

Memorandum



CITY OF DALLAS

Report No. A08-025

Date: September 26, 2008

To: Honorable Mayor and Members of the City Council

Subject: Final Report – Follow-Up of Audit Recommendations, Office of Cultural Affairs

The Office of Cultural Affairs (OCA) implemented two recommendations resulting from the “Follow-up Report of the April 29, 2005 Audit of Revenue Related Activities of WRR-FM.” *Attachment A* provides detailed information for the nine recommendations included in this audit¹ report.

Summary of Follow-up Audit Results

Fiscal Year Audit Report Issued	Number of Report Recommendations	Recommendations Implemented	Recommendations Not Implemented
2007	9	2	7

The seven (78 percent) recommendations that were not implemented pertain to commission payments, advertising contract terms, collections of past due accounts, and collection of overpayments to former employees. WRR-FM, a division of OCA, operates as an enterprise fund in a manner similar to a private business.

As a radio station, WRR-FM operates according to industry standards that are not always consistent with City directives. Management has accepted the risks associated with not implementing these recommendations. The City Auditor’s Office will not conduct any further follow-up on these recommendations, but will consider the risks in determining future audit coverage as part of the annual audit plan.

We appreciate the department’s cooperation. This report was discussed with OCA management, but a written response was not requested.

¹ This audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with generally accepted government auditing standards. The audit objective was to verify that management has taken corrective action(s), the corrective action(s) are achieving the desired results or management has assumed the risk of not taking corrective action(s).

If you have any questions or need additional information, please contact me at 214-670-3222 or Gary Lewis, Assistant City Auditor, at 214-670-5347.

Sincerely,

A handwritten signature in cursive script that reads "Craig D. Kinton".

Craig D. Kinton
City Auditor

Attachment A

C: Mary K. Suhm, City Manager
Dave K. Cook, Chief Financial Officer
David O. Brown, Interim Assistant City Manager
Maria Munoz-Blanca, Director – Office of Cultural Affairs

ATTACHMENT A

Audit Report	Audit Issues	Audit Recommendations	Audit Follow-Up Results
<p>Follow-Up Report of the April 29, 2005 Audit of Revenue Related Activities of WRR-FM</p>	<p>WRR General Manager's commission computations are inaccurate and payments are questionable</p>	<p>- Consult with the City Attorney to develop and implement a plan, including the guidelines established by Administrative Directive 3-69, to recover the amount overpaid to the General Manager (GM) as commissions.</p>	<p>Not Implemented. It is the position of OCA management that there was no overpayment based on "multiple reasonable interpretations" of the 1994 commission agreement. The commission agreement was revised in 2004. The commission amount is reviewed and approved by the City Manager, the City Controller, the OCA Director, and verified by the City Auditor before payment is issued.</p>
		<p>- Consult with the administrator of the City's Employee Retirement Fund to address / adjust the impact of the questioned amount, associated with the lump-sum payment amount, on future employee retirement benefits.</p>	<p>Implemented. The Employee Retirement Fund Administrator was consulted and returned an opinion based on legal counsel that a determination of the impact on retirement benefits cannot be made until the WRR General Manager retires.</p>
	<p>Management oversight and monitoring controls over industry trade account activities are inadequate</p>	<p>- Develop and implement consistent internal policies for rewarding sales from trade agreements.</p>	<p>Not Implemented. OCA management does not agree with this recommendation. WRR currently operates within industry practice regarding trade usage which is to compensate a commissioned sales force on cash revenue only.</p> <p>The WRR procedure manual for the Sales Division specifically states "trade is non-commissionable." The GM commission is based on operating income which includes trade agreements. Therefore, compensation from trade agreements is not consistent for the General Manager and commissioned sales staff.</p> <p>Trade agreements are contracts through which goods and services are exchanged for air time.</p>

Audit Report	Audit Issues	Audit Recommendations	Audit Follow-Up Results
	<p>Some of WRR's internal policies and procedures conflict with citywide policies and procedures</p>	<p>- Confer with the City Attorney to revise the current advertising contract to include a provision for interest charges on late payments to comply with City Code requirements.</p>	<p>Not Implemented. Management contacted the City Controller in July 2006, but an exception to the Administrative Directive 4-10 requirement for assessing 10 percent interest on late payments was not granted.</p> <p>WRR management stated that charging late fees for clients would put the station at a disadvantage with competitors in the marketplace because it is not accepted practice in the advertising and broadcast industries. Clients would perceive late fees as a deterrent to doing business with WRR and out of step with the rest of the broadcast industry. It will result in the loss of advertisers and revenues.</p> <p>OCA management recommends WRR be exempted from the City practice of assessing 10 percent interest on late payments.</p>
		<p>- Confer with the City Attorney to revise the current advertising contract to ensure contract payment terms are clear and free from ambiguity.</p>	<p>Not Implemented. Management contacted the City Attorney in June 2006, but there was no determination if contract terms were ambiguous. The advertising contract terms have not been changed.</p>

Audit Report	Audit Issues	Audit Recommendations	Audit Follow-Up Results
	<p>Earned revenues were not collected and verified on a timely basis</p>	<p>- Confer with the City Controller's Office (CCO) to allow WRR to develop its own policies and procedures regarding delinquent accounts receivable, and request exemption from Administrative Directive 4-10 upon receiving approval of policies and procedures from the CCO.</p> <hr/> <p>- Implement procedures to comply with approved guidelines.</p>	<p>Not Implemented. WRR conferred with the City Controller in July 2006, but an exemption to Administrative Directive 4-10 was not granted. OCA management stated that WRR currently complies with Administrative Directive 4-10 because all revenues are collected and received on a timely basis.</p> <p>Per the WRR Accounts Receivable procedure, WRR sales staff is paid commissions on <i>collections</i> and has initial responsibility for collecting accounts. The WRR Business Office reviews delinquent accounts and determines collection procedures on a case-by-case basis. Once all reasonable collection attempts have been exhausted, the WRR Business Manager forwards the necessary paperwork to the City Attorney's Office for collection assistance. WRR maintains a detailed listing of all outstanding accounts receivable.</p> <hr/> <p>Not Implemented. The "approved guidelines" are defined in Administrative Directive 4-10, but WRR follows internal procedures for delinquent accounts.</p>

Audit Report	Audit Issues	Audit Recommendations	Audit Follow-Up Results
	<p>Controls over Account Executives' (AEs') draws, commissions and compensation need improvement</p>	<p>- Follow Administrative Directive 3-69 to recover the overpayment from the former WRR employee and consult with the City Attorney.</p> <hr/> <p>- Collect the applicable reinstated commission from the AE.</p>	<p>Implemented. The information was forwarded to the City Attorney after WRR collection efforts, but the \$1,883 has not been collected.</p> <hr/> <p>Not Implemented. OCA management stated that prior approval for reinstated commissions should occur at department level. In this instance, the account executive was able to retain the business and the station collected the outstanding balance; therefore, collection of the \$600 reinstated commission from a former account executive is not recommended in this instance.</p>