

AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Compliance of Viacom Outdoor With Its City Franchise Agreement

FM03-139A

June 28, 2004



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the responsibilities of the Comptroller contained in Chapter 5, § 93, of the New York City Charter, my office has examined the compliance of Viacom Outdoor (Viacom) with the terms of its franchise agreement with the Department of Transportation (DOT). Under the provisions of the agreement, Viacom is required to pay the City the greater of 32.5 percent of gross advertising revenues or minimum quarterly payments of \$2,750,000.

The results of our audit, which are presented in this report, have been discussed with officials from Viacom and DOT, and their comments have been considered in preparing this report. Audits such as this provide a means of ensuring that private concerns under contract with the City comply with the terms of their agreements, properly report revenues, and pay all fees due the City.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please contact my audit bureau at 212-669-3747 or e-mail us at audit@Comptroller.nyc.gov.

Very truly yours,

A handwritten signature in cursive script that reads 'William C. Thompson, Jr.'.

William C. Thompson, Jr.

WCT/gr

Report: FM03-139A
Filed: June 28, 2004

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*The City of New York
Office of the Comptroller
Bureau of Financial Audit*

**Audit Report on the Compliance of
Viacom Outdoor with Its City Franchise Agreement**

FM03-139A

AUDIT REPORT IN BRIEF

This audit determined whether Viacom accurately reported all gross advertising revenue in accordance with its City franchise agreement, paid the appropriate fees due the City timely, and complied with certain major non-revenue terms of the agreement.

Audit Findings and Conclusions

Viacom generally adhered to certain major non-revenue terms of its contract. Specifically, Viacom maintained the minimum number of bus-shelters stipulated in the contract, remitted the required security deposit to the City, provided the appropriate amount of public service announcements free-of-charge, maintained proper insurance coverage, and generally ensured that shelters were repaired within the times specified in the contract. In addition, all fees paid by Viacom were remitted within 30 days after the expiration of each quarter, as required by the contract.

However, Viacom did not ensure that all bus-stop shelter advertising contracts were sequentially numbered to ensure proper tracking and accountability. Therefore, we were unable to determine whether all of Viacom's bus-stop shelter advertising contracts were accounted for in its books and records; all appropriate revenue was reported; and all fees were paid to the City. Nevertheless, based on the available records, we determined that that Viacom underreported gross revenue and took questionable deductions. Consequently, Viacom underreported gross revenues and owes the City between \$418,902 and \$1,195,789 in additional franchise fees and interest.

Audit Recommendations

To address these issues, we recommend that Viacom:

- Pay the City \$418,902 in additional franchise fees and interest.

- Ensure that all revenue from bus-stop shelter advertisements is reported to the City.
- Ensure that barter revenue and the fair market value of free advertising are included in the gross revenue reported to the City.
- Maintain separate books and records for bus-stop shelter advertising, in accordance with its contract, and
- Ensure that contracts are pre-numbered and issued sequentially, without duplication.

Additionally, we recommend that DOT:

- Ensure that Viacom pays the City \$418,902 in additional fees and complies with the other recommendations in this report, and
- Determine the validity of the \$2,490,602 in deductions against gross revenue taken by Viacom in calendar years 2001 and 2002 and pursue collection of \$776,887 in any additional fees and interest due.

INTRODUCTION

Background

On March 20, 1985, the City of New York entered into a contract (franchise agreement) with Miller Signs Associates to construct, maintain, operate, and display advertising on bus-stop shelters throughout the five boroughs of the City. A series of corporate mergers and acquisitions resulted in the reassignment of the agreement to several different entities. Since September 2002, Viacom Outdoor (Viacom) has been responsible for the franchise obligations of the contract. Viacom is required to pay the City the greater of 32.5 percent of gross advertising revenues or minimum quarterly payments of \$2,750,000. Viacom was also required to provide and maintain a minimum of 3,415 bus-stop shelters by December 31, 2002, and provide free public service advertising to government and non-profit agencies on 2.5 percent of the advertising panels.

Although Viacom's contractual rights and obligations under this agreement expired on December 31, 2002, Viacom, with the City's approval, continued to operate under the same terms and conditions of the expired contract until a new agreement is executed. The New York City Department of Transportation administers this agreement.

Objectives

The objectives of this audit were to determine whether Viacom accurately reported all gross advertising revenue in accordance with its City franchise agreement; paid the appropriate

fees due the City; paid these fees on time; and complied with certain major non-revenue terms of the agreement.

