



Program Evaluation and Audit

Metro Transit

***One Ride Passes
and
One Free Ride Coupons***

25 June 2008

INTRODUCTION

Background

Metro Transit, through its Sales Operations Department (Sales Ops), sells One Ride Passes (Passes) to various medical providers and social service agencies within the Twin Cities area that subsequently give them to their clients. One Free Ride Coupons (Coupons) are used by Metro Transit's Marketing Department (Marketing) for various purposes to promote transit usage. Both Passes and Coupons are good for one ride, including transfers, on any regular Metro Transit route.

Twice during 2007 large quantities of Coupons were unaccounted for and presumed to have been stolen. On one occasion, 48,000 Coupons were printed, received and tested by Metro Transit, found to be defective and placed in the mail room for pick up by the printer. Neither the printer nor Metro Transit has seen them since except for their spotty usage within the transit system (Marketing has counted 84 to date). The Metro Transit Police Department (MTPD) circulated an information sheet to all Metro Transit Operators regarding these Coupons having an expiration date of December 31, 2008, none of which have been or ever will be released to the public.

On the other occasion, up to 12,000 Coupons were printed as overage by the printer. Two hundred and eleven of these passes have been received through the transit fare collection system when they should have been destroyed at the printing contractor. The MTPD investigated both of these instances without resolution; however, MTPD officers have provided Marketing with a number of recommended safeguards that, if implemented, can reduce the risk of having Passes/Coupons stolen (see Appendix A).

On two other occasions, illegal One Ride Passes made using color copiers were found to be circulating in the general public. On January 5, 2007 and December 4, 2007, the Assistant Director of Bus Transportation published bulletins to bus and rail operators regarding the duplication and use of such Passes.

The risk of having Passes/Coupons stolen or duplicated subjects Metro Transit to the loss of fares when they are used. This risk was identified in the 2008 Risk Assessment and was selected as a planned project for the year.

Assurances

This audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and the U. S. Government Accountability Office's *Government Auditing Standards*.

Purpose

This review was conducted to determine the extent to which internal controls exist to safeguard the printing, receiving, storing, distribution, destruction and accounting for One Ride Passes and One Free Ride Coupons and to make recommendations for strengthening controls to reduce the risk that passes could be stolen, copied or otherwise illegally used in the future.

Scope

The scope of this review included (i) reviewing procedures regarding obtaining and monitoring printing services, (ii) analyzing the counting, recording and destruction processes used to account for used transit Passes/Coupons, and (iii) reviewing Sales Ops, Marketing and community agencies receiving, safeguarding and distribution practices.

Methodology

To gain an understanding of Pass/Coupon printing, handling, safeguarding, distribution and destruction practices, the following methods of inquiry were used:

- Metro Transit personnel were interviewed.
- Marketing and Sales Ops policies procedures and practices were reviewed.
- Pass/Coupon printing contracts and contractor compliance were reviewed.
- Marketing organization structure and duties were reviewed.
- Marketing counting and accounting practices for used transit Passes/Coupons were analyzed.
- The secondary market for selling transit fare media was researched.
- Community agency safeguarding and distribution policies and procedures were reviewed.

OBSERVATIONS

Program Evaluation & Audit (Audit) reviewed the internal controls regarding the printing, handling, safeguarding, distribution and destruction of One Ride Passes and One Free Ride Coupons. As a result, the following control deficiencies have been identified:

Transit Pass/Coupon Printing Process

Printing of Passes/Coupons is accomplished through the Graphics Section (Graphics) of Metro Transit's Marketing Department. A graphic designer receives a request from either a Marketing or Sales Ops project manager. The designer then develops printing specifications, requests and obtains quotes from printing contractors and selects the firm that will print the Passes/Coupons. By department procedure, the designer is required to obtain phone quotes if the printing costs are expected to be less than \$2,500. Three written bids are required if the cost is expected to exceed \$2,500. A "No-Bid" by a printing contractor is to be considered as a qualifying bid.

Prior to awarding the job to the printing contractor, the designer will send a copy of Metro Transit's "Security Item Procedures" (SIP) form to the selected printer (Printer) for signature. Its purpose is to "assure" that all project documentation, excess printed Passes/Coupons and project files are destroyed; however, it does not name the printing contractor, require a Metro Transit signature or include specific damages language in case of loss. Marketing has agreed to work with the Council's Legal Department to develop a new security form.

During 2007, Graphics worked on 15 different projects; three for Sales Ops totaling 500,000 Passes and 12 for their own Marketing Department totaling 346,670 Coupons, including the missing print run of 48,000 One Free Ride Coupons. Thirteen of the 15 files were located by Graphics and reviewed by Audit. The two project files involved with the stolen Coupons could not be located either within Graphics or at the MTPD although some documentation was available via electronic files and faxes. Audit's review disclosed that:

- The SIP form was missing from one of the files.
- Nine of 15 SIP forms were signed by the President/CEO; 13 of 15 were signed by the Sales Representative (the SIP requires both signatures). In four cases, each involving the same small firm in which the CEO and the Sales Representative was the same person, that person signed as both President/CEO and Sales Representative. The primary purpose in requiring two signatures is to provide assurance two individuals independently attest to the document.
- The SIP form contains 13 line items requiring initials as indication that sensitive information provided by Metro Transit has been either returned or destroyed. Six of 15 were initialed; six of 15 were merely checked and three were left blank.
- Five of 15 projects were over \$2,500; however, the project files showed evidence of only one obtaining three bids. The remaining four included but a single bid

each. Ten of 15 projects were less than \$2,500 and by Council policy, three bids are not required.

