



OFFICE OF THE
City Auditor

U-Pass Review

July 14, 2009

The Office of the City Auditor conducted
this project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

Executive Summary

The Universal Transit Pass (U-Pass) provides eligible students enrolled at the University of Alberta and Grant MacEwan College unlimited access to regular Edmonton, St. Albert and Strathcona County transit services. The program is partially funded through mandatory fees that eligible students pay in each term they are registered. Fees collected from students are transferred from the post secondary institutions to the local transit authorities to help fund the required transit service.

The U-Pass program was instituted as a three-year pilot in September 2007 after a student referendum and approval by Edmonton City Council, St. Albert City Council and Strathcona County Council. As the pilot program is set to end in April 2010, Edmonton City Council must soon consider the continuation of the program beyond this date.

The Office of the City Auditor included a review of the U-Pass program in our 2009 audit plan. The main objectives for our review were to:

- Identify the revenues and costs of the U-Pass program and the impact of the program on Edmonton Transit Services' (ETS) overall revenues and costs.
- Provide assurance that the U-Pass program has been carried out as per the U-Pass Transit Agreements.

Revenues and Costs

Our review focused on the U-Pass program for the 2008 Winter term (January 1, 2008 to April 30, 2008) and the 2008 Fall term (September 1, 2008 to December 31, 2008).

We calculated the ETS full cost of the U-Pass program in 2008 to be \$13.1 Million. This is offset by revenues of \$6.4 Million, resulting in a net cost of \$6.6 Million. If only the incremental cost of the additional service is considered, the cost declines to \$12.3 Million and a net cost of \$5.9 Million.

ETS recovers approximately 50% of the additional costs incurred for the U-Pass program. The actual costs and revenues of the U-Pass program are taken into account by ETS when they calculate the overall revenue/cost ratio. For 2008 the reported revenue/cost ratio for ETS is 44.7%. We estimate that the cost of additional service required for the U-Pass program, combined with the increased ridership and discounted pass prices reduced the ETS overall revenue/cost ratio by approximately 2.5% in 2008.

We included a recommendation for ETS to calculate both the full and incremental costs when reporting the financial impacts of the U-Pass program.

To balance the financial impacts, reported non-financial benefits include:

- Decrease in parking permits purchased by students.
- Increase in transit trips associated with U-Pass has resulted in a significant reduction in CO₂ emissions.
- Increase in likelihood of transit use in the future.

Compliance with U-Pass agreements

We observed that all parties were generally in compliance with the U-Pass Transit Agreements. We observed two areas for improvement. One related to written estimates for U-Pass stickers, and the other related to distribution and security controls.

We have made three recommendations to enhance the processes and controls within the U-Pass agreements.

1. Introduction

The Universal Transit Pass (U-Pass) provides eligible students enrolled at the University of Alberta and Grant MacEwan College unlimited access to regular Edmonton, St. Albert and Strathcona County transit services. The program is partially funded through mandatory fees that eligible students pay in each term they are registered. Fees collected from students are transferred from the post secondary institutions to the local transit authorities to help fund the cost of transit service.

Edmonton's U-Pass program is a pilot that began in the fall of 2007 and expires in April 2010. In the next few months, City Council must decide on the continuation of the program beyond April 2010. The Office of the City Auditor included a review of the U-Pass pilot program in its 2009 work plan in order to provide an independent assessment to aid in decision making.

2. Background

U-Pass programs have existed for numerous years at many other Canadian post secondary institutions. One of the main concepts of U-Pass programs is that all eligible students from participating post secondary institutions pay U-Pass fees whether they intend to use transit or not. In Edmonton, eligible students include all students registered on-campus in at least one for-credit course at the University of Alberta (University) and all full time Grant MacEwan students. By having all eligible students pay U-Pass fees regardless of transit use, the cost to students using transit is lowered as costs are spread across a broader group. Other typical benefits of the program include increased student ridership and decreased single occupancy vehicles on the road which in turn results in a reduction in the demand for parking, reduced traffic congestion and a positive environmental impact.

