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Audit of Billboard Advertising Revenue and Contract Compliance

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AUDIT OF BILLBOARD ADVERTISING REVENUE AND CONTRACT COMPLIANCE

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DELAWARE RIVER PORT AUTHORITY

OFFICE OF THE INSPECTOR GENERAL

AUDIT OF BILLBOARD ADVERTISING REVENUE AND CONTRACT COMPLIANCE

A. Objective / Scope / Methodology

The Office of the Inspector General (OIG) conducted an audit of the Authority's Billboard Advertising License Agreements. These license agreements represent supplemental revenue sources to the Authority and allow the advertising firms to operate and maintain their billboards on Authority property subject to receipt of all requisite permits and approvals and pursuant to the terms and conditions of said license agreements. The audit was conducted by Mark Zitzler, Auditor. The audit objectives included:

- evaluating the process for entering into agreements with billboard advertising firms and assuring current, executed agreements are in place;
- determining how fair market value was / is determined for Authority services provided and documented revenue received;
- assuring retention of required supporting documentation;
- assessing the Authority's contract management practices and controls in place to assure compliance with agreed upon services as documented within the subject agreements (and any amendments, if applicable); and,
- assuring contracted revenue terms are effectively executed, and that revenue is received in a timely manner and accurately calculated.

The scope of our audit covered current license agreements with Clear Channel Outdoor, LLC (Clear Channel) and Keystone Outdoor Advertising Company, Inc. (Keystone), including associated revenue received from January 2018 to date. Based on OIG's initial planning, associated revenue reported during this time period amounts to approximately \$1.4 million. The subject billboards reside on Authority property adjacent to the Ben Franklin Bridge and Walt Whitman Bridge.

To assist in the evaluation of the Billboard Advertising Licensing audit, OIG was provided access to requested information and documentation, including:

- the resolutions and agreements with Clear Channel and Keystone;
- "read only" access to supporting financial documentation for the monthly cash receipts' journal entries (within SAP);
- appraisal results from billboard valuation and advisory company (SignValue, Inc.) determining the fair market value for the Passyunk Avenue and Vare Avenue Billboard; and,
- required insurance documentation related to the Billboard agreements.

In addition to being provided the documentation noted, OIG communicated with the Deputy CEO, General Counsel, Deputy General Counsel, Bridge Director - Ben Franklin Bridge (BFB)/Betsy Ross

Bridge (BRB), Bridge Director - Walt Whitman Bridge (WWB)/ Commodore Barry Bridge (CBB), WWB/CBB Construction & Maintenance Manager, Director, Finance (DRPA), and Supervisor, Accounts Payable & Receivable, during the course of the audit.

B. Background

The Authority provides access for billboard advertising firms to install, construct, and operate billboard structures on DRPA property for the purpose of advertising in exchange for lease payments. During the planning stages of the audit, it was learned that the Authority currently has billboard advertising agreements with two companies:

- Keystone Outdoor Advertising Company, Inc (Keystone); and,
- Clear Channel Outdoor, LLC (Clear Channel).

Keystone

Keystone is an advertising company that has been in business since 1977 and focuses on permanent bulletins specializing in the Philadelphia metro area.

In 2020, the Delaware River Port Authority (DRPA) renewed an agreement with Keystone. The original agreement dates back to 1999 and was for 20 years. There are two billboards in the agreement that are located near the Walt Whitman Bridge (WWB) on the Philadelphia side. The agreement gives Keystone the rights to install, construct, and operate two billboard structures in exchange for an annual license fee paid to the DRPA.

At the start of the agreement, the billboards are to be (and currently are) comprised of two static faces. The billboards are planned to be converted to digital. Each digital face will have approximately eight advertising slots that last for approximately eight seconds once converted from static media.

Clear Channel

Clear Channel offers a wide variety of outdoor signs across the U.S. They offer static billboards, digital billboards, airport signs and other outdoor advertising options to enable brands to connect with people in different environments.

In 2021, the Delaware River Port Authority (DRPA) renewed two agreements with Clear Channel and added another. Their locations are:

- Front Street and Oregon Avenue (renewed);
- 3rd Street and Elm Street (renewed); and,
- Passyunk Avenue and Vare Avenue (new).

