

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE: July 29, 2014

SUBJECT: TTC AUDIT REPORT – PAYROLL EXCEPTION REPORTING –
OPERATOR OVERTIME

INFORMATION ITEM:

RECOMMENDATION

It is recommended that the TTC Audit Committee receive for information the attached TTC Audit Report.

01-27



TORONTO TRANSIT COMMISSION

AUDIT OF PAYROLL EXCEPTION REPORTING – OPERATOR OVERTIME

OPERATIONS and SERVICE DELIVERY GROUPS SUBWAY TRANSPORTATION BUS TRANSPORTATION, STREETCAR TRANSPORTATION

Covering Period:
January to December 2013

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EXECUTIVE SUMMARY

This audit focused on the controls and processes for managing bus, streetcar and subway Operator overtime hours incurred within the Operations and Service Delivery Groups. An exit meeting to discuss the findings was held on February 21, 2014 with the Chief Operating Officer and Acting Chief Service Officer.

The audit was initiated to examine the TTC's management of overtime hours as a result of the Auditor General's continuous controls monitoring program and issued reports to TTC management. The audit focused on the controls in place for the overall management of overtime, in addition to significant areas where overtime is used, such as for "late-in" time, open crews to support service levels during absence or emergency response requirements, and unscheduled extra service requirements.

While efforts have been undertaken to manage and control the occurrence of overtime, the audit notes that further improvement can be made, especially in need to obtain the necessary tools and techniques to improve the accuracy and completeness of the information used for the budgeting, costing, planning and controlling of overtime costs.

The main audit recommendations include following a project management approach to effectively monitor overtime, meaningful performance measures with strategies to reduce operator "late-in" time, utilization of payroll data to provide detailed overtime information by cost center or activity, and standardization of budget assumptions and methodology.

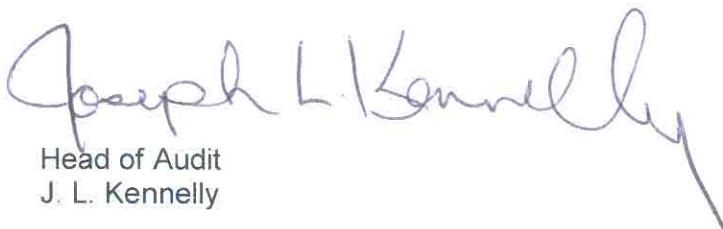
There was agreement on the audit findings and recommendations. Actions are underway to address identified issues, including initiatives to assist Operations and Service Delivery management predict and manage overtime requirements, such as, improved cost information by replacing the current costing systems with new payroll data usage processes and reports.

Audit wishes to express our thanks for the cooperation and assistance provided to us by all staff from the Operations and Service Delivery Groups, as well as the TTC Finance Department staff during this audit.

Conclusion

In our opinion, management continues to strive to manage overtime costs, and has been reviewing and responding to the Auditor General's continuous controls monitoring program reports. Audit does recognize that emergency and other unforeseen events may arise significantly impacting on the need for overtime, either to maintain safety for TTC customers and employees or to provide an acceptable level of service as expected the public.

Management's responses to this report will be followed up in subsequent audit reviews.



Head of Audit
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BACKGROUND

The City of Toronto's Auditor General's Office (AGO) initiated a continuous monitoring program of TTC employees' overtime and related expenses and issued their first report in 2012. Using TTC payroll data, the objective of the program is to assist TTC management by providing exception reports showing the departments which incur high levels of overtime, mileage and meal allowance expenses paid to TTC employees.

The AGO reports request TTC management to respond indicating whether the expenses have been approved and the need justified, and whether management expects that the need for the expense will continue. For 2012 and 2013, the AGO reports indicate that total overtime incurred amounted to \$66.5 million in 2012 and \$77.5 million in 2013, with the majority of overtime incurred by the bus, streetcar and subway transportation departments.

Given the significance of overtime expenditures, the TTC Audit Department identified in the 2013 Audit Work Plan a review of the Operators' payroll exception reporting processes and controls for the budgeting, reporting and monitoring of overtime.

AUDIT SCOPE AND OBJECTIVE

Scope: The audit focused on Operator overtime controls and processes within the Operations and Service Delivery Groups. The audit covered the period from January to December 2013.

The decision-making processes and assumptions exercised by the Strategic and Service Planning Department, and the Workforce Administration Control sections within the Operations and Service Delivery Groups are not included in the scope of this audit.

Objective: The objective of the audit was to assess the adequacy of controls and integrity of the information for monitoring and processing Operator payroll overtime.

AUDIT METHODOLOGY

The composition of the 2013 Operator Overtime budget (see Appendix B) was analyzed to identify the highest dollar categories of overtime incurred, e.g., "late-ins (23% - \$4.7 million), open crews (49% - \$10.0 million) and unscheduled extras (9% - \$1.9 million).

Attendance records for a sample of high earner Operators identified by the AGO were reviewed.

Discussions with subway, bus and streetcar management and site visits to a sample of divisions were conducted.

Discussions were held with the TTC Finance Department and AGO staff.

TTC departmental account classifications of overtime were reviewed for accuracy of account classification.

