



MEMORANDUM

TO: Board of Directors
San Francisco Municipal Transportation Agency

Edward D. Reiskin, Director of Transportation
San Francisco Municipal Transportation Agency

FROM: Tonia Lediju, Director of City Audits
City Services Auditor Division 

DATE: July 31, 2017

SUBJECT: *Cash Fare Collection Procedures and Controls on SFMTA Cable Cars Are Inadequate, Creating Opportunity for Fraud and Theft*

EXECUTIVE SUMMARY

The cable car fare collection practices of the San Francisco Municipal Transportation Agency (SFMTA) are unsatisfactory due to inadequate controls and unmanaged risks. This is a significant problem because more than \$10 million of cable car fares in fiscal year 2015-16 were collected in cash. The audit, conducted by the Office of the Controller's City Services Auditor Division (CSA), found that:

- Two cable car conductors failed to give receipts for cable car fare payments, which increases the potential for theft. One of these conductors was ultimately arrested on suspicion of felony misappropriation of public money and embezzlement.¹ Another conductor not identified in the audit was also arrested on similar charges.²
- Conductors failed to collect fares from plainclothes CSA auditors on 11 (37 percent) of the 30 sample cable car rides.
- Conductors did not collect from an estimated 178 other passengers during the 30 rides, resulting in forgone revenue of as much as \$1,323.

SFMTA agrees with the audit memorandum's findings. Of the three recommendations, SFMTA concurs with one and partially concurs with two.

¹ SFGate, *SF cable car conductor accused of stealing fare money*, April 20, 2017.

² SFGate, *2nd conductor accused of pocketing cable car fares in SF*, April 27, 2017.

BACKGROUND, OBJECTIVES & METHODOLOGY

Background

The City Services Auditor Division of the Office of the Controller (Controller) conducted this audit under the authority of the Charter of the City and County of San Francisco (City), Section 3.105 and Appendix F, which requires that CSA conduct periodic, comprehensive financial and performance audits of city departments, services, and activities. At the request of SFMTA, CSA audited its cable car fare collection practices as part of its 2016-17 cash-handling audit program. CSA also conducted this audit in 2007 and a follow-up review of that audit in 2010.

SFMTA

SFMTA is responsible for operating and maintaining the City's network of surface transportation, which includes pedestrians, bicycles, transit, traffic, and parking. SFMTA regulates five transit modes, which include bus, trolley bus, light rail, historic streetcar, and cable car. SFMTA is governed by a seven-member Board of Directors, appointed by the mayor. The San Francisco City Charter establishes SFMTA's authority in several areas, including the regulation of cable car operations. The cable cars are national historic landmarks.

Cable Car Operations

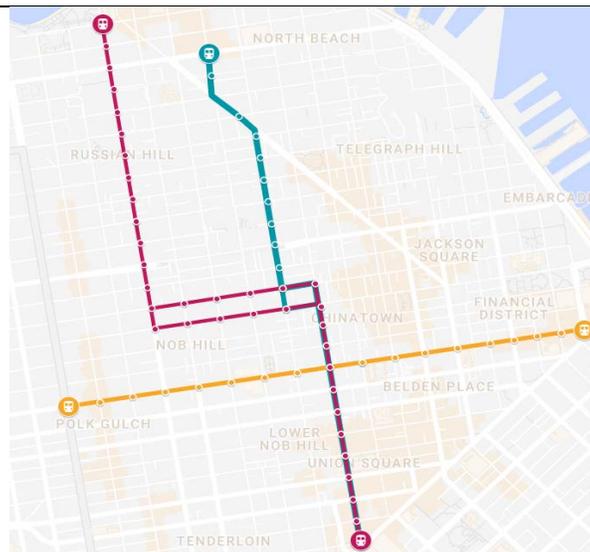
SFMTA operates three cable car lines, which travel from Powell and Market streets to Fisherman's Wharf and along California Street. The cable car lines operate from approximately 6 a.m. to 1 a.m. each day.