Scope and Methodology

The scope period of this audit was calendar year 2002. However, for certain areas where we noted significant weaknesses, we extended our audit testing to cover calendar year 2001. To achieve our audit objectives, we reviewed the terms and conditions of Viacom's contract. We analyzed Viacom's books and records, and calculated the amounts reported and paid to the City. We evaluated the adequacy of Viacom internal controls over its revenue processing to determine the nature and extent of substantive testing to be performed. In that regard, we obtained an understanding of the internal controls in relation to the recording and reporting of advertising revenue by interviewing Viacom officials, conducting walk-throughs of the operations, and familiarizing ourselves with the record-keeping processes. In addition, we interviewed DOT officials responsible for monitoring compliance with the agreement and met with personnel from Shelter Express—the Viacom subcontractor responsible for the construction, installation, and maintenance of bus-stop shelters.

We judgmentally selected for review 13 contracts totaling \$4.8 million representing approximately 15 percent of the \$33,411,080 total revenue reported for 2002. We reviewed each contract and traced the revenue amounts reported to the City to Viacom billings and bus-stop shelter panel reports, which indicate where advertisements have been installed. In addition, for calendar years 2001 and 2002, we traced contract information and revenue amounts on sales and billing reports to contract log reports and panel reports. In addition, for 2002, we checked completion reports (indicating advertisement installations completed on behalf of Viacom by Shelter Express) against panel reports and billing reports to determine the completeness of these records. We also traced the amounts recorded on Viacom's general ledger for calendar year 2002 to the billing register reports, sales journals, billing history reports, and quarterly revenue reports submitted to DOT. With regard to billing, we traced amounts on invoices to the billing register, sales journal, and general ledger for calendar year 2002. We reviewed cancelled checks to determine whether Viacom paid the City the fee amounts reported on its quarterly revenue reports, and whether the amounts were paid on time.

With regard to assessing the timeliness of shelter repairs, we reviewed a log of complaints received by DOT during August 2002 to determine how long it took Viacom and its subcontractor, Shelter Express, to correct the problems.

We reviewed panel reports for 2002 to determine whether Viacom provided free advertising to government and not-for-profit organizations, as required. In addition, for the month of March 2002, we judgmentally selected 10 of 40 advertisements identified by Viacom officials as "free public service announcements" and reviewed the contracts to confirm that the not-for-profit organization or City agency was not charged for these services.

We reviewed insurance documents to determine whether Viacom carried the proper types and amounts of insurance. Finally, we reviewed cancelled checks to determine whether Viacom maintained the appropriate security deposit on account with the City.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with officials of Viacom and DOT during and at the conclusion of this audit. A preliminary draft report was sent to officials of Viacom and DOT and discussed at an exit conference held on May 24, 2004. On May 26, 2004, we submitted a draft report to Viacom and to DOT officials with a request for comments. We received written responses from Viacom on June 9, 2004 and from DOT on June 10, 2004.

Viacom agreed that certain advertisers were provided free bus-stop shelter advertising and some advertising was posted without formal contracts and not completely recorded in its system. As a result, Viacom has remitted a check to the City for \$418,902. However, Viacom did not agree that it commingled its books and records in violation of the contract and stated that it has maintained and provided sufficient details with each quarterly payment regarding deductions to gross revenues for any revenue pertaining to its other business ventures.

DOT stated that “it is our understanding that Viacom allocated gross revenue to non-City sources and made the supporting documentation available We will meet with Viacom officials, review the available documentation, and determine the validity of the deductions. If the deductions were not appropriate we will pursue the collection of additional fees and interest, if any.”

The full text of the responses from Viacom and DOT are included as addenda to this report.

FINDINGS AND RECOMMENDATIONS

Viacom generally adhered to certain major non-revenue terms of its contract. Specifically, Viacom maintained the minimum number of bus-stop shelters stipulated in the contract, remitted the required security deposit to the City, provided the appropriate amount of public service announcements free-of-charge, maintained proper insurance coverage, and generally ensured that shelters were repaired within the times specified in the contract. In addition, all fees paid by Viacom were remitted within 30 days after the expiration of each quarter, as required by the contract.

