

**Nassau County  
Office of the Comptroller  
Field Audit Bureau**



**Signal Outdoor Advertising, LLC  
Limited Review of Contract Compliance**

**January 1, 2001 – December 31, 2007**

**HOWARD S. WEITZMAN**

**Comptroller**

**November 17, 2008**

**NASSAU COUNTY  
OFFICE OF THE COMPTROLLER**

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## EXECUTIVE SUMMARY

### **Background**

Nassau County (“the County”) maintains shelters for bus riders. On January 8, 1997, the County Planning Department (“Planning”) contracted with Network International/Culver Associates, Ltd. for the installation and maintenance of bus shelters and benches in the County. The agreement provided for the contractor to sell advertising on the bus shelters and benches, and to share with the County a percentage of all gross billings generated by the sale of the advertising. The contract commenced on February 1, 1997 and terminated on December 31, 2007. In 2007, the contract was amended to reflect the contractor’s name change to Signal Outdoor Advertising, LLC (Signal). On September 24, 2007 the County issued a Request for Proposal (RFP) for Media Services, Sponsorships and Naming Rights that included bus shelter and bench advertising and the maintenance, repair and replacement of bus shelters and benches. Signal submitted a response to the RFP on November 14, 2007, and the County issued a Notice of Intent to Award on November 30, 2007, advising that Signal had been selected to provide bus shelter services. A new bus shelter and bench advertising and maintenance contract between Signal and the County is being negotiated.

Signal is an out-of-home media company focused on developing advertising supported displays on bus shelters, bus passenger benches, and informational kiosks. Signal obtains long-term franchise agreements to supply advertising displays in suburban and major metropolitan markets. The company, headquartered in Orlando, Florida, owns and operates approximately 7,000 shelter, bench and kiosk advertising displays nationwide. Signal has bus advertising franchises in the County, Suffolk County, Hartford, CT and also maintains an office on Long Island. Signal is an affiliate of The Wicks Group of Companies, LLC, a private equity investment firm focused on segments of the communications, information and media industries.

The contract with the County granted Signal an exclusive franchise to install and maintain shelters and benches with advertising on the public right of way. Signal agreed to construct, install and maintain bus shelters and benches, with a requirement that they make up to ten additional shelter installations per year at the direction of the County. As of December 2007 Signal maintained 248 advertising bus shelters and 246 advertising benches in locations throughout the County. The County also has 100 non-advertising bus shelters, which Signal assumed maintenance responsibility for on June 1, 1998, in accordance with Section 4 of the contract. Bus shelter and bench advertising revenues paid to the County by Signal during the period January 1, 2001 through December 31, 2007 totaled \$5,087,041 as follows:

## EXECUTIVE SUMMARY

### Advertising Revenues Received By Contract Year Nassau County 55.5% Share

<b>Year</b>	<b>Amount</b>
2001	\$ 782,971
2002	802,654
2003	603,234
2004	693,755
2005	751,335
2006	746,685
2007	706,407 <sup>1</sup>
<b>Total</b>	<b>\$ 5,087,041<sup>2</sup></b>

#### Audit Scope, Objective and Methodology

The agreement between Planning and Signal terminated on December 31, 2007. Contract terms provide that the agreement may be extended for up to two five-year periods with the mutual consent of the parties. As the contract neared its termination date, Planning officials requested that the Comptroller's Office perform a contract compliance audit to assist them in determining if the contract should be extended or put out for competitive bid. The objectives of our limited review of contractual compliance were:

- To determine if bus shelter and bench advertising revenues were fully remitted to the County, in compliance with the contract, and were recorded correctly as to account, amount, and period.
- To verify compliance with significant contract terms, including installation, maintenance and repair of the bus shelters and benches and insurance and bonding requirements.

Our original audit scope covered the period January 1, 2005 through May 31, 2007. However, the audit was subsequently expanded to cover advertising revenues received by the County for the period January 1, 2001 through December 31, 2007.

#### Summary of Significant Audit Findings

Section 56 of the contract between Planning and Signal provided for Signal to pay the County 55.5% of all gross billings generated by the sale of advertising on bus shelters and benches. We determined that Signal may have been improperly deducting sales commissions from the amounts remitted to the County. For the period January 1, 2001 to December 31, 2006, the

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<sup>1</sup> A \$25,000 payment for 2007, received August 26, 2008, subsequent to the issuance of the draft report, is not reflected in the schedule.

<sup>2</sup> Bus shelter and bench advertising revenues cash receipts are per the Nassau Integrated Financial System (NIFS).

## EXECUTIVE SUMMARY

County may have been short-changed by \$329,565 due to the exclusion of agency and sales commissions from the advertising revenues remitted to the County by Signal.