Exhibit 1 shows the cable car lines.

EXHIBIT 1 SFMTA's Cable Car Lines

Legend

- Powell/Hyde
- Powell/Mason
- California



Source: SFMTA

Cable Car Cash Fare Collection and Receiving Procedures

Each cable car is staffed by two SFMTA operators: a grip operator responsible for driving and a conductor who collects fares, manages the boarding of passengers, and assists in braking when the car descends a steep hill. Conductors must collect fares from all passengers and to do so without compromising passenger safety. Conductors must collect from passengers at the front of the car before leaving the terminal, working their way back as the car proceeds along its route and when the car is on flat or nearly flat ground between boarding points. Grip operators are to help identify new passengers and point them out to the conductor.

Conductors must provide prenumbered receipts to passengers who use cash to pay fares onboard. If a passenger refuses a receipt, the conductor is to destroy that receipt immediately and not retain it as part of the conductor's unsold receipts. The receipts are prenumbered, which helps ensure that conductors account for all sales. SFMTA staff reconciles the cash fare revenues returned by the conductors to the number of receipts issued.

More Than One-Third of Cable Car Fare Revenue Is in Cash

Passengers can use cash to purchase a (one-way) single-ride ticket—which is \$7 for regular fares or \$3 for seniors or persons with disabilities after 9 p.m. and before 7 a.m.³—and \$20 for 1-day passports from a conductor on the cable car. All tickets or 1-, 3-, or 7-day passports can be purchased at ticket booths at Powell and Market and Hyde and Beach streets,⁴ at various vendor locations throughout San Francisco, and through SFMTA's mobile ticketing smartphone application. In fiscal year 2015-16 SFMTA collected more than \$29 million in cable car revenue, of which cash collections by cable car conductors was \$10 million (34 percent).

Exhibit 1 summarizes the amount of cash received by conductors and the corresponding ticket types, as reported by SFMTA for fiscal year 2015-16.

EXHIBIT 2 Cash Collected by Cable Car Conductors in Fiscal Year 2015-16

Type of Purchase	Ticket Price	Revenue
Single-Ride Ticket	\$7*	\$8,576,085
1-Day Passport	20	1,543,420
Total	--	\$10,119,505

Note: *Single-ride tickets includes \$6,300 (2,100 tickets) of discount fare tickets sold to seniors/persons with disabilities at \$3 per ride between 9 p.m. and 7 a.m. the following day.

Source: SFMTA

³ These fare amounts were in effect during fiscal year 2015-16 and remained in effect on the date of this memorandum.

⁴ Ticket booths are open every day from 8 a.m. to 8 p.m. except 11 to 11:30 a.m. and 4:30 to 5 p.m., when they are closed.

Scope and Methodology

The purpose of the audit was to determine whether cable car conductors properly collected fares from passengers and properly issued receipts to passengers when collecting cash fares. During December 13 through 30, 2016, plainclothes CSA auditors took 30 rides on the three cable car lines on weekdays and weekends at different times of day. They rode long enough to give conductors an opportunity to ask for fares or proof of payment, paid cash fares when conductors asked for fares or proof of payment, documented the results of their own fare collection experiences, and observed and documented when other passengers were not asked for fares or proof of payment.

This audit was conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. CSA believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Consistent with generally accepted government auditing standards, Section 7.39, CSA must disclose that certain pertinent information has been omitted from this memorandum due to its sensitive nature and reported only to SFMTA management. The information has been omitted because it could bear on the criminal prosecution of SFMTA employees.

RESULTS

Finding – SFMTA must improve cash fare collection procedures.

Conductors did not always collect fares from plainclothes CSA auditors. Conductors failed to collect fares from CSA auditors on 11 (37 percent) of the 30 cable car rides taken to conduct this audit, resulting in \$77 of uncollected fare revenue. Most of the 11 rides where fares were not collected occurred either when the rides began mid-route (not from a terminal), during commute hours, and/or when cars were relatively empty. Fares were not collected from CSA auditors most often on the Powell/Mason and Powell/Hyde lines.