AUDITED ITEMS FOUND ACCEPTABLE

KEY CONTROL	FINDING
AGO Report – High Overtime Earners	<p>Audit selected a sample of 13 of the 35 operators included in the 2012 year-end high earners list and reviewed their attendance history as per the TTC's Absence Management System. Few absences were noted for these Operators.</p> <p>Divisional Management's role in monitoring overtime is to ensure Operators do not exceed the specified Employment Standards Act (ESA) limit of 70 hours per week, and have sufficient rest time between crew periods.</p> <p>Controls are in place at each division to ensure adherence to the ESA requirement.</p>

ANALYSIS AND RECOMMENDATIONS

FINDING #1

OVERTIME MANAGEMENT

OBJECTIVE: To ensure that there are adequate processes and controls in place to effectively and economically manage TTC overtime expenditures.

ANALYSIS: The AGO continuous monitoring reports focus on TTC's overtime costs. TTC management reviews the reports noting that the overtime has been properly approved, justified and whether there is an expected need for continuing the overtime.

The TTC Finance Department payroll staff assisted the AGO to identify and group selected payroll codes considered by the AGO to result in an overtime expenditure.

Audit noted that there are differences in overtime definitions between the AGO and TTC. The TTC does not classify stand-by pay, scheduled or planned overtime, and accrued lieu time as overtime, but these costs are included in the total overtime amount on the AGO reports.

For example, since the scheduling of exact 8-hour shifts is not possible for some service routes, the TTC Strategic and Service Planning Department plans certain operator crew shifts where platform (driving) time is greater than 8 hours. These crews are paid a premium that is budgeted and paid in accordance with the Collective Agreement. The cost associated with the extra platform work is reported by TTC as scheduled or planned overtime.

Management is developing new measures relating to passenger capacity and travel trip time to improve operator overtime analysis. However, the lack of dedicated resources and data extraction tools to perform data analysis limits management information reporting.

RECOMMENDATIONS: Management should:

- evaluate the costs and benefits of adopting a project management approach to identifying and overseeing overtime reduction strategies
- establish clear accountability and authority for addressing departmental overtime issues, and develop meaningful performance monitoring measures

MANAGEMENT RESPONSE AND ACTION PLAN

Recommendation – Management should evaluate the costs and benefits of adopting a project management approach to identifying and overseeing overtime reduction strategies.

Response: Agreed

Action Plan:

The majority of overtime (60%) in the 2014 Subway Transportation Operating Budget relates to Operator “Late-in” time which is the subject of Finding #2 and will be addressed in that section of the report. The remaining 2014 Operating overtime budget relates to Operator Open Crews (9%), Unscheduled Extras (6%) and Subway Train/Line Management (25%). The process of budgeting and monitoring overtime in these categories is well established and introducing a project management approach to manage these items would not be considered cost effective given the mainly unplanned nature of the requirements.

In Bus Transportation and Streetcar Transportation the breakdown of Operator overtime is somewhat different than Subway. “Late-in” time accounts for only 16% of the total while filling Open Crews accounts for 38.5% and the effect of Extras (Capital and Operating) accounts for 45.5%. As in Subway, the process for budgeting and monitoring overtime in these categories is well established. Open Crews are caused mainly by absenteeism which is managed through the Attendance Management process. The majority of the Extras are due to construction projects which are managed with a project management approach and for the most part the alternate service is scheduled by the Strategic and Service Planning Department or the Manager – Special Events. While not specifically incurred on these scheduled crews, overtime is incurred elsewhere because the workforce is not specifically budgeted for seasonal construction projects.

Timeline for Action: Closed

Recommendation – Establish clear accountability and authority for addressing departmental overtime issues, and develop meaningful performance monitoring measures.

Response: Agreed

Action plan:

Operations management recognizes that improvements to data collection and reporting of overtime are required and has embarked on the following initiatives to help predict and manage overtime requirements:

- COO (Chief Operating Officer) Overtime Report will track year-to-date and year-end projections with variance reasons and action required – pilot report was started in late 2013 and will be implemented in 2014.
- Replace System 33 with use of Payroll Time Codes to provide more accurate and granular Operator cost data – Process went live in January 2014 for the Operator payroll and work will commence in 2014 to phase in other Transportation payrolls.

- Subway Operator Workforce Utilization Tracking Tool provides a daily recap of Open Crews, Absence Statistics, Spareboard Utilization, Volunteers, Late-Ins and Cancellations. A high-level version of this tool was used in 2013 and was helpful in the determination of the Spareboard during the 2014 Budget Process. Refinements based on Divisional Management feedback have been made for 2014 and work to convert the process to a database is planned to be completed by the 3rd quarter of 2014 to enhance data analysis.

Service Delivery management recognizes that improvements to data collection and reporting of overtime are required and has embarked on the following initiatives to help predict and manage overtime requirements:

- Replace System 33 with use of Payroll Time Codes to provide more accurate and granular Operator cost data – Process went live in January 2014 for the Operator payroll and work will commence in 2014 to phase in other Transportation payrolls.
- A new IT Project has been initiated whose purpose is to replace the largely manual reporting of Operator activity with a more automated process that will facilitate workforce utilization tracking similar to that implemented in Subway.

Timeline for Action: End of 2015

FINDING #2

“LATE-IN” TIME

OBJECTIVE: To ensure that there are adequate processes and controls in place to budget, accurately report and economically manage operator “late-in” time.

ANALYSIS: All crews issued by the Strategic and Service Planning Department have scheduled finish times. While efforts are made to minimize overtime, there are factors beyond management’s control that increase the likelihood overtime will be incurred to meet service levels, e.g., traffic congestion, weather incidents, construction projects, and accidents. These events may cause operators to finish their crew or assigned piece of work later than scheduled. This extra worked time is called “late-in” time.