- The final copy of the project award was absent from seven project files.
- The design artwork was absent from four project files.
- The design project request form was absent from two project files.

As a result of discussions with MTPD employees and review of investigation notes concerning the two instances in which large quantities of Coupons had been unaccounted for and presumed stolen, it was revealed that the possibility of theft at the printer's facility occurs between stages in the printing/perforation process. For those Passes/Coupons that are serialized (the One Ride Pass and the general use One Free Ride Coupon), printing is divided into two general processes. Serialized Passes/Coupons are printed except for the serial number and set in the open printing area to await serialization. Non-serialized Coupons are printed and then set aside to await a perforation process.

Security over the Passes/Coupons is lacking when they are between printing stages. It is believed that one of the thefts of the One Free Ride Coupons occurred during this time, for they were printed one day, covered with a sheet of paper to hide an instant recognition of what they were and then perforated the next day. Non-perforated Coupons were subsequently recovered through the fare collection system. Many of the MTPD recommendations listed at Appendix A address Printer facility security.

Safeguarding Passes/Coupons

Neither Sales Ops nor Marketing has officially numbered policies/procedures; however, each department does have informal written procedures for safeguarding Passes/Coupons. Audit reviewed the adequacy of such procedures and each department's compliance with the following results:

Sales Operations One Ride Passes

Sales Operations written procedures accord a low risk safeguarding and distribution process for One Ride Passes. A review of documentation and safeguarding facilities attests to the conclusion that Sales Ops personnel abide by departmental written procedures. For example, a review of Pass delivery documentation disclosed that Sales Ops took delivery and signed the delivery receipts for all three printing jobs requested through Graphics in 2007. In addition, all Passes are stored in a locked and alarmed room which is monitored by a security camera and accessible by only 7-8 employees. Passes are also processed for mailing from inside this secure room and sent by certified mail or Federal Express depending upon order size. Finally, Pass physical inventory is counted and verified monthly.

Marketing Department One Free Ride Coupons

Written Marketing procedures for printing and securing Coupons have only been in existence since the problems with stolen Coupons appeared during June and July 2007. They do not include procedures for obtaining quotes from printing contractors or for destruction of used Coupons. Even after the security problems experienced and development of the Marketing written procedures, the Security Item Procedures form is not properly completed (see *Transit Pass/Coupon Printing Process*, above), Marketing personnel observation of vendor printing processes is not occurring nor is out-of-state printing and there is no evidence of proper receipt and signature for delivered Coupons. In addition, Coupons available for Marketing personnel are located in three places; a large quantity of miscellaneous passes in a locked desk drawer, a large quantity of Educational (Ed) passes which are used for multiple purposes in a locked file cabinet and a small number of miscellaneous passes in an unlocked drawer. Most Marketing personnel know how to access all of these areas. A single location with a limited number of Coupons accessible by fewer employees can provide for greater security and reduce the risk of loss.

Distribution Practices

One Ride Passes

Metro Transit sells One Ride Passes to medical agencies and other community organizations within the Twin Cities area. Audit identified five agencies that accounted for 94% of all Passes sold by Metro Transit in 2007. A review of agency safeguarding and distribution practices disclosed the following:

- One agency eliminated its free ride program as of January 1, 2008.
- The agency no longer in the program handed out a maximum of two Passes at any one time and kept an Excel log of who received them.
- Another agency would hand out the number of Passes the patient and any family members needed for up to nine trips at a time. For example, a child patient with parents could receive 54 Passes at one time. If the patient had 10 or more visits scheduled in any one month, a monthly transit Pass was distributed. This agency did not track the individual Passes but did log the monthly ones.
- A third agency sent out the Passes a patient would need for up to a month, although the agency would verify appointments prior to sending them. Assuming two visits a week, this patient could receive 16 Passes at one time.
- The fourth agency kept a log of all distributed Passes and would hand out a maximum of two Passes at a time.
- Audit was unable to obtain information from the fifth selected agency.
- Two of the agencies recorded Pass distribution and three confirmed appointments prior to sending out Passes.
- All agencies stored Passes in locked drawers with minimum access (2 – 5 people).

Although storage practices of the five agencies appropriately safeguard Passes from unauthorized distribution, actual distribution practices differed widely. Based upon this data, two of the four agencies appear to have good internal controls and two do not. As a result, the possibility exists that patients receiving bulk Passes have the opportunity to sell them in the secondary market.

One Free Ride Coupons

The Marketing Department has One Free Ride Coupons printed for specific uses and identifies such on the face of the Coupon. These can be for promoting specific routes, for promoting transit use when on jury duty, for inclusion in new resident welcome packets, for inclusion in promotional books and for other marketing activities. These Coupons do not have serial numbers. Coupons are also printed for general use for various miscellaneous marketing activities. These serialized Coupons are to be stamped with a code upon their receipt by the Marketing project manager to identify their use when they are received through the fare collection system. Without stamped identification, Marketing cannot calculate Coupon redemption rates or identify their usage in management reports.

A written log of Coupon usage is maintained in Marketing identifying date, project manager, intended use, a traceable stamped usage code, the serial number sequence and the quantity. Audit reviewed logs for the years 2003 through 2007 with the following results:

- Marketing had 200,000 Coupons printed of which 139,340 (70%) were assigned to specific uses, 53,250 (26%) were destroyed and 7,810 (4%) were “officially” unaccounted for.
- 376 individual entries were made in the log book; 83 (22%) were identified as "miscellaneous," 72 (19%) were stamped to identify their use and 221 (59%) were not stamped with the required usage code.
- During 2007 the Marketing log indicated that 22,340 Coupons were signed out for various uses. Between February 2007 and February 2008, 13,131 Coupons (59%) were received through the fare collection system, a high rate of Coupon usage. However, when Audit counted Coupons (see *Used Passes/Coupons*, below) most were not stamped or recorded as to their specific use.