However, Viacom did not ensure that all bus-stop shelter advertising contracts were sequentially numbered to ensure proper tracking and accountability. Therefore, we were unable to determine whether all of Viacom's bus-stop shelter advertising contracts were accounted for in its books and records; all appropriate revenue was reported; and all fees were paid to the City. Nevertheless, based on the available records, we determined that Viacom underreported gross revenue and took questionable deductions. Consequently, Viacom underreported gross revenues and owes the City between \$418,902 and \$1,195,789 in additional franchise fees and interest.

These issues are discussed in detail in the following sections of this report.

Unreported Bus-Stop Shelter Advertising Revenue

Our review of Viacom's books and records disclosed that Viacom understated its gross receipts by \$1,530,459, as follows:

- Viacom provided free bus-stop shelter advertising to 10 vendors as an incentive for them to enter into agreements to advertise on Viacom billboards (for which the City receives no compensation). According to the bus-stop shelter contract with the City, "the gross revenues shall include any amount, the equivalent of which the Company, a subsidiary or affiliate of the Company, or a third party may have received from the advertiser in the form of materials, services, or other benefits, tangible or intangible." We calculated that the fair market value of the free advertising on shelters was \$468,300, based on the lowest bus-stop shelter advertising fee on Viacom's rate card.
- Viacom provided bus-stop shelter advertising for five companies for which we could find no agreements. We calculated that the fair market value of this advertising was \$393,525.
- Under a barter arrangement, Viacom provided bus-stop shelter advertising to Coppola's Restaurant in return for \$30,000 in catering services. An internal Viacom memorandum states, "Please note, these locations [i.e., the shelters] will not be entered into the system." A handwritten note on the same memo states that this instruction was "due to [a] trade agreement with Coppola's." We noted that no revenue was reported to the City for this transaction.
- Viacom entered into three contracts for bus-stop shelter advertising totaling \$399,335 that was not included in gross revenue reported to the City.
- Viacom's general ledger for bus-stop shelter advertising contained \$239,299 in revenue that could not be attributed to any contracts and was not included in the revenue reported to the City.

Based on the amount of unreported revenue, we calculated that Viacom owes the City \$418,902 in additional fees and related interest. (See Appendix I.)

Viacom Commingled its Books and Records, in Violation of the Contract

Viacom's books-of-account for bus-stop shelter advertising were commingled with its other business ventures, in violation of the City contract. Article VII, §7.2, of the agreement states, "the Company shall, at all times, keep complete and accurate books of account and records of its business and operation under and in connection with this contract . . . Such books of account and records shall be kept . . . separate and distinct from all other books of account and records maintained by the Company."

Viacom officials stated that because they believe the bus-stop shelter books-of-account contain certain revenues that the City has no right to share in, Viacom deducts those amounts from the gross receipts statements it submits to the City. In fact, in calendar years 2001 and 2002, Viacom deducted a total of \$2,490,602 from its reported gross receipts. According to Viacom, the revenue in question was attributable to advertising arrangements with private entities, and therefore should not have been included in gross receipts. We agree that the City would not be entitled to receive a portion of revenue attributable to Viacom's business ventures not related to its City contract. However, we question the deductions since we were not provided any documentation to support the revenue allocations; the contract prohibits commingling of accounts in Viacom's books and records; and the contract does not permit Viacom to take any deductions from gross revenue. Accordingly, Viacom may owe the City as much as \$776,887 in additional franchise fees and interest. (See Appendix II.)

Viacom's Response: "We disagree with the auditors' finding that Viacom Outdoor commingled its books and records in violation of the contract. Although our sales contracts often include multiple media types based on the total agreement negotiated with our advertisers, we have maintained and provided sufficient details with each quarterly payment regarding deductions to gross revenues for any inventory pertaining to other business ventures (e.g. Outdoor Solutions and Victor Media). In fact, with every payment to the City, a cover sheet and detailed summary of deductions was provided to the NYC Department of Transportation. For all deductions taken, we are able to trace to the supporting sales contracts and evidence that a straight-line allocation method was applied to the total number of bus-stop shelters in order to determine rate per unit. This information was made available to the City's auditors and remains available for any subsequent reviews deemed necessary."