We noted several significant weaknesses in the contract and discussed them with Planning for consideration in the new contract negotiations. The most notable weaknesses were:

- The contract does not require that Signal provide sufficient detailed information to allow Planning to monitor or review advertising revenues received in a meaningful manner. Signal's statement of revenues, which is provided with their annual "settlement" payment, lists only a summary of the County's share of advertising revenues.
- Section 56 of the contract indicates that non-payments from advertisers (bad debts) are Signal's sole responsibility, and Signal is not permitted to subtract from its payments to the County any uncollected amounts. However, the contract does not provide for Signal to submit a list of their aged accounts receivable to Planning or for Planning to review such a list.
- Section 56 of the contract states "Contractor shall pay on the basis of gross billings on a monthly basis in arrears." However, by long practice Signal remits fixed quarterly payments (currently \$25,000) to the County and then pays a settlement amount for the County's share of the prior calendar year's advertising revenues. The settlement amount is generally received in June or July of the subsequent calendar year.

An inspection of a sample of bus shelters revealed that maintenance and repair of the bus shelters and benches requires improvement. Bus shelters did not always meet the minimum square footage requirement or have the full number of side and back panels called for in the contract. Two bus shelters and their surrounding areas were not kept clean and one bus shelter was marred by graffiti.

The contract requires that books and records be maintained for a period of six years. Signal was unable to provide either hard copies or electronic copies of its general ledgers for 2001 through 2004.

Signal provided an external audit report for the years ending December 31, 2006 and December 31, 2007 only. When we requested audited financial statements for 2004 and 2005, we were advised that they had been "rolled into" the 2006 audit report. However, the 2006 audited financial statements offered an opinion on 2006 alone, and neither 2004 nor 2005 were included for comparative purposes.

Signal's internal financial statements for the periods ending December 31, 2005 and December 31, 2006 disclosed some indications of financial difficulties, including negative working capital amounts for 2005 and 2006 of \$12.7 million and \$13.8 million respectively. Additionally, Signal's current liabilities as of December 31, 2006 totaled \$17 million. As Signal did not provide its proprietary budgets and projections, it was difficult to evaluate the company's viability as a going concern.

## EXECUTIVE SUMMARY

Signal remitted its settlement statement to the County for the 2007 contract year on July 2, 2008. Gross advertising billings reported to the County for 2007 were \$1,317,850, 55.5 % of which was owed to the County or \$731,407. The County received only \$706,407. When this matter was brought to the attention of Planning, they contacted Signal and arranged for the remittance of the balance due of \$25,000 for the 2007 contract year.

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On August 29, 2008 we submitted a draft report to Planning with a request for comments. The matters covered in this report have been discussed with Planning officials at an exit conference held on August 7, 2008 and at a follow-up meeting held October 15, 2008. Planning's response, which incorporated comments from Signal, was received on October 17, 2008. Planning's comments, and our responses to those comments, are included as an appendix to this report.

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Audit Findings and Recommendations

**Audit Finding (1)**

**Deduction of Advertising and Sales Commissions from Revenues Remitted to the County for 2001 – 2006 and Information and Amount Still Owed for 2007**

**Deduction of Advertising and Sales Commissions from Revenues Remitted to the County for 2001 -2006**

Section 56 of the Contract states “Contractor shall pay County 55.5% of all gross billings generated by the sale of advertising on bus shelters and bus benches.” Our review of Signal’s sales journals for 2001 through 2006 revealed that Signal remitted to the County 55.5% of income net of certain sales commissions and agency commissions. Signal’s controller indicated that when an advertising agency is used to place the ads, Signal invoices the advertising agency net of the agency commission, instead of invoicing the contracted amount. In some instances Signal’s invoices were net of both an agency and a sales commission, with the sales commission representing a second discount offered to obtain the advertising agency’s business. By netting the bill, Signal seems to be circumventing the contract clause that requires it to pay a percentage of their gross billings to the County. Instead, by paying the County a percentage of the netted invoice amounts, Signal potentially underpaid the County \$329,565 for the six-year period as follows:

<b>Year</b>	<b>Advertising Billings Reported to NC (Net of Commissions)</b>	<b>Advertising Commissions Deducted from Amounts Billed Per Signal's Records</b>	<b>Gross Advertising Billings (Commissions Added Back)</b>	<b>Amounts due to NC based on Gross Billings</b>	<b>Actual Amounts Paid by Signal to NC</b>	<b>Difference Amount Underpaid by Signal</b>
<b>2001</b>	\$ 1,410,759	\$ 123,439	\$ 1,534,198	\$ 851,480	\$ 782,971	\$ 68,509
<b>2002</b>	\$ 1,446,223	\$ 83,671	\$ 1,529,894	\$ 849,091	\$ 802,654	\$ 46,437
<b>2003</b>	\$ 1,086,909	\$ 80,379	\$ 1,167,288	\$ 647,845	\$ 603,234	\$ 44,611
<b>2004</b>	\$ 1,250,009	\$ 107,294	\$ 1,357,303	\$ 753,303	\$ 693,755	\$ 59,548
<b>2005</b>	\$ 1,353,758	\$ 109,096	\$ 1,462,854	\$ 811,884	\$ 751,335	\$ 60,549
<b>2006</b>	\$ 1,345,378	\$ 89,931	\$ 1,435,309	\$ 796,596	\$ 746,685	\$ 49,911
<b>Totals</b>	<b>\$ 7,893,036</b>	<b>\$ 593,810</b>	<b>\$ 8,486,846</b>	<b>\$ 4,710,199</b>	<b>\$ 4,380,634</b>	<b>\$ 329,565</b>