About 1,000 Coupons are kept in a locked desk drawer and the location of the key is known by about 5-6 people. One person is assigned to log all Coupon distributions; however, if absent, the other 4-5 with access to the Coupons can log their receipt and intended use. The log is handwritten and at times difficult to follow for some entries are not written clearly. In addition, a small supply is kept in an unlocked desk drawer for "emergencies." Finally, "Ed" printed Coupons are located in a file cabinet which is also locked but the key is accessible by most Marketing employees. A single location with a limited number of Coupons accessible by fewer employees can provide for greater security and reduce the risk of loss.

Secondary Market

A secondary market in Passes and other Metro Transit fare media exists on Craig's List. For the period October 22, 2007 through January 8, 2008, Audit located six instances of One Ride Passes listed for sale, five of which listed seven Passes for sale, the other instance selling 32 Passes at year end that had expiration dates of December 31, 2007. It cannot be established whether these transit Passes are stolen, copied or if they had been purchased by community and health agencies and given to their clients. However, placing a highly visible "ILLEGAL TO RE-SELL" warning on all Passes would help to reduce their sale in the secondary market.

Used Passes/Coupons

Metro Transit customers insert Passes/Coupons into the bus farebox or the rail ticket vending machine as payment for their trip. Passes/Coupons used for bus transit, along with cash fares, are collected daily (except weekends or holidays) when buses pull into the garage at the end of the day. Passes/Coupons used for rail transit are collected on similar days from the ticket vending machines. All Passes/Coupons and cash receipts are brought to central counting at the Heywood garage. The Passes/Coupons are collected and sent to the Ridership Department (Ridership) where they are counted and then sent to Marketing. Within Marketing, Transit employees who have been assigned to restricted/light duty separate all Passes/Coupons by type and then separate the One Free Ride Coupons by type of use. Once the Passes/Coupons are identified by use and counted, the information is logged, the Passes/Coupons are taken to the mailroom and they are shredded. The logged data is used by Marketing to determine Coupon redemption rates and by Ridership to calculate the cost of lost revenue due to free rides. This lost revenue is then charged against the Marketing budget.

Reviewing daily Pass/Coupon totals tallied by Ridership and Marketing for December 2007, Audit discovered that Marketing reported 101 more than Ridership, representing a variance rate of .55%. By itself, this is not significant. However, daily variance volatility is cause for concern (see Table 1). On three days Ridership and Marketing counted the same number of Passes/Coupons and on another seven days they were within 10 of one another. However, on four days, they differed by more than 75 (see Table 2).

Audit sampled 20 days during the period January 29 - February 29, 2008 to determine the reason for such variances. Audit picked up the Passes/Coupons from Ridership after they had been counted, counted them independently, delivered them to Marketing, and after Marketing counted the Passes/Coupons, received them back for a second Audit count. This process disclosed that Audit and Ridership counts varied by only seven, the daily variance ranged from -4 to +2 and there were 12 days with no difference between the two counts. However, the greater variances between Ridership and Marketing identified from the December 2007 data continued to be present, ranging from -78 to +21 per day with only a single day having the same count (see Tables 1 and 2, below).

Two major differences between Audit and Marketing data were identified. Marketing added 81 Coupons collected February 13, 2008 from Council contracted providers and sent to Marketing that were not available to either Ridership or Audit's 1st Count. There were also 239 green regional free ride Coupons that were included in the Ridership, Audit's 1st and Marketing counts but were not received back from Marketing to be included in the second Audit count. It was disclosed that Coupons were given to a Marketing employee who tracks the regional Guaranteed Ride Home Coupon program. The used Coupons from the past 3 years were stored on the employee's exposed cubicle shelves. Marketing decided that these Coupons do not need to be maintained and that a plan for destruction will be developed.

Audit subsequently sampled eight days in March 2008 as follows: The Passes/Coupons were picked up from Rev. Ops., counted and returned to Rev. Ops. for pickup by Marketing personnel. Due to this process, Audit did not have a chance to count the Passes/Coupons a second time, for Marketing destroyed them after counting them, as is the standard practice. This process again disclosed that Audit and Ridership counts varied minimally, this time by only three, with the daily variance ranging from -1 to +3 and with three days having no variance between the two counts. However, the greater variances between Ridership and Marketing identified from the December 2007 and the February 2008 data continued to be present ranging from 115 fewer to 144 more than Ridership counted with only a single day having the same count (see Tables 1 and 2). The variances were larger with this independent sample than when Marketing knew Audit was counting; however, nothing is conclusive since the two largest variances came on a Friday and then the subsequent Monday.

Table 1: Comparison of Pass/Coupon Count Totals – Ridership, Audit & Marketing

		Rider- ship	Audit	Mktg	Ridership vs. Mktg		Ridership vs. Audit	
					Var.	% Var.	Var.	% Var.
Dec. 07	Total Month	19,202		19,303	-101	-0.52%		
12/4/08	Tuesday	999		1,086	-87	-8.01%		
12/14/08	Friday	998		903	95	10.52%		
Feb. 08	20 Days	16,723	16,716	16,782	-59	-0.35%	7	0.04%
2/13/08	Wednesday	772	772	850	-78	-9.18%	0	0.00%
2/28/08	Thursday	804	804	783	21	2.68%	0	0.00%
March 08	8 Days	7,477	7,480	7,404	73	0.99%	-3	-0.04%
3/31/08	Monday	1,360	1,360	1,504	-144	-9.57%	0	0.00%
3/28/08	Friday	796	796	681	115	16.89%	0	0.00%

