



Audit, Risk and Compliance – Audit Plan Status Update

Date: March 19, 2024
To: Audit & Risk Management Committee
From: Head of Audit, Risk and Compliance

Summary

The Audit, Risk and Compliance Department (ARC) 2024 Audit Plan was presented and approved by the Audit & Risk Management Committee on November 14, 2023. The list of audit assurance projects identified for completion in 2024 are performed in addition to advisory or special requests subsequently put forward for ARC's consideration. Also, in Q1 2024, ARC completed assurance projects initiated in 2023 as identified in the 2023 Audit Plan, originally approved by the Audit & Risk Management Committee on February 13, 2023 and subsequently updated and approved on June 1, 2023.

This report provides information with respect to ARC's progress on 2023 and 2024 Audit Plan items.

Recommendations

It is recommended that the Audit & Risk Management Committee:

1. Receive this report for information; and
2. Forward the presentation on the 2023 Fare Evasion Study to the TTC Board for its information.

Financial Summary

The implementation of the 2024 Audit Plan has no funding implications beyond the costs of the Audit, Risk and Compliance Department that were included in the 2024 Operating Budget approved by the TTC Board on December 20, 2023, and by the City Council on February 14, 2024.

The Chief Financial Officer has reviewed this report and agrees with the financial summary information.

Equity/Accessibility Matters

The independent assurance and advisory work of the ARC Department supports TTC leadership efforts to continuously improve controls and integrate risk management into processes that drive the achievement of corporate goals and objectives, including accessibility, diversity and inclusion.

Decision History

At its meeting on February 13, 2023, the Audit & Risk Management Committee approved the Audit, Risk and Compliance 2023 Audit Plan.

[Audit, Risk and Compliance \(ARC\) – 2023 Audit Plan](#)

The 2023 Audit Plan was subsequently updated by staff and approved by the Audit & Risk Management Committee on June 1, 2023.

[Audit, Risk and Compliance – Work Plan Status Update](#)

The 2024 Audit Plan was presented and approved by the Audit & Risk Management Committee on November 14, 2023

[Audit, Risk and Compliance \(ARC\) – 2024 Audit Plan](#)

Issue Background

The Audit & Risk Management Committee assists the TTC Board in fulfilling its oversight responsibilities in several areas including: audits, a system of internal control, compliance with laws and regulations, and enterprise risk management activities.

While it is the responsibility of TTC business areas to formulate policies and enforce compliance with plans and strategies, ARC can support those directly accountable for ensuring such plans achieve their stated objectives by providing management with independent assurance or function in an advisory capacity.

Comments

Planned assurance projects are performed in accordance with ARC's annual Work Plan as approved by the Audit & Risk Management Committee. Each project is completed in three phases – Planning, Fieldwork and Reporting. Once management responses and corrective action plans to address ARC recommendations have been prepared, the full report is formally issued to the TTC Chief Executive Officer, Deputy CEO and all applicable internal stakeholders, and the project is considered to have been completed.

Status Update – 2023 Planned Audit Assurance Projects

#	Project Name	Status
1	Subway Car Maintenance Program	Complete
2	Operator Hiring, Onboarding and Retention	Complete
3	Transit Control	Complete
4	Transit Security	Complete
5	Fare Evasion Study	Complete
6	Emergency Management and Business Continuity	Reporting
7	Capital Expenditures – Projects (Portfolio)	Deferred to 2024

Status Update – 2024 Planned Audit Assurance Projects

#	Project Name	Status
1	Actuarial Reserves	Planning
2	IT General Controls	Planning
3	Station Passenger Intercoms	Not Yet Started
4	Elevator Maintenance	Not Yet Started
5	Hiring, Onboarding and Retention of Non-Operators	Not Yet Started
6	Capital Expenditures – Projects (Portfolio)	Not Yet Started

As of the date of this report, ARC staff has issued a final report summarizing key observations, recommendations and agreed-upon management action plans for three planned assurance reviews initiated in 2023. These include a review of:

- TTC’s Operator Hiring, Onboarding and Retention processes;
- Transit Control Centre incoming call response processes; and
- Transit Security Special Constable Service incident response processes.