In June 2006 ETS reported to the Transportation and Public Works Committee (TPW) that the U-Pass would have to be priced at \$120 to be "tax levy neutral." This calculation was based upon student ridership surveys and speculated that the U-Pass program would result in significant ridership increases as experienced by other Canadian transit systems. TPW subsequently authorized the City to enter into agreements with the University of Alberta and the Grant MacEwan Students' Association with a U-Pass initial price of \$90 per student per term¹ increasing annually by the average Alberta Consumers Price Index.

In the fall of 2006, Edmonton City Council, St. Albert City Council and the Strathcona County Council approved agreements with the University and the Grant MacEwan Students' Association for the U-Pass program to run on a trial basis starting in September 2007 and ending April 30, 2010. These agreements were subject to

¹ A school term is 4 months long. Winter (January 1 to April 30) and Fall (September 1 to December 31).

approval by the University of Alberta Students' Union and Graduate Students' Association and the Grant MacEwan Students' Association. In the spring of 2007, the students at both schools voted to accept the program, and it was instituted in September 2007.

The U-Pass is the combination of a U-Pass sticker and the photo identification card distributed to students at the beginning of each term. Grant MacEwan students currently pay \$94.50 per student per term while University of Alberta students pay \$78.75 per student per term. The difference in price of the U-Pass is due to a \$15.75 per student subsidy from the University of Alberta Administration. The price of the U-Pass fee is adjusted annually for each academic period (September to April) by the same amount as the increase in the average Alberta Consumer Price Index.

A Joint U-Pass Advisory Committee was established at the outset of the program to ensure effective communication between the parties involved and timely resolution of any operational issues arising over the course of the three-year pilot. The Committee is made up of representatives from the following key stakeholders:

- Edmonton Transit Services (ETS),
- St. Albert Transit,
- Strathcona County Transit,
- University of Alberta (U of A), and
- Grant MacEwan Students' Association (GMSA).

The U-Pass pilot program is set to end in April 2010. ETS will complete further research and review the program to provide recommendations to City Council in the fall of 2009 regarding the continuation of the program past this date.

3. Objectives, Scope and Methodology

In order to define our primary audit objectives, we reviewed available documentation, interviewed key stakeholders and performed a high-level risk assessment. On the basis of the work performed during our planning phase, we confirmed the following primary audit objectives:

1. Identify the U-Pass program revenues and costs and its impact on ETS' overall revenues and costs.
2. Provide assurance that the U-Pass program has been carried out as per the U-Pass Transit Agreements.

In addition to our primary audit objectives, we also reviewed information related to the non-financial impacts of the U-Pass program, such as transit ridership, traffic congestion and environmental impacts.

Our review focused on the 2008 Winter (January 1, 2008 to April 30, 2008) and the 2008 Fall (September 1, 2008 to December 31, 2008) terms.

To complete our fieldwork we performed the following procedures:

- Examined documents and data held by ETS, the U of A and the GMSA,
- Interviewed key personnel from ETS, the U of A and the GMSA,
- Reconciled the list of students who paid the U-Pass fee produced by the post secondary institutions with the cheques received,
- Developed a methodology for analyzing the total estimated cost of the U-Pass program to the City, and
- Compared actual results to the requirements of the U-Pass Transit Agreements in order to determine compliance with key parts of the agreement.

4. Observations and Analysis

4.1. U-Pass Program Financial and Non-Financial Impacts

Our main objective for this portion of the review was to identify the revenues and costs of the U-Pass program and the financial impact of the program on ETS' overall revenues and costs. As well, we have included a section on significant non-financial impacts of the program.

4.1.1. Revenues

When U-Pass was initially being considered, ETS calculated a "tax levy neutral" cost for U-Pass of \$120 per student per term. Based on discussions with student groups, all three Municipal Councils agreed to an initial price of \$90 per student per term. This price was inflated in 2008 in accordance with the U-Pass Transit Agreement and has resulted in a 2008 price of \$94.50 for the 2008/2009 academic period.

The post secondary institutions currently pay the revenue generated by the U-Pass program directly to each municipality in accordance with a revenue-sharing formula which is set out in the U-Pass Revenue Sharing Agreement. This agreement was updated for the 2008/2009 academic period based on a consultant's review and analysis. The consultant analysed all aspects of the program, including ridership, and made recommendations to increase the City of Edmonton's revenue share. Effective for the 2008 Fall term, the current revenue sharing formula for the U-Pass fee is:

- City of Edmonton – 84%,
- City of St. Albert – 8%, and
- County of Strathcona – 8%.