Table 2: Daily Pass/Coupon Count Variance Analysis

		# Of Days with Pass Variances Of:				
		0	1-10	11-75	>75	Total
December	Ridership vs. Mktg	3	7	6	4	20
Feb. 08	Ridership vs. Mktg	1	13	5	1	20
	Audit vs. Mktg	1	13	5	1	20
	Ridership vs. Audit	12	8	0	0	20
March 08	Ridership vs. Mktg	1	1	4	2	8
	Audit vs. Mktg	1	1	4	2	8
	Ridership vs. Audit	3	5	0	0	8

Destruction of Used and Excess Passes/Coupons

When the restricted duty employee has finished counting and tallying the Passes/Coupons previously picked up from Ridership, the employee takes them to the basement of the Heywood office building and shreds them. Good accounting practices and internal controls would require the presence of a formal written procedure and keeping the Passes/Coupons a certain length of time to assure reconciliation with Ridership. In addition, more than one person should be involved in the destruction process with one of them being a manager who would then sign a destruction receipt.

Destruction of unused and excess Passes is done when all other excess fare media are destroyed. The Passes and other fare media are taken to an offsite destruction vendor and destruction is overseen by two Sales Ops employees with one signing the record of destruction.

CONCLUSIONS

1. *The contractual relationship between Metro Transit and its printing contractors regarding document and media security is not adequately documented in a formal written contract signed by both parties.*

Prior to awarding a job to the printing contractor, the Graphics designer will send a copy of Metro Transit's *Security Item Procedures* form to the Printer for signature. The form's purpose is to "assure" that all project documentation, excess printed Passes/Coupons and project files are destroyed; however, it does not identify the printing contractor by name, require a Metro Transit signature or include specific damages language in case of loss. Marketing has agreed to work with the Council's Legal Department to develop a new security form.

2. *Administration of One Ride Pass and One Free Ride Coupon printing projects is insufficient to assure that printing contractors fulfill their responsibilities and that adequate documentation of the project exists to support compliance with Council procedures.*

During 2007, Graphics administered 15 projects. Thirteen of the 15 project files were located by Graphics and reviewed by Audit. The two project files involved with the stolen One Free Ride Coupons could not be located either within Graphics or at the MTPD although some documentation was available via electronic files and faxes. In addition, the SIP form was either missing or incompletely filled out and inadequately signed. Most project files contained the final copy of the project award, copies of design artwork and the project request form; however, these documents were not available in seven, four and two of the project files, respectively.

3. *The process of selecting a Pass/Coupon printing contractor is not sufficiently documented to assure compliance with Council purchasing procedures.*

The Graphics designer develops printing specifications, requests and obtains quotes from printing contractors and selects the contractor that will print the Passes/Coupons. The designer is required to obtain phone quotes if the printing costs are expected to be less than \$2,500. Three written bids are required if the cost is expected to exceed \$2,500. Five of 15 projects were over \$2,500; however, the project files showed evidence of only one project obtaining three bids.

4. *Printing contractor Pass/Coupon safeguarding practices have not been adequate to assure that One Ride Passes and One Free Ride Coupons are protected from loss.*

Security over the Passes/Coupons is lacking when they are between printing stages. It is believed that one of the Coupon thefts occurred during this time, for the Coupons were

printed one day, covered with a sheet of paper to hide an instant recognition of what they were and then perforated the next day. Some Coupons recovered through the fare collection system had not been perforated.

5. *One Ride Pass and One Free Ride Coupon safeguarding practices vary depending upon the department responsible for the respective fare media.*

Following Sales Operations written procedures accords a low risk safeguarding and distribution process for One Ride Passes. A review of Pass delivery documentation disclosed that Sales Ops took delivery and signed the delivery receipts for all three printing jobs requested through Graphics in 2007. In addition, all Passes are stored in a locked and alarmed room monitored by a security camera and accessible by only 7-8 employees. Passes are also processed for mailing from inside this secure room and physical inventory is counted and verified monthly.

Written Marketing procedures for printing and securing Passes/Coupons have been in existence since the problems with stolen Coupons appeared during June and July 2007. These procedures are incomplete because they do not include procedures for obtaining quotes from printing contractors or destroying used Passes/Coupons. In addition, compliance with these procedures is inconsistent. The *Security Item Procedures* form is frequently not properly completed, Marketing personnel are not observing vendor printing processes, out-of-state printing contractors have not been identified and there is no evidence of proper receipt and signature for delivered Passes/Coupons. In addition, Coupons available for Marketing personnel are located in three different places and most Marketing personnel have unrestricted access to them.

6. *Distribution practices of community and health agencies that provide One Ride Passes to their clients vary considerably; some are well controlled; others are not.*

Two agencies handed out a maximum of two Passes at any one time and kept records of who received them. One agency would hand out the number of Passes the patient and any family members needed for up to nine trips at a time. For example, a child patient with parents could receive 54 Passes at one time. This agency did not track the individual transit Passes. Another agency would send out the Passes a patient would need for up to a month, although the agency would verify appointments prior to sending them. Assuming two visits a week, this patient could receive 16 Passes at one time.

The possibility exists that patients receiving bulk Passes have the opportunity to abuse the Pass privilege and to sell them in the secondary market.

7. *Administration practices regarding the distribution and accounting for general use One Free Ride Coupons are inefficient and do not effectively identify specific Coupon usage.*

General use Coupons are printed to be used for various miscellaneous marketing activities. These serialized Coupons are to be stamped with a code upon their receipt by the Marketing project manager to identify their use when they are received through the fare collection system. Without stamped identification, Marketing cannot calculate Coupon redemption rates or identify their usage in management reports.

