



September 13, 2023

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Bus Advertising Revenue Program, Internal Audit Report
No. 23-516

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed an audit of the bus advertising revenue program, including oversight, contract compliance, and remittance review controls related to Agreement No. C-5-3076 with Outfront Media Group, LLC. Based on the audit, Outfront Media Group, LLC complies with contract terms; however, one recommendation has been made to enhance remittance review controls and enforce reporting requirements.

Recommendation

Direct staff to implement one recommendation provided in Bus Advertising Revenue Program, Internal Audit Report No. 23-516.

Background

The Marketing and Customer Engagement Department (Department) within the People and Community Engagement (PACE) Division is responsible for overseeing the operation of bus advertising revenue agreements and activities. The Orange County Transportation (OCTA) entered into a contract with Outfront Media Group, LLC (Outfront) to sell, place, administer, and manage advertisements on the interior and exteriors of OCTA buses. The contract was effective July 1, 2015, for a period of three years, with two, two-year options and one additional year, approved by the Board of Directors (Board). Outfront guarantees a minimum annual revenue of \$4 million plus 70 percent of actual gross revenues in excess of \$4 million. During the period from April 1, 2020, through December 31, 2021, amid service cuts due to the coronavirus pandemic,

the Board approved a contract amendment to suspend the minimum revenue guarantee and accept just 70 percent of gross revenues generated.

Per the contract, Outfront must provide a posting report detailing all units of advertisements on OCTA vehicles during a specified period, including any “bonuses” (free advertisements) provided. Accompanying each remittance, Outfront is required to submit a certified statement of all applicable gross revenues (statement).

Discussion

Statements and remittances are not certified as “true, complete, and correct”, as required, and the project manager’s review of the statements is not documented. Additionally, information listed on monthly posting reports is not verified to underlying contracts to ensure accurate and complete reporting of all contract revenues. Monthly posting reports also do not include all the information required by the contract, such as the number of installed advertising units and any free advertisements provided. Internal Audit recommended management implement controls to verify accurate and complete reporting of revenues, enforce reporting requirements, monitor free advertisements, and require the contractor to certify statements and the project manager to document reviews. Management agreed and will implement oversight procedures effective December 1.

Summary

Internal Audit has completed an audit of OCTA’s Bus Advertising Revenue Program and has offered one recommendation, which management agreed to implement or otherwise address.

Attachment

- A. Bus Advertising Revenue Program, Internal Audit Report No. 23-516

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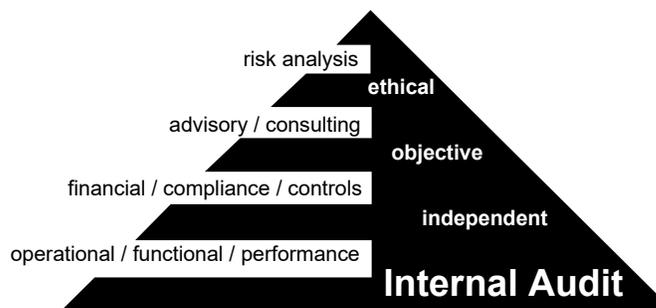
ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Bus Advertising Revenue Program

Internal Audit Report No. 23-516

August 31, 2023



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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of the bus advertising revenue program, including oversight, contract compliance, and remittance review controls related to Agreement No. C-5-3076 (contract) with Outfront Media Group, LLC (Outfront). Based on the audit, Outfront complies with contract terms; however, one recommendation has been made to enhance remittance review controls and enforce reporting requirements.

Background

Bus Advertising Revenue

The bus advertising program allows OCTA to generate additional revenue to support bus operations. OCTA's service area covers 797 square miles throughout Orange County as well as downtown Los Angeles and Long Beach.

The Marketing and Customer Engagement Department within the People and Community Engagement Division (PACE) is responsible for overseeing the operation of bus advertising revenue agreements and activities. OCTA entered into the contract with Outfront to sell, place, administer, and manage advertisements on the interior and exteriors of OCTA buses.

Contract

The contract was executed on July 21, 2015, for a period of three years from September 1, 2015, through August 31, 2018, with two, two-year option terms. Under the contract, Outfront guarantees a minimum annual revenue of \$4 million plus 70 percent of actual gross revenues in excess of \$4 million. During the period from April 1, 2020 through December 31, 2021, amid service cuts due to the coronavirus pandemic, the Board approved a contract amendment to suspend the minimum revenue guarantee and accept just 70 percent of gross revenues generated. In March 2022, the Board approved an additional 12-month extension to the contract, beyond the original and option terms.

