



450 Highbury Avenue N.,
 London, Ontario, N5W 5L2
 Telephone: 519-451-1340
 Fax: 519-451-4411

December 6, 2013

Chair and Members
 City of London Audit Committee

Re: PwC Operational Review

The Commission, at its meeting of July 31, 2013, approved PricewaterhouseCoopers LLP (PwC) completing an operational review of London Transit's payroll and time off provisions, focusing on the operations group.

The review completed by PwC had two primary objectives namely:

- i. understanding the time and attendance management for all LTC employees, with particular focus on the operations group; and
- ii. evaluating key controls/processes over various elements and/or inputs associated with the recording, verification and payment of time as well as non-attendance.

The evaluation of key controls/processes was predicated on an assessment of risk exposure, that is, the nature and extent of potential for loss/risk.

PwC completed the review in the fall presenting their findings at the December 5, 2013 meeting of the Commission. PwC advised of the following review findings:

- i. that the payroll systems appropriately reflected current policies and agreements;
- ii. that leave requests and absences are appropriately processed and controlled;
- iii. that scheduling of operations was appropriately managed and controlled; and
- iv. there wasn't anything to suggest processes or controls are ineffective or inefficient.

Notwithstanding the review findings, PwC provided a summary observation of areas for potential further analysis and areas for consideration that PwC would expect LTC to address due to changes in agreements and technology. The following table summarizes the five observations.

Observation Summary

#	Observation	Rating	Business Impact
1	payroll utilization	satisfactory	high impact - difficult to implement
2	banking of vacation and overtime	satisfactory	low impact - easy to implement
3	booked off personal days	satisfactory	low impact - easy to implement
4	time tracker functionality	satisfactory	low impact - difficult to implement
5	time tracker efficiencies	satisfactory	low impact - difficult to implement

Note

satisfactory - controls in place to mitigate risk, however the opportunity exists for improvements

The Commission, in response to the submitted observations, adopted the following resolutions:

1. With respect to the recommendations regarding payroll utilization to:
 - a) consider and investigate the concept of shared services with the City of London for payroll processing, the recommendation be REFERRED to Administration for consideration in the development of the 2015-2018 Business Plan, related work plan initiatives and provisional resource allocations over the period, recognizing;
 - that such an investigation represents a significant undertaking in terms of time and resources with an uncertain payback which has to be assessed against competing work plan initiatives; and
 - to accommodate the shared service investigation in 2014 would require significant restructuring of the established 2014 work plan priorities, with many of the priorities being transformational in nature and related to the approved 2014 financial plan.
 - b) investigate the current utilization of the payroll division, take NO FURTHER ACTION, noting the suggested action is not supported by any evidence-based finding and further, is inconsistent with assessed direction to be taken related to the upgrade of the Time Tracker System and restructuring of the transportation service administration area;
2. in respect of the amendments to the banking of vacation and overtime provisions associated with the renewal of the Collective Agreement, the suggestion to develop and implement controls/processes surrounding same be RECEIVED noting existing related processes and reconciliations have, as matter of course, been amended as appropriate;
3. in respect of the amendments to the application of banked time and pre-approved book off provisions associated with the renewal of the Collective Agreement, the suggestion to develop and implement controls/processes surrounding same be RECEIVED noting existing related processes and reconciliations have, as a matter of course, been amended as appropriate;
4. in respect of the recommendation to consider and investigate the functionality of the Time Tracker System relating to user access controls, automating the tracking of banked vacation and overtime balances, monitoring vacation balances, and integrating the current spare board process function, the recommendation be RECEIVED noting the functionality items referenced are reflected in the upgrade and application of the Time Tracker System; and
5. in respect of the recommendation to identify the efficiencies gained by the identified functional area relating to the upgrade of the Time Tracker System, the recommendation be RECEIVED noting the expectation of such efficiencies is reflected in the application of the upgraded Time Tracker System, the restructuring of the transportation service administration area and the approved 2014 financial plan.

Specific to the observations and recommendations regarding payroll utilization (item 1 above), there are two distinct areas of discussion, namely:

- a) the opportunity to utilize City of London's payroll function for processing LTC payroll. The opportunity is general in nature predicated upon the principle of shared services for similar functions.
- b) the possibility that payroll staff is not at full capacity and to assess adjusting/reallocating such roles and responsibilities to determine if there are efficiencies to be gained

As the PwC report indicated, the above opportunities/recommendations are based on general observations versus evidence-based assessment such as a time management study and simply serve as potential opportunities requiring further assessment.

A shared service concept is not new, the objective of the shared service concept is to attain certain economies of scale and delivery of services resulting in a more efficient use of resources and enhanced leveraging of expertise. The recommendation is not insignificant, nor is the envisioned efficiency benefits automatic or guaranteed. For shared services to be successful, the first critical step is to undertake a detailed assessment of the issues, variables, costs and opportunities. It is this assessment that defines the nature and extent of the services to be shared. For example, specific to the payroll, the considerations would include:

- understanding the unique elements, including labour contracts/policy statements associated with the respective payroll process and how to best leverage existing expertise;
- assessing capacity of shared services to meet payroll needs (added employee volume). This includes supported human resources, compatible work schedule and system technical capability. For example, an earlier assessment undertaken by LTC regarding options to upgrade the time tracking system for the operations group raised significant questions regarding the Kronos system's capacity to meet the front-end time tracking needs which lead to the decision of developing customized software. The City of London uses Kronos for all elements of payroll production;
- cost/benefit/risk analysis including reconciling compensation differences and labour contract issues as appropriate;
- assessing impact/requirements associated with linking to what may be different financial reporting systems, noting payroll production is only one input to different independent systems within each organization; and
- establishment of the organizational framework that will support the new management process. The framework requires putting the right policies, programs and people in place to ensure consistent application of the management process.

An undertaking of this nature requires extensive commitment in terms of time and resources (expected to cover a 4 to 6 month period). LTC's 2014 work plan has been set consistent with the 2011-2014 Business Plan, and includes a number of significant transformational initiatives requiring critical time and investment commitment. The programs are reflected in the approved 2014 financial plan (e.g. Smart Card System and BRT Development). The first opportunity to give consideration to the initiative is as part of the development of the 2015-2018 Business Plan and the related major work plan initiatives over the term.

In respect of part b) of the recommendation, it is important to understand the work requirements of payroll staff, both in terms of payroll activity as well as budget performance management, a task not normally related to payroll. The two full time payroll staff are responsible for bi-weekly payroll production for approximately 525 employees, 500 of which are hourly rated. The work requirements are defined for each pay period as either "*input week*" or "*post input week*". During "*input week*", time is a critical resource as staff are pressed to meet deadlines in terms of confirming final pay input, uploading information to outsourced payroll production and receiving/verifying and distributing payroll output. The "*post input week*" is used to finalize general ledger entries, reconcile statutory deductions, complete actual to budget (hours and cost) analysis for all hourly rated labour accounts and provide responses to personal payroll inquiries. The nature and extent of the workload requirements over the two week period provides for a balanced workload.

The observations and/or recommendations related to parts 2 through 5 of the above resolution by their nature serve to confirm the planned direction of identified items versus representing a new opportunity and/or relate to amendments to existing processes and reconciliations which were completed as a matter of course. The observations/recommendations were not predicated on any finding that would indicate LTC does not implement process changes made necessary as a result of contract changes and/or system changes.

Yours truly,



Larry E. Ducharme
General Manager