Background details and summaries of high- and medium-rated observations for these assurance reviews have been provided in Attachment 1. ARC staff also completed fieldwork for its review of Emergency Management and Business Continuity processes and is working with responsible parties to vet observations and obtain management action plans prior to final sign-off and issuance of the report.

As approved by the Audit & Risk Management Committee, ARC added the completion of a full Fare Evasion Study to its 2023 Audit Plan. This prompted a concentrated effort and extensive use of ARC resources to co-ordinate and perform fieldwork for purposes of calculating new fare evasion rates for all modes. Results of the 2023 Fare Evasion Study and a summary of high- and medium-rated observations are provided in Attachment 1. ARC will supplement this information by providing a presentation to the Audit & Risk Management Committee.

In Q1 2024, ARC initiated planning for two 2024 assurance projects, and fieldwork is anticipated to commence in Q2 2024 – specifically for review of TTC Actuarial Reserves and IT General Controls. With respect to ARC’s completion of the IT General Controls review, an ARC Director with expertise and experience in IT audits and cybersecurity risk management was hired in early January 2024. While this incumbent expands the internal capabilities of ARC within the IT space, supplementary external support may

also be resourced, as appropriate. Pertinent details for this review will be provided in a future audit plan update.

Finally, ARC continues to support and respond to special requests from TTC Executives and Senior Management, while balancing ARC staff capacity and value to the organization. Results are shared with applicable management, and ARC facilitates necessary discussions amongst all key stakeholders to support appropriate actions in response to critical observations and insights.

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Signature

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Attachments

Attachment 1 - ARC – Completed Assurance Review Results

ARC – Completed Assurance Review Results

Transit Operators - Hiring, Onboarding and Retention

Overall Owner: Chief Diversity and Culture Officer

Background:

The TTC's Talent Management Department leads recruitment and hiring across the organization. Talent Management manages recruitment of Transit Operators through the Transit Operator Program and is responsible for providing consultation and support to the Transportation and Vehicles group on their hiring objectives.

Recruitment, hiring and onboarding of new Transit Operators involves various groups and departments, and occurs over multiple steps. Once Talent Management determines that an applicant is a good candidate for the Operator position, the individual is offered conditional employment and may begin training (provided by the Operations Training Centre (OTC)) to become a Transit Operator. Only individuals that pass OTC's Transit Operator training are offered full-time employment and placed in one of the divisions in the Transportation and Vehicles Group.

Scope:

Assessment included a review of the structure, governance and procedures, and key processes in recruiting, hiring, onboarding and retention of Transit Operators for 2021 and 2022.

Summary of Results: Improvement Required.

High/Medium rated observations are summarized as:

- Enhance the review process over reporting of hiring targets to ensure information is accurate and clearly presented.
- Define key performance metrics on hiring and related outcomes clearly to ensure consistent understanding across the organization.
- Cross-functional groups should collaborate more effectively to achieve organizational objectives.
- Improve record-keeping practices and implement stronger controls for maintaining applicant information during the hiring process.
- Analyze costs to understand and inform the impact of hiring strategies.
- Ensure that prospective candidates have a realistic understanding of challenges of the position.
- Review and improve hiring processes to increase the likelihood that candidates will succeed in the role.
- Review employee retention strategies and consider addressing the root causes of the challenges.
- Review, update and consistently apply hiring procedures.

Number of Observations and Ratings:

High	Medium	Low
4	5	3

ARC – Completed Assurance Review Results

Transit Control

Overall Owner: Chief Operations and Infrastructure Officer

Background:

The Transit Control Centre (TCC) is responsible for subway and surface route management, coordination of response to all emergency and service disruptions, and communication thereof to all internal and external stakeholders. Audit, Risk and Compliance (ARC) reviewed TCC incoming call response processes for the period of July 31, 2023 to December 13, 2023. As of August 8, 2023, the TCC was operating with 48 Dispatchers across eight types of Dispatch Desks. Dispatchers are responsible for receiving all incoming emergency and non-emergency calls/reports, dispatching appropriate internal responders to reported incidents and/or liaising with external incident responders.

