governance Review (as part of the value-for-money audit), a request put forward by the Chairman to the Auditor General at the audit planning meeting held with the GO Transit Audit Committee on November 10, 2006.

The Board welcomes the Auditor's finding that it has been effective in ensuring that operations management has adequate policies and procedures in place to guide its operations. The Board will continue to proactively develop and employ effective mechanisms, which include the formation of a number of key subcommittees (for example, Strategic Planning, Governance, and Risk Management). These committees will monitor the development and implementation of the corporate-strategic-plan process; oversee and enhance board organization, procedures, and performance; and be responsible for determining that all key risks are identified, linked to risk-management activities, and assigned to risk owners.

In addition, the current training and orientation process will be enhanced to ensure that board members are adequately trained when first appointed, and kept up-to-date in connection with modern governance techniques and methods, including changes in the organization's controls and processes.

The Board also believes that the current structural relationship with the government of Ontario in connection with board governance needs to be reviewed and improved in order to accommodate the unique circumstances under which the GO Transit Board operates and enable the Board to effectively perform its oversight responsibilities. The Board of GO Transit will continue to review and explore solutions until outstanding issues are transparently resolved.

AGENCY ACCOUNTABILITY

The Ministry of Government Services' Agency Establishment and Accountability Directive provides a framework for accountability, including responsibilities, to govern the operation of agencies established by the province. The following are some of the key requirements of the directive:

- A current Memorandum of Understanding with the responsible minister, whose purpose is to address the roles and responsibilities of the agency, staffing, administrative arrangements, and reporting and audit requirements.
- An annual business plan that covers at least three fiscal years for approval by the minister. The business plan is to include the agency's strategic directions, an overview of the agency's current and future programs and activities, the resources needed to meet its goals and objectives, an assessment of issues facing the agency, the performance measures and targets, a risk assessment and strategies adopted by the agency to manage risks identified, the proposed funding requirements, revenues, and operating and capital expenditures of the agency.
- An annual report to be submitted to the minister by every agency. Among other things, the annual report is to contain a discussion of performance targets achieved and the actions to be taken if they are not achieved, an analysis of the agency's operational and financial performance, and audited financial statements.

We noted that the last Memorandum of Understanding between the Ministry of Transportation and GO Transit (then known as the Toronto Area Transit Operating Authority) was signed in 1991 and expired in 1998, when GO Transit was moved to the municipally controlled Greater Toronto Service Board. GO Transit was brought back under provincial control in 2001. At the time of our audit, we were advised that the Ministry and GO Transit were at the final stage of negotiating a new Memorandum of Understanding.

GO Transit also did not have a formal business plan and had never submitted an annual report that contained a discussion of performance targets to the Minister of Transportation.

RECOMMENDATION 9

To fulfill its accountability requirements to the Minister of Transportation, GO Transit and the Ministry of Transportation should work together to finalize a Memorandum of Understanding and produce an annual business plan and annual report in compliance with provincial policies and guidelines.

GO TRANSIT RESPONSE

GO Transit and the Ministry of Transportation have had a very co-operative relationship since GO Transit became an operating enterprise of the province in 2001. A Memorandum of Understanding is being finalized. The Ministry initiated the process in 2006, and it is hoped that, at the time of tabling this report, the Memorandum will be finalized and accepted by the GO Transit Board and the Minister. Under the Memorandum, GO Transit will produce a more formal business plan and annual report in compliance with provincial policies and guidelines.