Front Street and Oregon Avenue Billboard

In 2021, the Delaware River Port Authority (DRPA) renewed an agreement with Clear Channel for the Front Street and Oregon Avenue billboard. The original agreement dates back to 1999 and was originally with Ocean Atlantic, LLC. The effective date of the agreement is March 8th, 2021 and is for

ten years with two, five-year renewals periods. This agreement is for one double-faced static billboard that is located North of the Walt Whitman Bridge (WWB) in Philadelphia PA, east of Front Street and South of Oregon Avenue. The agreement permits Clear Channel access to the property for the purposes of reconstructing, modifying, maintaining, operating, improving, supplementing, posting, painting, illuminating of a static billboard only, repairing, repositioning, and/or removing the billboard in exchange for an annual license fee paid to the DRPA.

3rd Street and Elm Street Billboard

In 2021, the Delaware River Port Authority (DRPA) renewed an agreement with Clear Channel for the 3rd Street and Elm Street Billboard. The original agreement dates back to 2000 and was originally with Stanton and Associates. The effective date of the agreement is March 8th, 2021 and is for ten years with two, five-year renewals periods. This agreement is for one double-faced static billboard that is located North of the Ben Franklin Bridge (BFB) in Camden, NJ, south of Elm Street and east of Third Street. The agreement permits Clear Channel access to the property for the purposes of reconstructing, modifying, maintaining, operating, improving, supplementing, posting, painting, illuminating of a static billboard only, repairing, repositioning, and/or removing the billboard in exchange for an annual license fee paid to the DRPA.

Passyunk Avenue and Vare Avenue Billboard

In 2021, the Delaware River Port Authority (DRPA) entered into an agreement with Clear Channel for the Passyunk Avenue and Vare Avenue Billboard. The effective date of the agreement is March 22nd, 2021 and is for 15 years with one, five-year renewal period. This agreement is for one billboard that is located near the WWB in Philadelphia, PA, around the Schuylkill Expressway and Passyunk Avenue. The agreement permits Clear Channel access to the property for the purposes of reconstructing, modifying, maintaining, operating, improving, supplementing, posting, painting, illuminating of a static billboard only, repairing, repositioning, and/or removing the billboard in exchange for an annual license fee paid to the DRPA.

At the start of the agreement, the billboard was comprised of two static faces. The billboard is to be converted to digital. Each digital face will have approximately eight advertising slots that last for approximately eight seconds once converted from static media.

C. Audit Summary

Based on conversations with Authority management and testing performed, OIG determined that the Billboard Advertising Licensing Agreements are functioning and are being managed properly; minor areas for improvement include assuring consistency in contract management at both the BFB and WWB bridges. In summary, based on the completion of our audit, the following was determined and communicated to the Deputy CEO, General Counsel, Chief Financial Officer, Deputy General Counsel, Bridge Director - BFB/BRB, Bridge Director – WWB/CBB, WWB/CBB Construction & Maintenance Manager, Supervisor, Accounts Payable & Receivable, Director, Finance:

- Current executed agreements are in place for all billboards residing on Authority property.
- Fair market value was determined using appraisal results from a billboard valuation and advisory company (SignValue, Inc.).
- Retention of required supporting documentation and documentation of required insurance was observed.

- Contracted revenue terms are effectively executed in compliance with contracted terms, and revenue is received in a timely manner and accurately calculated.
- Improvements can be made to assure the consistent application of operational oversight, including safety procedures, review of proposed advertisement language, and eliminating inconsistencies between BFB and WWB management including the process for gaining physical access to the DRPA billboards and reviewing / approving new advertisements.
- A right of entry agreement should be established for Clear Channel to enter DRPA property to access two billboards located near the BRB that are not on DRPA property to formally authorize access and indemnify the Authority from any liability as a result of access.

These summarized findings and associated recommendations are presented in more detail within the report.

D. Review of Process for Establishing and Assuring Compliance with Agreements

Establishing Rates with Billboard advertising companies

OIG evaluated the process for the DRPA entering into agreements with the billboard advertising companies. It appears that three current agreements (four billboards) are continuations of previous agreements that have been in place for a minimum of 20 years, while one agreement was newly established in 2021. The new agreement was for a billboard that was already established on DRPA property for an estimated minimum of 20 years; however, there was no agreement in place or fee paid to the DRPA since there was confusion as to who owned the property that the billboard was on. A settlement fee was established in the new agreements with Clear Channel for the previous unpaid use of the billboard. It is also understood through communications with management that there has not been any marketing for additional billboards to be added to DRPA property for advertising.