Auditor Comment: In theory, Viacom's "cover sheet and detailed summary of deductions" should provide sufficient information for DOT to determine whether Viacom deducted the amount attributable to its other ventures from the revenues it reports to the City. In practice, however, this is not always the case. Viacom claims to allocate the amount of revenue received between City bus-stop shelters and its other advertisers by using a "straight-line allocation method" in order to determine a rate per unit. While this method may be appropriate where Viacom has not provided free bus-stop shelter advertising to vendors, it causes the City to receive less than its fair share when Viacom has given vendors incentive shelters. Two of the 13 bus-shelter contracts we initially reviewed (#61534 and #61684), included free bus-stop shelter advertising as part of the

contracts associated with Viacom's other business ventures. In both instances, we believe that the City received less than its fair share of Viacom's revenue.

For example, under contract number #61684, an advertiser paid Viacom \$135,000 for advertising on 90 panels. Nine of those advertisements were posted on panels owned by one of Viacom's other business ventures. Viacom took a deduction of \$13,500 against revenues it reported to the City ($\$135,000 \text{ contract price} / 90 \text{ contracted panels} = \$1,500 \text{ per panel} \times 9 \text{ competitor's panels used} = \$13,500 \text{ deduction}$). However, when we reviewed the contract file, we found that Viacom had posted advertisements on 221 panels under this contract, having given the advertiser 131 additional City-owned panels free of charge. If Viacom had used the total number of panels posted in its calculations, it would have deducted only \$5,498 from the revenues reported to the City ($\$135,000 \text{ contract price} / 221 \text{ panels posted} = \$610 \times 9 \text{ competitor's panels used} = \$5,498 \text{ deduction}$). Thus, Viacom would have reported an additional \$8,002 in revenue to the City. Had Viacom maintained separate books and records for City-related revenue, as required by the contract, such inequities would not have occurred.

Other Issue: Inadequate Controls over Contracts

We found that Viacom's contracts are not pre-numbered; not always issued sequentially; and sometimes contain duplicate numbers. Therefore, we were unable to determine whether all Viacom's bus-stop shelter advertising contracts were accounted for on its books and records; all appropriate revenue was reported; and all fees were paid to the City.

RECOMMENDATIONS

We recommend that Viacom:

1. Pay the City \$418,902 in additional franchise fees and interest.
2. Ensure that all revenue from bus-stop shelter advertisements is reported to the City. In that regard, Viacom should ensure that contracts are executed covering all bus-stop shelter advertisements.
3. Ensure that barter revenue and the fair market value of free advertising are included in the gross revenue reported to the City.

Viacom's Response: "A payment of \$419,902 will be made to the City on June 10, 2004. In addition, formal policies and procedures are being issued to re-emphasize the Company requirement that contracts must be generated for all advertising, including barter transactions. Fair market value of free advertising will be included in the gross revenue reported to the City."

Auditor Comment: In response to recommendation number one, Viacom has remitted a check to the City for \$418,902.

4. Maintain separate books and records for bus-stop shelter advertising, in accordance with its contract.

Viacom's Response: "We have recently automated this allocation process in our new billing system so that our gross revenue for New York City bus-stop shelters will be tracked independently from other bus-stop shelters in a similar manner as we currently segregate shelters from billboards."

5. Ensure that contracts are pre-numbered and issued sequentially, without duplication.

Viacom's Response: "In July 2003, our New York City market was converted to the new company-wide billing system, Viacom Outdoor Billing (VOB). VOB provides for pre-numbered, sequentially issued contracts and will not allow billing to duplicate contract numbers."

We recommend that DOT:

6. Ensure that Viacom pays the City \$418,902 in additional fees and interest and complies with the other recommendations in this report.

DOT's Response: "We agree."

7. Determine the validity of the \$2,490,602 in deductions against gross revenue taken by Viacom in calendar years 2001 and 2002 and pursue collection of \$776,887 in any additional fees and interest due.

DOT's Response: "We will review Viacom's documentation to ensure that deductions from gross revenue were valid and appropriate. If there are inappropriate deductions, we will adjust the gross revenue reported and pursue the collection of the applicable fees and interest, if any."

