



Office of the
Auditor General
City of Hamilton

Report AUD25001

Audit of Contract Payments to DARTS

January 16, 2025

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Background

- Fraud and Waste Hotline Case #70283, allegations included:
 - DARTS receiving overpayments for trip subsidies (as far back as 2012)
 - Contravenes the DARTS Master Operating Agreement (MOA)
- The Office of the Auditor General's (OAG) preliminary assessment found various discrepancies in the administration of trip subsidies and therefore launched a 'spontaneous audit'



Audit Objectives

- Investigate the overpayment of subsidies for “foregone fares”
- Determine the nature and extent of the problem
- Recommend improvements to control weaknesses



What are “Foregone Fares”?

- The City’s MOA with DARTS specifies three types of rides which do not require the collection of fares:
 - 1) Support persons
 - 2) Special events (as defined by the City)
 - 3) Passenger registration and orientation interviews

Audit Scope: Lines of Inquiry

- What is the total amount overpaid to DARTS from 2012 to 2023 for “foregone fares”?
- How did these overpayments happen?
- What control weaknesses led to the overpayments?
- Were the overpayments a deliberate act?
- What should be done about the overpayments?



What We Did

- Reviewed ride booking, trip count, and financial data
- Interviewed staff
- Performed detailed analysis of performance reports and trip coding (2018 through 2023)
- Reviewed relevant documentation
- Calculated an estimate for the entire duration of the current MOA (2012-2023)



What We Found: Total Value of Overpayments

- Passenger registration and orientation interviews: immaterial
- Support persons: immaterial
- Special events: estimated to be between \$230-263K



What We Found: “Special Events”

- Annual overpayments as high as \$46K out of \$47K paid (98%)
- Overpayments as a percentage of all subsidized fares ranged from 1.0% *underpaid* to 5.4% *overpaid* between 2018-2023
- Lack of data prevented detailed analysis from 2012-2017
 - 2018-2023 trends (based on detailed data analysis) were used to calculate an estimated range of overpayments from 2012-2023
 - Overpayments estimated to be \$230K-\$263K

How Did This Happen?

- Inaccurate / inconsistent data entry of ride booking codes
- Lack of oversight and scrutiny of data entry
 - City lacks custody and control over raw data
- Example: “Ticket-to-Ride” for Ti-Cat home games
 - Consistent with HSR’s conventional transit, passengers ride for free to-and-from a home game by showing their gameday ticket
 - Of 216 trips by DARTS in 2023, only 134 were coded correctly (62%)

Control Weakness: Digital Asset Custody and Control

- Trip information data is not under the City's control
- Access to data is controlled by DARTS
 - Stored externally with a third party
 - DARTS can make changes to data at any time
- Previously identified by OAG in Report AUD22007 Appendix "C"
 - Need to bring software / data under control of the City



Control Weakness: Clear Direction

- Consistent direction from HSR management re: designated special events and designated ride booking codes
- Example: NHL Classic at Tim Horton's Field
 - DARTS used "Bulldog", which was not specified, or approved by, ATS
- Previously identified by OAG in Report AUD22007 Appendix "C"
 - Need for timely, effective, and sufficient formal communications

Control Weakness: Master Operating Agreement

- MOA is out-of-date
 - Expired in 2017; continues on a month-to-month basis
- Lacks incentives / tools to motivate DARTS to ensure data accuracy
- Lacks mechanisms to address performance shortfalls
- Previously identified by OAG in Report AUD22007 Appendix “C”
 - Need a new, modern legal document meeting the City’s requirements

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Was This Deliberate?

- OAG found no evidence of DARTS attempting to deliberately collect overpayments
 - There is no incentive or benefit for DARTS to do so; the City effectively ‘makes DARTS whole’ if they run a deficit
 - Hence, there is also little incentive for DARTS to ensure a high level of accuracy due to lack of consequences for errors



What Should be Done About the Overpayments?

- Full recovery would require detailed analysis of first six years (trip-by-trip) to determine specific coding errors
- Recovery would involve collecting money from passengers who rode with DARTS from 2012-2023
 - Cost to collect would likely be more than the amount recovered
- OAG concludes that little meaningful action to recover lost amounts can be implemented; recovery would be impractical

Conclusion

- Overall, four (4) recommendations were made to Management
 - Management agreed with all four recommendations
- Management is currently working implementing their responses
- OAG is recommending that Committee directs Management to report back with a status update by December 2025.



Thank You