OIG reviewed the agreements to determine if fair market value was received for the billboard services. In 2018, a billboard valuation and advisory service company, SignValue, Inc., was hired to assist in establishing and assessing fair compensation for the new agreement for the Passyunk Avenue and Vare Avenue billboard. The appraised value of the sign was estimated at an annual rate of \$126,000. The rate negotiated in the Passyunk Avenue and Vare Avenue billboard agreement once converted to digital is the greater of \$120,000 per year or 33% of the advertising company's revenue for that billboard. The appraised rate of \$126,000 is within 5% of the minimum \$120,000 annual rate negotiated in the agreement.

The same appraisal was used to negotiate the rates for the two Keystone billboards which also established a rate of \$120,000 per billboard once converted to digital.

All five billboards were static when the current agreements were made. The billboard valuation and advisory service company used five comparable billboards to establish an annual range of \$32,500-\$91,000 for the static billboards. The negotiated static rate which is used for the three Clear Channel billboards (one of which is to be converted to digital in the future) is \$36,000 per year per billboard. Although on the lower end of the comparative rates, the negotiated rates are within the range.

It is noted that there is no "percentage of revenue" rate for the Clear Channel static billboards as there was in the previous agreements with Clear Channel. Based on the previous agreement with

the percentage of revenue rate, the amounts collected were an average of over \$90,000 per year per sign from years 2016 to 2019, which was over double the rate in the new agreement of \$36,000 per year.

There are also no annual rate increase terms, using a mechanism such as Consumer Price Index (CPI), to account for inflation. Based on discussion with the Deputy CEO, rates driven by a percentage of revenue were viewed as not consistent with the billboard market, but CPI driven rate adjustments were. CPI adjustments were negotiated but rejected by the billboard company. This was accepted by the DRPA in lieu of other considerations.

The rates for the two Keystone billboards are based on the previous agreement until the static billboards are converted to digital. The rate from the previous agreement for the two Keystone static billboards are the greater of \$36,000 per year or 33% of the annual billboard revenue.

Rent Deferral Request

In March 2020, Keystone sent a letter to the DRPA requesting to have payments deferred. The request for deferral was due to the Covid-19 Pandemic which caused Keystone's customers to cancel their contracts or were unable to pay their invoices. Keystone requested to have all payments deferred starting April 2020 until the government shut down orders ended, then they would be paid in full. The request was denied, and Keystone has continued to make timely payments.

Litigations for Digital Billboards

OIG was informed by the Office of the General Counsel that the Authority is currently involved in an active litigation which is currently delaying the conversion of three of the five billboards to digital media. The three billboards that are supposed to be converted to digital are the two Keystone billboards located near the BFB and one of the Clear Channel billboards which is located at Passyunk Avenue and Vare Avenue.

Billboard Operational Management / Oversight

The CBB/WWB Bridge Director oversees the operations for the four billboards near the WWB. There are two Keystone billboards that are near the WWB on the Philadelphia side and two Clear Channel billboards located near the WWB on the Philadelphia side, one located at Passyunk Avenue & Vare Avenue and the other located at Front Street & Oregon Avenue. The BFB/BRB Bridge Director oversees the operations for the one Clear Channel billboard near the BFB. That billboard is located on the Camden side of the BFB, on the corner of 3rd and Elm Streets. Through discussion with the Authority's Office of the General Counsel and Bridge Operations management, there are no other known billboards located on DRPA property; however, the BFB/BRB Bridge Director indicated that there are two Clear Channel billboards located near the BRB on the New Jersey side that are not located on DRPA property, but access to DRPA property is needed to maintain the two billboards. It was observed that there is not a right of entry agreement established for Clear Channel to enter DRPA property to access these two billboards. The right of entry agreement is used to authorize access and indemnify the DRPA from any liability as a result of access.

It was also noted during the audit that the billboards (and billboard licensing agreements) are not incorporated into the DRPA Geographic Information System (GIS). The GIS is used to store and display DRPA data on a digital map to show its location.

Audit Finding #1: There is not a right of entry agreement established for Clear Channel to enter DRPA property to access two billboards located near the BRB that are not on DRPA property, but access to DRPA property is needed for Clear Channel to access the billboards.

Audit Recommendation #1: The BFB/BRB Bridge Director should reach out to the Authority's Office of the General Counsel to establish and execute a right of entry agreement for Clear Channel to enter DRPA property to access the two billboards located near the BRB that are not on DRPA property. Right of entry agreements are required to authorize access and indemnify the Authority from any liability as a result of access.

