

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE: April 13, 2010

SUBJECT: INTERNAL AUDIT CAPITAL REPORT – 20 YEAR SRT CAR
OVERHAUL

INFORMATION ITEM

RECOMMENDATION

At the January 22, 2010 meeting, the Audit Committee approved a motion by Chair Giambrone that all audit reports include Management Responses. It is recommended that the audit Committee receive for information the attached Management Responses to the Internal Audit Capital Report - 20 Year SRT Car Overhaul.

BACKGROUND

Internal Audit provides the Commission with independent evaluations of the efficiency and effectiveness of control systems, and operations. Internal Audit is also required to provide recommendations for improvement.

Richard G. Beecroft
Chief Auditor

April 13, 2010
01-23

Attachment – Internal Audit Capital Report
Management Responses

TORONTO TRANSIT COMMISSION

TO Dick Beecroft

FROM Christine Leach

DATE August 11, 2009

SUBJECT Internal Audit – 20yr SRT Car Overhaul

Summary

An audit of the 20yr SRT Car Overhaul capital project has been conducted. Audit work performed indicates adequate documentation supporting recorded labour and non-labour costs for this completed project has been maintained. However, internal labour costs incurred for the overhaul of SRT axles were not charged to the project. Management estimates the operational costs associated with this capital work were approximately \$214,800 including fringe and overhead amounts. These costs should be capitalized and charged to the project.

Background

To ensure that the existing SRT vehicle fleet is maintained in a state of good repair, comprehensive overhaul maintenance programs are scheduled at mid-life and at 20 years until their retirement. These programs incorporate work recommended by manufacturers and work found necessary by service experience. The 20yr SRT Car Overhaul capital project was approved as part of this program, and included the overhaul of 28 cars. Work commenced in 2005 and finished in early 2009. The total actual costs for this project as at the end of June 2009 was \$8.3M, comprised of the following:

Expenditures:	(\$ Million)
TTC Labour, Fringes and Overhead	2.6
TTC Non-Labour	5.7
Total	8.3

Audit Observations

Audit staff reviewed budget documentation, financial records and correspondence relating to the 20yr SRT Car Overhaul capital project. While costs allocated to this project were found to be reasonably supported and documented, operational labour costs relating to the overhaul of SRT axles, incorrectly captured under operational job #79765, were not capitalized and charged to the project.

Project Management staff agreed with Audit that labour costs for major axle overhaul work should have been captured separately and charged to the project, and based on a review of employee time cards, estimated the cost to be approximately \$214,800, including fringe and overheads.

Acceptable items noted by Audit included the following:

- Greenwood Operations staff was responsible for managing and performing the majority of the work for this capital project. Per discussions with McCowan Carhouse staff, work performed by Greenwood workers was satisfactory and no issues or concerns remain outstanding.
- TTC labour, fringe and overhead costs accounted for approximately 31% of the total recorded project costs. Labour charges were properly supported by signed time cards and incurred by appropriate cost centres.
- Direct purchases charged to the project and sampled by Audit included items and services procured from Bombardier, Hansler Smith, Futuretek, Automatic Coating and H&E Plating Ltd. Generally, adequate contract administration controls were in place to ensure adherence to all terms and conditions of applicable vendor agreements.
- Charges from inventory to the project were properly accounted for and reasonable. Satisfactory explanations for year-end adjustments were provided.
- No mileage claims were charged to this project, and only minimal purchasing card transactions were noted.

Recommendation

Management should ensure all costs associated with the performance of major overhaul work are tracked and charged to applicable capital projects.

TORONTO TRANSIT COMMISSION

TO Joe Kennelly
FROM Mario Guerra
DATE February 3, 2010
SUBJECT Internal Audit – 20yr SRT Car Overhaul

Internal Audit correspondence dated August 11, 2009 indicated that capitalizable costs totalling approximately \$214,800.00 had been charged against the Rail Cars and Shops Department's Operating budget. This memo serves as confirmation that these costs have since been transferred to the SRT Overhaul Project.

We now consider this matter closed.

Please contact Sandra Lacktin at 3131 if you require additional information.

General Superintendent
Rail Cars & Shops Department

6-79

Attachments:

Copy: R. Cornacchia
D. Dixon
D. Presley
M. Roche