In accordance with the Collective Agreement, operators are paid double time for all cumulative “late-in” time when a minimum daily threshold is exceeded, i.e., 10 minutes for bus and streetcar operators, and 5 minutes for subway operators. The total 2013 budget for “late-ins” of \$4.66 million is comprised of \$2.33 million the TTC has to pay as direct platform driving time, and \$2.33 million “late-in” premium paid that is equal to the basic rate. The tables in Appendix C highlight the trend and break-down of the increasing number of hours being paid for “late-in” time.

Operators verbally report scheduled and actual arrival time to Wicket Clerks. The Wicket Clerks manually record the information either by completing a Statement of Late-In form or making an entry into an electronic spreadsheet. The completed Statements are submitted to Payroll the next day for processing.

The daily “late-in” forms are reviewed to identify and investigate unusual outliers, and efforts may be made to conduct spot audits, if necessary. However, the lack of an efficient information reporting system for use by divisional management increases the risk of inaccurate and incomplete reporting of “late-in” time.

A review of a sample of 50 instances of reported “late-in” time from five divisions across all modes of transportation was performed. Taking into account reasonable amounts of time for operators to physically travel from parked vehicles to the Wicket Clerks and report in, Audit noted:

- nine instances where the “late-in” time reported appeared excessive and could not be explained by divisional supervisors
- two instances where the Wicket Clerk reported the “late-in” time to be higher than reported by the operator, e.g., in one case, to compensate an operator for an amount that should have been

classified and paid as travel time; and another due to a mathematical rounding or calculation error

- one instance of under-reporting of “late-in” time due to issues surrounding the actual location and time at which an operator was relieved

Of the remainder, explanations provided included “late-in” due to waiting in a long wicket line, or to remove a faulty fare-box. Payroll records agreed to the reported “late-in” time for 11 of the 12 instances noted above.

Progress has been made with respect to Operations and Service Delivery Group management providing data to the Strategic and Service Planning Department for consideration in making Board Period crew revisions. For example, Bus Operation Route Assessment Teams provide feedback on adherence to bus schedules and headway, short turns and out of service information.

With respect to Subway Transportation, service schedules represent “best case scenarios” and do not take into account work zone speed reductions, customer related delays, and the cumulative impact of incidents that cause delays of less than 3 minutes. Management currently employs “step back” and “change over” strategies during rush and non-rush hours, respectively to “catch up” to schedule.

RECOMMENDATIONS:

Management should:

- evaluate the costs and benefits of implementing effective preventive and detective controls to minimize operator “late-in” time
- in consultation with the Strategic and Service Planning Department, identify all significant variables impacting on “late-in” time and evaluate the options for reducing overtime

MANAGEMENT RESPONSE AND ACTION PLAN

Recommendation – Management should evaluate the costs and benefits of implementing effective preventive and detective controls to minimize operator “late-in” time.

Response: Agreed

Action plan:

The current level of “late-in” time by Subway Operators can be sufficiently monitored with random spot checks performed by Route Supervisors. Similarly in Bus and Streetcar Transportation, “late-in” time is addressed by the Supervisors and Clerks observing/reporting “late-in” occurrence patterns. Any other control mechanisms would not be cost beneficial from a development, implementation and maintenance perspective. It should be noted that Service Delivery Group is

working with IT services to evaluate options related to the GPS (Global Positioning System) on surface vehicles to validate the “return to base” time.

Subway Divisions are already conducting ad-hoc spot checks on an intermittent basis at Hostler run in and crewing locations. Subway Transportation will be implementing a structured audit plan, which will cross reference “late-in” claims for each time period of each day of the week at least once per quarter, using a combination of real-time cross references at crewing and run-in locations and by cross referencing CSS recorded train location data. Subway Transportation is currently identifying whether additional resources are required to achieve this goal without impacting other activities or whether additional whole or fractional supervisory headcount may be required to achieve the goal of auditing all “late in” claims on each day of the week once per quarter.

Timeline for Action: Continue ad-hoc; formalized plan by 5/16/2014 (including identification of additional resource); full implementation of quarterly cycle formalized plan by start of 3rd quarter, 2014; and, implementation of additional headcount. if required by 2015 budget.

Recommendation – Management should, in consultation with the Strategic and Service Planning Department, identify all significant variables impacting on “late-in” time and evaluate the options for reducing overtime.

Response: Agreed

Action plan:

Subway Operations management is in the process of identifying the structural deficit in running time with current legal and safe operating speeds and with average dwell times unaffected by delays or state of good repair activities, which slow trains from their legal and safe maximums. Concurrently, Subway Operations management is in the process of identifying on-going average exposures to incidents and SOGR (State of Good Repair) activities that impede trains from operating at the safe and legal operating speeds, so that the Strategic and Service Planning Department can use realistic end-to-end operating times for schedule design.

Subway Operations Management acknowledge that any increase in scheduled running time will have, as a consequence, the requirement to add trains and crews to both the BD and YUS subway routes; once these costs are known, they can be balanced against the on-going costs of “late-in” time and the impact of our current inability to achieve scheduled capacity.

Subway Operations management are also in the process of identifying operational and crewing strategies, which will allow dynamic adjustments to be made to crew positions to achieve a reduction in “late-in” time or which will allow a buffer for known levels of delay standard deviation against “late-in”. These strategies will include more efficient methods of crew-changeover (using additional workforce or additional volunteer hours at time and one-half), more efficient train turnbacks by applying crew “step-backs” (using additional workforce at flat rate) and by the intelligent application of short-turn strategies to offset structural bottlenecks to end-of-line turnbacks when trains are running in to the yards at the end of peak periods (i.e., Wilson, Davisville, Greenwood). All of these strategies have costs, which must be quantified against “late-in” time; the cost benefit

analysis must also take into consideration the impact of these strategies on improving delivered capacity, which is not currently being measured as a corporate KPI (Key Performance Indicator).