**Information and Amount Still Owed for 2007**

Signal remitted its settlement statement to the County for the 2007 contract year on July 2, 2008. Advertising billings reported to the County for 2007 were \$1,317,850. We requested but did not receive the amount of advertising and sales commissions that Signal



## Audit Findings and Recommendations

deducted and therefore could not calculate the potential amount due the County regarding the 2007 contract year.

It should also be noted that Signal had a balance due of \$25,000 to the County for the 2007 contract year. Based upon \$1,317,850 of net advertising billings Signal reported to the County, 55.5% would result in \$731,407 due to the County, however, Signal only remitted \$706,407. When this matter was brought to the attention of Planning officials, they contacted Signal and requested the past-due amount, which was remitted to the county on August 26, 2008.

### **Audit Recommendations:**

We recommend that Planning work with the County Attorney's Office to determine whether Signal's "gross billings" should include the amounts deducted for sales and advertising commissions, and recover any amount they determine to be owed by Signal. Planning should also consider clarifying the language in the contract to ensure that the term "gross billings" is defined in the contract and understood by both parties.

Planning should also obtain from Signal the amount of advertising and sales commissions that Signal deducted from the advertising billings it reported to the County for 2007 for the purpose of recalculating the potential amount due the County regarding the 2007 contract year.

### **Audit Finding (2):**

#### **Remittance of Bus Shelter and Bench Advertising Billings to Nassau County**

Section 56 of the contract states that the "County shall be paid on the basis of gross billings on a monthly basis in arrears." In actuality, by long practice Signal makes quarterly payments (currently \$25,000 each) to the County, and remits a large annual "settlement" amount for the previous calendar year each June or July. For example, Signal remitted its settlement amount of \$646,685 for calendar year 2006 to the County on June 29, 2007. Planning officials advised us that this payment schedule had been in effect since the implementation of the contract under the previous administration and the mid-year settlement payment appeared to be a carry-over from the inception of the contract.

### **Audit Recommendations:**

We recommend that Planning review the contract terms with respect to the payment frequency, make any necessary changes to the new contract, and enforce the agreed upon payment frequency.

## Audit Findings and Recommendations

### **Audit Finding (3):**

#### **Planning's Review of Bus Shelter and Bench Advertising Revenues**

Signal's payments to the County for bus shelter and bench advertising revenues were supported only by a single page spreadsheet which lists the advertising revenues/billings for the County's bus shelters and benches and calculates the County's 55.5% share. Planning officials advised the auditors that Signal had not provided adequate detailed supporting documentation to verify the accuracy of the information provided by Signal on the schedule.

We noted that the ten year contract between Planning and Signal does not contain any requirements for financial statements, budgets, independent audit reports, or management reports by an external auditor to be provided by Signal or reviewed by the County.

Section 56 of the contract states that the "County shall be paid on the basis of gross billings on a monthly basis in arrears." Section 56 also states that if for any reason Signal does not collect payment from any advertiser (bad debt) it shall be Signal's sole responsibility to recover same and Signal is not permitted to subtract from its payment to the County any uncollected amounts. The contract does not provide for Signal to provide Planning with any documentation of uncollected amounts, such as an aging of accounts receivable, in order to verify Signal's compliance with the contract.

### **Audit Recommendations:**

We recommend that Planning include a clause in the new contract that requires Signal to provide sufficient supporting documentation to enable Planning to verify the accuracy of the amount remitted by Signal. Such documentation would include the following:

- List of customers (advertising vendors) including a contact name, address and telephone number.
- Key contract terms for each customer (amounts, billing periods, fees) and access to and/or copies of the contracts.
- Billing records, Sales Journal, General Ledger, Accounts Receivable (A/R) Subsidiary records by advertising vendor, Sales subsidiary records by shelter and vendor, A/R adjustments.
- Past due receivables (bad debts).
- Reconciliation of the County's share of revenue per the Sales and A/R records to the general ledger and, at year-end, also to the audited financial statements.

## Audit Findings and Recommendations

In addition, the contract should provide that the County has the right to send revenue confirmations to the advertising customers.

Planning should consider including a clause in the new contract requiring Signal to provide its annual financial statements, budgets, independent audit reports, and external auditor's management reports. Consideration should also be given to requiring that Signal's independent audit firm perform an annual review of the advertising revenue amount to be paid to the County and furnish a letter certifying its accuracy to the County.