Table 1 shows each municipality's share of the U-Pass fees for the period under review (2008). The revenues for the 2008 Fall term are calculated according to the formula above. For the 2008 Winter term we used the revenue sharing formula in effect at the time which gave the City of Edmonton 80% and 10% each to the City of St. Albert and the County of Strathcona.

Table 1: U-Pass Revenue Allocation to Municipalities

| | 2008 Winter Term | | | 2008 Fall Term | | | Grand Total 2008 |
|--------------------------|--------------------|------------------|--------------------|--------------------|------------------|--------------------|---------------------|
| | U of A | GMSA | Total | U of A | GMSA | Total | |
| <i>Edmonton</i> | \$2,305,872 | \$655,704 | \$2,961,576 | \$2,693,284 | \$785,227 | \$3,478,511 | \$6,440,087 |
| <i>St. Albert</i> | \$288,234 | \$81,963 | \$370,197 | \$256,503 | \$74,783 | \$331,286 | \$701,483 |
| <i>Strathcona County</i> | \$288,234 | \$81,963 | \$370,197 | \$256,503 | \$74,783 | \$331,286 | \$701,483 |
| Total | \$2,882,340 | \$819,630 | \$3,701,970 | \$3,206,290 | \$934,793 | \$4,141,083 | \$7,843,053 |
| # Students | 32,026 | 9,107 | 41,133 | 33,929 | 9,892 | 43,821 | 84,954 |

In addition to identifying U-Pass revenues, we also wanted to provide assurance that ETS received the correct amount of revenues from the post secondary institutions. To accomplish this, we reconciled the cheques ETS received to the list of students who paid the U-Pass fee that each post secondary institution submitted for the 2008 Winter and Fall terms. We found that the cheques received correlated to the appropriate U-Pass fee per student and to the City’s correct share of the total revenue for both terms.

To determine if the list of students who paid the U-Pass fee was accurate we interviewed key staff at the U of A and from GMSA and reviewed their records. We observed errors in the accuracy of the student lists and have discussed these with ETS and the post-secondary institutions so that they can be corrected.

Table 2 quantifies the impact the student list errors had on municipal revenues. The amounts are immaterial to the U-Pass program overall, however the errors resulted in the U of A under-funding the program, while GMSA over-funded the program (for the one semester where information was available). These amounts have now been cleared as the City has received payment from the U of A and issued a refund to GMSA.

Table 2: Financial Impact of Eligible Student Statement Errors

| School | '08 Winter Term | '08 Fall Term | Total \$ Impact to City Of Edmonton |
|---|---|---|-------------------------------------|
| U of A | Edmonton: \$8,424 St. Albert: \$1,053 Strathcona: \$1,053 Total Impact \$10,530 (0.4%)* | Edmonton: \$8,493 St. Albert: \$809 Strathcona: \$809 Total Impact \$10,111 (0.3%)* | \$16,917² |
| GMSA | Documentation Not Currently Available | Edmonton: (\$8,731) St. Albert: (\$832) Strathcona: (\$832) Total Impact (\$10,395) (1.1%)* | (\$8,731)³ |
| Total Impact to the City of Edmonton (Net) | | | \$8,186 |

* Percentage of total amount paid

² Total amount under-remitted by the U of A to the City of Edmonton

³ Total amount over-remitted by GMSA to the City of Edmonton

The U-Pass Transit Agreements give the municipalities the right to audit the post secondary institutions list of students who paid the U-Pass fee. Being a pilot, ETS has not utilized this right, and indicated that since the OCA’s review was to be conducted in 2009, they would wait for our assessment of the program.

We believe periodic audits of the information provided would serve to identify any errors made and hold the post-secondary institutions more accountable for the accuracy of the list of students who paid the U-Pass fee.