Timeline for Action:

Actions to identify strategies and reduce incident, SOGR and remedial maintenance effects on train speed.	Ongoing
Interim application of strategies identified with the potential to reduce "late-in" time including: Changeover crews at premium 1.5 rate; turnback of trains to offset yard re-entry bottleneck.	May 4, 2014
Identification of average delay exposure due to incidents by timeframe.	May 15, 2014
Identification of average delay exposure due to SOGR activities (e.g., reduced speed zones, inspections, work zones, emergency repairs).	May 15, 2014
Identification of structural deficit in running time.	May 30, 2014
Analysis on running time deltas and optimal buffer levels of crewing allowance.	June 12, 2014
Presentation and discussion of additional running time required due to structural deficit, impact of delay incidents and impact of SOGR activities requiring reduced train speeds.	June 13, 2014
Strategic and Service Planning Department analysis of and implementation of schedule and crew guide modifications.	July 6, 2014
Earliest implementation date of modified schedules requiring additional running time, additional trains and modified crewing. Note: requires Service approval date of July 7, 2014 allowing analysis of 3 weeks.	October 12, 2014

FINDING #3

OPEN CREWS

OBJECTIVE: To ensure that there are adequate processes and controls in place to budget and economically manage operator open crews.

ANALYSIS: The Strategic and Service Planning Department plans the total platform driving hours to be delivered per board period for each transportation division, and the crew schedules that each operator signs-up for, in accordance with seniority rules.

The Workforce Administration staff within the Operations and Service Delivery Groups calculates the probable number of open crews to be covered by Spareboards versus "volunteer" overtime per board period. Open crews are split into two sub-categories for budgeting purposes:

- **Open crews – absence:** This refers to open work that arises when a scheduled operator is absent due to a self-initiated reason, e.g., sick, emergency or demand leave; approximately \$6.7 million was budgeted for 2013.
- **Open crews – moved at division's request:** This refers to open work that arises when a scheduled operator is absent for a management-initiated reason, and involves non-driving activities, e.g., attendance at training and safety meetings, or to perform divisional duties; approximately \$3.3 million was budgeted for 2013.

Open crews are assigned by the divisional Slip Clerk in accordance with the Collective Agreement to either a Spareboard Report Person paid at a regular base rate, or to an operator who agrees or "volunteers" to work the extra hours at time-and-a-half. A Spareboard Report Person is assigned to work at a specific time as detailed open work becomes available. If the open work cannot be filled with a Spareboard Report Person, efforts will be made to schedule a "volunteer", but only when their participation is considered necessary.

The historical assumption is that 25% of open crews are to be covered by overtime. When actual absence or emergency response requirements are higher than planned, the need to incur additional overtime or cancel service increases.

Efforts to simplify the Subway Operator budget calculations have been made. The Subway Operator headcount is to be increased so open crews will be covered almost entirely by Spareboard Report Persons. Although the intent is to reduce subway operator overtime expenses as Report Persons are paid at regular rates,

regular payroll expense will increase as a result of hiring additional operators.

Audit also noted the following differences between budget preparation methodology and assumptions used for the 2014 budget cycle:

- bus and streetcar projected amounts are based on November 2012 data, but subway calculations are based on March 2013 data
- subway overtime projections reflect both operational and capital project related hours, while bus and streetcar overtime projections exclude capital project related estimates

Bus divisions tend to be impacted more by capital projects as shuttle buses are used to replace subways or streetcars. Shuttle buses result in operator overtime and the costs are transferred to the capital project accounts.

Operational overtime budgets and tracking of costs are calculated using the Job Based Costing System (JBCS System 33). However, budgets are not established at a level that is task or department specific which limits the ability to monitor actual project costs against a budget standard.

Actual payroll hours and costs cannot be readily reconciled to JBCS information because of the lagged timing in processing of supplementary payment adjustments. In 2014 the use of JBCS System 33 for budgeting and tracking purposes will be eliminated; instead, payroll data will be charged directly to the General Ledger in order to provide more informative reports to monitor overtime expenses.

RECOMMENDATIONS: Management should:

- monitor and evaluate the post-implementation of new payroll data usage processes and reports to ensure improved overtime report information
- conduct refresher training and skills development for staff to ensure accurate and complete review and analyses of overtime data
- review the differences in budgeting methodologies and assumptions applied for each transportation mode, and develop a standardized approach

MANAGEMENT RESPONSE AND ACTION PLAN

Recommendation – Management should monitor and evaluate the post-implementation of new payroll data usage processes and reports to ensure improved report information.

Response: Agreed

Action plan:

Operations and Service Delivery Control departments are co-sponsors and participants in the initiative to replace System 33. One of the main drivers for moving away from System 33 was that System 33 did not reconcile to the payroll due to the lack of distribution of weekly supplementary adjustments to job numbers. Not only was there a reconciliation problem but monitoring expenses and other factors versus budgeted amounts was extremely difficult due to the erroneous data. It is difficult to determine exactly how many supplementary adjustments are overtime related but it is fair to say it is a significant portion of the adjustments.

To move away from System 33, the TTC Finance Department – Payroll has developed a process to provide a direct feed of dollars to the General Ledger and also provide a “data dump” of both hours and dollars by time code to a Database Application. This database should provide the Operations and Service Delivery areas access to fully reconciled operator expense data at a much more granular level than previously available through System 33.

