

# City Of Greater Sudbury

## Quarterly Report On AG Audit Results

### Transit and Community Arena Advertising Agreement

August 13, 2013

# Transit and Community Arena Advertising Agreements



## AGENDA

	Page
Summary Of Risks And Scope .....	3
Observations And Action Plans .....	4

# Transit and Community Arena Advertising Agreements



## SUMMARY OF RISKS AND SCOPE

### Scope

Administration of the Transit and Community Arena Advertising Agreement for the period of 2010, 2011 and 2012.  
(excludes an agreement with the Sudbury Wolves Hockey Club Limited for advertising rights within the Sudbury Arena)

1. Determining whether appropriate value was obtained based on the amount of revenue received through these programs.
2. Evaluating whether the program is following sound procurement practices.
3. Determining whether the program produced intended results or produced results that were not consistent with the program's objectives.

### Risks /Opportunities We Evaluated

- ☐ Contractor's adherence to terms and conditions of the Transit and Community Arena Advertising Agreement.
- ☐ City's administration of the agreement in accordance with agreement terms and City By-laws in the interests of the taxpayers.
- ☐ Accuracy and completeness of gross billings reported by the Contractor to the City, and used in determining annual license fees (City's share of advertising revenues).
- ☐ Validity and reasonableness of direct sales expense reported by the Contractor to the City, and used in determining annual license fees (City's share of advertising revenues).
- ☐ Accuracy of Contractors' calculation of annual license fees.
- ☐ Revenue opportunities for the City.
- ☐ The level of compliance with sound procurement practices, City policies and procedures during the RFP procurement process, the awarding of the agreement and establishment of agreement terms.

### Elements Operating Effectively

- ☐ The exclusive advertising rights for Transit and Community Arenas were awarded through a competitive RFP process.
- ☐ The City's purchasing / procurement policy was followed.
- ☐ License fees were received in a timely manner.
- ☐ "Annual Statements" per paragraph 5.(2), for 2010, 2011 and 2012 were signed by a representative of BK Corporate Marketing Services, certifying to their accuracy.

### Elements Not Operating Effectively

- ☐ Receipt of the "Annual Statement" per paragraph 5.(2), within 90 days of the 2012 fiscal year-end.
- ☐ Receipt of the "Yearly Statement" per paragraph 5.(1), for fiscal year-end in 2010, 2011 and 2012.
- ☐ Deduction of direct sales expense intended for new initiatives.
- ☐ Bundling of Transit and Community Arena Advertising rights into a single RFP and agreement.

### Value For Money Considerations

- ☐ An opportunity exists to review the terms and conditions of the agreement as it relates to the deduction of direct sales expense in the determination of annual license fees.

# Transit and Community Arena Advertising Agreements



## 1 - Administration of Transit and Community Arena Advertising Agreement

### Observation

- ☐ The audit revealed that the 2011 and 2012 "Annual Statements" submitted by the Contractor to the City contained a high level of accounting errors.
- ☐ In accordance with the agreement, paragraph 5.(2), the City did receive an "Annual Statement" in 2010, 2011 and 2012, which was certified of it's accuracy by the Contractor and reported gross billings by customer and total direct sales expense.
- ☐ Audit tests showed that the majority of errors found were due to inconsistent sales reporting methods being used (accrual vs cash basis of accounting).
- ☐ Audit tests also revealed advertising transactions where advertisers received the benefit of advertising during the year, where an agreement existed, and the transactions were not reported in the "Annual Statement".
- ☐ Although it is acknowledged that BK Corporate Marketing Services has exclusive rights to sell advertising, audit inquiry revealed advertisements described as verbal agreements (contra, promotional, complimentary, etc.) where advertisers received the benefit of advertising during the year, no evidence of a written agreement existed, and the value of those agreements were not reported in the "Annual Statement".
- ☐ The auditors observed that a "Yearly Statement" was not provided to management in 2010, 2011 and 2012, and could have significantly increased the likelihood that reporting errors would have been identified by the Contractor or detected by City Staff.

### Business Impact

- ☐ Based on our audit tests, after consideration of the net impact of gross billings adjustments, the errors found did not impact the amount of 2012 annual license fees already paid to the City.

### Action Plan

1. Meet with the Contractor in order to develop a proper sales tracking tool described as a "Yearly Statement" in paragraph 5.(1) of the agreement.
2. Monitor sales reported on this basis for the remainder of the base agreement period, and re-evaluate settlement minimums and formulas.
3. Assign staff responsibilities for key elements of contract administration and develop an internal procedure whereby the Contractor's performance of agreement terms and conditions is monitored for compliance and evaluated for accuracy and completeness.

