



ACTION REQUIRED

Date: October 19, 2016

To: TTC Audit & Risk Management Committee

Subject: Auditor General's Report – Continuous Controls Monitoring Program – Toronto Transit Commission, Employee Overtime and Absenteeism, 2015

Attached is the Subject Report.

This report is being forwarded to the TTC Audit and Risk Management Committee for review and consideration, and forwarding to the next TTC Board meeting.

Original Signed by

Vincent Rodo
Chief Financial &
Administration Officer

Attachment: Auditor General's Report – Continuous Controls Monitoring Program – Toronto Transit Commission, Employee Overtime and Absenteeism, 2015



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Continuous Controls Monitoring Program – Toronto Transit Commission, Employee Overtime and Absenteeism, 2015

Date:	September 21, 2016
To:	TTC Audit and Risk Management Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

The Auditor General's Continuous Controls Monitoring Program was first initiated in 2011 for overtime and other payroll related expenses incurred by the City. The program was expanded to Toronto Transit Commission (TTC) in 2012 when the Auditor General initiated monitoring of overtime, standby pay, mileage, and meal allowance payments. In 2014, the Program was further expanded to include monitoring of employee absenteeism relating to sick time, occupational injury and bereavement.

Since the initiation of the program, the Auditor General has been providing continuous monitoring reports to TTC management and requesting management comments on a periodic basis. These reports provide information relating to employee expenses meeting predefined monitoring criteria.

The Auditor General's role in this process is to accumulate data and report it to management. No detailed audit work is performed on either the data or the management comments. The intent of the continuous controls monitoring process is to identify exceptions where expenditures can be reduced.

For the year 2015, TTC's total overtime and paid sick time cost amounted to \$79.7 million and \$33.9 million respectively. This represents a reduction of \$3.1 million in overtime and an increase of \$1.2 million in paid staff sick time when compared with 2014.

During our review of the TTC payroll information, we received a number of revisions to the requested payroll reports. These reports were related to the overall TTC and department-wide overtime and absenteeism costs. Management advised that due to certain system limitations, such requested reports were not produced as a means to monitor overtime and absenteeism.

Therefore, to gain a better understanding of how overtime and absenteeism is being monitored at the TTC, the Auditor General felt the need to perform an audit of the payroll system and reporting processes. The Auditor General was informed by TTC that a review of payroll processes and controls had already been planned as part of its SAP implementation. Once the SAP implementation is complete, the Auditor General may revisit the need to perform an audit in this area.

The Auditor General recommends that TTC undertake a review of its reporting requirements during the implementation of the new financial system to effectively monitor overtime and absenteeism costs at the departmental and organizational levels.

The results of our analysis are provided in the “Comments” section of this report.

RECOMMENDATIONS

The Auditor General recommends that:

1. The Board request the Chief Executive Officer to undertake a review of existing reports and ensure that effective reports for reviewing and monitoring overtime and absenteeism expenses by individual departments and the organization as a whole be developed as part of the implementation of the new financial system.
2. This report be forwarded to the City’s Audit Committee for information.

Financial Impact

The recommendation in this report has no immediate financial impact. However, effective management and monitoring of both overtime and employee absences will potentially result in reducing overall expenses.

DECISION HISTORY

The Auditor General’s 2015 Audit Work Plan included an ongoing Data Analytics and Continuous Controls Monitoring Program. The Auditor General’s work plan is available on the City’s Web site at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-79980.pdf>

COMMENTS

The use of Continuous Controls Monitoring was initiated at the City in early 2011. The TTC is the first major agency where we have initiated this process.

We have analyzed TTC payroll and absenteeism data based on the following exception criteria:

Overtime and other payroll related expenses

- Staff with unscheduled overtime exceeding 50 per cent of base pay
- Staff with standby pay greater than \$7,500 annually
- Staff with over 10,000 kilometres in annual claims
- Staff with over \$1,000 in meal allowance reimbursements annually

Absenteeism

- Employees with paid sick time hours exceeding 500 hours annually
- Employees with paid occupational injury time exceeding 100 hours annually

Appendix 1 provides a comparative analysis of overtime, absenteeism and other employee related expenses for over 13,000 TTC staff in 2015. A summary of management comments is provided below:

- TTC undertook overtime reduction initiatives in 2015, including monitoring of overtime and hiring of staff where needed. As a result, total overtime and standby costs reduced by \$3.1 million and \$0.7 million respectively.
- Overall headcount has increased by 451 employees in 2015 when compared with 2014. TTC management advised that these employees were hired against the budgeted increase of 694 employees, and 60 per cent of the new positions are service improvements related.
- In 2015, 145 employees (132 in 2014) earned unscheduled overtime exceeding 50 per cent of their base pay. Management advised that TTC capital projects and additional work in certain departments during winter resulted in high overtime.
- In 2015, 411 employee absences (531 in 2014) related to paid sick time exceeding 500 hours. Management anticipates that absences for:
 - 292 or 71 per cent of the employees appearing on the exception list will not continue in the future. This is mainly due to employees returning to regular work duties. 12 employees have since retired and 53 of these employees may progress to long term disability and not reappear on the absenteeism exception listing.
 - 119 or 29 per cent of the employees appearing on the exception list will likely have the same level of absenteeism continue due to severe illness and ongoing medical conditions.

We have provided a recommendation to improve controls in reporting of overtime and absenteeism costs.

CONCLUSION

The use of continuous controls monitoring of staff overtime and absenteeism will continue to assist TTC management in monitoring unusual levels of overtime and absences and to identify any unusual expenditures in a timely and effective manner.

CONTACT

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SIGNATURE

Beverly Romeo-Beehler, Auditor General

ATTACHMENT

- Appendix 1: Comparative Analysis of Overtime, Absenteeism and Other Payroll Related Expenses
- Appendix 2: Management's Response to the auditor General's Review of Continuous Controls Monitoring Program – Toronto Transit Commission, Employee Overtime and Absenteeism, 2015

Appendix 1

Comparative Analysis of Overtime, Absenteeism and Other Payroll Related Expenses

Description	2015	2014	Increase/ (Decrease)
Total Number of Employees	13,814	13,363	451
Total Payroll	\$1.001 billion	\$960 million	\$41 million
Overtime and other payroll related expenses			
Overtime as a per cent of annual payroll	8.0%	8.6%	(0.6%)
Total Overtime Cost	\$79.7 million	\$82.8 million	(\$3.1 million)
Number of Staff with Unscheduled Overtime > 50% of Base Salary	145	132	13
Total Standby Pay (included in total overtime)	\$196,400	\$867,000	(\$670,600)
Number of Staff > \$7,500 Annual Standby Pay	20	23	(3)
Total Mileage Expenses*	\$333,000	\$399,000	(\$66,000)
Total Meal Allowance*	\$318,000	\$304,000	\$14,000
Absenteeism			
Amount of sick pay as a percent of annual payroll	3.4%	3.4%	-
Total paid sick pay hours	1.3 million	1.2 million	0.1 million
Total amount of sick pay	\$33.9 million	\$32.7 million	\$1.2 million
Total paid occupational injury hours*	7,900	6,300	1,600
Total paid occupational injury pay	\$292,700	\$229,200	\$63,500
Number of staff with paid sick time exceeding 500 hours	411	531	(120)
Average number of sick days per employee**	11.4	11.5	(0.1)
Average absenteeism days, Statistics Canada ¹			
• public sector	12.7 days	12.5 days	0.2
• private sector	7.8 days	7.8 days	-

*Exception not reported due to negligible number of instances meeting the exception criteria.

**Based on an 8 hour shift: Active employees only and include major absenteeism pay codes selected by the Auditor General for continuous monitoring.

¹<http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=2790035&&pattern=&stByVal=1&p1=1&p2=50&tabMode=dataTable&csid=>

**Management’s Response to the Auditor General’s Review of
Continuous Controls Monitoring Program – Toronto Transit Commission
Employee Overtime and Absenteeism, 2015**

Rec No.	Recommendation	Agree (X)	Disagree (X)	Management Comments: <i>(Comments are required only for recommendations where there is disagreement.)</i>	Action Plan/Time Frame
1.	The Board request the Chief Executive Officer to undertake a review of existing reports and ensure that effective reports for reviewing and monitoring overtime and absenteeism expenses by individual departments and the organization as a whole be developed as part of the implementation of the new financial system.	X			Review of existing payroll reports will be completed as part of the SAP implementation. Payroll is expected to be on SAP by the summer of 2017.