### **Audit Finding (4):**

#### **Signal's Failure to Maintain Complete Accounts**

Section 59 of the contract states "Contractor shall maintain full and complete books and records of accounts of all operations to be performed pursuant to this agreement in accordance with accepted accounting practices and such other records as may be prescribed by the Comptroller of County. Such books and records shall be retained for a period of six years and shall at all times be available for audit and inspection by the Comptroller of County or his duly designated representative upon reasonable notice to the contractor." Signal was unable to provide us with either hard copies or electronic copies of their general ledgers for 2001 through 2004. We were informed that an accounting software conversion from Peachtree Accounting to MAS90 made it impossible for Signal to retrieve general ledgers for 2001 through 2004. However this did not impede our review since the Peachtree software was able to provide sales journals for 2001 through 2004.

### **Audit Recommendations:**

We recommend that the necessary steps be taken by Planning to ensure that Signal complies with the contract requirement to maintain full and complete books and records of accounts so that they are readily available for audit for the full six year period cited in the contract.

## Audit Findings and Recommendations

### **Audit Finding (5):**

#### **Internal Control Environment: Lack of Written Procedures and Incorrect Postings to Signal's Revenue Accounts**

During the course of the audit, we requested that Signal provide us with written procedures and/or manuals for the following systems and/or processes:

- Accounting Manual
- Written procedures for Signal's advertising billing and revenue recording process (including controls to prevent advertising revenue/income being booked to an incorrect account).

Signal indicated it did not maintain an accounting manual and despite three separate requests, it did not provide us with written procedures for its advertising billing and revenue recording process. It should be noted that Signal did provide the auditors with its system billing manual, however it only explains how to set up and process a billing entry in the system; it does not describe Signal's daily operating procedures and controls.

In addition, our review disclosed that commissions related to Suffolk County revenues were sometimes posted to a Nassau County general ledger income account in error. We were unable to determine why this occurred. (Note: the impact of miss-postings of commissions is \$2,449 and is already included in the calculation of the amount due the County as described in audit finding #1).

### **Audit Recommendation:**

We recommend that Planning include a clause in the new contract that requires Signal to provide assurance that adequate controls exist over the billing and revenue recording process to ensure that the County receives its appropriate share of revenue.

## Audit Findings and Recommendations

### **Audit Finding (6):**

#### **Lack of Audited Financial Records**

We requested the annual external audit reports for 2001 through 2006 to assist us in validating the accuracy of the advertising revenue Signal reported to the County. Signal's controller was only able to provide an external audit report for the year ending December 31, 2006. He indicated that the audit of 2004 and 2005 had been "rolled into" the 2006 audit report. However, our examination of the 2006 audited financial statements indicated that it opined on 2006 only; neither 2004 nor 2005 were included for comparative purposes.

### **Audit Recommendation:**

We recommend that Planning include a clause in the new contract that requires Signal to provide the County with a copy of its audited financial statements for each contract year.

### **Audit Finding (7):**

#### **Inspection of Bus Shelters and Benches**

Advertising bus shelters and benches are located at 248 and 246 County sites respectively. In addition, there are 100 non-advertising bus shelters. Signal is required to repair, clean and service the bus shelters and benches, inclusive of graffiti and snow removal. Each shelter and bench must be cleaned and swept, and each trash receptacle emptied, at least twice a week. The contract establishes construction requirements for new shelters, identifies advertising requirements, such as allowable types of ads and where advertising can be placed on the shelter, and provides for Signal to maintain trash receptacles at shelter and bench locations where they have been installed.

We inspected 27 bus shelters, 25 advertising and 2 non-advertising, and one advertising bench at various locations throughout the County to verify that the bus shelters were maintained in accordance with the contract terms. Bus shelters selected for inspection included those located on the more heavily used bus routes in Mineola, Garden City, Hempstead and East Meadow. The following exceptions were noted:

- Seven of the 27 bus shelters visited did not meet the minimum square footage requirement (25 square feet) as required by section 8f of the contract.
- 21 of the 27 bus shelters visited had only one side panel, and 10 of these shelters were missing the back panel. Section 8f of the contract states that advertising shelters should afford reasonable bus passenger protection from the wind and rain.
- 23 of the 27 bus shelters inspected had no transit information available. Section 16 of the agreement states "Each advertising shelter shall incorporate a transit

## Audit Findings and Recommendations

information holder of approximately 400 square inch dimension, capable of displaying a bus schedule and/or small pocket map.”

- We noted that two of the 27 bus shelters and their surrounding areas were not clean, with bottles, bags, and other garbage and trash observed. Section 35 of the agreement provides for each shelter and bench to be cleaned and swept at least twice per week, with additional calls to be made if conditions warrant.
- Section 29 of the contract states that any directional arrows or displays of the words “stop,” “drive-in,” “danger” or any other word, phrase, symbol or character which may interfere with the safe movement of vehicular traffic is prohibited. We noted one advertisement in Carle Place on Glen Cove Road that included a directional arrow to a fast food establishment, which is in violation of the contract provisions and could potentially be a distraction to drivers.
- One of the shelters needing a back panel and a second marred by graffiti were revisited to see if corrections had been made. Inspections five and eleven days later, respectively, indicated that these conditions had not been addressed. Section 35 of the contract provides that any damaged or defaced shelters shall be repaired or replaced within 48 hours, and Section 34 states that graffiti shall be removed within 7 days of occurrence.

