OFFICE OF THE CITY AUDITOR

# PERFORMANCE AUDIT OF REVENUE RELATED ACTIVITIES OF WRR-FM


**Paul T. Garner**
**Assistant City Auditor**

**Prepared by:**

Theresa Hampden, CPA
Audit Manager

Lina Wang, CPA
Auditor



**April 29, 2005**

**Memorandum**

**CITY OF DALLAS**

April 29, 2005

Honorable Mayor and Members of the City Council
City of Dallas

We have conducted a performance audit of revenue related activities of Municipal Radio WRR-FM, a division of the Office of Cultural Affairs (OCA).

As a result of our inquiries, observations, examinations, and tests, we conclude that the General Manager's (GM) commission contract was not clearly defined, reviewed and approved, and that the process for computing and approving annual GM commission payments should be improved.

We identified overpayments to the GM of $89,683 and $13,346 to other WRR station employees. We question the appropriateness of $87,722 paid to the GM for commissions on interest income. Additionally, the May 2000 lump-sum payment for previous year commissions may result in higher future employee retirement benefits if the Employee Retirement Fund (ERF) board does not apportion the lump-sum to the years in which they were earned.

Improvements in internal controls are needed for documenting, accounting, and monitoring trade transactions, authorizing radio contracts, establishing sales commission structures, and ensuring that internal policies and procedures do not conflict with citywide policies and procedures.

These concerns are discussed in the Opportunities for Improvement section of this report.

We appreciate the cooperation of City staff during our examination.

*Paul T. Garner*

Paul T. Garner
Assistant City Auditor

c: Mary K. Suhm, Acting City Manager

# PERFORMANCE AUDIT OF WRR

## CONTENTS

## EXECUTIVE SUMMARY

We have conducted a performance audit of revenue related activities of Municipal Radio WRR-FM, a division of the Office of Cultural Affairs (OCA). Our audit period was October 1, 2002, through March 31, 2004.

We have summarized our Opportunities for Improvement below:

- A September 15, 1994, Compensation Agreement did not adequately define major terms, neither was the Agreement reviewed and approved by the City Attorney. We identified overpayments to the GM of $89,683 and $13,346 to other WRR station employees. We question the appropriateness of $87,722 paid to the GM for commissions on interest income. Additionally, the May 2000 lump-sum payment for previous year commissions may result in higher future employee retirement benefits if the Employee Retirement Fund (ERF) board does not apportion the lump-sum to the years in which they were earned.

- Management oversight and monitoring controls over industry trade account activities are inadequate. WRR does not adequately monitor and control industry trades and policies and procedures for trade activities are not approved by oversight management. We noted that:
  - ➢ Trade items used were to the benefit of WRR employees.
  - ➢ Trade uses and authorization for the use are not consistently documented.
  - ➢ Documentation of trade agreements and radio air contracts were inconsistent and not always properly authorized.
  - ➢ Trade uses were not consistently recorded on a timely basis.
  - ➢ The reported trade receivable balance on September 30, 2003 is inaccurate and unreliable.
  - ➢ Current WRR trade practices do not agree with documented internal policy.
  - ➢ Efforts expended on trade agreements are not consistently rewarded.

- Controls over Account Executives' (AEs') draws, commissions and compensation need improvement. Draws exceed City's approved amounts, also commission policy and procedures were not consistently followed. Overpayments of draws, commissions and compensation, totaling $13,346, were not timely collected.

- Some WRR's internal policies and procedures conflict with citywide policies and guidelines. WRR's gift policy does not agree with the City's

Code of Ethics. Contract provisions are not consistent with relevant City guidelines and contract payment terms are not clearly stated.

- Earned revenues were not collected and verified on a timely basis. We noted that some accounts receivable were significantly overdue and WRR does not have adequate controls over some revenue receipts.

We commend the department for accepting our recommendations and taking steps to resolve these issues.

# INTRODUCTION

## Authorization

We completed a performance audit of revenue related activities of Municipal Radio WRR-FM (WRR), a division of the Office of Cultural Affairs (OCA). We conducted this audit under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by City Council.

## Scope and Methodology

We performed our audit in accordance with generally accepted government auditing standards and included tests of the accounting and related records, inquiries, and other audit procedures that we considered necessary in the circumstances.

Our objectives were to determine whether WRR:

- Sales mechanisms and procedures maximize revenues, while complying with applicable guidelines and control objectives.
- Commission structures are properly authorized, reasonable, and commission payments are properly approved and comply with approved rates and guidelines.
- Advertising and promotional activities are structured to maximize revenue opportunities while maintaining adequate controls and administrative oversight of such activities.

Our audit covered selected transactions and activities for the period from October 1, 2002 through March 31, 2004. We also reviewed certain related procedures, events, and matters occurring before and after this period.

We developed an understanding of relevant control structures by:

- Interviewing WRR management, staff, and the owner/employee of a local radio station.
- Reviewing applicable guidelines and procedures.
- Observing operations.
- Reviewing contracts, transactions, and other relevant documentation.

## Overall Conclusion

As a result of our inquiries and analysis, we conclude that the identified internal control deficiencies contribute to an environment that hinders maximizing revenues. We identified:

# INTRODUCTION

- Revenues that were not collected.
- Overpayments to the GM of $89,683 and $13,346 to other WRR station employees. We question the appropriateness of $87,722 for commissions paid to the GM on interest income.
- Ineffective and inconsistent policies and practices pertaining to trade transactions, authorization for radio advertising contracts, and sales commission structures.
- Internal policies and procedures which conflict with citywide policies and procedures.