**Computation of Additional Franchise Fees and Interest Owed
Based on Underreported Revenue**

	(A)	(B)	(C) B-A	(D)	(F) C+D
Date	Payment Amount	Auditor Adjusted Payment Amount	Additional Payment Due	Interest on Late Payment 20%	Accumulated Balance Owed (Including Interest)
Calendar year 2001					
3rd Qtr - Additional Payment Due	\$2,375,000	\$2,511,440	\$136,440		\$136,440
4th Qtr - Interest Due Prior Qtr				6,822	143,262
4th Qtr - Additional Payment Due	2,458,842	2,521,047	62,205		205,467
Total Payments Due Plus Interest for 2001			198,645	6,822	205,467
Calendar year 2002					
1st Qtr -Interest Due From Prior Qtr				10,273	215,740
2nd Qtr -Interest Due From Prior Qtr				10,787	226,527
2nd Qtr - Additional Payment Due	2,750,000	2,776,879	26,879		253,406
3rd Qtr -Interest Due From Prior Qtr				23,996	277,403
3rd Qtr -Additional Payment Due	3,401,989	3,452,494	50,505		327,908
4th Qtr -Interest Due From Prior Qtr				16,395	344,303
Total Payments Due Plus Interest for 2002			\$77,384	\$61,452	\$344,303
Additional Interest Due from 1/1/03-5/1/04				\$74,599	
Total Additional Payment and Interest Due			\$276,029	\$142,873	\$418,902

Column :

- (B) The agreement requires Viacom to pay the greater of 29 percent of gross revenue or a minimum quarterly payment of \$2,375,000 in 2001. For 2002, the agreement requires Viacom to pay the greater of 32.5 percent of gross revenue or a minimum of \$2,750,000. Column (B) represents those quarters where the 29 percent and 32.5 percent of gross revenue were greater than the minimum for both Calendar Years 2001 and 2002 respectively.
- (D) As stated in the agreement, compensation shall be paid to the City quarterly, within thirty (30) days after the expiration of each quarter. In the event any payment is not made on or before the date such payment is due, interest on such payment shall apply from the date such payment is due at the rate of twenty percent (20%) per year.

**Computation of Additional Franchise Fees and Interest Owed
Based on Underreported Revenue and Questionable Deductions**

	(A)	(B)	(C) B-A	(D)	(F) C+D
Date	Payment Amount	Auditor Adjusted Payment Amount	Additional Payment Due	Interest on Late Payment 20%	Accumulated Balance Owed (Including Interest)
Calendar year 2001					
3rd Qtr - Additional Payment Due	\$2,375,000	\$2,691,362	\$316,362		\$316,362
4th Qtr- Interest Due Prior Qtr				\$15,818	\$332,180
4th Qtr - Additional Payment Due	\$2,458,842	\$2,684,193	\$225,351		557,531
Total Payments Due Plus Interest for 2001			\$541,713	15,818	557,531
Calendar year 2002					
1st Qtr- Payment Due Plus Interest					\$557,531
2nd Qtr- Interest Due Prior Qtr				\$27,877	\$585,408
2nd Qtr - Additional Payment Due	\$2,750,000	\$2,861,365	\$111,365		\$696,773
3rd Qtr- Interest Due Prior Qtr				\$34,839	\$731,611
3rd Qtr - Additional Payment Due	\$3,401,989	\$3,581,455	\$179,466		\$911,077
4th Qtr- Interest Due Prior Qtr				\$45,554	\$956,631
Total Payments Due Plus Interest for 2002			\$290,831	\$124,087	\$956,631
Additional Interest Due from 1/1/03-5/1/04				\$239,158	
Total Additional Payment and Interest Due			\$832,544	\$363,245	\$1,195,789

Total Additional Fees Owed	\$1,195,789
Less:	
Total Fees Owed Based on Underreported Revenue (Appendix I)	(\$418,902)
Total Fees Owed Based on Questionable Deductions	\$776,887

Column :

- (B) The agreement requires Viacom to pay the greater of 29 percent of gross revenue or a minimum quarterly payment of \$2,375,000 in 2001. For 2002, the agreement requires Viacom to pay the greater of 32.5 percent of gross revenue or a minimum of \$2,750,000. Column (B) represents those quarters where the 29 percent and 32.5 percent of gross revenue were greater than the minimum for both Calendar Years 2001 and 2002 respectively.
- (D) As stated in the agreement, compensation shall be paid to the City quarterly, within thirty (30) days after the expiration of each quarter. In the event any payment is not made on or before the date such payment is due, interest on such payment shall apply from the date such payment is due at the rate of twenty percent (20%) per year.