Recommendation 1 also addresses the post secondary institutions’ controls over security and distribution of U-Pass stickers discussed in section 4.2.3.

| Recommendation 1 | Management Response and Action Plan |
|---|---|
| <p>The OCA recommends that ETS develop formal criteria upon which to determine when an audit of the post secondary institutions should take place. Criteria may include a regular cycle, changes of staff, and/or changes in policy or new post secondary partners. These formal criteria should be documented and communicated with all stakeholders involved.</p> | <p>Accepted Comments: Development of the process has begun, and the requirement for annual auditing will be written into the new Agreements. Planned Implementation: September 2010 Responsible Party: ETS Business Development</p> |

4.1.2. Costs

The total costs of the U-Pass program need to be understood so that the municipalities can make informed decisions regarding the program’s future.

ETS tracks and measures the U-Pass program service delivery costs and reports those costs in their annual U-Pass Program Status Reports. They also retain information on the costs of advertising, promotion, and sticker production, but these costs are not reported. Additionally, the opportunity cost of U-Pass in relation to monthly post secondary passes or other types of fares students purchased prior to U-Pass are not calculated or reported in their annual status reports. An opportunity cost is the alternative given up when choosing one course of action over another. Prior to U-Pass, students who used transit to commute to school would have purchased either monthly post secondary passes or paid daily transit fares, depending on how frequently they used transit. This represents a cost to the City because it is revenue that the City no longer receives due to U-Pass.

We calculated the estimated 2008 total costs and financial impacts of the U-Pass program. The following components were included as part of our calculations:

- The direct costs of the U-Pass program including production of stickers, advertising and promotion.
- The operating costs or the estimated amount of bus service required to address increased demand in transit service due to the U-Pass program.

- The opportunity cost of ETS' lost fare revenue due to providing the U-Pass.

Direct costs

In our calculation of direct costs, we included the City of Edmonton's share of actual costs of production of the stickers, advertising and promotion for the 2008 Winter and Fall terms. The total cost of sticker manufacturing for the 2008 Winter and Fall terms was \$14,500 and the total cost of advertising and promotion was \$2,928.

Bus Service Operating costs

ETS estimated the yearly bus service hours attributable to the U-Pass program were 25,440 hours for 2008. We performed two calculations to determine the operating cost for ETS to provide these additional hours of service. We calculated an incremental operating cost using a rate of \$72.76/hour, where only the bus operator, fuel, and maintenance costs were included. This results in a calculated cost of \$1.85 million. We also calculated the full operating cost using \$101.07/hour, where ETS overhead costs are included as well. This resulted in a calculated cost of \$2.6 million.

The cost of capital for buses is not included in either of these calculations.

Opportunity costs

Prior to the U-Pass pilot, students would have purchased either monthly post secondary passes or paid daily transit fares. During the U-Pass pilot these sales would not occur. This represents an opportunity cost to the City because it is revenue that the City no longer receives due to the U-Pass pilot.

To calculate the total opportunity cost for 2008, we used ridership data from the 2008 survey completed by an ETS consultant. This survey collected ridership and travel pattern data from University and Grant MacEwan students at a time when Edmonton's population was growing and where the U-Pass program was already in place. Based on the survey data, we estimated the percentage of students that would use ETS from each of the post secondary institutions, and what type of fare would be purchased based on frequency of transit use. We then calculated the opportunity cost based on the purchase of monthly post secondary passes and adult ticket packages. Based on these assumptions, the calculated opportunity cost was \$10.5 Million.

Understanding the total costs of the U-Pass program enables the municipalities to make informed decisions regarding the future of the program. Without complete and accurate cost information, the financial impact of the program cannot be completely understood.

4.1.3. Financial Impacts

Table 3 shows the net financial impact of the U-Pass program to the City of Edmonton.

Table 3: Additional Revenues and Costs of the U-Pass Program

| | Incremental Operating Cost | Full Operating Cost |
|--|----------------------------|----------------------|
| U-PASS PROGRAM REVENUES: | | |
| <i>U-Pass Revenue Fees Received from Schools in 2008</i> | \$6,440,087 | \$6,440,087 |
| U-PASS PROGRAM COSTS: | | |
| <i>Opportunity Cost of U-Pass Program for 2008 (Loss of other ETS fare revenue)</i> | \$10,480,846 | \$10,480,846 |
| <i>U-Pass Sticker Production for Winter & Fall 2008</i> | \$14,500 | \$14,500 |
| <i>U-Pass Advertising and Promotion 2008</i> | \$2,928 | \$2,928 |
| <i>Cost to provide additional Bus Service Hours for U-Pass Program in 2008⁴</i> | \$1,851,014 | \$2,571,221 |
| ESTIMATE OF TOTAL COSTS OF U-PASS PROGRAM IN 2008 | \$12,349,288 | \$13,069,495 |
| 2008 NET FINANCIAL IMPACT OF U-PASS PROGRAM ON ETS OPERATIONS | (\$5,909,201) | (\$6,629,408) |