Planning officials advised us that Planning staff perform “drive-by” inspections of the bus shelters.

### **Audit Recommendation:**

We recommend that Signal be required to comply with Sections 8f, 16, 29, 34 and 35 of the contract which cover the size of shelters, transit information requirements, advertisements, graffiti removal and cleaning of shelters respectively. Planning should perform regular checks to verify Signal’s compliance. We suggest that Planning consider establishing a provision in the new contract for penalties to be imposed if bus shelters remain dirty or unrepaired after Signal has been given reasonable notice of their condition.

## Audit Findings and Recommendations

### **Audit Finding (8):**

#### **Financial Condition of Signal Outdoor Advertising LLC as of December 31, 2006**

Signal's internal financial statements for the periods ending December 31, 2005 and December 31, 2006 showed some indications of financial difficulties, including:

- Signal's balance sheets showed negative working capital amounts for 2005 and 2006 of \$12,747,063 and \$13,759,368 respectively.
- Signal's current liabilities as of December 31, 2006 were \$17,061,179.

To assist in determining Signal's ability to continue as a going concern, on October 10, 2007 we requested that Signal provide us with cash flow and working capital statements for the years 2004 through 2006, and as of June 30, 2007. We also requested Signal's internal income and expense budgets or projections for the years ended 2005, 2006, and through June 30, 2007. Signal requested that these items be excluded, citing them as proprietary information, unrelated to the County. Although Signal's controller indicated that Signal has met all its financial obligations with all of its vendors and municipalities, the lack of access to budget, cash flow, and working capital information has made it difficult for us to evaluate Signal's viability as a company. Further, a review of the internally generated income statement provided to us by Signal for 2004 noted that it contained a budget to actual comparison and that Signal had a planned budgetary deficit of \$1.8 million and an actual deficit of \$635,000 in 2004.

### **Audit Recommendation:**

We recommend that Planning include a clause in the new contract that would allow the County to cancel its commitment upon the occurrence of certain indications of financial collapse by Signal.

## Appendix



### Nassau County Planning Department Inter Departmental Memo

**To:** Aline Khatchadourian, Deputy Comptroller for Audit and Special Projects  
Office of the Nassau County Comptroller

**From:** Patricia Bourne, Executive Commissioner  
Nassau County Planning Department

**Date:** October 17, 2008

**Subject:** Signal Outdoor Advertising Audit

I would like to express my thanks to you and your staff for conducting a thorough and conscientiously prepared audit of Signal Outdoor Advertising, Nassau County's advertising bus shelter and bench contractor. Since this audit was conducted at the Planning Department's request we wanted to ensure that any findings would be both meaningful and useful for our future management of the County's bus shelter advertising program. As such, our staff spent a considerable amount of time and effort gathering information and conducting fieldwork in order to best address issues raised in the audit and the attached document includes the Department's response to the audit findings.

If you have any questions on our response or need additional information, please contact Bob Brickman, Deputy Commissioner of Transportation Planning, at 571-5953 or [rbrickman@nassaucountyny.gov](mailto:rbrickman@nassaucountyny.gov).

A handwritten signature in blue ink, appearing to read "Patricia Bourne", written over a horizontal line.

Patricia Bourne  
Executive Commissioner  
Nassau County Planning Department

cc: Bob Brickman  
Sharon Denson  
Jackie Gross  
Rona Moyer



## Appendix

### **Nassau County Planning Department October 17, 2008 Response to Draft Audit Report of Signal Outdoor Advertising LLC (Signal)**

#### **Background:**

The Nassau County Planning Department has reviewed the August 29, 2008 Draft Audit Report of Signal Outdoor Advertising and what follows is the Nassau County Planning Department's response to that audit. Of importance is that Nassau County Planning requested the Comptroller's Office to conduct this audit and it is our expectation that key findings will prove useful as the County moves forward to execute a new ten-year agreement with Signal Outdoor Advertising.

As noted in the report, under a 10-year contract that began in 1997, the County's bus shelter vendor (which has been Signal since February 2007) has had the exclusive franchise to install and maintain bus shelters and benches with advertising on the public right-of-way in order to serve MTA Long Island Bus riders. That contract expired December 31, 2007, although both the County and Signal executed the five-year extension provided for in the initial contract so that the County's bus shelter program would be able to continue while a new agreement was negotiated. Key to that new agreement is addressing the issues raised in the audit.

