



**CITY OF COLORADO SPRINGS
OFFICE OF THE CITY AUDITOR**

**08-03 – AIRPORT – INTERSPACE
ADVERTISING CONTRACT COMPLIANCE**

PUBLIC REPORT

March 12, 2008

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Office of the City Auditor

Public Report

Date: March 12, 2008
To: Honorable Mayor and Members of City Council
Re: 08-03 – Airport – Interspace Advertising Contract Compliance

We performed a contract compliance audit of the agreement between the City of Colorado Springs Airport and Interspace Advertising dated July 26, 2000 and amended on July 26, 2005. The agreement pertains to advertising space at the Colorado Springs Airport, which is marketed by Interspace Advertising in accordance with this exclusive agreement.

As background information, Interspace Airport Advertising is a wholly owned subsidiary of Clear Channel Outdoor, Inc. Their mission is to “create successful airport partnerships which develop exciting and attractive community showcase programs which link those airports closer to their regional business community and deliver substantial increases in revenue to our partners.” The Colorado Springs Airport entered into an agreement with Interspace Airport Advertising in July 2000 for five years with an option to renew. In 2005, the contract was renewed for two additional five year terms.

The purpose of this audit was to determine whether the amounts due the Colorado Springs Airport were properly calculated and paid in a timely manner in accordance with the terms of the agreement. We also determined whether the terms of the concessionaire agreement were being followed. Our audit included years 2002 through June 2006, with detailed test work in 2005 and 2006.

We conclude that overall, the amounts due the Airport were properly calculated and paid in a timely manner in accordance with the terms of the agreement. We also found the terms of the agreement were being followed. However, we have made four recommendations that should strengthen the controls associated with amounts due the Airport.

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

Sincerely,

A handwritten signature in blue ink that reads "Jeff Litchfield".

Jeff Litchfield
City Auditor

Cc: Penelope Culbreth-Graft, DPA, City Manager
Greg Nyhoff, Assistant City Manager
Mark Earle, Director of Aviation
Gisela Shanahan, Assistant Director of Aviation
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Abbreviations and Acronyms Used in this Report:

IAA Interspace Airport Advertising
Airport City of Colorado Springs Airport

Introduction

AUTHORIZATION

We performed a contract compliance audit of the concession agreement between the City of Colorado Springs Airport (Airport) and Interspace Airport Advertising dated July 26, 2000 and amended on July 26, 2005.

We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the City Code, and more specifically parts 703, 705 and 706, which state:

1.2.703: ENSURE PUBLIC ACCOUNTABILITY:

The City Auditor shall ensure that administrative officials are held publicly accountable for their use of public funds and the other resources at their disposal. The City Auditor shall investigate whether or not laws are being administered in the public interest, determine if there have been abuses of discretion, arbitrary actions or errors of judgment, and shall encourage diligence on the part of administrative officials.

1.2.705: DETERMINE EFFECTIVENESS AND EFFICIENCY OF PROGRAMS:

The City Auditor shall determine the extent to which legislative policies are being efficiently and effectively implemented by administrative officials. The City Auditor shall determine whether City programs are achieving desired objectives. The City Auditor shall review the administrative control systems established by the enterprises, department or group managers and by the City Manager, Utilities Executive Director and Memorial Hospital Executive Director and determine whether these control systems are adequate and effective in accomplishing their objectives.

1.2.706: EXAMINE BOOKS, RECORDS:

The City Auditor shall examine and inspect all books, records, files, papers, documents and information stored on computer records or in other files or records relating to all financial affairs of every office, department, group, enterprise, political subdivision and organization which receives funds from the City or under the direct or indirect control of the City Council. The Auditor may require any person to appear at any time upon proper notice and to produce any accounts, books, records, files and other papers pertaining to the receipt or expenditure of City funds, whether general or special. If that person fails to produce the papers, then the Auditor may request Council approval to search for and take any book, paper or record in the custody of that person or public official.