### Action Plan Lead

- ☐ Manager of Transit Administration

### Timing

- ☐ Staff has already contacted the Contractor regarding a proper sales tracking tool as described in paragraph 5.(1). Further meetings will take place in order to finalize the appropriate format.
- ☐ The new sales tracking tool will then be used to compare against the "Annual Statement".
- ☐ The Manager of Transit Administration has been assigned the task of reviewing the terms and conditions of the contract for compliance, accuracy and completeness.



# Transit and Community Arena Advertising Agreements



## 2 - Deduction Of Direct Sales Expense In The Determination Of Annual Fees

### Observation

- ☐ Although the agreement was awarded through a competitive process, there are potential compounding effects of awarding an agreement for terms over five years in an environment with little competition.
- ☐ Advertising services for Transit previously generated the greater of the minimum annual license fee of \$120,000 or 35% of annual gross revenue, for the agreement period ending December 31, 2009.
- ☐ As a result of the prices provided through the RFP process, advertising services for Transit were awarded to the Contractor with the greater of the minimum annual license fee of \$110,000 or 35% of annual gross billings less direct sales expense, for the agreement period ending December 31, 2010.
- ☐ According to management's report to Council for approval of the contract award, the Contractor had advised the City that direct sales expense would be 18%. Each of the Contractor's 2010, 2011 and 2012 "Annual Statements" deducted a direct sales expense of exactly 25.0%.
- ☐ One of the challenges with the RFP Bid Form and Transit Advertising Agreement is that direct sales expense was not defined, nor limited by the agreement.
- ☐ The amendment to the RFP Bid Form to allow for a deduction of direct sales expense was intended for investment in new advertising possibilities where revenues and direct sales expense was unknown such as electronic advertising on buses and / or advertising at the Transit Terminal. These changes have not occurred.
- ☐ If the 35% of gross billings less direct sales expense deduction was 18% as noted in management's report to Council, the effective rate (City's share of advertising revenues) would have been 29%. However, with the increase of direct sales expense to 25% that has been claimed, the City's share of advertising revenues has effectively been reduced to 26% of gross billings.
- ☐ Recognizing that the intended investment in new advertising possibilities has not occurred, the current net effective rate of 26% is 9% less than the previous rate of 35% of annual gross billings.

### Business Impact

- ☐ The annual impact of a 26% share vs a 35% share of gross billings would be \$9,000 per \$100,000 of Transit Advertising billings (where the minimum amount is exceeded).

### Action Plan

4. Eliminate the deduction for direct sales expense at the City's earliest opportunity and establish an appropriate percentage of gross billings and minimum annual license fee amount.

### Action Plan Lead

- ☐ Director of Transit and Fleet Services

### Timing

- ☐ Discussion will occur with the Contractor and Legal Services immediately.

# Transit and Community Arena Advertising Agreements



## 3 - Evaluating Procurement Practices

### Observation

- ☐ Transit, Airport and Community Arena advertising were previously managed under one General Manager and Director. This is no longer the case. · The Airport had been excluded in the 2009 RFP.
- ☐ The ability to offer advertising space in local Community Arenas to prospective Sudbury Arena advertising customers is specific to The Sudbury Wolves Hockey Club Limited, and has no significant benefit to other potential bidders for Transit advertising.
- ☐ Although the RFP process was constructed to allow a proponent to bid on either Transit or Arena advertising or both, the evaluation grid criteria point allotment may have discouraged bid submissions from advertising firms that were not geared to provide both Transit and Community Arena advertising services.
- ☐ Nine plan takers requested documentation supporting the RFP bid process for the agreement granting exclusive advertising rights for both Greater Sudbury Transit and the fourteen Community Arenas. However, only one bid proposal was submitted within the RFP deadline by The Sudbury Wolves Hockey Club Limited, operating as BK Corporate Marketing Services.

### Business Impact

- ☐ There is potential to increase competition from Contractors who specialize in different advertising segments.

### Action Plan

5. Transit advertising services should be separately contracted out (unbundled). Revise the process for issuing and awarding Transit and Community Arena Advertising Agreement with the objective of maximizing competition and potential advertising revenues for the City.

### Action Plan Lead

- ☐ Director of Transit and Fleet Services
- ☐ Manager of Arenas

### Timing

- ☐ At agreement renewal or new RFP