It is important to note that the 1997 contract was not written by Planning Department personnel, and during its life span the contract was not materially modified. However, since 1997 industry standards for street furniture designs have evolved to reflect a demand for more aesthetically pleasing structures that would provide maximum accommodation, safety and comfort for passengers. Further, following the events of September 11, security issues came to the forefront throughout the transit industry and some contract requirements, such as the need for trash receptacles at each shelter, were no longer considered workable or judicious to pursue. Finally, changes in land uses contiguous to bus stops, to bus routes and the location of bus stops, and recent increases in MTA Long Island Bus ridership have all had their effect on a system requiring that the design, dimensions and siting considerations for bus shelters and benches undergo modification within the context of a contract that has remained unchanged since 1997. As a result, some of the audit findings should be viewed in the context of setting a direction for moving forward rather than as an assessment of how the program has functioned in the past.

## Appendix

Given these challenges the Planning Department's Division of Transportation conducted extensive fieldwork that included photographing bus shelter and bench sites and documenting their condition to help address site-specific findings. Further, Planning staff also solicited specific financial and operational information from Signal to help ensure that the Department's response addressed the issues raised in the audit findings.

### **Responses to Each Audit Finding:**

#### Audit Finding 1(a): Deduction of Advertising and Sales Commissions from Revenues Remitted to the County for 2001-2006

Under this finding, the draft audit stated that for the years 2001-2006 Signal "remitted to the County 55.5% of income net of certain sales commissions and agency commissions." Signal responded to this finding as follows:

"The 1997 Nassau County contract does not define gross billings. Signal Outdoor Advertising has followed the customary practice by paying Nassau County 55.5% of all gross billings generated by the sale of advertising. Gross billings are equal to the total amount of media space invoiced, or, in other words, due to Signal. This amount does not include agency fees because these amounts are never billed or received by Signal."

Also, in response to audit recommendations in this finding, Signal said that it had defined gross billings in page 9 of its November 2007 RFP response submission as follows: "space advertising invoiced less applicable agency commissions payable per contractual terms. Agency commissions will only be paid to recognized advertising agencies not to exceed the customary 15 per cent." This definitional issue was also flagged by Signal in its response to the first draft of a new contract sent to it for comments in June 2008, stating, "*the language defining gross advertising revenues should be reflected to mirror our RFP submission language and be called "gross advertising space revenues"*".

It could be argued that Signal did provide what it was required to under a strict reading of the contract terms. That is, Signal's bills to its advertisers show that it only "billed" the advertisers for amounts due, and these bills were less the advertising agency commissions.

In any event, the Planning Department will negotiate with Signal to clearly spell out a mutually-acceptable definition of "gross billings" in the next contract.

#### **Auditor's Follow-up Response:**

*We concur with the decision to clarify the contract language governing terms for payment to the County in the renegotiation of the contract. We adhere to our view that the issue of whether Signal owes the County money under the terms of the 1997 contract should be reviewed by the County Attorney's office with respect to pursuing a possible recovery.*

## Appendix

### Audit Finding 1(b): Information and Amount Still Owed for 2007

Signal has submitted the \$25,000 balance due for 2007. In response to the request for information about advertising and sales commissions and recommendation that the Planning Department obtain relevant information Signal wrote:

“Signal has paid all balances due in full to Nassau County. Signal has not deducted any advertising and sales commissions from the advertising billings.”

Signal also replied that it is compiling “additional requested information from 2007 for Nassau County as requested on September 5, 2008.”

#### **Auditor’s Follow-up Response:**

*We commend Planning officials for promptly contacting Signal and recouping the \$25,000 balance due for 2007. We confirmed it was remitted to the County on August 26, 2008. Going forward we recommend that Planning establish more effective monitoring controls to ensure that all contract amounts due are received and shortages are identified and addressed in a timely manner.*

*As of the current date, we have not yet received the requested information on the 2007 advertising and sales commissions.*

### Audit Finding 2: Remittance of Bus Shelter and Bench Advertising Billings to Nassau County

This finding referred to the contract requirement that the “County shall be paid on the basis of gross billings on a monthly basis in arrears” and noted that in practice such payments were submitted by Signal on a quarterly basis. It has been a longstanding practice, established early on in the contract’s implementation, whereby the Planning Department has only required Signal to submit quarterly, rather than monthly, payments in arrears. Similarly, the Department has accepted mid-year annual settlements for the previous calendar year’s revenues. Some of this is rooted in history given that the first twelve months of the 1997 contract ended March 31, 1998, with the year-end “settle up” occurring roughly 90 days later in late June/early July. This practice of a mid-year settlement then continued for the balance of the contract period. With respect to the new agreement, Signal has pointed out that “the new contract requires that the bulk of the payments are made in advance, rather than annually in arrears. This should remedy this concern.” In the future, the Planning Department will maintain rigorous oversight to make certain that payments are submitted in accordance with contract requirements.

#### **Auditor’s Follow-up Response:**

*We concur with Planning’s response and commend their intention to maintain rigorous oversight over contractual compliance regarding payments going forward.*

## Appendix

### Audit Finding 3: Planning Department's Review of Bus Shelter and Bus Bench Advertising Revenues

The audit findings noted that the ten year contract does not contain requirements for submission of a range of financial documents, including independent audit reports, and that Signal's payments were supported only by a single page spreadsheet.

