



**Metro**

**FINANCE AND BUDGET COMMITTEE**

**January 14, 2009**

**OPERATIONS COMMITTEE**

**January 15, 2009**

**SUBJECT: DAY PASS HANDLING**

**ACTION: RECEIVE AND FILE**

**RECOMMENDATION**

Receive and file this report on day pass handling procedures.

**ISSUE**

As a result of recent articles involving the embezzlement of paper day passes by certain bus operators since the introduction of day passes in January 2004, the Board requested a report on the findings and recommendations of any audits, difficulties in securing this fare media, potential controls to protect paper day passes and lessons learned.

**DISCUSSION**

Management Audit Services Department, "MASD," completed an audit of Day Pass Internal Controls in October 2008. This audit was directed by the Chief Executive Officer and conducted as a follow up to a 2006 Fare Media Audit.

MASD found a continued lack of accountability in spite of the new controls implemented as a result of the 2006 audit. They found:

1. Inadequate compliance to day pass book security procedures,
2. Ineffective controls for monitoring individual day passes; and,
3. Ineffective day pass security design features.

Operations concurred with findings 1 and 2 above and agreed to enforce existing storage/access procedures and implement new reconciliations to improve control during the interim before day passes can be transitioned to TAP. The improved interim procedures being implemented by Operations will be in place until the elimination of paper day passes on March 15, 2009.

Communications concurred with finding 3 and the day passes have been redesigned so that the serial number will be in the middle of the pass to improve this security feature. The new day passes will be available to riders on February 1, 2009.

While Communications expressed concerns with the cost/benefit of the implementation of TAP, after considering various analyses, MASD recommended that the "Transit Access Pass (TAP) program expedite the implementation of the day pass on TAP with the elimination of paper day passes as the permanent resolution to the problems noted in the audit."

The CEO directed TAP Operation to develop an early day pass transition plan in order to expedite the transition. Operations concurred with this recommendation. The agreed upon date is March 15, 2009. After that, paper day passes will no longer be used. Rider outreach plans were finalized in November and early notifications began in December. The detailed TAP day pass implementation plan is a separate item on the January 2009 Operations Committee agenda.

The audit further noted that while the implementation of day passes on TAP will eliminate the specific risks associated with the handling of paper day passes by Operations, other security concerns such as encryption, wireless transmission, and software application controls, become more important. TAP program management will be responsible for ensuring that controls are in place and MASD is in the process of auditing the adequacy of those controls.

## **BACKGROUND**

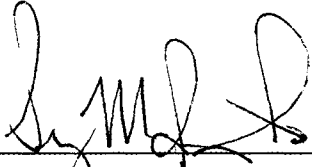
Paper day passes were introduced in January 2004 at a cost of \$3.00 for regular riders and \$1.50 for seniors and disabled patrons as a convenience for cash paying riders who take multiple trips on our bus and/or rail system within one day. Metro to Metro paper transfers were eliminated at that time. The prices of the day pass were increased to \$5.00 and \$1.80 respectively, effective July 1, 2007.

Internal controls over paper transfers had been weak as evidenced by a few incidents of transfer embezzlement in the past. However, since the prices of transfers were only \$0.25 and \$0.10, the monetary incentive was small. The higher prices of day passes increased this incentive. Although new procedures aimed at improving internal controls were developed, they were not effectively followed due to the labor intensive manual procedures required.

## **NEXT STEPS**

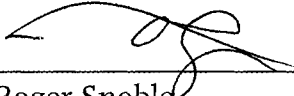
- Continue rider outreach
- Implement TAP day passes and eliminate paper day passes effective March 15, 2009
- Complete the transition to TAP by phasing in EZ Pass and reduced fare media by Summer 2009
- Periodically audit internal controls in the TAP environment

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