

Adopted by Council at its meeting held August 24, 2015 [M326-2015]  
/AC  
Windsor, Ontario August 24, 2015

**REPORT NO. 282** of the  
**ENVIRONMENT, TRANSPORTATION & PUBLIC SAFETY**  
**STANDING COMMITTEE**  
of its meeting held July 22, 2015

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**Present:** Councillor F. Francis  
Councillor C. Holt  
Councillor B. Marra (Chair)

**Regrets:** Councillor Hilary Payne  
Councillor Paul Borrelli

That the following recommendations of the Environment, Transportation and Public Safety Standing Committee **BE APPROVED:**


Moved by Councillor Francis, seconded by Councillor Holt,

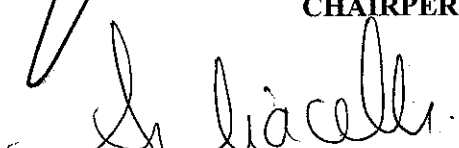
That the Environment, Transportation & Public Safety Standing Committee and the Transit Board of Directors **APPROVE** Administration's recommendation (Option 2) to audit the financial records of Transit Windsor's contract with StreetSeen Media using a qualified internal City employee.

Carried.

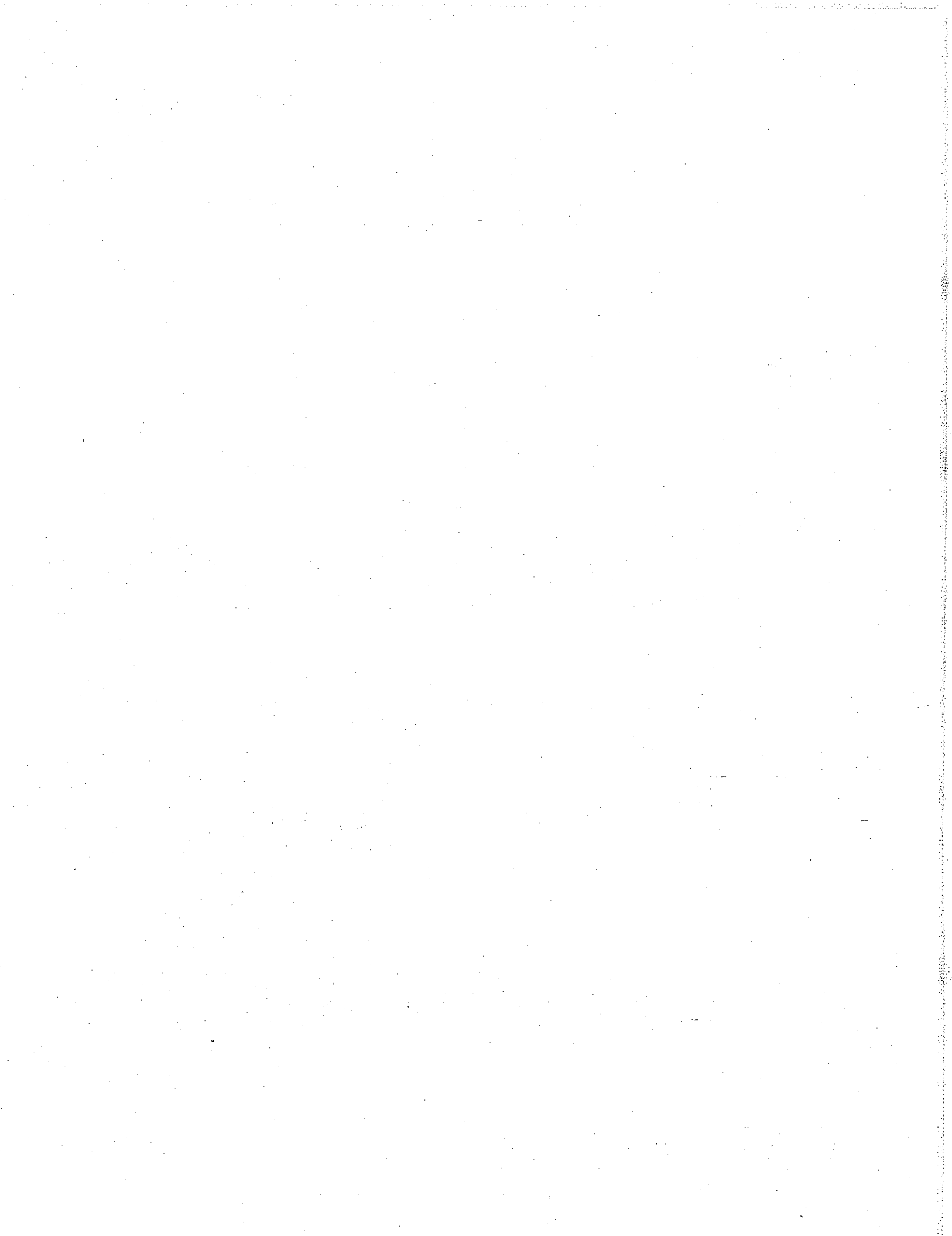
**Livelihood #17824, MT2015**

Clerk's Note: The administrative report authored by the Executive Director, Transit Windsor dated July 6, 2015 entitled "*PwC Recommendation re the Advertising Revenue for Transit Windsor*" is attached as background information.

  
\_\_\_\_\_  
CHAIRPERSON

  
\_\_\_\_\_  
SUPERVISOR OF COUNCIL SERVICES

| NOTIFICATION: |                     |
|---------------|---------------------|
| NAME          | CONTACT INFORMATION |
|               |                     |



**THE CORPORATION OF THE CITY OF WINDSOR**  
**Transportation Division – Transit Windsor**

**MISSION STATEMENT:**

*"Our City is built on relationships – between citizens and their government, business and public institutions, city and region – all interconnected, mutually supportive, and focused on the brightest future we can create together"*

|   |                                       |
|---|---------------------------------------|
| <b>LiveLink REPORT #: 17824 MT2015</b>          | <b>Report Date: July 6, 2015</b>      |
| <b>Author's Name: Patrick Delmore</b>           | <b>Date to Council: July 22, 2015</b> |