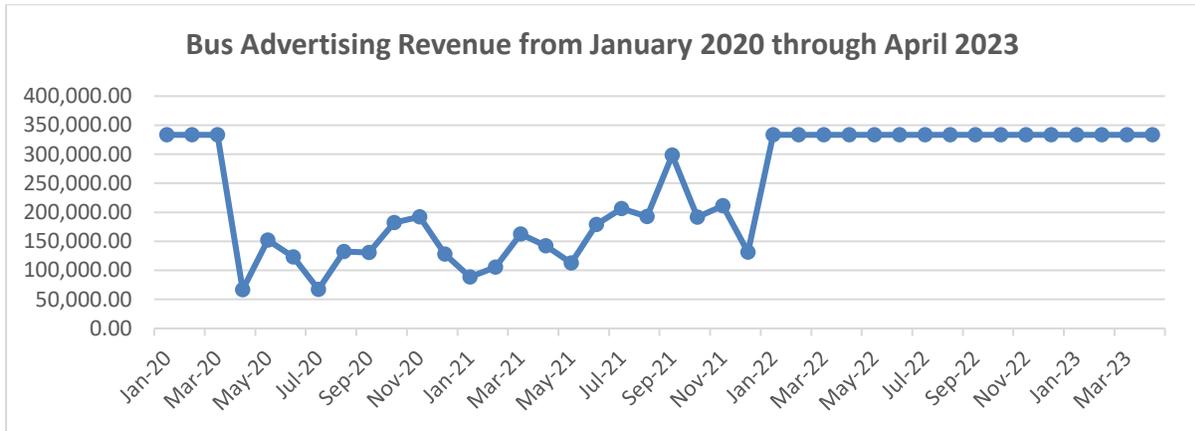
Per the contract, Outfront must provide a posting report detailing all units of advertisements on OCTA vehicles during a specified period, including any "bonuses" provided to advertisers. Bonuses refer to advertisements provided for free as a supplement to paid advertisements sold. Also, upon request, Outfront must provide copies of advertising contracts and a bus inventory report, reflecting current installations on each bus in the fleet.

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Revenue Remittance

Accompanying each remittance, Outfront is required to submit a certified statement of all applicable gross revenues (statement). The project manager agrees the amount on the monthly statement to the total reflected on the posting report and forwards the statement to Accounts Receivable. Accounts Receivable prepares the daily cash report and reconciles the amount received in OCTA's bank account to the statement from Outfront.

The following reflects revenue generated from January 2020 through April 2023:



Objectives, Scope, and Methodology

The objectives were to assess and test contract oversight and compliance, and remittance review controls related to the agreement for bus advertising with Outfront.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.¹ The components and principles that were evaluated as part of this audit are:

- Control Environment
 - OCTA demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.

¹ See U.S. Government Accountability Office publication, "Standards for Internal Control in the Federal Government," available at <http://www.gao.gov/products/GAO-14-704G>, for more information.

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- Control Activities
 - OCTA deploys control activities through policies that establish what is expected and procedures that put policies into action.

The methodology consisted of testing compliance with bond and insurance contract requirements, testing compliance with OCTA Safety Requirements & Procedures for Installation and Removal of Bus Advertisements, assessing remittance review procedures, and testing remittances and monthly reports for accuracy and compliance with contract provisions and the OCTA Advertising Policy.

The scope is limited to the contract with Outfront, and all amendments to the contract. The scope included testing of a haphazard sample of bus base sign-in sheets and bus advertisement installation inspection reports during April 2023, and all incident investigation reports and claim letters during fiscal year 2022-23. The scope also included all remittance payments, monthly statements of all applicable gross revenue, and monthly posting reports received for bus advertising revenue from January 2021 through April 2023, as well as a judgmental sample of advertisement contracts and bus advertisement installation reports from January 2021 through December 2021, selected with a bias for the period when remittance was based on 70 percent of gross revenue. Since the samples were non-statistical, any conclusions are limited to the sample items tested.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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Audit Comment, Recommendation, and Management Response

Remittance Review and Monitoring Controls

Statements of gross revenues and supporting remittances are not certified as “true, complete, and correct”, as required, and the project manager’s review of the statements is not documented. Additionally, information listed on monthly posting reports is not verified to underlying contracts to ensure accurate and complete reporting of all contract revenues. Monthly posting reports also do not include all the information required by the contract, such as the number of installed advertising units and any bonuses (free advertising space) provided.

Recommendation 1:

To ensure all gross revenues are reported and the revenue share accurately paid to OCTA, management should implement controls to periodically verify information on the posting report to the underlying advertising contracts. In addition, management should enforce requirements to report bonuses and should monitor bonuses for reasonableness. Finally, management should ensure statements include the required contractor certification and evidence of review by the project manager.

Management Response:

Management has advised the project manager and will implement oversight procedures effective December 1st, alongside the new Transit Advertising Revenue contract. This includes establishing a schedule for verifying monthly posting reports against underlying contracts and requiring a review signature to guarantee the contract certification statement and bonuses are included on monthly statements.