A review of general use Coupon usage records for the years 2003 through 2007 disclosed that:

- 200,000 general use One Free Ride Coupons were printed of which 139,340 (70%) were assigned to specific uses, 53,250 (26%) were destroyed and 7,810 (4%) were “officially” unaccounted for.
- 376 individual entries were made in the log book; 83 (22%) were identified as "miscellaneous," 72 (19%) were stamped to identify their use and 221 (59%) were not stamped with the required usage code.
- During 2007, 22,340 general use Coupons were signed out for various uses. Between February 2007 and February 2008, 13,131 Coupons (59%) were received through the fare collection system, a high rate of One Free Ride promotional Coupon usage. However, when Audit counted Coupons (see #9, below) most were not stamped.

8. *A secondary market on Craig’s List exists whereby suspected stolen One Free Ride Coupons and excess One Ride Passes initially provided by community and medical agencies to their clients are sold.*

For the period October 22, 2007 through January 8, 2008, Audit located six instances of One Ride Passes listed for sale, five of which listed seven Passes, the other instance selling 32 Passes at year end that had expiration dates of December 31, 2007. It cannot be know for certain if these transit Passes are stolen, copied or if they had been purchased by community and health agencies and given to their clients. However, placing a highly visible “ILLEGAL TO RE-SELL” warning on all Passes/Coupons would help to reduce the sale of Metro Transit fare media in the secondary market.

9. *Pass/Coupon usage data tallied by Ridership and Marketing is inconsistent and Marketing data is not reconciled with the Ridership count, resulting in inaccurate Pass/Coupon usage data.*

Audit reviewed daily Pass/Coupon totals tallied by Ridership and Marketing for December 2007. On two days Ridership and Marketing counted the same number and on another seven days they were within 10 of one another. However, on four days, they differed by more than 80. Daily errors ranged from a Marketing overage of 87 on a day

when 1,086 Passes/Coupons were counted to a Ridership overage of 95 when only 903 were counted, variance rates of 8% and 10.5%, respectively.

Audit also sampled 20 days during the period January 29 - February 29, 2008, counted the Passes/Coupons prior to Marketing and after Marketing and then compared its counts to those provided by both Ridership and Marketing. The Ridership and Audit counts compared very favorably; however, such was not the case with the Marketing counts which varied from between -22 and +78 per day; variances of -1.62% to +10.10%.

10. Internal controls regarding the destruction of One Ride Passes and One Free Ride Coupons collected through the fare collection system and counted and destroyed by restricted duty personnel assigned to Marketing are not adequate to assure either reconciliation with Ridership counts or proper destruction.

When Marketing has finished counting and tallying the Passes/Coupons previously picked up from Ridership, they are taken to the basement of the Heywood office building, usually by one person who then shreds them. Good accounting practice and internal controls would require a formal written procedure and keeping the Passes/Coupons a certain length of time to assure reconciliation with Ridership. In addition, more than one person should observe the destruction process; one being a manager who would then sign a destruction receipt.

RECOMMENDATIONS

Program Evaluation and Audit recommendations are categorized according to the level of risk they pose for the Council. The categories are:

- **Essential** – Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit Database and status is reported twice annually to the Council’s Audit Committee.
- **Significant** – Adds value to programs or initiatives of the Council, but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Council’s Audit Committee.
- **Considerations** – Recommendation would be beneficial, but may be subject to being set aside in favor of higher priority activities for the Council, or may require collaboration with another program area or division. Considerations are not tracked or reported. Their implementation is solely at the hands of management.
- **Verbal Recommendation** – An issue was found that bears mentioning, but is not sufficient to constitute a control risk or other repercussions to warrant inclusion in the written report. Verbal recommendations are documented in the file, but are not tracked or reported regularly.

1. (Essential) Metro Transit should work with Council Purchasing and Legal Departments to develop an appropriate formal written contract regarding document and media security between Metro Transit and printing contractors who are selected to print One Ride Passes and One Free Ride Coupons.

Metro Transit’s *Security Item Procedures* form is used to “assure” that all project documentation, excess printed Passes/Coupons and project files are destroyed, yet it does not identify the printing contractor by name, require a Metro Transit signature or include specific damages language in case of loss. As such, no Metro Transit remedies are identified in case Passes/Coupons get lost or stolen. Marketing has agreed to work with the Council’s Legal Department to develop a new security form.

As the MTPD noted at Appendix A, it may also be wise to consider selecting out of state printers to make Passes/Coupons less susceptible to being misappropriated for sale on the secondary market.

Management Response: *What is not included in current Council procurement procedures is documentation or formal requirements for security printing. Lacking any formal Council procedure the Marketing Division has used its own Security Item Procedures form. Upon recommendation of the audit report Marketing has begun working with both Purchasing and Legal to either update the existing form or create a new form that will meet with approval of Legal, Purchasing and Audit. The form would*

set forth the terms and conditions for doing security printing for Metro Transit and any consequences should the terms and conditions not be followed.

Actions will be completed by: Fall 2008

Staff Responsible: Creative Services Supervisor and Senior Graphic Designer

- 2. (Essential) Metro Transit should strengthen its administrative procedures to assure that printing contractors fulfill their responsibilities and that adequate project documentation exists to support compliance with Council procedures.**

During 2007, Graphics administered 15 projects, thirteen project files of which were located by Graphics and reviewed by Audit. The two project files involved with the stolen Coupons could not be located either within Graphics or at the MTPD although some documentation was available via electronic files and faxes. In addition, the *Security Item Procedures* form was either missing or incompletely filled out and inadequately signed. Most project files contained the final copy of the project award, copies of design artwork and the project request form; however, these documents were not available in seven, four and two of the project files, respectively.

