



OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

11-17
City of Colorado Springs
Lamar Corporation
Contract Compliance
Audit

September 2011



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11-17 City of Colorado Springs Lamar Corporation Contract Compliance Audit

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Purpose

The purpose of this audit was to review contract compliance with the terms specified in an agreement between Lamar Advertising and the City's Transit Services.

Highlights

We found that Lamar and the City were in general compliance with the terms of the agreement. However, we found areas where the agreement could be improved along with the City's ability to administer the contract.

Our audit period covered the period of January 1, 2005 to March 30, 2010. We concentrated our work on the recent contact activity (2009 and 2010) and reviewed earlier years as necessary.

In May 1996, the City of Colorado Springs (City) entered into an agreement with Liberty Communications Corporation, a provider of benches and shelters at bus stops. In April 2006, Lamar Corporation (Lamar) became an Assignee of Liberty Communications Corporation.

Lamar sells advertising spaces on bus benches and bus shelters to third party advertisers. Space can be sold on the front and the back of a bus bench and on two of three panels in the shelter kiosks. According to the agreement, the City will receive twenty percent of the gross revenues collected from the sale of advertising space on bus benches. The City shall also receive fifteen percent of all gross revenues collected from the sale of bus shelter advertising. The contract requires a minimum annual revenue of \$50,000 to the City.

Management Response

Management was in agreement with our audit comments. The complete responses can be found in the body of the detailed report.

Recommendations

- The contract language and processes between the City and Lamar should be improved.
- The contract should address how advertising discounts are to be handled.
- The City should work with Lamar to obtain sufficient documentation to verify billings, receipts and past due amounts.

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OFFICE OF THE CITY AUDITOR PUBLIC REPORT

Date: September 22, 2011

To: President of Council Hente, President Pro Tem Martin, and Members of City Council

Re: 11-17 City of Colorado Springs Lamar Corporation Contract Compliance Audit

We performed an audit of the contract between the City of Colorado Springs (City) and Lamar Corporation (Lamar). The audit covered a period from January 1, 2005 to March 30, 2010.

The purpose of this audit was to review contract compliance with the terms specified in an agreement between Lamar Advertising and the City's Transit Services.

We found that Lamar and the City were generally in compliance with the terms of the agreement. However, we found areas where the agreement could be improved along with the City's ability to administer the contract.

As always, feel free to contact me if you have any questions.

Sincerely,

Denny Nester, MBA, CPA, CIA, CGFM, CFE, CGAP
City Auditor

Cc: Mayor Steve Bach
Steve Cox, Chief of Staff
Nancy Johnson, Parks, Planning, & Public Works Director
Craig Blewitt, Manager, Transit Services
Lan Rao, Transit Finance Supervisor

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REPORT DETAILS

PURPOSE AND SCOPE

The purpose of our audit was to review contract compliance with the terms specified in an agreement between Lamar Advertising and the City's Transit Services. The audit covered the period of January 1, 2005 to March 30, 2010. Our work was concentrated on the most recent contract activity (2009 and 2010) and earlier years were reviewed as needed.

The scope of our audit included such tests of records and other supporting documentation as we deemed necessary in the circumstances. Sufficient competent evidential matter was gathered to support our conclusions.

BACKGROUND

In May 1996, the City of Colorado Springs (City) entered into an agreement with Liberty Communications Corporation, a provider of benches and shelters at bus stops. In April 2006, Lamar Corporation (Lamar) became an Assignee of Liberty Communications Corporation.

Lamar sells advertising spaces on bus benches and bus shelters to third party advertisers. Space can be sold on the front of and the back of a bus bench and on two of three panels in the shelter kiosks. According to the agreement, the City will receive twenty percent of the gross revenues collected from the sale of advertising space on bus benches. The City shall also receive fifteen percent of all gross revenues collected from the sale of bus shelter advertising. The contract requires a minimum annual revenue of \$50,000 to the City.

Per the contract, the City has the right to use bench-advertising space, up to a maximum of 50% of all unsold bench space, for any City advertising. The City can also use 25% of all unsold shelter space for advertising.

CONCLUSION

We found that Lamar and the City were generally in compliance with the terms of the agreement. However, we found areas where the agreement could be improved along with the City's ability to administer the contract.

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OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

OBSERVATION 1 – THE CONTRACT LANGUAGE AND PROCESSES BETWEEN CITY AND LAMAR CORPORATION WERE LACKING

In our review of the contract requirements and current operations, we noted the following areas of improvement:

- Lamar Corporation and the City each have a list of inventoried bus benches and bus shelters. The lists did not agree in total number of bus benches or bus shelters. There was not a common identifier to determine the specific discrepancies between the two lists. Lamar's inventory noted 491 bus benches and 140 bus shelters while the City's inventory indicated 495 bus benches and 125 bus shelters.
- The contract indicated revenues paid to the City may be offset through 'in-kind' services. City personnel indicated approximately \$7,000 of in-kind services were provided in lieu of revenue in 2009. Our review noted insufficient documentation of the activities provided or City approval of such activity for adequate internal controls.
- The contract indicates Lamar should provide the City with a report of all advertising contracts in effect on January and July of each year. This was not provided to the City for the period reviewed.