| <b>Author's Phone: 519 944-4141 Ext 232</b>     | <b>Classification #:</b>              |
| <b>Author's E-mail: pdelmore@citywindsor.ca</b> |                                       |

**TO: Environment, Transportation & Public Safety Standing Committee**

**SUBJECT PwC Recommendation re the Advertising Revenue for Transit Windsor**

**1. RECOMMENDATION: City Wide:  Ward(s): \_\_\_\_\_**

That the Environment, Transportation & Public Safety Standing Committee and the Transit Windsor Board of Directors **APPROVE** Administration's recommendation (Option 2) to audit the financial records of Transit Windsor's contract with StreetSeen Media using a qualified internal City employee.

**EXECUTIVE SUMMARY**

N/A.

**2. BACKGROUND:**

At the meeting of December 10, 2013, the Transit Windsor Board of Directors adopted resolution T.W. 91/2013 that authorized the General Manager to extend the agreement with StreetSeen Media for the exclusive right to advertise on the Transit Windsor buses for an additional five year term, based on receiving the greater of 55% of net advertising revenue or an annual guarantee, all other terms and conditions remaining the same, save and except for an increase in the annual guarantee.

In the final internal audit report dated October 31, 2014, Pricewaterhouse Coopers LLP (PwC) identified the following:

**Information from 3rd party provider is not validated Observation**

It was noted per review of the agreement between TW and StreetSeen Media (TW's sole advertising revenue customer), TW has the right to audit the revenues reported by StreetSeen Media. However, to-date management has never explored this option.

The agreement states that StreetSeen Media must pay TW revenues equal to the greater of 1) 55% of net StreetSeen billings or 2) an annual guaranteed payment. Historically, revenue has only been payable to TW based on the annual guaranteed payment, as the minimum has never been exceeded. Based on the cost structure of the agreement, StreetSeen Media has the incentive to understate their revenues in order to avoid paying TW additional fees, therefore, reducing potential TW revenues.