Management Response: Marketing will strengthen its administrative procedures including implementing a new Security Item Procedures document as noted above, and implementing a project documentation checklist that will be placed in every file. This checklist will contain all of the support documents that must be completed and put in the file, to include: Documentation of all oral or written bids received during the bid process, the new Security Item Procedures form, the project award notification and contract or PO numbers, design artwork, project design request form and other documents as required.

Actions will be completed by: August 1, 2008

Staff Responsible: Creative Services Supervisor and Senior Graphic Designer

- 3. (Significant) Metro Transit should review its practices for obtaining project bids and selecting Pass/Coupon printing contractors to assure compliance with Council and department purchasing procedures.**

The graphic designer develops job specifications, completes printing requests and obtains quotes from printing contractors and selects the Printer. The designer is required to obtain phone quotes if the printing costs are expected to be less than \$2,500. Three written bids are required if the cost is expected to exceed \$2,500. Five of 15 projects were over \$2,500; however, the project files showed evidence of only one obtaining three bids.

Management Response: *Marketing has and will continue to follow Council procurement procedures. For bids over \$2,500 verbal quotes are acceptable if they are documented in writing. This is often the procedure that is used when graphic designers get the required bids. We believe all five competitive bid situations examined and questioned by the audit were bid correctly and competitively. In fact, the Purchasing division issued PO's for all five of these jobs and would not have done so if they had not seen three bids prior to issuing the PO. But for some reason the written documentation did not get in the graphics department file. Marketing will take extra care to ensure this documentation is included in the files going forward. As stated above, a checklist will be created to ensure that all required documentation is kept in the file.*

Actions will be completed by: *Immediately*

Staff Responsible: *Creative Services Supervisor*

4. (Significant) Metro Transit should require that printing contractors institute adequate policies and procedures for safeguarding One Ride Passes and One Free Ride Coupons while they are in the Printer's possession.

Security over Passes/Coupons is lacking when they are between printing stages. It is believed that one of the Coupon thefts occurred during this time, for they were printed one day, covered with a sheet of paper to hide an instant recognition of what they were and then perforated the next day. Some Coupons recovered through the fare collection system had not been perforated. The MTPD (Exhibit A) has identified procedures that can be implemented to reduce the risk that Coupons/Passes will be lost.

Management Response: *Marketing will implement Metro Transit Police Department's Essential recommendations 1, 2, 4, and 5 as described in Appendix A. Of the Significant recommendations Marketing will implement recommendation 8 as described and agrees with recommendation 10 as revised and noted below.*

Item 3 of Appendix A, covering the return of printing plates and coupon overages we believe is better implemented at the printer. We believe this recommendation can be accomplished with a combination of choosing high quality security printers and requiring the new Security Item Procedures form to be signed by the vendor both before they are awarded the job and once the job and associated destruction of plates and coupons is completed on site. Furthermore, the new Security Item Procedures form will include language that sets forth consequences for any injury Metro Transit would incur.

Item 6. Contracting with a printer outside the metro area is proving to be problematic and perhaps unnecessary. In April, Marketing, working with Purchasing, issued a request for bids to nine out-of-state printers for a Coupon printing job. Of the nine vendors solicited by Purchasing, none returned a bid. Upon follow-up, reasons given for the non-response included the job being too small and uncertainty that the time and effort to print the job would be worth the profit potential. Instead, Marketing has looked to three proven high-security printers in the Twin Cities area that provide such security measures as cameras, limited-access printing and storage areas and background checks

on employees. In the past, these types of printers would not have been considered because they would not be low bid on a job of this nature. However, if this additional security is now a requirement for Pass/Coupon printing jobs we believe these high-end printers are extremely secure. Marketing would prefer to go this route.

Item 7 is acceptable but please see the additional comments about serial numbers in the Management Response to Recommendation 8.

Item 9 is the responsibility of finance. Ridership has been sending a schedule of the fraudulent passes received to MTPD and will continue this effort. The Revenue Operations Supervisor receives the fraudulent passes from Ridership and will coordinate with Ridership to have them sent to the MTPD.

Item 10 would be implemented only when a case of possible fraud was detected. Operators would be told to look for specific coupons rather than given a general message which might lead to confusion and confrontation with customers over valid coupons.

Item 11 will be considered but we believe the use of high-security printers and the new Security Items Procedures form will be sufficient. Furthermore, Marketing is looking to a contract with one of the high-security printers to do most, if not all coupon printing. Once this contract is established, Marketing would work with the selected vendor to make random press checks during coupon printing to ensure that established security procedures are being followed.

Items 12 and 13 will be considered.

Actions will be completed by: Appendix A item 1 is completed. The remaining items will be completed by August 1, 2008.

Staff Responsible: Marketing Director, Creative Services Supervisor and Revenue Operations Supervisor

5. (Significant) Metro Transit should develop consistent policies and procedures for safeguarding One Ride Passes and One Free Ride Coupons. Currently, safeguarding practices vary depending upon the department responsible for the respective fare media.

Sales Operations took delivery and signed the delivery receipts for all three printing jobs requested through Graphics in 2007. In addition, all Passes are stored in a locked and alarmed room monitored by a security camera and accessible by only 7-8 employees. Passes are also processed for mailing from inside this secure room and physical inventory is counted and verified monthly.