June 9, 2004

Mr. Greg Brooks, Deputy Comptroller
The City of New York
Office of the Comptroller
1 Centre Street
New York, New York 10007

Dear Mr. Brooks:

We are writing this letter in response to the City of New York's (the "City") audit report FM03-139A issued on May 26, 2004. We acknowledge that certain findings noted in your report appear to indicate some deviations from the contract. For example, some of the contracts noted in the report as "unreported revenue" represent our integrated approach to selling advertising throughout New York, which was designed to increase shelter revenues in aggregate. On a contract-specific basis, a "bonused" shelter may indicate unreported revenue. However, when analyzed in conjunction with our overall market strategy, you will find that similar approaches were used in other cases to "bonus" billboards in order to incentivize advertisers to purchase shelters as part of the package. We realize that this approach increases the difficulty of allocating revenue to shelters on a contract-specific basis and have agreed to your recommendations and suggested adjustments, as detailed below.

We would also like to highlight the following changes to our organization that will allow us to more effectively increase and report shelter revenue:

1. Effective May 2004, we have re-organized our management structure to include separate reporting divisions for display advertising and billboard advertising. The Displays Division will provide a dedicated sales team to focus on street furniture, including bus shelters. This change is being implemented to stimulate sales and to improve customer service to both our advertisers and business partners.
2. In 2003 we implemented a new billing system that has resulted in significant improvements in the way we capture and report our sales revenue. In addition, we are currently upgrading our national inventory management system, which will soon be implemented in New York.

Response to Findings:

- **Unreported Bus-Stop Shelter Advertising Revenue**

We are in agreement with the City's finding that certain bus-stop shelters were "bonused" as incentives for advertisers to enter into billboard agreements, and that some advertising (including Viacom inter-company and reciprocal barter agreements) was posted without formal contracts and not completely recorded in our system. Due to these revenue-reporting discrepancies, we acknowledge that additional franchise fees and interest are owed to the City.

Viacom Outdoor Implementation Plan:

A payment of \$418,902 will be made to the City on June 10, 2004. In addition, formal policies and procedures are being issued to re-emphasize the Company requirement that contracts must be generated for all advertising, including barter transactions. Fair market value of free advertising will be included in the gross revenue reported to the City.

- **Viacom Commingled its Books and Records, in Violation of Contract**

We disagree with the auditors' finding that Viacom Outdoor commingled its books and records in violation of the contract. Although our sales contracts often include multiple media types based on the total agreement negotiated with our advertisers, we have maintained and provided sufficient details with each quarterly payment regarding deductions to gross revenues for any inventory pertaining to other business ventures (e.g. Outdoor Solutions and Victor Media). In fact, with every payment to the City, a cover sheet and detailed summary of deductions was provided to the NYC Department of Transportation. For all deductions taken, we are able to trace to the supporting sales contracts and evidence that a straight-line allocation method was applied to the total number of bus-stop shelters in order to determine rate per unit. This information was made available to the City's auditors and remains available for any subsequent reviews deemed necessary.

Viacom Outdoor Implementation Plan:

We have recently automated this allocation process in our new billing system so that our gross revenues for New York City bus-stop shelters will be tracked independently from other bus-stop shelters in a similar manner as we currently segregate shelters from billboards.

- **Inadequate Controls over Contracts**

During the period under review (2001-2002), Viacom Outdoor underwent a series of mergers, acquisitions, and management changes that resulted in certain

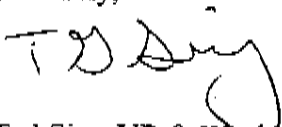
inconsistencies related to sales contract formatting and billing processes, as well as increased reliance on manual controls.

Viacom Outdoor Implementation Plan:

In July 2003, our New York City market was converted to the new company-wide billing system, Viacom Outdoor Billing (VOB). VOB provides for pre-numbered, sequentially issued contracts and will not allow billing of duplicate contract numbers.

We have thoroughly reviewed the auditor's report and analyzed each finding and recommendation. We are confident that our responses and implementation plans enable us to correct past problems and prevent similar issues from occurring in the future. We value our relationship with the City and look forward to its continuation long into the future. If you would like to discuss this audit further, please do not hesitate to contact Larry Levine, President, Viacom Outdoor Displays Division, at (212) 297-6520 or me directly at (212) 297-6580.