Signal has replied, as follows:

“Signal has complied with the term of the contract. Signal has fully cooperated with the audit requests made by Nassau County over the last year. Signal has provided all documentation that is available in a timely fashion, including documents requested by Nassau County auditors not required by the terms of the contract. As the size and scope of the audit has grown during the past year, it has involved dozens of telephone calls with County staff, multiple e-mail exchanges, and has required Signal to hire additional temporary staff whose primary function is to provide information to Nassau County. Bad debts are not an issue, due to the fact that Signal pays Nassau County based upon gross billings independent of bad debts.”

In any event, going forward, the Planning Department will require supporting documentation as detailed in the audit recommendations for this finding. Signal has also responded to the audit recommendations, saying that the company “will provide Nassau County, upon request, annual financial statements, independent audit reports and external auditors' management reports.” Signal has also agreed to provide an independent certified review signed off by an accounting firm.

#### **Auditor's Follow-up Response:**

*We concur with Planning's response and reiterate the importance of clarifying the terms in the new contract to include the specific supporting documentation required of Signal.*

### Audit Finding 4: Signal's Failure to Maintain Complete Accounts

This finding addressed the provision of books and records for six years and difficulties in obtaining this information as the result of a software conversion. Signal responded by writing:

“Signal provided Nassau County with all information available since the software conversion. In addition, sales journals for all prior years were provided, enabling Nassau County to do a full review...Signal has now upgraded to a new software package which does not have any data restrictions.”

#### **Auditor's Follow-up Response:**

*We reiterate our recommendation that Signal comply with contract terms by maintaining complete books and records so they are available for audit for a full six year period.*

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### Audit Finding 5: Internal Control Environment: Lack of Written Procedures and Incorrect Postings to Signal's Revenue Accounts

This finding addressed the request that Signal provide auditors with their accounting manual as well as written procedures for advertising billing and revenue recording process. Signal replied that it does not have a written accounting manual but that the company does follow Generally Accepted Accounting Practices (G.A.A.P.). In addition, they responded:

“At Nassau County’s request, Signal has developed a written revenue recording procedure,” which Signal provided to the Planning Department, as shown in Attachment I.

In response to the audit recommendation that the Planning Department “include language in the new contract that requires Signal to provide assurance that adequate controls exist over the billing and revenue recording process to ensure that the County receives its appropriate share of revenue” Signal responded:

“Signal follows G.A.A.P. as confirmed by our annual independent audit. This audit assures that adequate accounting controls exist.”

The Planning Department concurs with this response.

#### **Auditor's Follow-up Response:**

*We reviewed the one page written revenue recording procedures recently submitted by Signal (included as attachment I). We noted that it does not adequately explain how advertising revenue is credited between Nassau and Suffolk counties.*

*We reiterate our recommendation that Planning request that Signal provide a revenue recording procedure document that shows how the allocation to Nassau County is made to help ensure that the County can verify that it receives its appropriate share of revenue.*

### Audit Finding 6: Lack of Audited Financial Records:

This finding concerned the annual external audit reports for 2001 through 2006 requested by the Comptroller’s office in order to validate the accuracy of the advertising revenue Signal reported to the County.

Signal responded as follows:

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“Annual external audit reports were not a requirement of the 1997 contract. Books and records for the six year period were made available and provided as requested.”

In response to the audit recommendation that the Planning Department include a clause in the new contract that requires Signal to provide the County with a copy of its audited financial statements for each contract year, Signal has replied as follows:

“Signal agrees to and will comply with the audit recommendation to provide the County with a copy of Signal's audited financial statements for each contract year of the new contract.”

The Planning Department concurs with this response.

### **Auditor's Follow-up Response:**

*We concur with the responses provided by Planning and Signal.*

### **Audit Finding 7: Inspection of Bus Shelters and Benches:**

The Nassau County Planning Department conducted field visits in July and August to all bus shelter and bench locations. In addition, Planning staff conducted repeat site visits to all locations listed under this finding and the results and observations are contained in a spreadsheet as Attachment II to this document. Further, to the extent feasible the Department will begin a site visit program with a goal of visiting every bus shelter and bench location at least once each year.

The following is Signal's response with comments reflecting the Planning Department's input, as noted:

“The Comptroller's observation that several shelters do not conform to minimum square footage is a matter predating Signal. These shelters, many resembling telephone booths, were installed in the 1970's and are obsolete in design and availability of replacement parts. Unless sufficient land can be found proximate to the bus stop in question to accommodate a replacement the only alternatives are (1) to remove the substandard shelter or (2) allow it to stand and afford what minimum degree of passenger protection that it can offer. We have identified priority locations (such as along Stewart Avenue that is flanked by major employment centers and Nassau Community College) where shelter replacement efforts would be most beneficial to bus passengers.”

The Planning Department concurs with Signal's response with the caveat that all replacements will take place after the new agreement is executed. Continuing, since the onset of the 1997 contract shelter design has evolved to become more aesthetically pleasing, functional and comfortable for passengers. Under the new contract, the Department will implement the goal of installing new shelters in place of those identified as non-conforming at all feasible sites.