Marketing procedures are incomplete for they do not include procedures for obtaining quotes from printing contractors or for destroying used Passes/Coupons. Complying with procedures is also inconsistent. The *Security Item Procedures* form is not properly completed, Marketing personnel are not observing vendor printing processes, out-of-state

printing contractors have not been identified and there is no evidence of proper receipt and signature for delivered Passes/Coupons. In addition, Coupons available for Marketing personnel miscellaneous use are located in three places and most Marketing personnel know how to access these areas. A single location with a limited number of Coupons accessible by fewer employees can provide for greater security and reduce the risk of loss.

Management Response: *Marketing will work with Audit to document and implement acceptable procedures for destroying used coupons. As noted above, a new Security Item Procedures form will be created and properly completed. Also, as noted in the response to Recommendation 4, we contacted nine out-of-state printers that had no interest in coupon printing jobs. We believe that establishing a contract with a high-security printer will alleviate the need for constant observation of the printing process.*

A new procedure for receipt and signatures on Pass/Coupon deliveries will be put in place. All Coupons delivered to Metro Transit – except for a small quantity, less than 1,000 – will be locked in the secured storage area in Finance upon delivery. The Coupons kept in Marketing will be used for distribution at commuter fairs, used by Customer Advocates for onsite presentations and used by the TIC travel booth. This quantity would be locked in one cabinet, and distribution of these Coupons will be documented and tracked. Authorization for use would need to be signed by the Director of Marketing or one of the three division supervisors.

Actions will be completed by: August 1, 2008

Staff Responsible: *Marketing Director, Marketing Development Supervisor and Creative Services Supervisor*

6. (Consideration) Metro Transit should consider providing community and medical health agencies with guidelines for implementing appropriate internal controls over the distribution of One Ride Passes. Currently, some agencies have good control over the distribution process; however, others do not.

Two agencies handed out a maximum of two Passes at any one time and kept records of who received them. Another agency would hand out the number of Passes the patient and any family members needed for up to nine trips at a time and did not record usage. Yet another agency would send out the One Ride Passes a patient would need for up to a month, but also verify appointments prior to sending them out. Therefore, the possibility exists that patients receiving bulk Passes have the opportunity to abuse the Pass privilege and sell them in the secondary market.

Management Response: *While the security and distribution of these passes, once sold to the Agencies, is controlled solely by the Agencies rather than by Metro Transit, Audit has offered to provide a summary of internal control and security guidelines. Revenue Operations will distribute this information to the Agencies with future Pass sales.*

Actions will be completed by: August 1, 2008, with a new print run expected in 2009)

Staff Responsible: Audit – Guidelines for internal controls and Security over passes and Revenue Operations Supervisor – distribution of Guidelines with Sales Orders.

7. (Significant) Metro Transit should strengthen its Administration practices regarding the distribution and accounting for general use One Free Ride Coupons. Current practices are inefficient and do not effectively identify specific Coupon usage.

General use Coupons are printed to be used for various miscellaneous marketing activities. These serialized Coupons are to be stamped with a code upon their receipt by the Marketing project manager to identify their use when they are received through the fare collection system. Without stamped identification, Marketing cannot identify their usage in management reports or calculate their redemption rates. During 2003-2007, 376 individual Coupon entries were made in the Marketing log book; 83 (22%) were identified as "miscellaneous," 72 (19%) were stamped to identify their use and 221 (59%) were not stamped with the required usage code. During 2007, 22,340 general use Coupons were issued for various uses. However, when Audit counted Coupons most were not stamped or recorded as to their specific use.

Management Response: Marketing will strengthen its administration practices regarding the distribution and accounting of general-use One Free Ride Coupons. These Coupons are already printed with individualized serial numbers. All general-use Coupons will be recorded in a log. The log will note the start and end serial numbers for each group of Coupons being used. It will also record what specific purpose for which the Coupons are being used ("miscellaneous" will not be acceptable). This will ensure that a good record of use for all Coupons is documented.

General use Coupons are printed with serial numbers but no other program identifier. These coupons are used for many different applications including commuter fairs, special events and employer-based promotions. Marketing will step up efforts to ensure that all large distributions of these Coupons will be coded.

Actions will be completed by: August 1, 2008

Staff Responsible: Marketing Director and Marketing Development Supervisor

8. (Essential) Metro Transit should add language to all One Ride Passes and One Free Ride Coupons restricting the ability for secondary market sales and consider adding serial numbers to those Coupons not now serialized.

A secondary market on Craig's List exists whereby suspected stolen Coupons and excess Passes initially provided by community medical agencies are sold. For the period October 22, 2007 through January 8, 2008, Audit located six instances of One Ride Passes listed for sale. It cannot be know for certain how many of these transit Passes are

stolen, copied or if they were purchased by community and health agencies and given to their clients. However, placing a highly visible “ILLEGAL TO RE-SELL” warning on all Passes would help to reduce their sale in the secondary market. In addition, serializing all Coupons will better enable the MTPD to apprehend those who continue to do so.

Management Response: *Marketing will add the “ILLEGAL TO RESELL” language to all Passes/Coupons. Marketing will also begin to print serial numbers on all Coupons. However, Marketing will attempt to track the additional cost to add serial numbers to each Coupon printing. In some instances, printing serial numbers on the Coupons that are part of larger direct mail pieces has doubled the printing cost. Marketing thinks it would be financially prudent to compare these additional costs to the actual or estimated cost of fraudulent coupons being redeemed.*

Actions will be completed by: *Immediately*

Staff Responsible: *Creative Services Supervisor*

9. (Significant) Metro Transit should develop procedures to reconcile daily One Ride Passes and One Free Ride Coupon counts tallied by Ridership and Marketing. Currently such data is not reconciled resulting in inaccurate identification of usage.