The new process and systems will be implemented in early 2014. In an attempt to capture accurate and objective information at source, new time codes were requested to improve the tracking of overtime expenses (including open crews) at a more granular level than previously existed. While capturing some overtime at the time code level is relatively simple, capturing overtime related to open crews, special events, capital projects and emergencies is a little more complex and discussions are taking place with the Payroll staff to explore ways to differentiate overtime data. From an open crew perspective, the manual process currently used by Subway Transportation will continue to be used to monitor how many open crews are performed on overtime for budget and workforce forecasting purposes until a more automated alternative can be implemented using payroll data.

Timeline for Action: Evaluation should be completed by third Quarter of 2014

Recommendation – Management should conduct refresher training and skills development for staff to ensure accurate and complete review and analyses of overtime data.

Response: Agreed

Action plan:

The former Operations Branch had only one position responsible for all Transit Operations budgeting. That was a recognized risk and with the split of Operations into two groups, Operation Control allocated an existing resource to prepare, monitor and report the budget on behalf of Subway Transportation in order to increase the knowledge base for Transit Operations budgeting/reporting and put more focus on Subway Operator workforce planning. The transfer of Transit Operations budgeting methodology and knowledge to the new incumbent did not go as smoothly as originally desired due to the heavy workload by both Operations and Service Delivery Control areas to recast and set up monitoring reporting tools for the 2013 Budget. Therefore,

management acknowledges the finding and will work to document the budget processes by the end of 2014 so that future new incumbents do not face similar challenges or steep learning curves.

Timeline for Action: End of 2014

Recommendation – Management should review the differences in budgeting methodologies and assumptions applied for each transportation mode, and develop a standardized approach.

Response: Agreed

Action plan:

Operations Control and Service Delivery Control met in late 2013 to discuss the methodologies used in the development of the 2014 Operator Budgets. While both areas simplified their processes there are some differences in methodology that need further discussion. Further discussion and review will be done before the 2015 Budget Cycle to determine which methods make sense to standardize. While standardization is preferable, management does not agree that all modes need to be budgeted and managed in a standardized method if it adversely affects delivery of service to our customers. Given the volume of customers and businesses affected by the cancellation of subway trains compared to either buses or streetcars, a different model was developed to budget for the 2014 subway operator staffing levels.

In 2013, there were many instances when subway overtime volunteers were in short supply and this lead to a significant number of cancellations. The 2014 budgeting model was designed to rely less on overtime volunteers by increasing staffing levels. Management will monitor daily and weekly data to determine if the model needs adjustment before proceeding with the 2015 Budget Process.

Timeline for Action: Third quarter of 2014

FINDING #4

UNSCHEDULED EXTRAS

OBJECTIVE: To ensure that there are adequate processes and controls in place to budget and economically manage operator unscheduled extras.

ANALYSIS: Unscheduled extras are used when additional service is required to replace or supplement regular service, often in response to emergency situations (e.g., weather related), special events, and subway closures due to construction projects or infrastructure repairs. While certain events and closures may be anticipated ahead of time, they do not typically span an entire Board Period or lend themselves to exact planning. See Audit's trend analysis of unscheduled extras by transportation mode in Appendix D.

Special sign-ups to support unscheduled extra service requirements are created in accordance with the Collective Agreement and Strategic and Service Planning Department processes. The costs associated with board sign-ups limits the opportunity to effectively adjust crews in response to expected construction, required temporary changes to routes, and unscheduled extra events.

Divisional management focus on responding and meeting extra service requirement demands by following standard slip administration processes and ensuring compliance with ESA standards. Although daily information is gathered and submitted for payroll purposes, Audit found no evidence that detailed cost data for identifiable events or emergencies is obtained to measure the budget impact. However, efforts have been made to estimate and monitor costs associated with subway closures.

RECOMMENDATION: Management should consider developing costing models and tools for ensuring that accurate and complete data is gathered to evaluate the impact of emergencies and the delivery of additional services for special events and activities.

MANAGEMENT RESPONSE AND ACTION PLAN

Response: Agreed

Action plan:

The current budgeting methodology for unscheduled extras is to take a 3-year average of costs captured in this category. In years where the 3-year historical data included significant events, adjustment would be made to remove those significant events, i.e., the Papal Visit, SARS Concert). The response provided above in Finding #3 under the heading of "new payroll data"

indicates that a new system for capturing operator expenses should improve the completeness and accuracy of data for evaluation and reporting of many activities including special events and emergencies.

Timeline for Action: Evaluation should be completed by third Quarter of 2014

Summary of Recommendations, Management Responses and Action Plans

Finding #	Recommendation	Agree	Disagree	Management Responses	Completion Date
1 a)	<i>Management should evaluate the costs and benefits of adopting a project management approach to identifying and overseeing overtime reduction strategies.</i>	Yes		<p>The majority of overtime (60%) in the 2014 Subway Transportation Operating Budget relates to Operator "Late-in" Time which is the subject of Finding #2 below and will be addressed in that section of the report. The remaining 2014 Operating overtime budget relates to Operator Open Crews (9%), Unscheduled Extras (6%) and Subway Train/Line Management (25%). The process of budgeting and monitoring overtime in these categories is well established and introducing a project management approach to manage these items would not be considered cost effective given the mainly unplanned nature of the requirements.</p> <p>In Bus Transportation and Streetcar Transportation the breakdown of Operator overtime is somewhat different than Subway. "Late-in" time accounts for only 16% of the total while filling Open Crews accounts for 38.5% and the effect of Extras (Capital and Operating) accounts for 45.5%. As in Subway, the process for budgeting and monitoring overtime in these categories is well established. Open Crews are caused mainly by absenteeism which is managed through the Attendance Management process. The majority of the Extras are due to construction projects which are managed with a Project Management approach and for the most part the alternate service is scheduled by Strategic and Service Planning Department or the Manager – Special Events. While not specifically incurred on these scheduled crews, overtime is incurred elsewhere because the workforce is not specifically budgeted for seasonal construction projects.</p>	Closed

