



November 13, 2013

To: Finance and Administration Committee
From: Darrell Johnson, Chief Executive Officer
Janet Sutter, Executive Director
Internal Audit Department
Subject: Review of Bus Advertising Revenue Program and Agreement with Titan Outdoor, LLC

Overview

The Internal Audit Department has completed a review of the Bus Advertising Revenue Program and Agreement No. C-0-1329 between the Orange County Transportation Authority and Titan Outdoor, LLC. Based on the review, Titan Outdoor, LLC provides accurate and timely payments to the Orange County Transportation Authority; however, controls to ensure compliance with contract terms related to safety and subcontractors should be improved.

Recommendation

Direct staff to implement recommendation provided in the Review of Bus Advertising Revenue Program and Agreement No. C-0-1329 with Titan Outdoor, LLC., Internal Audit Report No. 14-506.

Background

Advertising on the Orange County Transportation Authority's (OCTA) fixed-route and ACCESS vehicles provides OCTA with a means to generate additional transit revenue. Titan Outdoor, LLC (Titan) is responsible for selling advertising space and placing and removing ads from OCTA buses at the applicable bus base location.

Under the agreement, OCTA receives 62 percent of the gross revenue earned by Titan for the sale of advertising space on OCTA buses. The five year agreement with Titan guarantees OCTA a minimum of \$17,000,000. At the end of each contract year, Titan is required to calculate the amount, if any, by which 62 percent of the actual gross revenue exceeded the aggregate minimum

annual guarantee amount and to remit payment to OCTA within 30 calendar days of year end.

A program administrator in the Marketing and Customer Engagement Department of the External Affairs Division is responsible for oversight of the agreement.

Discussion

The Internal Audit Department (Internal Audit) found that a subcontractor of Titan performing installation and removal work at OCTA base locations is not listed in the agreement as a subcontractor and, on one occasion, failed to comply with OCTA safety rules upon entering a bus base. In addition, certain safety-related documents to be provided by Titan per the agreement were not on file. Internal Audit recommended management implement controls to ensure only authorized subcontractors are allowed access to bus bases, required safety documentation is obtained from the contractor, and OCTA safety rules and regulations are communicated. Management agreed and indicated that subcontractors would be identified and added to the agreement as required. Also, management indicated that they will work with the Health, Safety, and Environmental Compliance Department to ensure required documentation is obtained and training on OCTA safety rules and regulations is conducted.

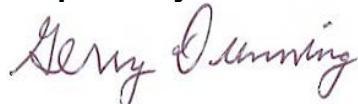
Summary

Based on the procedures performed, Internal Audit has concluded that Titan provides accurate and timely payment to OCTA; however, controls to ensure compliance with contract terms related to safety and subcontractors should be improved.

Attachment

- A. Review of Bus Advertising Revenue Program and Agreement No. C-0-1329 with Titan Outdoor, LLC., Internal Audit Report No. 14-506

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Orange County Transportation Authority Internal Audit Department



Review of Bus Advertising Revenue Program and Agreement No. C-0-1329 with Titan Outdoor, LLC.

INTERNAL AUDIT REPORT NO. 14-506

October 30, 2013



Internal Audit Team: Janet Sutter, CIA, Executive Director, Internal Audit
Gerry Dunning, CIA, CISA, CFE, Senior Internal Auditor

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CONCLUSION

The Internal Audit Department (Internal Audit) has completed a review of the Bus Advertising Revenue Program and Agreement No. C-0-1329 (Agreement) between the Orange County Transportation Authority (OCTA) and Titan Outdoor, LLC (Titan). Titan provides advertising sales and administration for OCTA's bus advertising revenue program. Based on the review, Titan provides accurate and timely payments to OCTA; however, controls to ensure compliance with contract terms related to safety and subcontractors should be improved.