Conductors did not always collect fares from other passengers. Besides not asking plainclothes CSA auditors for fares, conductors were observed not asking for fares or proof of payment from at least one other passenger during 21 (70 percent) of the 30 rides taken, resulting in forgone revenue of as much as \$1,246^{5,6} that could have been collected from an estimated 178 other passengers. The 21 rides in which conductors did not ask for fares or proof of payment from other passengers most often occurred on weekends, during non-commute hours between

⁵These passengers were not asked for payment or proof of payment. If all passengers intended to pay cash, SFMTA would have forgone the full \$1,246. If any of these passengers had prepaid passes such as passports, SFMTA would not have lost any money.

⁶The estimated amount of \$1,246 is calculated at the single-ride ticket fare of \$7 and does not account for discount fare tickets sold to seniors/persons with disabilities at \$3 per ride.

9 a.m. and 3 p.m., and on very crowded cars. CSA auditors observed these instances most often on the Powell/Hyde line.

Exhibit 3 shows the results of the 30 rides taken, including the details of the rides during which conductors did not ask for fares or proof of payment.

EXHIBIT 3		Cable Car Fare Collection Results											
		Total # of Rides Auditors Took	Fares Collected From Auditors					Fares Collected From Other Passengers					Estimated Value of Uncollected Fares ^d
			Fares Collected (in Cash)			Fares Not Collected		All Fares Collected		At Least One Fare Not Collected		# of Other Passengers From Whom Fares Were Not Collected ^c	
			# of Rides	%	# of Receipts Issued	# of Rides	%	# of Rides	%	# of Rides	%		
Cable Car Line	Powell & Mason	10	5	50%	5	5	50%	3	30%	7	70%	55	\$420
	Powell & Hyde	12	8	67%	7	4	33%	2	17%	10	83%	98	714
	California	8	6	75%	6	2	25%	4	50%	4	50%	25	189
Boarding Point	Terminal	14	11	79%	10	3	21%	3	21%	11	79%	89	644
	Later on Route	16	8	50%	8	8	50%	6	38%	10	63%	89	679
Day of Week	Weekday	27	18	67%	18	9	33%	9	33%	18	67%	138	1,029
	Weekend	3	1	33%	0	2	67%	0	0%	3	100%	40	294
Time of Day ^a	Commuting	12	6	50%	6	6	50%	4	33%	8	67%	77	581
	Other Daytime	13	10	77%	9	3	23%	3	23%	10	77%	89	644
	Evening	5	3	60%	3	2	40%	2	40%	3	60%	12	98
Number of Passengers ^b	Very Crowded	10	6	60%	6	4	40%	2	20%	8	80%	61	455
	Moderately Crowded	11	9	82%	8	2	18%	4	36%	7	64%	70	504
	Relatively Empty	9	4	44%	4	5	56%	3	33%	6	67%	47	364
TOTAL		30	19	63%	18	11	37%	9	30%	21	70%	178	\$1,323

Notes:

^a For this report, commuting hours are defined as 6 to 9 a.m. and 3 to 6 p.m. Other daytime hours are 9 a.m. to 3 p.m. Evening hours are 6 p.m. to 12:30 a.m.

^b For this report, very crowded is defined as more than 30 passengers, moderately crowded as 16 to 30 passengers, and relatively empty as less than 16 passengers.

^c Based on CSA auditors' observations of passengers onboard who were not asked to pay fares or present proof of payment (excludes fares not collected from CSA auditors).

^d Based on the number of times CSA auditors were not asked to pay fares or present proof of payment plus the number of times CSA auditors observed that other passengers were not asked to pay fares or present proof of payment multiplied by \$7, the one-way single-ride fare.

Source: CSA analysis.

One conductor did not provide a receipt for 1 (5 percent) of the 19 rides for which fares were collected from CSA auditors. Another conductor asked if the CSA auditor wanted a receipt for payment, which is contrary to SFMTA's cable car fare collection procedures. The CSA auditor requested and received a receipt, but another passenger was not offered a receipt or provided one.