Scope:

The objectives of this review are to gain an understanding of how TCC responds to incoming calls (including phone calls, alarm activations, radio calls and SafeTTC App messages), and to assess whether effective and efficient controls exist to mitigate risks to an acceptable level.

Summary of Results: Improvement Needed.

High/Medium rated observations are summarized as:

- Enhance incoming call information collection and verification processes. Insufficient information may impair a Dispatcher's ability to accurately assess the scope and urgency of a situation, and to communicate effectively with incident responders and/or external agencies.
- Establish detailed guidance on safety/security incident classification, prioritization and response approach that aligns with TTC Special Constable Service and the wider TTC to improve communication between Security Desk Dispatchers and Special Constables. Also, formalize policies and procedures governing the role of any Special Constable or individual with law enforcement experience designated to serve within TCC to ensure consistent performance.
- Clarify TCC service level standards and expected response times for each type of incoming call/report. Response time analytics can then provide insights and support effective resource management.
- Establish Dispatcher performance measures and consistently monitor adherence to those measures to ensure TCC Management can effectively balance operational demands while supporting Dispatchers' well-being.
- Continue to overhaul TCC Standard Operation Procedures (SOPs) and address noted inconsistencies.
- Incorporate into the departmental Dispatcher Training Program scenario-based training, leverage relevant external expertise or training materials as applicable/available, and invite guest speakers to training sessions to share their perspectives and experience.
- Implement controls to ensure departmental performance audits are completed consistently and equitably in accordance with established TCC Management expectations.

Number of Observations and Ratings:

High	Medium	Low
4	3	3

ARC – Completed Assurance Review Results

Transit Security

Overall Owners: Chief Strategy and Customer Experience Officer and Executive Director – Fare Technology and System Stewardship

Background:

The Special Constable Service (SCS) Department plays an important role in ensuring the safety and security of customers and employees. One of the main functions of the SCS is responding to transit security incidents. Audit, Risk and Compliance (ARC) reviewed the SCS's incident response processes. SCS staff is required to deliver their services in compliance with the TTC's Special Constable Agreement with the Toronto Police Services Board (TPS). The agreement confers authorities to the SCS to support the enforcement of TTC By-law No.1 and select Federal and Provincial statutes to increase the level of effectiveness and efficiency in delivering security and law enforcement services in the transit system.

Scope:

Assessment included a review of the structure, governance and procedures, and key processes used by the SCS to respond to calls for service. This review was performed during the period of September 19, 2023 and December 13, 2023.

Summary of Results: Improvement Required.

High/Medium rated observations are summarized as:

- Develop an annual plan with clear goals and objectives aligned with the TTC's corporate goals to ensure the achievement of desired transit safety outcomes.
- Continue improving the attrition rate in the Transit Special Constable (TSC) position to ensure effective deployment of TSCs to respond to incidents and provide high-visibility presence.
- Improve the accuracy, completeness, and consistency of calls for service data in the Special Constable Service and Revenue Protection System to ensure accurate reporting of the TTC's actual safety statistics and overall safety trends.
- Develop a documented corporate-wide safety and security event guideline for classifying security system events, including offence and non-offence events, in order to effectively support the City's Community Safety Dashboard reporting.
- Continue working on tracking and reporting response times to baseline response times over a period of time, and eventually establish service level standards.
- Enhance monitoring of performance metrics for SCS's objectives to improve customer service relating to call response.
- Analyze, identify and control factors for lost time due to "calls cleared on route" to improve availability of officers for call response and high-visibility presence.

