

Review of Toronto Transit Commission (TTC) Employee Expenses and Reward and Recognition Programs: Opportunities to Improve Policies and Controls and Save Costs

Date: June 26, 2018

To: Toronto Transit Commission Audit & Risk Management Committee

From: Auditor General

Wards: All

SUMMARY

This audit arose from our two 2017 audits of the Toronto Transit Commission's (TTC) procurement policies and practices and accounts payable functions. During these audits we noted some potential concerns pertaining to Purchase Card (PCard) purchases and employee business expenses, and have included them in this audit. The scope of the audit was expanded to include employee reward and recognition programs.

The objective of this audit was to assess the effectiveness and efficiency of the management of the TTC's employee reward and recognition programs and employee expenses. The period covered during audit testing was fiscal years 2016 and 2017.

With regards to TTC's employee rewards and recognition programs, we found that TTC has not evaluated its programs and therefore does not know if they are effective in achieving their goals. The cost of some of TTC's programs appear to be on the high side compared to other transit and government organizations surveyed. There are control weaknesses and opportunities to improve efficiencies in these programs, particularly the safety related recognition programs.

The two main areas of non-compliance with employee expense policies were a lack of adequate supporting documentation and the level and timing of approval of employee expense claims. In addition, more detailed policies regarding allowable travel/business expenses, refreshments, and petty cash, will provide proper guidance to staff in claiming and approving these expenses.

Our audit provides 20 recommendations. The implementation of these recommendations will help improve the effectiveness, internal controls, and efficiency of TTC's employee rewards and recognition programs, strengthen policies for employee expenses and compliance with those policies, and provide potential cost savings.

RECOMMENDATIONS

The Auditor General recommends that:

1. The Board request the Chief Executive Officer, Toronto Transit Commission, to evaluate its employee reward and recognition programs to determine if they are achieving intended goals and modify the programs where needed.
2. The Board request the Chief Executive Officer, Toronto Transit Commission, to evaluate the costs vs. benefits of its employee reward and recognition programs and consider potential non-monetary recognition strategies as well as whether costs can be reduced.
3. The Board request the Chief Executive Officer, Toronto Transit Commission, to establish a specific purchase code for expenses related to employee rewards and recognition incurred by departments.
4. The Board request the Chief Executive Officer to develop reports and monitor the cost by department of the employee reward and recognition programs and ensure that funds are fairly distributed and used across the various departments.
5. The Board request the Chief Executive Officer, Toronto Transit Commission, to put in place adequate processes and controls to track and reconcile all gift cards for the Zero Injury Award program. Such controls should include steps to ensure only a minimal number of gift cards is kept in inventory and that they are kept locked at all times with adequate access controls.
6. The Board request the Chief Executive Officer, Toronto Transit Commission, to improve controls and efficiency in the Zero Injury program to ensure that:
 - a. Award presentations are occurring within two months of plateau levels being reached in order for eligible employees to receive awards
 - b. Attendance sheet is provided on a timely basis
 - c. Any excess owing for refreshment funds and gift cards is calculated, provided and accounted for.
7. The Board request the Chief Executive Officer, Toronto Transit Commission, to review the cost centres currently eligible for the Zero Injury program to ensure they meet the intent of the safety award program.
8. The Board request the Chief Executive Officer, Toronto Transit Commission, to ensure adequate segregation of duties in the process of ordering default gifts to be shipped to employees.

9. The Board request the Chief Executive Officer, Toronto Transit Commission, to seek ways to streamline the IT processes for the safe worker, safe operator and zero injury award programs.

10. The Board request the Chief Executive Officer, Toronto Transit Commission, to use available Presto reports to track and monitor the usage of pensioners' lifetime passes to measure the cost to the organization and mitigate the risk of potential abuse.

11. The Board request the Chief Executive Officer, Toronto Transit Commission, to consider whether to reinstate a minimum number of years of service for pensioners over 60 years old, to ensure the lifetime pass is awarded to recognize length of service. Any potential modifications would need to be part of future negotiations with the unions.

12. The Board request the Chief Executive Officer, Toronto Transit Commission, to review the criteria and current process for issuing free annual passes to non-TTC staff to ensure valid justification and adequate controls, and to minimize lost revenue opportunities.

13. The Board request the Chief Executive Officer, Toronto Transit Commission, to:

- a. continue to strengthen controls and internal reviews regarding allowable employee expenses for business purposes
- b. update policies to ensure they clarify what employee expenses are acceptable for business purposes and those that are not, and communicate the policy requirements to employees.

14. The Board request the Chief Executive Officer, Toronto Transit Commission, to undertake steps to improve compliance with employee expense policy requirements regarding:

- a. the level of supporting documentation needed and importance of retaining the documents in an organized manner
- b. timely approval and submission of claims
- c. appropriate level of signing authority
- d. requirement for evaluations to be completed for external training.