Management Response #1: The BFB/BRB Bridge Director concurs with the finding and recommendation. The BFB/BRB Bridge Director will reach out to the Authority's Office of the General Counsel to establish and execute a right of entry agreement by 9/30/21 for Clear Channel to enter DRPA property to access two billboards located near the BRB that are not on DRPA property.

Safety

OIG reviewed the agreements for references to safety procedures. There was no indication for billboard advertising companies to follow the terms within the DRPA / PATCO Safety manuals when working on DRPA property. OIG reviewed the safety procedures when entering DRPA property with the BFB/BRB Bridge Director and the WWB/CBB Construction & Maintenance Manager. It was indicated that the billboard advertising companies change the billboards on average of about once every three months.

When the billboard advertising companies enter DRPA property near the WWB, they are expected to complete an indemnity form. The WWB/CBB Construction & Maintenance Manager indicated that the indemnity form has not been completed since before the Covid 19 pandemic (March 2020) and there has been activity at the billboards. The incomplete forms could have been due to not having employees onsite at the WWB regularly to assure the completion of the form before the billboard advertising company enters DRPA property. The billboards near the WWB are not fenced in and can be accessed without permission.

The billboard near the BFB is fenced in and the DRPA bridge personnel escorts the billboard advertising company representatives onto DRPA property. There is no indemnity form required to be completed to enter DRPA property to access the billboard near the BFB.

The billboards are maintained by the billboard advertising companies. There are no periodic inspections of the billboards by the DRPA.

Audit Finding #2: Safety procedures are inconsistent between the two bridges when access to DRPA property is needed by the advertising firms to access the billboards. Additionally, the billboard advertising company has not had access approved before entering DRPA property near the WWB during the Covid pandemic timeframe.

Audit Recommendation #2: Safety procedures should be consistent for entry to billboards at both the WWB and BFB. Additionally, access should be approved before entering DRPA property for all occasions.

Management Response #2: The WWB/CBB Bridge Director and BFB/BRB Bridge Director concur with the finding and recommendation. The Bridge Directors will reach out to Clear Channel and Keystone by 9/30/21 to develop a process for Clear Channel and Keystone to communicate with the respective Bridge C&M Managers to schedule billboard access at least 72 hours prior to the date requested. The requested and approved date communication should be accomplished by email and retained for future reference.

Advertising

There is no indication in the agreements that the Authority Advertising Standards policy is to be followed; however, there is wording in the agreements as to what the licensee can and cannot advertise.

In the Keystone agreement, there is a reference that Keystone agrees not to advertise tobacco or adult entertainment or use any type of lighting that would be a distraction to drivers. The DRPA agrees that Keystone can advertise liquor, beer, or casinos.

In the Clear Channel agreements, Clear Channel agrees not to advertise tobacco or adult entertainment or use any type of lighting that would be a distraction to drivers.

It is noted that the BFB/BRB Bridge Director receives all new advertisements for the BFB billboard and reviews them before they are posted on the billboard to ensure they are following the advertising guidelines in the agreement. The WWB/CBB Construction & Maintenance Manager informed OIG that there is no review process for the advertisements on the billboards near the WWB.

Audit Finding #3: Although new advertisements are reviewed for the billboard near the BFB, new advertisements are not reviewed for the billboards near the WWB.

Audit Recommendation #3: New advertisements for the WWB billboards should be reviewed by the WWB/CBB Bridge Director before the advertisements are posted to assure they comply with the allowable and authorized advertising language in the established agreements.

Management Response #3:

The WWB/CBB Bridge Director concurs with the finding and recommendation. The WWB/CBB Bridge Director will reach out to Clear Channel and Keystone by 9/30/21 to have them forward any new advertisement language/images by email the WWB/CBB Bridge Director (or his assignee) for review and approval prior to their installation. This documentation will be retained by the Bridge Director(s) to satisfy performance of this review for compliance requirement.

Compliance with Insurance Requirements

Based on the terms within the billboard advertising agreements, the billboard advertising companies are required to maintain the following insurance:

- Workers Compensation and Employers Liability;
- Commercial General Liability;
- Automobile Liability; and,

- Commercial Umbrella Liability.

OIG was able to obtain current documentation of required insurance for Clear Channel and Keystone. Current insurance documentation was on record for Clear Channel since the agreements were new in 2021 and the first year of insurance documentation is required for new agreements. Current documentation for Keystone was obtained during the audit through the insurance broker.