1 b)	<p><i>Establish clear accountability and authority for addressing departmental overtime issues, and develop meaningful performance monitoring measures.</i></p>	Yes	<p>Operations management recognizes that improvements to data collection and reporting of overtime are required and has embarked on the following initiatives to help predict and manage overtime requirements:</p> <ul style="list-style-type: none"> • COO (Chief Operating Officer) Overtime Report will track year-to-date and year-end projections with variance reasons and action required – pilot report was started in late 2013 and will be implemented in 2014. • Replace System 33 with use of Payroll Time Codes to provide more accurate and granular Operator cost data – Process went live in January 2014 for the Operator payroll and work will commence in 2014 to phase in other Transportation payrolls. • Subway Operator Workforce Utilization Tracking Tool provides a daily recap of Open Crews, Absence Statistics, Spareboard Utilization, Volunteers, Late-ins and Cancellations. A high-level version of this tool was used in 2013 and was helpful in the determination of the Spareboard during the 2014 Budget Process. Refinements based on Divisional Management feedback have been made for 2014 and work to convert the process to a database is planned to be completed by the 3rd quarter of 2014 to enhance data analysis. <p>Service Delivery management recognizes that improvements to data collection and reporting of overtime are required and has embarked on the following initiatives to help predict and manage overtime requirements:</p> <ul style="list-style-type: none"> • Replace System 33 with use of Payroll Time Codes to provide more accurate and granular Operator cost data – Process went live in January 2014 for the Operator payroll and work will commence in 2014 to phase in other Transportation payrolls. • A new IT Project has been initiated whose purpose is to replace the largely manual reporting of Operator activity with a more automated process that will facilitate workforce utilization tracking similar to that implemented in Subway. 	End of 2015
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2 a)	<p>Management should evaluate the costs and benefits of implementing effective preventive and detective controls to minimize operator "late-in" time.</p>	Yes	<p>The current level of "late-in" time by Subway Operators can be sufficiently monitored with random spot checks performed by Route Supervisors. Similarly in Bus and Streetcar Transportation, "late-in" time is addressed by the Supervisors and Clerks observing/reporting "late-in" occurrence patterns. Any other control mechanisms would not be cost beneficial from a development, implementation and maintenance perspective. It should be noted that Service Delivery Group is working with IT services to evaluate options related to the GPS system on surface vehicles to validate the "return to base" time.</p> <p>Subway Divisions are already conducting ad-hoc spot checks on an intermittent basis at Hostler run in and crewing locations. Subway Transportation will be implementing a structured audit plan, which will cross reference "late-in" claims for each time period of each day of the week at least once per quarter, using a combination of real-time cross references at crewing and run-in locations and by cross referencing CSS recorded train location data. Subway Transportation is currently identifying whether additional resources are required to achieve this goal without impacting other activities or whether additional whole or fractional supervisory headcount may be required to achieve the goal of auditing all "late in" claims on each day of the week once per quarter.</p>	May 2014 to 2015
2 b)	<p>Management should, in consultation with the Strategic and Service Planning Department, identify all significant variables impacting on "late-in" time and evaluate the options for reducing overtime.</p>	Yes	<p>Subway Operations management is in the process of identifying the structural deficit in running time with current legal and safe operating speeds and with average dwell times unaffected by delays or state of good repair activities, which slow trains from their legal and safe maximums. Concurrently, Subway Operations management is in the process of identifying on-going average exposures to incidents and SOGR (State of Good Repair) activities that impede trains from operating at the safe and legal operating speeds, so that the Strategic and Service Planning Department can use realistic end-to-end operating times for schedule design.</p> <p>Subway Operations Management acknowledge that any increase</p>	October 2014 (tentative, depending on Service approval)