**Recommendation**

In order to confirm the accuracy of the revenues reported to TW by StreetSeen Media, it is recommended that TW exercise the right to request an audit of StreetSeen Media's revenues on a periodic basis.

**Management Action Plan**

Management agrees that it is a best practice to review the information supplied and will look at a cost effective way to perform a review of the information as supplied by StreetSeen. We will provide options to City Council for consideration.

**Implication**

The information provided by the 3rd party provider of advertising services may be inaccurate resulting in lost revenues or business decisions being made with inaccurate information.

**Responsibility**

General Manager/Executive Director of Transit Windsor

**Root Cause**

Amounts reported by StreetSeen Media are not reviewed for reasonability, completeness or comparability.

PwC considered the overall risk and impact low, but likely to occur. Management indicated they would report on this issue in the first Quarter of 2015.

### 3. DISCUSSION:

Administration has discussed with the auditors of StreetSeen Media whether there is a cost effective option that will provide some assurance that StreetSeen's revenue and expenses, as they pertain to Transit Windsor, are properly allocated. The following options were considered:

#### 1. **Engaging an Auditing Firm to perform one of the following functions:**

##### a. An Independent Audit of the Financial Statements

The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with the appropriate accounting standards. As the basis for the auditor's opinion, auditing standards require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

A complete audit of the financial statements of StreetSeen would provide assurance that the complete financial statements are not materially misstated. Such financial statements would include Gross Revenue of the company as a whole. An auditor's final audit report will not go into such detail unless there has been a material misstatement. Furthermore, an audit of financial statements taken as a whole should not be taken to provide comfort on individual elements of financial statements (i.e. Revenue) taken outside the context of those financial statements.

This is the most time-consuming option, which will require approximately 50 hours to complete by the independent auditor. The estimated cost of this option is \$7,500 plus disbursements.

##### b. Audit Specific Elements, Accounts, or Items of a Financial Statement

The purpose of an audit of a specific element, account, or item is similar to an audit of the complete financial statements, but is limited to the specific item. As such, the auditor will need to obtain reasonable assurance that the specific item is free of material misstatement.

An audit of revenue would require an evaluation of the internal controls of StreetSeen relevant to the revenue stream. The auditor would design and perform a series of tests to satisfy the auditor that the reported revenue is complete (all revenue earned is reported), it exists (no unearned revenue is reported), and it is accurately calculated. The audit report would provide an opinion on whether the specific item is presented fairly, in all material respects, in accordance with the appropriate accounting framework.

Due to the reduced scope of the work, such an audit would be less time-consuming requiring approximately 35 hours. The estimated cost of this option is \$5,350 plus disbursements.

c. Report on the Results of Specified Audit Procedures

A report on the results of specified audit procedures is a report prepared by an accountant on the results of applying procedures designed and requested by the municipality. The report does not provide an audit opinion, but provides the factual results of the procedures requested.

The City or its designate could focus on procedures designed to ensure revenues are not understated. Such procedures would give sufficient information to satisfy the City's concerns over the relevant revenue amounts and calculations. This is the most direct approach to satisfying the City's needs about a specific item, as it eliminates work that is outside the scope of the City's concerns.

A report on the results of specified procedures would require the least amount of time and cost, of the three options presented above. It is estimated that this option would require approximately 25 hours of work, at a cost of \$3,750 plus disbursements.

**2. Assigning a qualified City/Transit Windsor Employee To Conduct the Review**

The City also has qualified employees on staff who could review the financial records of Transit Windsor's contract with StreetSeen Media. Such a review could take one person approximately three days at the fully burdened cost of \$3,000, assuming that there are no complications.

**3. Reserve the right to Conduct an Audit at some future time**

While the contract provides Transit Windsor with the ability to audit the calculation made by StreetSeen Media, this option has never been exercised. StreetSeen has been in the advertising business for over 30 years and has a sterling reputation. As previously mentioned, the contract with StreetSeen provides Windsor with 55% of annual gross billings with an annual minimum guarantee. Monthly payments are based on the annual guarantee and on July 1, 2014 the contract was extended an additional five years and the annual guarantee increased by \$20,000 per year from the previous \$170K. StreetSeen has made its monthly payments in a timely manner and in accordance with the terms of the contract.