BACKGROUND

Advertising on OCTA's fixed route and ACCESS vehicles provides OCTA with a means to generate additional transit revenue. Titan is responsible for selling advertising space and placing and removing ads from OCTA buses at the applicable bus base location. Under the Agreement, OCTA receives 62 percent of the gross revenue earned by Titan for the sale of advertising space on OCTA buses. Gross revenue is determined by deducting any sales commissions (not to exceed 15 percent of revenue) from advertising revenue. Sales commissions are industry standard practice for advertisers that use advertising agencies to purchase advertisements on their behalf.

The cumulative minimum guarantee for the five-year contract, assuming the execution of both option years, is \$17,000,000.

Contract Year	Minimum Guarantee
September 1, 2010-August 31, 2011	\$3,100,000
September 1, 2011-August 31, 2012	\$3,250,000
September 1, 2012-August 31, 2013	\$3,400,000
September 1, 2013-August 31, 2014	4 th year option
September 1, 2014-August 31, 2015	5 th year option
Total	\$17,000,000

The Agreement with Titan requires monthly reporting of advertising sold and revenue collected and payment to OCTA for an amount equal to one-twelfth of the minimum annual guarantee amount. At the end of each contract year, Titan is required to calculate the amount, if any, by which 62 percent of the actual gross revenue exceeded the aggregate minimum annual guarantee amount and to remit payment to OCTA within 30 calendar days of the end of year end.

The marketing program administrator (administrator) in the Marketing and Customer Engagement Department of the External Affairs Division is responsible for oversight of this Agreement. The administrator tracks all revenues reported and reviews the year-end calculation to ensure any excess revenues due are paid. Also, to monitor and verify that Titan is properly reporting all revenues received, the administrator

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coordinates garage audits with base personnel to verify that all advertisements on OCTA buses are reflected in reports received from Titan. Finally, the administrator periodically confirms contract revenues with a sample of advertisers to ensure that Titan is accurately reporting revenues received on monthly reports.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this review was to evaluate the adequacy of monitoring controls and contract compliance related to the Agreement with Titan. The scope of the review included activities and transactions during the period September 1, 2010 through June 30, 2013. The review methodology included the following:

- Review of compliance with key terms of the Agreement with Titan;
- Review of the monthly revenue reports to determine if revenue was accurately posted to the general ledger and if payments were made on time;
- Review of a sample of contracts between Titan and advertisers to determine if the revenue amounts per the contract agree with amounts reported to OCTA;
- Review of procedures in place to verify that all advertisements on OCTA buses are accurately reflected in the monthly revenue reports provided to OCTA;
- Review of procedures in place to independently confirm revenue amounts with advertisers for the purpose of determining that all revenue is reflected in monthly reports from Titan.

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards. 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 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

Contract Provisions Related to Safety and Subcontractors Should be Enforced

Titan utilizes subcontractors to place and remove advertisements on OCTA buses. This work is performed on-site at OCTA bus base locations. Internal Audit discovered that one of the subcontractors used to perform this work is not listed in the Agreement and, on one occasion, failed to comply with OCTA safety rules upon entering a bus base.

The Agreement with Titan also requires the contractor to furnish certain safety-related documents to OCTA prior to commencing work, such as copies of the company safety manual, substance abuse prevention policy, and certification of compliance of the company injury and illness prevention policy with the California Code of Regulations Title 8, Section 3203. These required documents were not on file at the time of this review.

Recommendation 1:

Internal Audit recommends that management implement controls to ensure only authorized subcontractors are allowed access to bus bases and are named in the Agreement. Further, management should ensure that all required safety documentation is obtained and OCTA rules and regulations are communicated.

Management Response:

Management concurs. The Marketing Department has requested a full list of subcontractors used by Titan and will add them to the bus advertising contract. In addition, the Marketing Department is working with OCTA's construction safety officer to obtain appropriate safety rules and regulations in order to develop the policy and procedures for bus advertising installation. These tasks are targeted to be completed and added to the Titan contract by the end of December, 2013. The Marketing Department will also work with the Health, Safety & Environmental Compliance Department to conduct safety training with Titan's subcontractors upon completion of the bus advertising installation policy and procedures.