RECOMMENDATION

We recommend the following to ensure compliance with the contract and adequate contract controls:

- Lamar and the City reconcile the inventory of benches and shelters for agreement.
- Sufficient supporting documentation should be maintained detailing in-kind services, their approvals and the offset of revenue per the contract. This should be well documented and tracked to ensure accuracy.
- Lamar should provide the City with bench and shelter contracts in effect January and July of each year per contract.

CITY MANAGEMENT RESPONSE

- We agree with the recommendation. The lack of system for tracking fixed assets with the City contributed to the differences in inventory numbers. Transit has implemented the M5 system to track fixed assets in mid 2011 together with Trapeze system, which is an interim solution that will help reconcile with the contractor's inventory record. Transit is drafting the new revenue contract RFP, and the monthly inventory report will be requested in the new contract. The new revenue contract is expected to start in February 2012.

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- We agree with the recommendation. Transit will address any unanticipated circumstances on a case by case basis and will document and track them accordingly.
- We agree with the recommendation. The new revenue contract starting in 2012 will require the contractor to submit the advertising contracts in effect monthly. A project manager from Transit will receive and reconcile the advertising revenue.

OBSERVATION 2 – THE CONTRACT DOES NOT ADDRESS THE DISCOUNTS LAMAR ALLOWED ON ADVERTISING SPACE FOR BUS BENCHES AND BUS SHELTERS

Reviewing a sample of the contracts held by Lamar for bus and shelter advertising, we noted that Lamar was discounting agreements from their stated website rates. The discounts were significant and appeared to be different from contract to contract. However, since the City receives a percentage from gross revenues received, discounts diminish the revenues received by the City.

Lamar staff indicated the practice of providing discounts to customers was a normal way of doing business. It was also indicated that the recent economic stress was further causing discounts to be necessary. The contract has been in place for 10 years and requires a minimum payment to the City which has been exceeded each year of the contract. However, the contract does not address discounts or limitation of discounts. As Lamar provides productions and other services, it is possible that a discount could be taken on advertising to obtain greater production cost. This would maximize Lamar's revenues and reduce the revenues due the City.

RECOMMENDATION

We recommend the City consider adding discount limitation language or renegotiate revenue measurement in current or future shelter and bench advertising contracts.

CITY MANAGEMENT RESPONSE

- We agree with the recommendation. Limitations on the advertising discount will be included in the new contract starting in 2012.

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OBSERVATION 3 – THE CITY DID NOT HAVE AN ABILITY TO PERFORM RECONCILIATIONS TO ENSURE THEY WERE RECEIVING THE CORRECT AMOUNT OF REVENUE FROM LAMAR

Because revenue due the City per the contract was a percentage of gross revenue received monthly, Lamar provided the City with a Collections Report that stated by customer and service type, the customer receipts for the month with a calculation of receipts due City as remitted with the report. This data alone was insufficient to verify that all receipts due the City have been recognized and paid. There are various ways to reconcile the receipts. If the City received contract copies for example, which indicate billing period and amounts as well as an accounts receivable month end ledger, spot checks for accurate billing and remittance could be accomplished.

RECOMMENDATION

We recommend that the City work with Lamar to obtain additional information to verify billings, receipts and past due amounts.

CITY MANAGEMENT RESPONSE

- We agree with the recommendation. The current revenue contract payment is calculated on a “cash” basis. Lamar does not make any payment to the City until the advertising revenue is received by Lamar. At the time that the City receives the payment, the advertising contract could have expired. This imposes great difficulty for Transit to reconcile and verify the receipts due the City to the corresponding advertising in place.

The new revenue contract in 2012 will state that payment has to be made on an “accrual” basis. In the new contract, Transit will also require monthly reports that support the current period advertising, amount due to the City and the advertising locations so that spot checks could be performed by the City.

CITY COUNCIL'S OFFICE OF THE CITY AUDITOR

COLORADO SPRINGS, COLORADO

About our Office

The mission of the Office of the City Auditor is to provide City Council with an independent, objective and comprehensive auditing program for operations of the City. Our auditing program includes:

- Evaluating the adequacy of financial controls, records and operations
- Evaluating the effectiveness and efficiency of organizational operations
- Providing Council, management and employees objective analysis, appraisals, and recommendations for improving systems and activities

The Office of the City Auditor is responsible for auditing the systems used by the City of Colorado Springs and its enterprises, including Colorado Springs Utilities, Memorial Health System, and Colorado Springs Airport. We perform a variety of audits for these entities, including financial audits, performance audits, contract audits, construction audits, and information system audits. We also perform follow-up on a periodic basis to monitor and ensure management actions have been effectively implemented.

Authorization and Organizational Placement

Our audits are conducted under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705 and 706 of the Code. The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council.

Audit Standards

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors. The audit included interviews with appropriate personnel and included such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests were performed. Sufficient competent evidential matter was gathered to support our conclusions.