15. The Board request the Chief Executive Officer, Toronto Transit Commission, to ensure proper records management is in place and is not dependent upon whether the employee is still working at TTC or not.

16. The Board request the Chief Executive Officer, Toronto Transit Commission, to develop guidelines for business trips, improving clarification on allowable expenses and number of attendees/trips per year.

17. The Board request the Chief Executive Officer, Toronto Transit Commission, to provide additional clarification in the following policies pertaining to:

a. Petty cash policy – refreshments, replenishment guidance, investigative expenses restrictions

b. Corporate travel policy – meal per diems, sundry/incidental charges, extended stays, accommodation rates, foreign exchange rate.

18. The Board request the Chief Executive Officer, Toronto Transit Commission, to update the training approval form to include required sign-off for available budget, prior to the training expense being approved.

19. The Board request the Chief Executive Officer, Toronto Transit Commission, to consider options to reduce accommodation rates for TTC staff on business travel.

20. The Board request the Chief Executive Officer, Toronto Transit Commission, to explore the opportunity to share services for internal training with the City of Toronto for non-transit specific courses.

21. The Board forward this report to City Council for information through the City's Audit Committee.

FINANCIAL IMPACT

Combining the 2018 budgeted costs for TTC's employee rewards and recognition programs of \$601,000 and estimated administrative costs of \$422,000, the estimated total cost of these programs is approximately \$1 million per year. It is important for TTC to know whether this investment in its employees is achieving the intended goals and whether there are modifications needed to these programs to improve their effectiveness.

The estimated cost of providing free transit passes to non-TTC staff is \$2 million annually. This is in addition to the estimated \$32.4 million annual lost revenue in providing free transit passes to employees and pensioners. TTC may be able to reduce the costs by ensuring that passes for non-TTC staff are only provided to those who need to extensively use the TTC system for daily work activities.

The implementation of recommendations in this report will likely result in cost savings and improved operating efficiency. The precise extent of any resources required or potential cost savings resulting from implementing the recommendations in this report is not determinable at this time.

DECISION HISTORY

The Auditor General's 2018 Audit Work Plan, received by City Council in December 5, 2017, included a review of the management of Purchase Card and business expenses. The work plan is available at:

<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97443.pdf>

COMMENTS

The objective of our audit was to assess the effectiveness and efficiency of the management of the TTC's employee reward and recognition programs and employee expenses. The period covered during audit testing was fiscal years 2016 and 2017.

In 2017, TTC spent \$448,000 on its employee reward and recognition programs, \$1.2 million on external/internal training, and \$247,000 on business travel. There were also 3,000 Purchase Card transactions totaling over \$2 million.

TTC has a fairly comprehensive rewards and recognition program for its employees and places a high value on recognizing the contributions of employees, particularly related to length of service and safety. However, TTC has not evaluated these programs or the costs vs. benefits, and therefore does not know if they are effective in achieving their goals. In addition there are control weaknesses, particularly in the safety related programs. Approximately 2,000 active gift cards valued at \$50,000 for the Zero Injury awards were stored in a TTC closet with at least five staff having access to them. The gift cards are not tracked or reconciled.

In addition to TTC providing free transit passes to all of its employees and co-op/summer students, it also provides free lifetime passes to all pensioners 60 years and older or with a minimum of 10 years of service and under 60 years old. TTC also provides free transit passes to over 1,200 non-TTC staff, consisting mostly of contractors, at an estimated cost of \$2 million. The total estimated annual cost of all free transit passes provided by TTC is approximately \$34.4 million annually. Some cost savings could be achieved if transit passes for non-TTC staff are provided only to those who require them for daily work on TTC's systems.

The two main areas of non-compliance with policies found in employee expenses were a lack of adequate supporting documentation and the level and timing of approval of employee expense claims. Proper records management will address the lack of supporting documentation found for the PCard samples, as it was partly due to the employee resigning or retiring. Some external training requests were not approved prior to the course being taken and a few items in our travel expense sample did not include the required CEO's approval for travel outside of Canada. Policies need to be further strengthened, particularly for allowable travel expenses, refreshments, and petty cash.

The audit report is attached as Attachment 1. Management responses to audit recommendations are also included in the Attachment.

CONTACT

Jane Ying, Assistant Auditor General, Auditor General's Office
Tel: 416 392-8480, Fax 416 392-3754. E-mail jane.ying@toronto.ca

Tara Anderson, Senior Audit Manager, Auditor General's Office
Tel: 416 392-0887, Fax 416 392-3754, E-mail tara.anderson@toronto.ca

SIGNATURE

Beverly Romeo-Beehler
Auditor General

ATTACHMENTS

Attachment 1: Review of Toronto Transit Commission Employee Expenses and Reward and Recognition Programs: Opportunities to Improve Policies and Controls and Save Costs