Signal also noted:

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“In a nutshell, continued land use development across the County has oftentimes reduced public right of way, while at the same time complicating sight distance. This limits where new shelters can be placed and how replacements can be configured. In the meantime, bus ridership has grown significantly and heavier utilization means more trash accumulation and more breakage.”

Structures located in the public right-of-way require a high level of maintenance as they are vulnerable to damage resulting from vandalism and motor vehicle accidents. Indeed, the cost of maintenance is one of the major reasons for privatization. The Planning Department has always made adequate staff available to respond to incidents requiring Signal’s intervention in a timely manner and will continue this level of oversight under the new contract.

As part of its response to recommendations under Finding 7, Signal also wrote that the

“... amenity of a transit information holder was overridden soon after the 1997 contract was executed. MTA Long Island Bus did not want the constant responsibility of filling transit boxes with current mapping, scheduling, and fare information.”

The Planning Department agrees that the installation of any container, either for trash or transit information, is not judicious in view of, among other things, security issues that have come to the fore following the events of September 11, 2001.

### **Auditor’s Follow-up Response:**

- *We commend Planning for conducting field visits and establishing a site visit program. If not already developed, we suggest that procedures be put in place to ensure that all site visits are fully documented.*
- *We commend Planning’s intention, under the new contract, of installing new shelters in place of those identified as non-conforming at all feasible sites. We appreciate Signal’s detailed response regarding bus shelter size and placement, and agree that their identification of priority locations for replacement efforts will be of benefit to bus passengers. We recommend that the new contract contain detailed replacement requirements, and that Planning ensure that such requirements are met.*
- *We reiterate our suggestion that Planning consider establishing a provision in the new agreement for penalties to be imposed if bus shelters remain dirty or unrepaired after Signal has been given reasonable notice of their condition.*

### **Audit Finding 8: Financial Condition of Signal Outdoor Advertising LLC as of December 31, 2006**

This finding addressed Signal’s financial viability “to continue as a growing concern.” Signal responded that:

“...for each of the calendar years Signal showed a paper loss. When you calculate

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EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) it results in a positive cash flow stream. Signal is cash flow positive and able to meet its obligations without incurring additional debt. In addition, in June 2008, Signal acquired a new \$10,000,000 line of credit from Webster bank of Connecticut for future growth and expansion.”

In response to the audit recommendation that Planning include a clause in the new contract that would allow the County to cancel its commitment upon the occurrence of certain indications of financial collapse Signal replied:

“Nassau County already has protective language in the new [draft] contract under section 3.2 that allows for termination in the event Signal should breach the contract. Additionally since 2001, Signal has paid Nassau County in excess of \$6,500,000.00, demonstrating Signal's ability to meet its financial obligations.”

The Planning Department will ensure that the new contract will contain language protecting the County in the event that Signal is unable to meet its obligations. In addition, the new contract will contain a requirement that Signal post a bond.

### **Auditor's Follow-up Response:**

*We concur with the responses provided by Planning and Signal.*

### **Conclusion**

Thank you for the opportunity to respond to the draft audit findings. If you have any questions or need any additional information, please contact Patricia Bourne or Robert Brickman in the Planning Department.



## Appendix

### Attachment I



### **Signal Outdoor Advertising, LLC Revenue Recording Procedures**

1. Inventory Coordinator enters the physical advertising locations into the Inventory Systems using addresses, latitudes and longitudes. This process ensures that all of our advertising locations are listed under the correct municipalities.
2. Signal's sales staff sells advertising space to clients and forwards the signed contract to our Vice President of Sales for term and amount review, as well as final contract approval.
3. After the contract is approved by the Vice President of Sales, the paperwork goes to our Inventory Coordinator for entry into our system and mapping into our Inventory Software. This process assigns and schedules a specific space location for the advertising posting. Signal makes every effort to ensure the advertisement location is to the client's satisfaction.
4. After the contract has been entered and mapped, it is taken to the Assistant Controller for a second confirmation review and entry into an Excel spreadsheet, which is used for the calculation of commission payments for the internal Signal's sales staff.
5. Once the information has been entered into the Excel spreadsheet, it is forwarded to the Accounts Receivable clerk, who performs a final review of the documents, and bills the invoices through our Accounting Software. The General Ledger code is then assigned to identify the market and type of advertising media.
6. After billing, the invoices are printed and checked for accuracy by our Accounts Receivable Clerk. After this check, the final invoices are mailed to our clients.
7. Our payment terms are net 30. Clients who are past the 30-day deadline are sent a standard payment request letter. If we do not receive payment by 30 days, a follow up call is made to the client. After 90 days of non-response, the clients are sent to our collection agency.
8. Our Inventory System allows us to allocate the revenue billed to each advertising location by contract term/duration.
9. As dictated by the various municipality contact terms, Signal runs query reports, which supply us with the information necessary to calculate the Municipal Payments.