As illustrated in Table 4, in 2008 the ETS share of the U-Pass fee would need to be \$146 to be cost neutral (break even) if only incremental costs were considered. If the full cost of transit services is considered, then \$155 per student, per term would be required for the program to be cost neutral.

Table 4: ETS Break Even U-Pass Fee Calculation

| Description | Incremental Cost | Full Cost |
|---|-------------------|-------------------|
| 2008 Total Costs to City of Edmonton | \$12,349,288 | \$13,069,495 |
| Total Participating Students for Winter '08 & Fall '08 Terms ⁵ | 84,562 | 84,562 |
| 2008 ETS Share of U-Pass Fee for ETS to Break Even | \$146/term | \$155/term |

The figures in Table 3 indicate that ETS recovers approximately 50% of the additional costs incurred for the U-Pass program. The actual costs and revenues of the U-Pass program are taken into account by ETS when they calculate the overall revenue/cost ratio. For 2008 the reported revenue/cost ratio for ETS is 44.7%. We estimate that the cost of additional service required for the U-Pass program, combined with the increased ridership and discounted pass prices reduced the ETS overall revenue/cost ratio by approximately 2.5% in 2008.

⁴ Incremental cost calculated using \$72.76/hr. Full cost calculated using \$101.07/hr.

⁵ Total students in Table 1 and Table 4 differ by 392 because Table 1 includes payment for lost/damaged stickers and refunds issued for students withdrawing from the institutions, etc.

| Recommendation 2 | Management Response and Action Plan |
|--|---|
| The OCA recommends that ETS provide both full cost and direct cost information when presenting the bus service costs attributable to the U-Pass program. | <p>Accepted</p> <p>Comments: ETS Business Development will provide both costs.</p> <p>Planned Implementation: With Evaluation Report to Council in 2009.</p> <p>Responsible Party: ETS Business Development</p> |

4.1.4. Non-Financial Impacts of U-Pass Program

To balance the financial impacts, the City must consider the non-financial impacts of the program. To consider these, we analyzed information on transit use and the non-financial program goals ETS measures with respect to U-Pass. These include traffic congestion, demand for parking, and reducing vehicle emissions.

Transit Use

To assess the impact of the U-Pass program on transit use, we analyzed information from two sources:

1. A 2008 student survey completed by a consultant for ETS, and
2. Internal transit passenger boarding reports prepared by ETS in September 2007 and September 2008.

Student Survey

Table 5 provides the 2008 student survey information and shows that the number of students who use the bus for travel to and from campus locations has increased by 8.6 percent from 2007 to 2008. Bus use for off-campus destinations (i.e., travel for activities other than school) also increased by 11.2 percent from 2007 to 2008.

Table 5: Summary of Student User Increases from 2006 to 2008

| Purpose of Travel by Students | 2007 | 2008 | % Total Increase |
|--|--------|--------|------------------|
| Total Students Who Exclusively Use Transit For Campus-Related Travel | 27,761 | 30,157 | 8.6% |
| Total Students Who Exclusively Use Transit For Off-Campus Travel | 14,257 | 15,856 | 11.2% |

ETS Boarding Reports

Table 6 provides ETS statistics on passenger boardings of bus routes that pass by the University and Grant MacEwan campuses. These statistics show that the U-Pass program contributed to increased passenger boardings by 9.0 percent from September 2006 to September 2007. The number of passenger boardings increased by an additional 3.7 percent from September 2007 to September 2008.

Table 6: ETS Boarding Reports - Campus Passenger Boardings

| | Campus Boardings | Year to year Change | % Increase |
|----------------|-------------------------|----------------------------|-------------------|
| September 2006 | 163,637 | - | - |
| September 2007 | 178,375 | 14,738 | 9.0% |
| September 2008 | 184,990 | 6,615 | 3.7% |

Without individual ridership data it is difficult to precisely determine how much of each percentage increase in boardings is solely attributed to U-Pass riders. Other factors such as general transit ridership growth and non-U-Pass rider boardings may have contributed to the increase as well.

