

CONTRACT ADMINISTRATION: METRO TRANSIT ADVERTISING REVENUE CONTRACT

PROGRAM EVALUATION AND AUDIT



**METROPOLITAN
C O U N C I L**

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INTRODUCTION

Background

To supplement transit-related revenues, the Metropolitan Council sells advertising space on its buses and light rail vehicles, and at bus stops and rail stations. In total, sales of advertising space generated just over \$4.7 million in 2017. Sales are facilitated through a partnership with a third-party vendor (the Contractor). Per its agreement with the Council, the Contractor delivers 65% of annual net revenues generated through advertising sales to the Council, or a minimum annual guarantee (MAG), whichever is greater. The Council's current contract with the Contractor ends April 30, 2020 with an option to extend the contract through April 30, 2022.

Purpose

Audit reviewed whether the Council provides adequate oversight over its agreement with the Contractor. This was considered through the Thrive MSP 2040 lens. In accordance with the Thrive MSP 2040 principle of accountability, which commits to "monitor and evaluate the effectiveness of our policies and practices" and empowers the council to use its authority to promote equitable outcomes with partners.

Scope

Audit reviewed processes and controls in place across different departments supporting this third-party vendor relationship to identify areas of risk to the Council.

Methodology

To review whether the Council adequately oversees the contract, the following methods of inquiry were used:

- Interviews with staff from Metro Transit Marketing, Finance, and Engineering and Facilities.
- Review of processes and procedures applicable to the contract.
- Review of contract documentation.
- Review of advertising contracts initiated between November 2017 and May 2018.
- Review of a sample of ads on buses, rail vehicles, and shelters in July 2018.

Assurances

This audit was conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and the U. S. Government Accountability Office's Government Auditing Standards.

OBSERVATIONS

Audit replicated Metro Transit Accounting's process and methodology for tracking payments and revenue to determine if there were any gaps in the process. Audit found the process used by Metro Transit Accounting to ensure correct payments or accurate accounting of contract revenue by the Contractor is adequate. Further, Metro Transit Marketing maintains a good relationship with the Contractor and takes steps to ensure key clauses of the contract are adhered to. However, Audit did find there to be some areas for improvement.

Advertising contracts provided by the Contractor to Metro Transit are not always clear

Audit found in its testing, that in some cases, Accounting was not provided with certain advertising contract information such as the contract number and start date. The Contractor enters into contracts with advertisers and provides Metro Transit with copies of those contracts. Accounting has indicated that these issues are not uncommon, and staff spend time clarifying information with the Contractor. This information is needed by Accounting to track contracts and is used to validate the Contractor's payments. For this reason, Accounting has encouraged the Contractor to include a cover sheet with each contract, which they have largely agreed to. The contract between the Council and the Contractor does not require the Contractor to provide a coversheet with each contract.

Contract change notifications are sometimes not provided in a timely manner

Audit found the Contractor does not always forward contract change notifications (CCNs) to Accounting. As of August 2018, a total of seven contracts with a total variance of roughly \$75,000 are being reviewed by Accounting because the contract language does not match up with the payments received by the Contractor from advertisers. Some contracts date back as far as 2015. While this variance does not represent money owed to Metro Transit, it is a way of tracking whether a contract has been fully paid. A variance on a contract is likely the result of a CCN not being provided to Accounting. The contract with the Contractor requires the Contractor provide the Council with all advertising contracts, amendments to such contracts and cancellation notices for such contracts entered into by the Contractor in connection with the contract. The contract with the Contractor does not specify the timeframe in which contracts or amendments are to be provided, it only states that they must be provided promptly upon their execution or effectiveness.

Recommendation

- 1. (Significant)** Prior to the next RFP process, Metro Transit should consider incorporating Accounting's requirements directly into the contract, such as setting a timetable to ensure contracts and CCNs are received in a timely manner and requiring a coversheet to be submitted with contracts.

Management Response: Prior to the next RFP for advertising sales being issued, marketing staff will meet with accounting staff and procurement staff to consider incorporating the following requirements into the next contract for selling advertising space on Metro Transit assets:

- a cover sheet be required with each advertising contract submitted to Metro Transit Accounting including the contract # and contract start date among other information.

- a standard timeframe for submission of contract change notifications (CCNs) be established and incorporated into the contract with the selected vendor.

Staff Responsible: Director of Customer Services and Marketing, Manager of Market Development (typically the Metro Transit contract manager) and Manager of Accounting

Timetable: The current contract expires on April 30, 2020 however, two one-year extensions could continue the contract until April 2022.

Thrive 2040 Principles: Accountability

CONCLUSIONS

Ensuring proper oversight of the contract with the Contractor is important in protecting the interests of the Council. Metro Transit Accounting has taken steps to ensure payments or accurate accounting of contract revenue by the Contractor is adequate. Further, Metro Transit Marketing maintains a good relationship with the Contractor and has taken steps to ensure key clauses of the contract are adhered to. However, there are some requirements that could be included directly into the contract that would make the oversight process easier and more efficient.

Appendix

Program Evaluation and Audit recommendations are categorized according to the level of risk they pose for the Council. The categories are:

- **Essential** – Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit Database and status is reported twice annually to the Council's Audit Committee.
- **Significant** – Adds value to programs or initiatives of the Council but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Council's Audit Committee.
- **Considerations** – Recommendation would be beneficial but may be subject to being set aside in favor of higher priority activities for the Council or may require collaboration with another program area or division. Considerations are not tracked or reported. Their implementation is solely at the hands of management.
- **Verbal Recommendation** – An issue was found that bears mentioning but is not sufficient to constitute a control risk or other repercussions to warrant inclusion in the written report. Verbal recommendations are documented in the file but are not tracked or reported regularly.



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