Introduction

ORGANIZATIONAL PLACEMENT

The Colorado Springs 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. The audited entity in this audit was an external contractor—Interspace Airport Advertising and the Airport. The Director of Aviation at the Airport reports to the City Manager, who is also appointed by City Council.

SCOPE AND METHODOLOGY

The purpose of this audit was to determine whether the amounts due the Airport were properly calculated and paid in a timely manner in accordance with the terms of the agreement. We also determined whether the terms of the concessionaire agreement were being followed. Our audit included years 2002 through June 2006, with detailed test work in 2005 and 2006.

We conducted our audit 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. Our audit included such tests of records and other supporting documentation as we 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.

BACKGROUND

Interspace Airport Advertising is a wholly owned subsidiary of Clear Channel Outdoor, Inc. Their mission is to “create successful airport partnerships which develop exciting and attractive community showcase programs which link those airports closer to their regional business community and deliver substantial increases in revenue to our partners.” The Airport entered into an agreement with Interspace Airport Advertising in July 2000 for five years with an option to renew. In 2005, the contract was renewed for two additional five year terms.

The agreement pertains to advertising space at the Colorado Springs Airport, which was marketed by Interspace Airport Advertising in accordance with this exclusive agreement.

OVERALL CONCLUSION

We conclude that overall, the amounts due the Airport were properly calculated and paid in a timely manner in accordance with the terms of the agreement. We also found the terms of the agreement were being followed. However, we have made four recommendations that should strengthen the controls associated with amounts due the Airport.

For the findings that follow, we have made no determination as to which findings are more important than others. Therefore, the findings are not listed in order of importance.

Findings, Recommendations and Responses

1. Procedures were not adequate to ensure the payments received from Interspace Airport Advertising (IAA) were accurate.

The Airport accepted payments from IAA and did not verify the payments were accurate.

During our detail test period, we identified an advertiser whose contract started on March 15, 2005 and terminated April 26, 2007. No payments were made for this contract until April 2007, when IAA submitted \$8,942 to the Airport. The lack of a systematic approach to verifying revenues could result in lost revenue to the Airport and advertisers could receive free advertising space.

Auditor's Recommendation:

We recommend the Airport develop procedures to verify payments received from IAA are accurate.

Airport's Response:

The Airport partially agrees with the recommendation. The Airport disagrees that no procedure was in place to verify payments from IAA. The Airport agrees that the procedure should be improved. Previously, the Airport Properties Department conducted monthly audits of the Interspace reports to verify that revenue for current advertisers was being reported and remitted to the Airport as required. The specific contract mentioned in this recommendation was an oversight due to human error. The advertiser involved had two displays at the Airport. Because monthly revenues were remitted for the advertiser, the omission of one payment was not immediately identified. Interspace worked with the advertiser and eventually resolved the billing issue and collected the account in full. No revenue was lost. The decision to leave the advertising copy in place was based on the advertiser's history of making timely payments on their first display account.

In 2007, the Airport changed its procedure to include a separate reconciliation by both the Properties and Finance Departments. For calendar 2007 and forward, monthly reconciliations have been completed to cross-check the display audit with the revenue report to verify that every display at the Airport is reported as a separate item on the monthly revenue report from IAA.

A reconciliation procedure has always been in place and all accounts from 2007 on have been reconciled with an improved procedure that is designed to identify discrepancies such as the missing payment discussed in this recommendation.

Findings, Recommendations and Responses

2. IAA agreements did not always specify the amounts associated with various types of charges.

The percentage fee due the Airport was difficult to determine on some advertising agreements because the agreements did not specify the amounts associated with various types of charges. The advertising agreements were designed to breakout the various types of charges, which was important because the phone charge and the brochure charge are excluded from Gross Receipts in calculating the amount due to Airport. Per Section 2.02b of the contract, "...the following shall be excluded from Gross Receipts:...3) Any amounts paid by advertisers in connection with the design, fabrication, or installation of any advertiser's specialty or custom display/graphics or with the printing, distribution or maintaining of any advertiser's brochures, 4) Amounts charged to advertiser's for telephone service."