ETS Measurements of Non-Financial Benefits of U-Pass

ETS has taken steps to measure the non-financial performance of the U-Pass program. In addition to their own collection of boarding data, consultants were hired in 2007 and 2008 to gather additional information. The 2007 survey gathered information on revenue split, costs and transit usage of students before and after the initiation of the U-Pass program. The 2008 survey focused on travel behavior and customer satisfaction.

ETS has reported performance towards some of the non-financial goals in their May 2008 U-Pass Program Status Report. Some of the highlights presented are:

- Increased ETS service levels for routes serving the University and Grant MacEwan included adding 437 service hours, 3 new routes and an additional 19 buses on the road;
- The University reports a decrease of 8% in student parking permits since the inception of U-Pass
- Grant MacEwan total monthly parking passes dropped by more than 8% for September 2007 over 2006 (the 2008 over 2007 decrease was not available at the time of our review); and
- Increase in transit trips associated with U-Pass has resulted in a significant reduction in CO₂ emissions.

Additionally, a draft report of a 2009 U-Pass Student survey reported “The influence of U-Pass was further evident with almost two-thirds (61%) of all respondents reporting an increased likelihood that they would use transit in future as a result of having had a U-Pass. Most notable was the higher percentage of Grant MacEwan respondents (63%) who do this, further suggesting the existence of a level of long term potential for transit use among this group.”

The non-financial performance information must be considered as part of any evaluation of the U-Pass program. Just as accuracy and reliability are requirements for financial reporting, these same requirements must apply to non-financial performance reporting as well. For the information to be reliable, we believe that a thorough and consistent

approach to monitoring and reporting non-financial information must continue to evolve. Significant program goals should be identified and measured as accurately as possible on a consistent basis. This information should be part of all future reporting so that decision makers can make year-over-year comparisons and clearly see if both the financial and non-financial goals of the program are being met over time.

4.2. Compliance with U-Pass Transit Agreements

Our second objective was to provide assurance that the U-Pass program has been carried out as per the U-Pass Transit Agreements. In order to complete this objective, we reviewed the agreements, identified the most significant clauses and tested compliance with these clauses. Although we found that all parties included in the testing were in general compliance with the agreements, we believe there are three areas that warrant discussion: bus service delivery, written estimates of eligible students, and distribution and security controls.

4.2.1. Bus Service Delivery

The agreements require the municipalities to review all transit service concerns or requests for changes from the post secondary institutions. Bus service delivery issues are a standing agenda item at Joint U-Pass Advisory Committee meetings. The Committee meets twice during each semester and as needed during the summer.

ETS tracks all transit customer complaints through their CACTIS system, including those related to U-Pass. ETS received the majority of complaints regarding U-Pass service issues in the first few months of the program in 2007. The U-Pass Program Status Report of May 2008 states that subsequent complaints regarding U-Pass transit service have been very low. The consultant's 2008 student survey showed that 75% of students are generally satisfied with U-Pass transit service.

We believe the regular committee meetings, with bus service as a standing agenda item, and tracking U-Pass related complaints, fulfill the municipalities' obligation to regularly review transit service concerns or requests from the U of A or GMSA. Indications are that most bus service issues were addressed in the first year of the program and further service adjustments will remain minimal for the remainder of the pilot program. Following the pilot program however, additional post secondary institutions may want to participate in the U-Pass program which will likely require further adjustments to transit service.

4.2.2. Written Estimates of Required U-Pass Stickers

The agreements require the post secondary institutions to provide a bona fide written estimate of the number of U-Pass stickers they will require for an upcoming academic year. This estimate is to be submitted to the City of Edmonton no later than four months prior to the commencement of the upcoming academic year.

We observed that neither the U of A nor GMSA have provided letters or memos to ETS to fulfill this requirement. Rather, estimates of required stickers have been

communicated via emails and minutes from U-Pass Advisory Committee meetings in all cases but one. The estimate from GMSA for the 2008/2009 academic year was not documented, although ETS confirmed that it was discussed in a Joint U-Pass Advisory Committee meeting. Of the estimates documented, all have been timely except the email confirmation of the estimate for the 2007/2008 school term received from GMSA, which was a little over two months late.

