TTC AUDIT COMMITTEE
REPORT NO.

MEETING DATE: October 26, 2012

SUBJECT: FINAL REPORT – TTC EMPLOYEES OVERTIME AND RELATED EXPENSES – CONTINUOUS CONTROLS MONITORING

ACTION ITEM

RECOMMENDATION

It is recommended that the TTC Audit Committee:

(1) Receive for information the attached report from the Auditor General's Office, City of Toronto, on the update status of the TTC Employees Overtime and Related Expenses – Continuous Controls Monitoring; and

(2) Forward the report to a regular meeting of the Commission for information and then to the City Audit Committee.

BACKGROUND

The Auditor General advised the TTC Audit Committee at the April 30, 2012 meeting that the development of an ongoing process to identify unusual levels of employee overtime had been initiated at the City. The Auditor General further advised that a similar process was being undertaken at the TTC. In this context, the TTC Audit Committee requested the Auditor General to provide a status update on the overtime project to the next TTC Audit Committee meeting.

The project, known as continuous controls monitoring, includes an ongoing review and analysis of employee overtime as well as other employee related expenses.

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October 26, 2012
Attachment
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Toronto Transit Commission, Employees Overtime and Related Expenses – Continuous Controls Monitoring

Date:	September 12, 2012
To:	TTC Audit Committee
From:	Jeff Griffiths, Auditor General
Wards:	All
Reference Number:	

SUMMARY

In 2011, the Auditor General initiated a project known as "continuous controls monitoring" at the City. In general terms, the purpose of the project is to identify and isolate unusual, specific transactions throughout the City (such as excessive overtime in payroll) and forward this information to management for further review and analysis. The transactions are extracted from the financial information system using specialized audit software. Transactions initially selected for continuous controls monitoring at the City included employee overtime, mileage reimbursements, meal allowance and standby pay.

The benefits of continuous controls monitoring is the ability to:

- Monitor every transaction throughout the organization
- Automate routine audit testing
- Detect anomalies that may trace fraud, abuse or errors
- Identify areas where internal controls are inadequate or need to be improved

At its meeting of April 30, 2012, the Auditor General advised the TTC Audit Committee that a similar process was being undertaken at the TTC. At the request of the TTC Audit Committee, a status report on the project was provided at the Committee's July 26, 2012 meeting.

This current report provides the result of our analysis of TTC payroll for the 6 months ended June 30, 2012 and the 12 months ended December 31, 2011. Exception reports relating to employees' payroll related expenses were provided to TTC management in July 2012. The TTC Chief Executive Officer was requested to review the extent of

overtime and other payroll related expenses and determine whether or not there were opportunities to reduce these expenditures and to ensure that appropriate controls are in place to manage these expenditures.

We have reviewed information provided by management in response to the documentation provided by the Auditor General's Office. In all cases, management indicated that the levels of overtime were appropriately approved and operationally required. In a number of cases however, it was indicated that overtime amounts would not recur in the future.

Continuous controls monitoring has led to an increased focus on the management of overtime. The Chief Executive Officer has indicated to us that "This issue is a priority area for me as Chief Executive Officer and it is a standing agenda item on the recently introduced monthly Performance Executive Meeting".

RECOMMENDATIONS

The Auditor General recommends that:

1. The TTC Audit Committee receive this report for information; and

2. Forward the report to the City of Toronto's Audit Committee.

Financial Impact

There are potential savings as a result of continuous controls monitoring. The extent of the savings cannot be quantified at this time.

Since the implementation of continuous controls monitoring of employee overtime at the City, overtime costs have decreased from $45 million in 2010 to $41 million in 2011 and employee mileage reimbursements have decreased by $300,000 in 2011 as compared to 2010.

DECISION HISTORY

The TTC Audit Committee at its meeting of April 30, 2012 directed TTC staff to work with the Auditor General on the overtime monitoring and approval process and requested the Auditor General to report back at its next meeting. The meeting documents are available at:
http://www.ttc.ca/About_the_TTC/Audit_Committees/Audit_Committee_Meetings/2012/July_26/Minutes/Minutes_April_30.jsp

COMMENTS

The use of continuous controls monitoring was initiated at the City in early 2011 with the intent to expand the process to City Agencies and Corporations. The TTC was selected as the first entity to be subject to the continuous control monitoring process.

TTC payroll information for the 6 months ended June 30, 2012 and the 12 months ended December 31, 2011 was analyzed within certain criteria and results provided to TTC management. The exception criteria established for these reports was similar to those initially used for the City:

- Staff with unscheduled overtime exceeding 50 per cent of base pay
- Staff with standby pay greater than $7,500 annually
- Kilometrage – Over 10,000 kilometers in annual claims
- Meal allowance reimbursement - over $1,000 in a calendar year

This criteria may be amended in the future. The exception reports generated by the audit software were provided to TTC management. These reports included the individual's annual salary, the extent of overtime, standby pay, mileage claims and meal allowances earned during the reporting period.