Auditor's Recommendation:

We recommend that IAA complete the advertising agreements to show the various types of charges included in each agreement.

Airport's Response:

The Airport partially agrees with this recommendation. The Airport disagrees that IAA's statements do not include itemized charges. The majority of IAA'S advertising agreements itemize the amounts paid which are excluded from gross receipts. The Airport agrees that a very small number of agreements do not have these amounts itemized. To address the issue of agreements that do not itemize charges, the Properties Manager currently reviews new IAA agreements to verify the itemization of charges. In cases where the itemization is not included, the Manager contacts IAA and requests a new advertising agreement be remitted to the Airport. In addition, all current agreements that do not include itemization charges have been forwarded to IAA for correction.

Findings, Recommendations and Responses

3. The Annual Reconciliation for 2006 was not available for review.

Per Section 2.04, Payment Fee and Annual Adjustment of the contract, "In addition, at the end of each year, Concessionaire shall prepare and submit to City a statement certified by an Officer of Concessionaire showing the total Percentage Fee for the said year, as well as the annual Percentage Fee payment, the amount of such overpayment shall be credited to the Minimum Guarantee next due thereafter from Concessionaire."

IAA is required by the contract to show the amount paid in order to determine if money is due to or from the Airport and to calculate a new Minimum Guarantee. We were unable to obtain a copy of the annual reconciliation for 2006.

Auditor's Recommendation:

We recommend IAA provide a copy of the annual reconciliation as required by the agreement.

Airport's Response:

The Airport agrees with this recommendation. The Airport has sent several requests for the 2006 Certified Statement. The tenant will be placed in default if the report is not received by February 29, 2008.

(Note: The required 2006 Certified Statement report, dated February 15, 2008, was received prior to February 29, 2008. Interspace Airport Advertising has not been placed in default at this time.)

Findings, Recommendations and Responses

Opportunity for Improvement

4. Monitoring of agreements could be enhanced.

According to the Conditions of Agreement Term, "This Agreement shall be fully valid upon signing regardless of the payment status of Advertiser. The Initial Term of this Agreement and Commencement Date of the Initial Term are stated on the front side of this Agreement. This Agreement shall automatically renew for consecutive calendar quarters beyond the Initial Term (Renewal Term). This Agreement may only be terminated (by any party) with 90 days prior written notice effective the last day of the Initial Term or, thereafter, effective the last day of any calendar quarter (i.e. 3-31, 6-30, 9-30, 12-31), except as otherwise provided below. All Renewal Terms under this Agreement shall with notice be subject to changes to the Monthly Fee by IAA."

In January and February 2006, we noticed nine agreements that appeared to be operating under the automatic renewal for consecutive quarters. The Initial Term on one agreement expired on October 12, 2002 and a new agreement had not been prepared. While this doesn't violate the terms of the agreement, it may not be in the Airport's best interest to allow this practice. If the market price for this rental space changes, that change should be passed on to the advertiser with a new agreement.

Auditor's Recommendation:

We recommend that the Airport monitor the advertising agreements and encourage IAA to prepare new agreements after the initial term expires. The Airport also needs to receive copies of all revised agreements.

Airport's Response:

The Airport partially agrees with this recommendation. The Airport does monitor the agreements of IAA; however, it is not the practice of the Airport to become involved in the internal business practices of its tenants. The advertising industry is particularly vulnerable to economic conditions. Entering into long term agreements benefits both IAA and the Airport by providing a consistent base of advertising revenue. Short term agreements are easily cancelled by the advertiser. When businesses are looking for cost cutting measures, a short term contract subject to rate increases is vulnerable to cancellation. Short term contracts at the Airport are cancelled on a regular basis, as is evidenced by the number of cancellations reported on IAA's monthly report.

There are currently empty displays available at the Airport. We recognize the risk associated with the current practice; however, until such time as there are more requests than available space for advertising, the Airport agrees with IAA's current business practices.