To further test the fare collection practices of these two conductors, CSA auditors took 12 additional rides to investigate whether the practices observed were isolated incidents or part of a pattern and whether they may have been merely procedural errors or indications of potential fare theft. In one of the subsequent rides, one conductor again did not give the auditor a receipt, indicating that the conductor may have been fraudulently diverting the fares. CSA reported this to SFMTA, which turned over the matter to the San Francisco Police Department. The Police Department then conducted a sting operation using marked bills.⁷ On April 19, 2017, the conductor was arrested on suspicion of felony misappropriation of public money and embezzlement.⁸ One week later another cable car conductor not identified by this audit was arrested on similar charges.⁹

The cash collection procedures for cable car conductors provide opportunity for fraud because SFMTA bases its estimates of how much cash it should collect solely on the number of receipts a conductor issues. If a conductor does not issue a receipt, SFMTA does not know that a fare should have been collected, allowing the conductor to pocket (that is, embezzle) the money instead of reporting it and turning it in to SFMTA. According to SFMTA, it relies on hand collection of fares on cable cars because their design would not allow all passengers to reach a cash fare box and because modern fare boxes require electrical power, which cable cars have in limited supply.

Recommendations

The San Francisco Municipal Transportation Agency (SFMTA) should:

1. Consider a cashless fare system on cable cars, which could be successful if SFMTA did some or all of the following:
 - a. Extend the hours of operation of its ticket booths at Powell and Market streets, Bay and Taylor streets, and Hyde and Beach streets.
 - b. Install ticket vending machines in key spots along the cable car routes.
 - c. Provide to conductors (and train them to use) handheld machines that accept both credit card payments and contactless payments, such as Apple Pay, Google Wallet, and Samsung Pay.
 - d. Promote the use of its mobile ticketing application for smartphones, which allows passengers to purchase cable car tickets remotely, in advance, or in real time.

⁷ San Francisco Chronicle, *Muni looks at ending cash fares on cable cars*, April 23, 2017.

⁸ SFGate, *SF cable car conductor accused of stealing fare money*, April 20, 2017.

⁹ SFGate, *2nd conductor accused of pocketing cable car fares in SF*, April 27, 2017.

- e. Make single-ride and other cable car tickets available at more eligible retailers along and near the cable car routes, including retailers popular with visitors to San Francisco.
2. If a cashless system is impossible, implement strategies that would improve controls over cash collections made on cable cars, including:
 - a. Explore options for fare collection boxes on the cable cars and require that all passengers who wish to pay cash enter the area of the cable car where the fare collection box is located.
 - b. Perform periodic undercover rides on cable cars to observe how and to what extent conductors collect cash fares.
 3. Provide cash-handling training to cable car conductors and grip operators and continue to do so annually if cash continues to be collected on cable cars.

SFMTA's response is attached. CSA will work with your staff to follow up every six months on the status of the open recommendations made in this memorandum.

CSA extends its appreciation to you and your staff who assisted with this audit. If you have any questions or concerns, please contact me at (415) 554-5393 or tonia.lediju@sfgov.org.

cc: SFMTA

Sonali Bose

John Haley

Kathleen Sakelaris

Diana Hammons

Ed Cobean

Controller

Ben Rosenfield

Todd Rydstrom

Mark de la Rosa

Kate Chalk

Amanda Sobrepeña

Steven Muñoz

Calvin Quock

Elaine Wong

Board of Supervisors

Budget Analyst

Citizens Audit Review Board

City Attorney

Civil Grand Jury

Mayor

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ATTACHMENT: DEPARTMENT RESPONSE



SFMTA
Municipal
Transportation
Agency

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Malcolm Heinicke, *Vice-Chairman*

Gwyneth Borden, *Director*

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Joél Ramos, *Director*

Cristina Rubke, *Director*

Art Torres, *Director*

Edward D. Reiskin, *Director of Transportation*

July 12, 2017

Tonia Lediju, *Director of City Audits*
Office of the Controller, *City Services Auditor Division*
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Re: San Francisco Municipal Transportation Agency Cable Car Fare Collection Procedures Audit

Dear Ms. Lediju:

Thank you and your team for your work regarding the Cable Car Fare Collection Procedures Audit. Please find attached our responses to the audit recommendations.