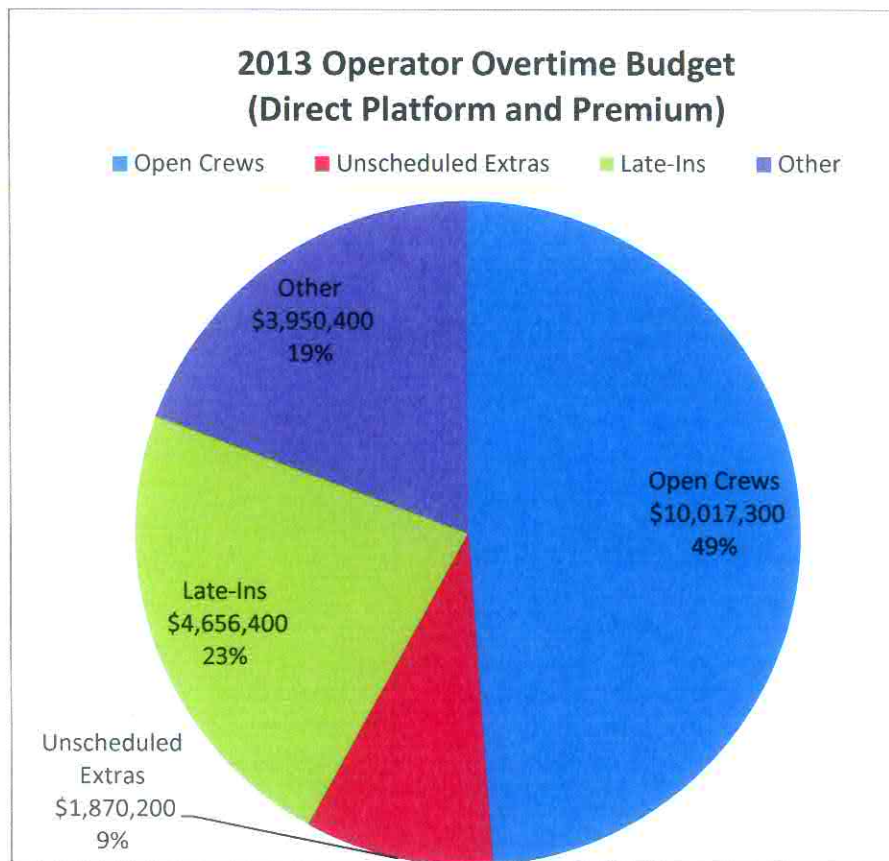
			<p>in scheduled running time will have, as a consequence, the requirement to add trains and crews to both the BD and YUS subway routes; once these costs are known, they can be balanced against the on-going costs of "late-in" time and the impact of our current inability to achieve scheduled capacity.</p> <p>Subway Operations management are also in the process of identifying operational and crewing strategies, which will allow dynamic adjustments to be made to crew positions to achieve a reduction in "late-in" time or which will allow a buffer for known levels of delay standard deviation against "late-in". These strategies will include more efficient methods of crew-changeover (using additional workforce or additional volunteer hours at time and one-half), more efficient train turn-backs by applying crew "step-backs" (using additional workforce at flat rate) and by the intelligent application of short-turn strategies to offset structural bottlenecks to end-of-line turnbacks when trains are running in to the yards at the end of peak periods (i.e., Wilson, Davisville, Greenwood). All of these strategies have costs, which must be quantified against "late-in" time; the cost benefit analysis must also take into consideration the impact of these strategies on improving delivered capacity, which is not currently being measured as a corporate KPI (Key Performance Indicator).</p>	
3 a)	<p><i>Management should monitor and evaluate the post-implementation of new payroll data usage processes and reports to ensure improved report information.</i></p>	Yes	<p>Operations and Service Delivery Control departments are co-sponsors and participants in the initiative to replace System 33. One of the main drivers for moving away from System 33 was that System 33 did not reconcile to the payroll due to the lack of distribution of weekly supplementary adjustments to job numbers. Not only was there a reconciliation problem but monitoring expenses and other factors versus budgeted amounts was extremely difficult due to the erroneous data. It is difficult to determine exactly how many supplementary adjustments are overtime related but it is fair to say it is a significant portion of the adjustments.</p> <p>To move away from System 33, the TTC Finance Department – Payroll has developed a process to provide a direct feed of dollars to the General Ledger and also provide a "data dump" of</p>	3 rd Quarter 2014

				<p>both hours and dollars by time code to a Database Application. This database should provide the Operations and Service Delivery areas access to fully reconciled operator expense data at a much more granular level than previously available through System 33.</p> <p>The new process and systems will be implemented in early 2014. In an attempt to capture accurate and objective information at source, new time codes were requested to improve the tracking of overtime expenses (including open crews) at a more granular level than previously existed. While capturing some overtime at the time code level is relatively simple, capturing overtime related to open crews, special events, capital projects and emergencies is a little more complex and discussions are taking place with the Payroll staff to explore ways to differentiate overtime data. From an open crew perspective, the manual process currently used by Subway Transportation will continue to be used to monitor how many open crews are performed on overtime for budget and workforce forecasting purposes until a more automated alternative can be implemented using payroll data.</p>		End of 2014
3 b)	<p>Management should conduct refresher training and skills development for staff to ensure accurate and complete review and analyses of overtime data.</p>	Yes		<p>The former Operations Branch had only one position responsible for all Transit Operations budgeting. That was a recognized risk and with the split of Operations into two groups, Operation Control allocated an existing resource to prepare, monitor and report the budget on behalf of Subway Transportation in order to increase the knowledge base for Transit Operations budgeting/reporting and put more focus on Subway Operator workforce planning. The transfer of Transit Operations budgeting methodology and knowledge to the new incumbent did not go as smoothly as originally desired due to the heavy workload by both Operations and Service Delivery Control areas to recast and set up monitoring reporting tools for the 2013 Budget. Therefore, management acknowledges the finding and will work to document the budget processes by the end of 2014 so that future new incumbents do not face similar challenges or steep learning curves.</p>		