The following table is a high level summary of the relevant information for the TTC's more than 13,000 staff for 2012 and 2011 (exception criteria are prorated for the June 30, 2012 data):

	For the six months ended June 30, 2012	For the twelve months ended December 31, 2011
Annual Payroll	$470 million	$853 million
Total Overtime*	$34 million	$72 million
Number of Staff with Unscheduled Overtime in excess of 50% of Base Salary	92	143
Total Standby Pay	$378,000	$743,000
Number of Staff who earned in excess of $7,500 Annual Standby Pay	22	20
Number of Staff who claimed over 10,000 km of mileage in Annual Claims	7	5
Number of Staff who claimed in excess of $1,000 in Annual Meal Allowance	3	7

includes $4.6 million in 2012 and $7.8 million in 2011 as scheduled overtime

A summary of overtime statistics by department is attached as Appendix 1.

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Continuous controls monitoring has led to an increased focus on the management of overtime. The Chief Executive Officer has indicated to us that "This issue is a priority area for me as Chief Executive Officer and it is a standing agenda item on the recently introduced monthly Performance Executive Meeting".

As part of the continuous controls monitoring process, the exception reports will be generated quarterly and distributed to TTC management. The intent is that our Office will coordinate the initial reviews with responsibility for the process being transferred to TTC management staff at an appropriate time.

CONCLUSION

The use of continuous controls monitoring of staff overtime and related expenses will assist TTC management in improving internal controls over these expenses and potentially generate savings through enhanced management controls and changes in processes.

CONTACT

Jerry Shaubel, Director, Auditor General's Office
Tel: 416-392-8462, Fax: 416-392-3754, E-mail: JShaubel@toronto.ca

Syed Ali, Senior Audit Manager, Auditor General's Office
Tel: 416-392-8438, Fax: 416-392-3754, E-mail: sali4@toronto.ca

SIGNATURE

Jeff Griffiths, Auditor General

12-TTC-01

ATTACHMENTS

Appendix 1:   Overtime Statistics by Departments – 2012 (six months) and 2011

Overtime Statistics by Departments – 2012 (six months)

Department	Total Pay($)	Total Overtime* ($)	Total Employees	Total Employees OT > 50% of Base Pay ($)	Overtime as Percent of Base Pay Range (%)	Number of Employees with OT > 50% of Base Pay
Bus Transportation	$161,345,702	$11,468,821	4,785	802,210	51 - 119	38
Rail Transportation	69,899,658	8,977,539	2,047	662,610	51 - 85	29
Plant Maintenance	78,513,450	7,038,589	2,192	452,600	50 - 82	20
Rail Cars and Shops	61,433,509	3,331,244	1,655	134,335	51 - 105	5
Bus Maintenance	33,509,993	925,229	891	-	-	-
Information Technology	9,602,476	405,049	207	-	-	-
Rail Infrastructure	13,005,629	401,621	278	-	-	-
Materials and Procurement	8,805,349	260,683	237	-	-	-
Training and Development	5,875,491	239,448	132	-	-	-
Other Departments	27,707,275	831,504	678	-	-	-
	$469,698,532	$33,879,727	13,102	2,051,755		92

Overtime Statistics by Departments – 2011

Department	Total Pay ($)	Total Overtime* ($)	Total Employees	Total Employees OT > 50% of Base Pay ($)	Overtime as Percent of Base Pay Range (%)	Employees with OT > 50% of Base Pay
Bus Transportation	$291,424,110	$25,032,406	4,711	2,418,737	51 - 107	60
Rail Transportation	125,366,415	19,501,904	1,978	2,830,504	50 - 130	64
Plant Maintenance	138,640,374	13,521,100	2,044	479,730	50 - 76	12
Rail Cars and Shops	112,227,645	6,296,402	1,620	192,650	63 - 106	4
Bus Maintenance	61,541,178	2,356,804	876	28,860	53	1
Information Technology	18,303,487	1,150,200	208	-	-	-
Rail Infrastructure	25,789,247	908,416	294	-	-	-
Materials and Procurement	15,360,929	820,725	214	-	-	-
Training and Development	10,522,250	541,796	126	-	-	-
Other Departments	53,916,437	1,413,382	687	62,339	51 - 63	2
	$853,092,072	$71,543,135	12,758	6,012,820		143

includes $4.6 million in 2012 and $7.8 million in 2011 as scheduled overtime