At any given time Administration knows the full extent of the advertising that StreetSeen has on Transit Windsor's buses and StreetSeen provides Transit Windsor with an annual statement of revenues. Based on the foregoing, Transit Windsor does not believe that it is entitled to any payments in excess of the annual guarantee. In the past, when advertising opportunities were limited, StreetSeen continued to pay Transit Windsor its annual guarantee.

Based on Transit Windsor's review of the annual gross revenue reports provided by StreetSeen for the past three years, the gross billings would have to increase by 50% to reach the point where the amount due to Transit Windsor would exceed the annual guarantee. The contract runs from July 1<sup>st</sup> – June 30<sup>th</sup>. A review of StreetSeen's gross and net revenues yielded the following observations:

| <b>Contract Year Ending</b> | <b>Actual Gross Revenue/<br/>Guaranteed Revenue</b> | <b>Actual Net Revenue/<br/>Guaranteed Revenue</b> |
|-----------------------------|---|---|
| June 30, 2012               | 48%   | 28%   |
| June 30, 2013               | 44%   | 26%   |
| June 30, 2014               | 58%   | 35%   |
| June 30, 2015               | 52%   | 31%   |

\*\* Note: The % of Actual Gross Revenue for the period ending 2015 is based on 2014 contract year sales and is intended to show that the annual guarantee increased by \$20,000 so sales would have to increase accordingly.

**4. RISK ANALYSIS:**

The risk analysis was previously presented in the internal audit report dated October 31, 2014. At that time, PwC considered the overall risk and impact to be low and the likelihood was likely.

**5. FINANCIAL MATTERS:**

The financial impact would depend on the audit option that is selected. The cost of an external audit will depend on the scope of that audit.

The least costly option would be a review conducted by a qualified municipal employee. This option is estimated to cost \$3,000.

The most costly option would be an audit undertaken by an independent auditor. The cost of this option would range between \$3,750 and \$7,500 plus associated costs.

**6. CONSULTATIONS:**

Stephen Cipkar, Executive Initiatives Coordinator.

**7. CONCLUSION:**

StreetSeen negotiates contracts with municipalities to install advertising on the municipal transit buses. StreetSeen then obtains contracts from businesses interested in placing advertisements on those buses. StreetSeen collects revenue from the business, installs the advertising on the bus, and pays an amount to the municipality for "use of the bus". The amount paid to the municipality is dependent on the negotiated contract, and

municipalities have the right to request that this calculation be audited or otherwise verified.

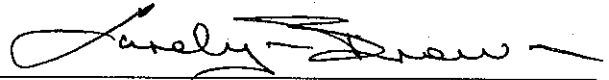
StreetSeen Media has been in business for over 30 years. They have several municipal and private sector customers to whom they provide advertising services.

Administration recommends Option 2 to assign a qualified city employee to review the financial records of StreetSeen Media.

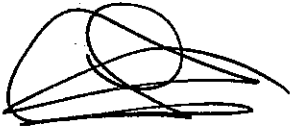
This is the final action item remaining from the PwC internal audit report of Transit Windsor. All of the other issues identified in the report have been implemented and reported to City Council.



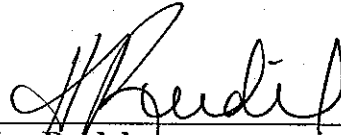
**Patrick Delmore**  
Executive Director



**Carolyn Brown**  
Corporate Leader - Transportation Services



*Fca.* **Onorio Colucci**  
Chief Financial Officer/City Treasurer  
and Corporate Leader Finance and  
Technology



**Helga Reidel**  
Chief Administrative Officer

**APPENDICES:**

| <b>NOTIFICATION:</b> |         |               |           |     |
|----------------------|---------|---------------|-----------|-----|
| Name                 | Address | Email Address | Telephone | FAX |