During December 2007 Ridership and Marketing counted the same number of Passes/Coupons on two days and on seven days they were within 10 Passes/Coupons of one another. However, on four days, they differed by more than 80.

Audit also sampled 20 days during the period January 29 - February 29, 2008. Ridership and Audit counts compared very favorably; however, Marketing did not. For example, Audit and Ridership counts for the 20 days when over 15,000 passes were counted varied by only seven Passes/Coupons and on 12 of those days there was no difference between the two counts. However, daily variances between the Marketing and Audit counts ranged from -41 to +78 with only one day when both counts were the same.

One Free Ride Coupon counts and distribution are used to account for the cost of free rides charged monthly to the Marketing department. Reconciling Coupon counts assures that they are accurately counted and Marketing is appropriately charged.

Management Response: *Beginning in June, Ridership will no longer forward One Ride Passes to Marketing. These Passes will be counted by Ridership and destroyed daily. Since these Passes are prepaid they are not counted against Marketing’s budget and Marketing has no real reason to count them. This will greatly reduce the number of coupons Marketing needs to count each day since the number of One Ride passes is 50 - 70 percent of all items counted in a day. This alone should help improve accuracy.*

In addition, Marketing will develop a procedure to ensure daily Coupon counts are reconciled to the daily counts by Ridership.

One area of question is the handling of One Free Ride Coupons collected by the Council's contracted transit services. These services, managed by the Council's MTS division, periodically send Coupons to Marketing. While these Coupons are not included in Metro Transit's ridership counts, they are included in Marketing's program redemption counts. This is also another reason that Marketing's Coupon counts on certain days would vary from Ridership's count. Going forward, Marketing would like to continue to count the coupons that come from the contracted transit service providers for measurement of individual marketing programs. However, Marketing will keep these counts separate from the reconciliation with Ridership.

Actions will be completed by: August 1, 2008

Staff Responsible: Director of Marketing

10. (Essential) Metro Transit should strengthen its practices for destroying One Ride Passes and One Free Ride Coupons that have been received through the fare collection system.

When Marketing has finished counting and tallying the Passes/Coupons previously picked up from Ridership, they are taken to the basement of the Heywood office building, usually by one person who then shreds them. Good accounting practice and internal controls would require the presence of a formal written procedure and keeping the Passes/Coupons a certain length of time to assure reconciliation with Ridership. In addition, more than one person should be involved in the destruction process; one being a manager who would then sign the destruction receipt.

Management Response: *As previously mentioned, Ridership will no longer be sending the One Ride Passes to Marketing for counting. Ridership plans to shred the Passes each day after they are finished counting them. Likewise, Marketing plans to continue shredding Coupons that they count each day. Per the audit recommendation, a process will be developed and used by Ridership and Marketing that assures for proper reconciliation and destruction.*

Actions will be completed by: August 1, 2008

Staff Responsible: Director of Marketing

Note: In addition to the recommendations stated above, the MTPD and Audit have identified at Appendices A and B, respectively, practices and procedures that can assist in strengthening the internal controls over Pass/Coupon printing, safeguarding, distribution, destruction and internal accounting practices.

Appendix A

Metro Transit Police Department Recommendations: Safeguarding Ride Passes and Coupons

Essential

1. Print on all forms of fare: "ILLEGAL TO RE-SELL"
2. There should be signature documentation and accountability whenever passes/coupons change hands.
3. All overages and printing plates should be accounted for, returned to Metro Transit, held until the pass/coupon expiration period and then destroyed.
4. Unattended passes/coupons should be kept in vault areas accessible only by a limited number of known employees.
5. There should be a signed contract with the printing company documenting pass/coupon printing and safeguarding procedures.

Significant

6. Contract with printer outside of the Twin Cities metropolitan area.
7. Print individual serial numbers on each pass/coupon.
8. There should be two people responsible for all aspects of production, shipping, distribution, & destruction (and proper separation of duties).
9. Metro Transit Police Department should be notified each time an unauthorized pass/coupon is received through the fare collection system.
10. Bus Operations should periodically distribute Information Bulletins to Operators reminding them to look for unauthorized passes/coupons.

Consideration

11. Metro Transit representatives should supervise the entire printing, shipping, distribution, & destruction process.
12. Sufficient time should be allotted between printing and distribution to check for illegal usage.
13. Marketing should consider auditing coupons provided to their customers.

Appendix B

Program Evaluation & Audit Recommendations: Safeguarding Ride Passes and Coupons

Essential

1. Destruction certificates should be obtained whenever any type of fare media is destroyed.
2. Used coupons should be transferred to the 4th floor locked storage room for safe keeping and surplus coupons destroyed with other fare media.
3. The daily Revenue Operations and Marketing Department coupon counts should be reconciled.

Significant

4. Scrap and overage coupons should be destroyed and not stored in individual desks for “emergency” use.
5. Health and community agency distributors of One Ride passes should be encouraged to institute sufficient controls to assure clients are not given excessive passes at any one time.
6. The Marketing Department should double count the used passes it receives from Revenue Operations to assure that all passes are properly counted and classified.
7. The Graphics Section should comply with its procedures regarding viewing the actual destruction of passes by its contracted printers.
8. The Graphics Section should tighten its controls over obtaining the proper number of bids, obtaining signed documents from the printer and maintaining complete project files.
9. Marketing should require that unattended passes located on printing contractor premises be stored in a locked, limited access area.

Consideration

10. All One Free Ride coupons should be stamped or otherwise identified as to their use.
11. The Marketing Department should tighten its controls over the distribution of miscellaneous One Free Ride coupons stored and distributed within the department.
12. Marketing should request background checks on printing contractor employees.