Number of Observations and Ratings:

High	Medium	Low
2	5	3

ARC – Completed Assurance Review Results

Fare Evasion Study

Overall Owner: Executive Director, Fare Technology and System Stewardship

Background:

Being one of the least government-funded public transit organizations in North America and heavily reliant on passenger service revenue to sustain its operations, losses due to fare evasion significantly impacts the TTC's service capabilities. In 2018 and 2019, the City of Toronto Auditor General (AG) and the TTC's Audit, Risk and Compliance (ARC) Department completed fare evasion studies and reported an overall evasion rate of 5.4% and 5.7%, respectively. The associated revenue loss for these studies was \$60.7 and \$70.3 million. Both fare evasion studies relied on statistical methodologies and utilized plain-clothed Transit Fare Inspectors (TFIs) and TTC Special Constables to support AG and ARC staff in making fare compliance observations.

In response to these studies, several actions to reduce fare evasion were initiated. However, with the onset of the COVID-19 pandemic, fare enforcement was suspended in March 2020. The TTC shifted its focus away from fare enforcement and towards enhancing customer safety, providing customer service, and educating passengers on fare policy during the pandemic. This disrupted the momentum gained as well as plans to further implement the 2018 and 2019 fare evasion audit recommendations. In April 2023, fare enforcement and ticketing resumed, prompting management to request ARC to initiate a new fare evasion study to evaluate the current state of fare evasion on the TTC.

Scope:

The objectives of this review were to gain an updated understanding of the TTC's fare evasion risk landscape and current fare evasion rates as well as key processes and systems associated with fare inspection. Also, to assess whether effective and efficient controls exist to mitigate fare evasion risks to an acceptable level.

Summary of Results: Critical Improvement Needed.

High/Medium rated observations are summarized as:

- Estimated annual revenue loss due to fare evasion is \$123.8 million (bus: \$67.1 million, streetcar: \$30.2 million, stations: \$26.5 million) with an overall weighted fare evasion rate of 11.9% (bus: 12.9%, streetcar: 29.6%, stations: 6.3%). Management will utilize these and past evasion study findings to develop a comprehensive fare evasion reduction strategy. The strategy should emphasize the importance of continuous fare evasion risk management and corporate-level reporting, and the need to actively collaborate with relevant City agencies and the public to address broader cultural and equity elements of fare reduction initiatives.
- Corporate Fare Compliance strategies have unintentionally contributed to fare evasion. For example, prior to 2015, Operators and Collectors deterred fare evasion by directly communicating with customers observed to not pay when boarding or entering a station. However, due to safety concerns, these frontline employees have been instructed to not dispute fares, and customers are accustomed to not being questioned or stopped by frontline employees if they do not pay.
- The TTC's operating environment, including physical barriers designed to restrict unauthorized access and technology solutions aimed at enhancing payment verification, has not yielded anticipated fare evasion prevention results and inherently increases the likely occurrence of fare evasion. To reduce fare evasion, Management should consider closing

ARC – Completed Assurance Review Results

station crash gates, constructing new physical barriers, enhancing technology, adjusting fare gate configuration, and only allowing front-door boarding on buses.

- Initiatives to improve customer experience and modernize the TTC's fare system have unintentionally created confusion and opportunity for fare evasion. Particular attention is required to address the complexity of legacy transfers and the varying types of Vending and Payment machines across the system.
- Oversight policies and regulations pertaining to fare enforcement and inspection have inadvertently created opportunities for fare evasion, and the multifaceted nature of the TTC By-law, operational policies, and departmental procedures have introduced a layer of complexity that passengers exploit. For example, while there are no explicit constraints in the TTC By-law to inspect and confirm payment within any fare paid area, TTC Policy does not require customers to have proof-of-payment (POP) on buses and in stations. This practice is attributable to customers using legacy fare media or cash but not required to obtain a legacy transfer as POP on buses and in stations.
- Disparities in fare enforcement and customer accessibility to all fare payment options give rise to potential equity concerns. These risks need to be examined and actively monitored to ensure fare compliance activities are fair and transparent. The TTC should also work with applicable City parties to review and possibly enhance the Fair Pass Program.

Number of Observations and Ratings:

High	Medium	Low
6	0	0