Sincerely,



Ted Siry, VP & Worldwide Controller

[For Ray Nowak, EVP & CFO]

cc: Ray Nowak, EVP & CFO
Larry Levine, President Viacom Outdoor Displays Division
George Wood, US Controller



VIACOM OUTDOOR
405 Lexington Avenue
New York, NY 10016

THE CITY OF NEW YORK
DIVISION OF REAL ESTATE SERV
1 CENTRE STREET ROOM 1450
NEW YORK, NY 10007-1307

PAYMENT SUMMARY				
Check Date: June 09, 2004		Vendor Name: THE CITY OF NEW YORK		
Check No.: 10055		Vendor No.: 16845		
Invoice No.	Invoice Date	Description	Discount	Net Amount
060804ADDFEES	08-JUN-04	ADDITIONAL FRANCHISE FEES AND INTEREST OWED TO THE	0.00	418,902.00

TOTAL: \$418,902.00

DOCUMENT CONTAINS ANTI-COPY VOID PANTOGRAPH, MICRO PRINT BORDER, VERIFICATION BOX (TO RIGHT OF ARROW, HOLD BETWEEN THUMB AND FOREFINGER, OR BREATHE ON IT, COLOR WILL DISAPPEAR, THEN REAPPEAR), AND A SIMULATED WATERMARK ON THE BACK



VIACOM OUTDOOR
405 Lexington Avenue
New York, NY 10016

60-1690/433

Check Date
June 09, 2004

Check Number
10055

PAY Four hundred eighteen thousand nine hundred two and 00/100 Dollars

TO
THE
ORDER
OF

THE CITY OF NEW YORK
DIVISION OF REAL ESTATE SERV
1 CENTRE STREET ROOM 1450
NEW YORK, NY 10007-1307

VALID FOR 90 DAYS

****\$418,902.00

Mellon Bank
Pittsburgh, PA

⑈0000010055⑈ ⑆043301601⑆ 12099711⑈



**New York City
Department of Transportation**

Office of the Auditor General
51 Chambers Street, Room 420
New York, New York 10007
Tel.: (212) 788-8162
Fax: (212) 788-8159

Iris Weinshall, Commissioner

Web: www.nyc.gov/dot

June 10, 2004

Mr. Greg Brooks, Deputy Comptroller
Policy, Audits, Accountancy & Contracts
City of New York
Office of the Comptroller
1 Centre Street
New York, New York 10007-2341

Re: FM03-139A

Dear Mr. Brooks:

This is in response to your draft "Audit Report on the Compliance of Viacom Outdoor with its City Franchise Agreement."

The draft report indicates that Viacom generally adhered to major non-revenue terms of the agreement including maintaining the required minimum number of bus stop shelters, remitting the required security deposit, providing the appropriate amount of free public service announcements, and ensuring timely repairs to the shelters. We are pleased with these conclusions.

The draft report also indicated that there were some deficiencies. These included that bus stop shelter advertising contracts were not sequentially numbered, and that Viacom underreported gross revenue and took questionable deductions. At the exit conference, held on May 24, 2004, Viacom officials acknowledged some of the deficiencies in the preliminary draft report and indicated that since the audit period (2002), they have restructured by assigning new staff, and changing the billing system. We intend to review the findings with Viacom. It appears that the underreporting of advertising revenue is a valid finding and we will ensure that the City receives the appropriate additional fees and interest. The draft finding concerning deductions that Viacom took against gross revenue is questionable. It is our understanding that Viacom allocated gross revenue to non-City sources and made the supporting documentation available to your audit staff. We will meet with Viacom officials, review the available documentation, and determine the validity of the deductions. If the deductions were not appropriate we will pursue the collection of additional fees and interest, if any.

The following are the recommendations included in the report that were directed to DOT and our comments:

- 6.) "Ensure That Viacom pays the City \$418,902 in additional fees and interest and complies with other recommendations in this report."

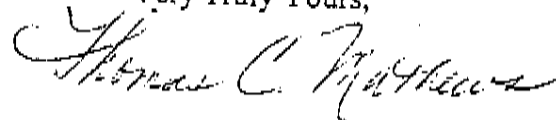
We agree.

- 7.) "Determine the validity of the \$2,490,602 in deductions against gross revenue taken by Viacom in calendar years 2001 and 2002 and pursue collection of \$776,887 in additional fees and interest due."

We will review Viacom's documentation to ensure that deductions from gross revenue were valid and appropriate. If there are inappropriate deductions, we will adjust the gross revenue reported and pursue the collection of the applicable fees and interest, if any.

If you have any questions concerning this response, I can be reached at 212-788-8162.

Very Truly Yours,



Thomas C. Mathews
Auditor General

cc: Commissioner Iris Weinshall
F/D/C Judith Bergtraum
G/C Philip Damashek
E/D Anne Koenig
George Davis, MOO