We believe there is a risk with not receiving a signed estimate of the required U-Pass stickers from the post secondary institutions. If there were a significant over or under-printing and a dispute arose, there would be no substantial evidence to support the original estimate. In addition, it may be difficult to determine the cause of the over or under-printing and to develop procedures to prevent such an occurrence in the future. Both the U of A and GMSA are supportive of this enhancement to the agreement.

| Recommendation 3 | Management Response and Action Plan |
|--|---|
| <p>The OCA recommends that ETS initiate updating the U-Pass Transit Agreements so that they require the post-secondary institutions to submit their U-Pass sticker requirements to ETS in an official signed document.</p> | <p>Accepted Comments: 1) Will be written into the new Agreements as a requirement. 2) Will be requested for 2009-10 U-Pass program year. Planned Implementation: September 2009 Responsible Party: ETS Business Development</p> |

4.2.3. U-Pass Distribution and Security Controls

The U-Pass agreements state that the post secondary institutions should develop adequate controls or procedures for the distribution, security and returns (if any) of the U-Pass stickers. It also provides the municipalities the ability to audit the post-secondary institutions to ensure that adequate controls are in place and that the post-secondary institutions are fulfilling their responsibilities.

We performed a high level review of the post-secondary institutions’ controls over U-Pass sticker distribution and security. We did not review controls over returns because “returns (if any)” as per the contract refers to the possibility that ETS could request the return of any remaining U-Pass stickers from the post secondary institutions. In that case, it would be the institutions’ responsibility to ensure that they were transported securely back to ETS. ETS has not required either the U of A or GMSA to return U-Pass stickers to date. Leftover U-Pass stickers are currently stored at the post-secondary institutions and have not been destroyed.

We believe ETS should require the post-secondary institutions to return unused U-Pass stickers at the end of each academic year. The stickers that have not been paid for represent excess inventory and should be returned to ETS. These remain the property of the municipalities and their safe storage and disposal is ultimately the municipalities’ responsibility. In addition, receiving the excess stickers back provides the municipalities an opportunity to reconcile the number of stickers distributed and paid for against the

excess stickers returned to ensure that the proceeds from the U-Pass program have been distributed appropriately.

| Recommendation 4 | Management Response and Action Plan |
|---|---|
| <p>The OCA recommends that ETS require the post secondary institutions to return all excess unpaid-for stickers at the end of each academic year and that ETS reconcile the list of students that have paid for the U-Pass against excess stickers.</p> | <p>Accepted Comments: Will be written into the new Agreements as an annual reconciliation process to occur following the annual audit. Planned Implementation: September 2010 Responsible Party: ETS Business Development</p> |

We believe that both the U of A and GMSA are adequately fulfilling their responsibilities and have adequate controls with respect to security and distribution. We did observe some minor opportunities to strengthen controls which we discussed individually with the U of A and GMSA.

The municipalities have not yet performed an audit of the controls in place at the post secondary institutions. We believe that ETS should develop criteria to determine when an audit should be completed. This would ensure the continuation of adequate process controls and ensure the post-secondary institutions' accountability for the security of the U-Pass stickers in their possession. Adequate controls help to mitigate the risk of loss of U-Pass stickers through theft or mishandling. **See Recommendation 1.**

5. Conclusion

The main objectives of our review were to: (1) identify the revenues and costs of the U-Pass program and the impact of the program on ETS' overall revenues and costs and, (2) provide assurance that the U-Pass program has been carried out as per the U-Pass Transit Agreements.

We found that all parties are acting in general accordance with the U-Pass Transit Agreements and further, that there is a high level of cooperation and communication between the various stakeholders. The net annual financial impact of the U-Pass program on ETS operations is an estimated loss between \$5.9 and \$6.6 million dollars, depending on how costs of the program are viewed. However, the program does yield non-financial benefits that, although harder to measure precisely, are nonetheless an important consideration.

Based on our observations we have made four recommendations to enhance the processes and controls of the U-Pass program.

The OCA thanks ETS Business Development and the staff at the University of Alberta and Grant MacEwan Students' Association for their assistance with this review.