Currently there is not a process in place to collect and maintain insurance documentation associated with the billboard advertisement licensing agreements at the DRPA. The Director, Risk Management, has offered to review the process of collecting and maintaining the insurance documentation with the Bridge Directors (and their administrative staff) to assure the collection and maintenance of current insurance documentation. This process for monitoring insurance coverage (and insurance documentation) is similar to what has recently been implemented for the Authority's Fiber Optic Licensing Agreement.

Record Retention

Record retention requirements were reviewed. OIG received the agreements and documentation related to the fair market evaluation for the billboard advertising agreement renewals. OIG also observed that the supporting documentation for the billboard advertising payments to the DRPA were effectively maintained within SAP.

E. Financial Review / Payment Accuracy

OIG traced the revenue recorded in the General Ledger to the billboard licensing agreements for the periods 2018-2020 and 2021 (January - June 16th) to ensure the correct amount received and recorded by the Authority in accordance with respective agreements. The total revenue received by the Authority for that period was \$1,445,012. Contracted revenue terms were effectively executed, and revenue (including sign-on bonuses) was received in a timely manner and accurately calculated. All supporting documentation was properly attached to the transactions within SAP. Below is a summary of the payments received for the periods 2018-2020 and 2021 (January - June 16th) for each of the billboards.

	2018	2019	2020	2021(Jan-June 16th)	Total
Clear Channel 3rd & Elm BFB	\$106,609	\$ 73,743	\$107,411	\$ 42,179	\$ 329,941
Clear Channel Front & Oregon WWB	\$ 87,390	\$102,099	\$ 65,558	\$ 38,119	\$ 293,166
Clear Channel Passyunk & Vare WWB				\$ 9,000	\$ 9,000
KeyStone Sign A WWB	\$123,912	\$124,186	\$ 55,111	\$ 35,564	\$ 338,773
KeyStone Sign B WWB	\$103,228	\$103,212	\$ 76,705	\$ 30,987	\$ 314,132
Sign on Bonus: Clear Channel 3rd & Elm BFB				\$ 80,000	\$ 80,000
Sign on Bonus: Clear Channel Front & Oregon WWB				\$ 80,000	\$ 80,000
Total	\$421,139	\$403,239	\$304,785	\$315,849	\$1,445,012

A total of over \$400,000 was recorded in years 2018 and 2019 and then the amount dropped to just over \$300K in 2020. OIG reviewed the supporting documentation for all the transactions from years 2018 through 2020, and year 2021 (January through June 16th) and noted that there were several months in years 2020 and 2021 for the Keystone agreement where payments were mis-recorded due to transposing the General Ledger accounts in the General Ledger entry. When payments are received from Keystone the General Ledger entry is a two-line entry, it is recorded to revenue and electricity expense. In this situation, the revenue portion of the entry was recorded on the expense line and the electricity expense portion was recorded on the revenue line. The checks received after March of 2020 were received quarterly for the last three quarters of 2020. The transposed revenue entries were for:

- KeyStone Sign A: April 2020 – June 2020, October 2020 – December 2020, January 2021, and April 2021
- KeyStone Sign B: October 2020 – December 2020, January 2021, and April 2021

The payments were originally recorded to an expense account and then reclassified to the billboard revenue account by the DRPA Finance department after brought to their attention during the audit in July 2021. The amount of the transactions is listed below.

	2020	2021(Jan-June 16th)	Total
KeyStone Sign A WWB	\$ 47,559	\$ 11,400	\$ 58,959
KeyStone Sign B WWB	\$ 25,950	\$ 17,636	\$ 43,586
Total	\$ 73,509	\$ 29,036	\$ 102,545

After the reclass, the year to year total transactions look more consistent. There was a 4% drop in revenue from years 2018 to 2019 and a 6% drop in revenue from years 2019 to 2020. The totals for all billboards after the reclass are listed below.

	2018	2019	2020	2021(Jan-June 16th)	Total
Total	\$421,139	\$403,239	\$378,294	\$344,885	\$1,547,557

Based on the review of the transactions, an accounts receivable / billing process has not been established for any of the billboard payments. OIG discussed with the Director of Finance if it would add value to incorporate a receivable / billing process for the billboard payments. The Director of Finance's communicated position was that the current process for the billboard payments is working and payments have been received timely and accurately; adding an accounts receivable / billing process at this time would be inefficient and create more work for his staff.