3 c)	<p>Management should review the differences in budgeting methodologies and assumptions applied for each transportation mode, and develop a standardized approach.</p>	Yes	<p>Operations Control and Service Delivery Control met in late 2013 to discuss the methodologies used in the development of the 2014 Operator Budgets. While both areas simplified their processes there are some differences in methodology that need further discussion. Further discussion and review will be done before the 2015 Budget Cycle to determine which methods make sense to standardize. While standardization is preferable, management does not agree that all modes need to be budgeted and managed in a standardized method if it adversely affects delivery of service to our customers. Given the volume of customers and businesses affected by the cancellation of subway trains compared to either buses or streetcars, a different model was developed to budget for the 2014 subway operator staffing levels.</p> <p>In 2013, there were many instances when subway overtime volunteers were in short supply and this led to a significant number of cancellations. The 2014 budgeting model was designed to rely less on overtime volunteers by increasing staffing levels. Management will monitor daily and weekly data to determine if the model needs adjustment before proceeding with the 2015 Budget Process.</p>	3 rd Quarter 2014
4	<p>Management should consider developing costing models and tools for ensuring that accurate and complete data is gathered to evaluate the impact of emergencies and the delivery of additional services for special events and activities.</p>	Yes	<p>The current budgeting methodology for unscheduled extras is to take a 3-year average of costs captured in this category. In years where the 3-year historical data included significant events, adjustment would be made to remove those significant events, i.e., the Papal Visit, SARS Concert). The response provided above in Finding #3 under the heading of "new payroll data" indicates that a new system for capturing operator expenses should improve the completeness and accuracy of data for evaluation and reporting of many activities including special events and emergencies.</p>	3 rd Quarter 2014

2013 OPERATOR OVERTIME BUDGET COMPOSITION

Operator overtime is comprised of many components that are anticipated and budgeted for annually. The key overtime categories include coverage of Open Crews and Unscheduled Extras, as well as, costs attributable to Late-Ins. The table below shows the breakdown of the total 2013 Operator Overtime Budget of \$20,494,300.

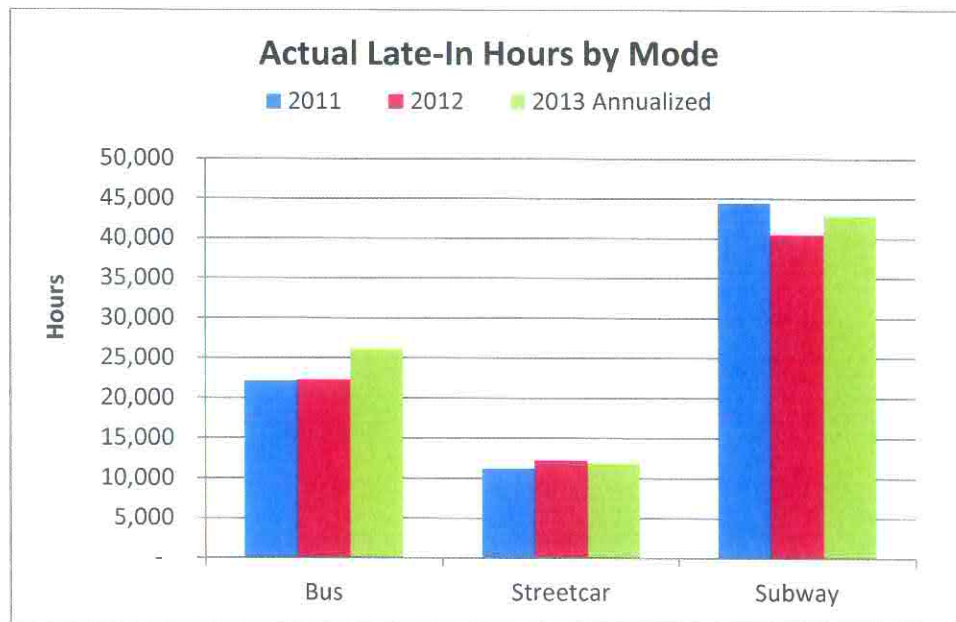
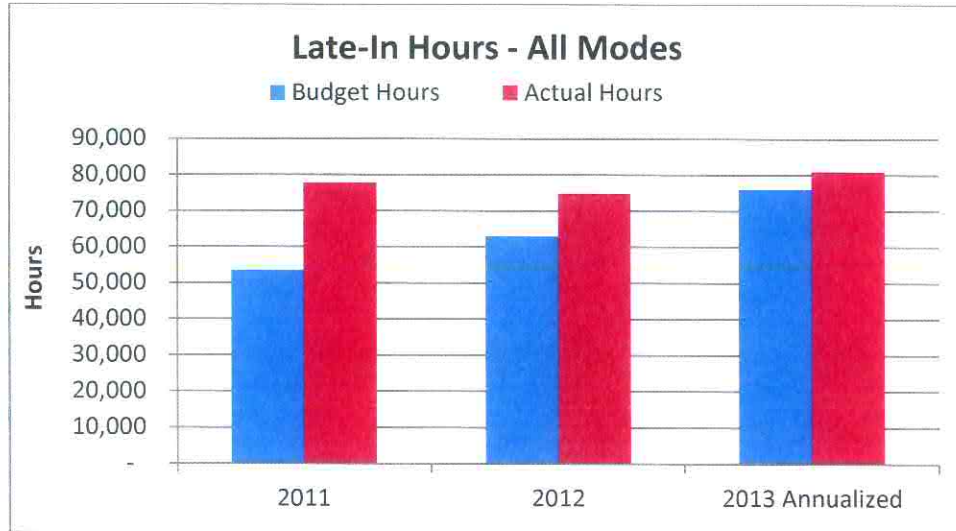


Direct platform refers to the portion of overtime where an operator is actually operating a vehicle. Premium refers to the extra pay received by an operator over and above their basic rate when working overtime.

The 2013 budget of \$3.9 million for “Other” includes amounts for:

- Biddable Extras – \$0.5M
- Training Backfill – \$1.3M
- Combined Open Crew – \$0.2m
- Controlling Accidents by Reducing Exposures (CARE) Committee resources – \$1.9M

AUDIT ANALYSIS – LATE-IN TIME



AUDIT ANALYSIS – UNSCHEDULED EXTRAS

