



City of Phoenix

**Mission Statement**

To improve the quality  
of life in Phoenix  
through efficient  
delivery of outstanding  
public services.

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**Project Number**

1240021

This report can be made  
available in alternate  
format upon request.

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## Aviation Department Contract Audit – Lamar Advertising

November 14, 2023

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### ***Report Highlights***

#### **Concession Rent Payments**

*Concession revenue and rent were reported accurately and timely for the period tested.*

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## **Executive Summary**

### **Purpose**

Our purpose was to determine that concession rent payments were accurate, complete, and in compliance with contract provisions for the concession contract with Lamar Alliance Airport Advertising Company (Lamar).

### **Background**

Lamar contracted with the City of Phoenix Aviation Department (Aviation) to sell terminal advertising space in areas designated by the City. Advertising at Phoenix Sky Harbor International Airport includes Terminal 3, Terminal 4, and the Rental Car Center. Revenues are self-reported and the annual concession fee due from Lamar is the greater of (1) the minimum annual guarantee (MAG) of \$3.1 million for the contract year, or (2) percentage rent of 50% of gross sales for digital advertising, and 65% of gross sales for static advertising.

The Aviation Business and Properties Division (B&P) is responsible for the overall administration and monitoring of the lease. During the COVID-19 Pandemic, Lamar was granted rent relief from the MAG and payments were deferred; however, percent rent was required on their gross sales from April 1, 2020, through December 31, 2021.

### **Results in Brief**

#### **Concession revenue and rent due were reported accurately and timely for the period tested.**

For the audit period of January 2020 through June 2023, Lamar paid \$9.3 million in concession fees. Monthly revenue was submitted accurately and completely for the tested months.

#### **Lamar's Gross Revenue Report for June 2023 accurately reflected the advertising in the terminals at Sky Harbor International Airport.**

We performed a physical inventory of advertising locations for all terminals at Sky Harbor International Airport, as of June 2023. The physical inventory agreed except for one minor difference to the June 2023 Gross Revenue Report submitted by Lamar.

# **1 – Revenue Reporting and Concession Rent**

## **Background**

Lamar contracted with Aviation to sell terminal advertising space in areas designated by the City. The contract requires Lamar to pay a concession fee which is the greater of (1) the minimum annual guarantee (MAG) determined for the contract year, or (2) percentage rent of 50% of gross sales for digital advertising, and 65% of gross sales for static advertising. The City received \$9.3 million in concession rent during the audit period (January 2020 through June 2023).

In accordance with the contract, Lamar is required to:

- Monthly
  - Submit Gross Revenue Reports (GRR) detailing revenue for each advertising location.
  - Remit concession rent (1/12<sup>th</sup> of MAG, plus any additional percent rent due above the monthly MAG) within 20 days after the close of each month.
- Annually
  - Submit an accounting statement of Gross Revenue and Percentage Rent, prepared and signed by Lamar's Chief Financial Officer, or highest-ranking finance manager or employee, or an independent certified public accounting firm, in accordance with Generally Accepted Auditing Standards.
  - Submit a rate card within the standard media kit.

During the COVID-19 Pandemic, Lamar was granted rent relief from the MAG and payments were deferred; however, percent rent was required from their gross sales from April 1, 2020, through December 31, 2021.

We verified the accuracy of the reported gross revenue by agreeing a sample of the monthly GRRs to Lamar's financial records, invoices, and the annual accounting statement of Gross Revenue and Percentage Rent.

## **Results**

### **Concession revenue and rent due were reported accurately and timely for the period tested.**

For our testing, we (1) recalculated rent due based on the GRRs, (2) reviewed payments to Aviation for timeliness, and (3) agreed GRRs to the annual accounting statements of Gross Revenue and Percentage Rent for calendar years 2020, 2021, and 2022. We also judgmentally selected three months (April 2021, October 2022, and

January 2023) for further testing. For each of those months, we agreed the GRR to the invoices, billing invoice journals, and the general ledger.

### Summary of Revenue Reporting and Rent Payment Testing

Audit Test	Tested Without Exception
Monthly payments were calculated correctly (based on GRRs) and paid timely.	✓
GRRs agreed to annual accounting statements prepared by an independent certified public accounting firm.	✓
Sample months revenue agreed to the invoices and billing invoice journals.	✓
Sample months revenue agreed to the general ledger.	✓ See discussion below.

**No exceptions were noted.**

Overall, Lamar reported and paid revenue correctly to the City. We conducted additional testing to agree reported revenue to Lamar's general ledger, due to a variance between the way revenue is recorded on the GRR, and how revenue is recorded in the general ledger. Lamar invoices customers through the full month and reports revenue to the City monthly. In the monthly GRR, each advertising location reflects the monthly invoice amount from the Bundled Invoice Register, which is their source document for payment and reporting, and the Billing Invoice Journal from their financial system. These two reports are used to prepare the monthly GRR to the City.

To ensure Lamar reported the full contract amount to the City, we selected 10 contracts and 10 invoices each from the April 2021, October 2022, and January 2023 GRRs. We traced the sample of invoices to the contracts and to a copy of the invoices sent to Lamar's customers. Additionally, we traced the contracts to Lamar's file and verified that service dates and pricing were correct. For the 30 contracts and invoices we tested, Lamar reported the full contract amount to the City as required by the contract.

**An annual rate card, media kit, and certified audited statements were submitted during the audit period, as required by the contract.**

The contract requires the lessee to provide an annual rate card within a standard media kit. The lessee must also submit for each year a certified annual statement of gross revenues and percentage rent prepared by an independent CPA within 90 days of the end of each calendar year. We found that Lamar submitted all these required documents during the audit period.

## **2 – Airport Advertising Location Inventory Testing**

### **Background**

There were 272 total advertising locations in Terminal 3 and Terminal 4 at Sky Harbor International Airport. Excluding the phone center and brochure racks, there were 209 advertising locations in the two terminals.

We conducted a physical inventory of the terminals based on the June 2023 inventory to determine if:

- The GRR accurately reflected the advertising in the terminals.
- Advertising was removed when it expired.

### **Result**

**The GRR for June 2023 accurately reflected the advertising displayed at Sky Harbor International Airport terminals.**

The contract requires Lamar to submit a monthly GRR, detailing all sold and unsold advertising, the name of the advertiser, the size of the advertising, the amount paid, and advertising duration.

We took a random sample of advertising spaces and compared the physical inventory to the advertising locations that were listed in the June 2023 GRR. All advertising was located and appropriate, with one minor difference in Terminal three (T3), where a wall wrap was changed to a floor display.

## **Scope, Methods, and Standards**

### **Scope**

We reviewed Lamar's contract no. 135006 for the period January 2020 through June 2023.

The internal control components and underlying principles that are significant to the audit objectives are:

- Monitoring Activities
  - Management should establish and operate activities to monitor the internal control system and evaluate the results.
  - Management should remediate identified internal control deficiencies on a timely basis.
- Control Environment
  - The oversight body should oversee the entity's internal controls.

### **Methods**

We used the following methods to complete this audit:

- We tested the timeliness and accuracy of the monthly revenue payments to the City.
- We judgmentally selected and agreed monthly revenue reports to customer invoices, billing invoice journals, and the general ledger.
- We verified that reports were submitted in accordance with contract requirements.
- We performed physical inventory testing.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

### **Data Reliability**

The reliability of SAP data was previously determined through an independent audit review.

### **Standards**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.