If you have any questions or need additional information, please do not hesitate to contact Kathleen Sakelaris at (415) 701-4339 and she can direct your inquiry to the appropriate staff.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Reiskin".

Edward D. Reiskin
Director of Transportation

Enclosure

For each recommendation, the responsible agency should indicate whether it concurs, does not concur, or partially concurs. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If the responsible agency does not concur or partially concurs, it should provide an explanation and an alternate plan of action to address the identified issue.

RECOMMENDATIONS AND RESPONSES

Recommendation	Agency Response	<u>CSA Use Only</u> Status Determination ¹
<p>The San Francisco Municipal Transportation Agency (SFMTA) should:</p> <ol style="list-style-type: none"> 1. Consider a cashless fare system on cable cars, which could be successful if SFMTA did some or all of the following: <ol style="list-style-type: none"> a. Extend the hours of operation of its ticket booths at Powell and Market streets, Bay and Taylor streets, and Hyde and Beach streets. b. Install ticket vending machines in key spots along the cable car routes. c. Provide to conductors (and train them to use) handheld machines that accept both credit card payments and contactless payments, such as Apple Pay, Google Wallet, and Samsung Pay. d. Promote the use of its mobile ticketing application for smartphones, which allows passengers to purchase cable car tickets remotely, in advance, or in real time. e. Make single-ride and other cable car tickets available at more eligible retailers along and near the cable car routes, including retailers popular with visitors to San Francisco. 	<p><input type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input checked="" type="checkbox"/> Partially Concur</p> <p>The SFMTA is evaluating all options to increase pre-payment of fares for Cable Car service and reduce cash collections to the extent possible.</p> <p>Plans are underway to implement marketing of MuniMobile, including comprehensive signage to encourage the use of the MuniMobile application. Rollout to the public is targeted for Fall 2017, with anticipated completion date of Fall 2018. Plans are also underway to develop a pilot program to require pre-paid fares during SFMTA kiosk sales hours.</p> <p>It is unlikely, however, given the ridership demographics, including tourists, that a full cashless system will be possible.</p>	<p><input checked="" type="checkbox"/> Open</p> <p><input type="checkbox"/> Closed</p> <p><input type="checkbox"/> Contested</p>

Recommendation	Agency Response	CSA Use Only Status Determination ¹
<p>2. If a cashless system is impossible, implement strategies that would improve controls over cash collections made on cable cars, including:</p> <ul style="list-style-type: none"> a. Explore options for fare collection boxes on the cable cars and require that all passengers who wish to pay cash enter the area of the cable car where the fare collection box is located. b. Perform periodic undercover rides on cable cars to observe how and to what extent conductors collect cash fares. 	<p><input type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input checked="" type="checkbox"/> Partially Concur</p> <p>2(a): The SFMTA will evaluate various strategies to improve controls over cash collections on cable cars. However, due to power issues and other safety and technical issues that preclude additional infrastructure on the cable cars, the option of installing fare collection boxes will not be considered.</p> <p>2(b): SFMTA Security will coordinate an undercover detail with SFPD's Muni Response Team to observe cash fare collection. The detail will conduct the observation a minimum of once quarterly on randomly selected dates beginning 3rd quarter of 2017.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>
<p>3. Provide cash-handling training to cable car conductors and grip operators and continue to do so annually if cash continues to be collected on cable cars.</p>	<p><input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur</p> <p>MTA's Training Department will provide training to all cable car conductors and grip operators on proper cash handling procedures, including possibility of disciplinary action, up to and including termination, for misappropriation of public funds. Training will be completed by December 2017.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>