Specific issues are discussed in the Opportunities for Improvement section of this report.

**Background**

WRR was the first radio station operated in Texas and the second commercially licensed radio station in the United States. It was founded in 1920 to help coordinate City emergency services and has been owned by the City of Dallas since its licensing in 1921. WRR-FM was created in 1948 and has kept classical music as its mainstay format for more than 50 years.

WRR is an Enterprise Fund. An enterprise fund is used to account for certain government activities operated in a manner similar to private business enterprises. Currently, WRR is a division within OCA. Prior to October 2002, WRR was a division of Convention and Events Services (CES). The station is housed at Fair Park and is overseen by a General Manager (GM) who supervises twenty-four full-time-equivalent employees. WRR provides 24-hour-a-day classical music broadcast in the Dallas/Fort Worth area. Its mission is to provide a high quality, self-supporting, 24-hour classical music station. It promotes the appreciation of classical music, art awareness, public education, and business and cultural events. Additionally, it serves as the City of Dallas public medium for public service announcements, emergency announcements, and Dallas City Council broadcasts.

WRR generates revenues primarily through selling commercial air-time directly to an advertiser or indirectly through an advertiser's agency. Generally, local revenues are generated from advertising placed on the station by a local business and/or an advertising agency. National sales revenues are generated from advertisers or their agencies located outside the station's local marketing area. Other sources of revenues include miscellaneous sales of WRR CD's, T-shirts, etc.

Account Executives (AEs) are sales representatives responsible for selling station services such as air time and promotions to advertisers. AEs are compensated primarily through a combination of draws and commissions.

# INTRODUCTION

Currently, the AE sales commission rate for local sales and most national sales is 20% of net sales (gross sales amount less agency fees). The local sales commission rate does not take into consideration whether the AE reaches their established sales budget/goal, or whether the sale is for new or repeating business. WRR personnel consider new business generally to be new clients that have not been on the radio station before or within the past 12 months.

For specified national sales accounts, the current commission rate is tied to achievement of monthly sales budgets and goals, and is paid at an adjustable rate of 4%-6% of gross sales amount. Each AE has assigned monthly and annual sales budgets and goals, based on factors considered such as the individual's sales history, experience, sales potential, and accounts.

During FY 2002 and FY 2003, the City explored a frequency swap for WRR-FM away from their position (101.1 on the radio dial). The proposed frequency swap was rejected by City Council in June 2003.

WRR's revenues and expenditures, audited annually by the City's external auditor, are included in the City's Comprehensive Annual Financial Report (CAFR). The focus of the external audit is primarily financial in nature. Our audit takes a more in-depth review of policies, procedures, and operations primarily related to revenue activities. We have summarized, in the table below, WRR's Revenues and Expenditures for FY 1999/2000 through FY 2002/2003, as recorded in RESOURCE.

**WRR Summary of Revenues/Expenditures for FY 1999/2000 through FY 2002/2003**

| Revenues/Expenditures | FY 2002/2003 | FY 2001/2002 | FY 2000/2001 | FY 1999/2000 |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Local Sales | $2,330,392 | $2,842,792 | $3,619,388 | $3,319,606 |
| National Sales | 688,510 | 548,109 | 602,281 | 806,819 |
| Trade Sales | 260,549 | 167,874 | 176,714 | 252,367 |
| Other | 71,962 | 56,516 | 2,892 | 72,620 |
| Total operating revenues | $3,351,413 | $3,615,291 | $4,401,275 | $4,451,412 |
| Operating Expenses: | | | | |
| Personal Services | $1,557,306 | $1,889,296 | $1,930,415 | $1,962,290 |
| Supplies & Materials | 102,587 | 79,594 | 95,090 | 86,841 |
| Contractual & Other Services | 991,688 | 992,794 | 1,217,430 | 1,278,897 |
| Depreciation Expense | 41,158 | 48,544 | 57,621 | 59,986 |
| General Fund Indirect Cost Allocation{1} | 56,529 | 66,488 | 57,261 | 99,900 |
| Trade Uses | 221,738 | 84,502 | 119,947 | 125,423 |
| Total operating expenses | $2,971,006 | $3,161,218 | $3,477,764 | $3,613,337 |
| Operating income | $380,407 | $454,073 | $923,511 | $838,075 |
| Non-operating revenues(expenses) {2} | | | | |
| Interest/Investments | $123,143 | $104,498 | $301,452 | $227,290 |
| (Loss) on disposal of capital assets | (70,775) | 0 | 0 | 0 |
| Total non-operating revenues | $52,368 | $104,498 | $301,452 | $227,290 |
| Net income before operating transfers | $432,775 | $558,571 | $1,224,963 | $1,065,365 |

{1} Per the City's annual CAFR, operating transfers include General Fund (GF) allocations for administrative costs. These GF transfers were not included in the CAFR for determination of Operating income.

{2} Per the City's annual CAFR, these items are not included in the determination of Operating income.

# OPPORTUNITIES FOR IMPROVEMENT

We identified certain policies, practices, and procedures that should be improved. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the opportunities for improvement presented in this report may not be inclusive of where improvement may be needed.

## 1. WRR GM's commission computations are inaccurate and payments are questionable.

In a memorandum dated September 15, 1994, the current Director of CES and WRR's current GM, entered into a "Compensation Agreement", which states:

> As an allowance for each fiscal year of Manager's employment under this Agreement, City shall pay Manager an allowance in an amount equal to 6.5 percent of WRR's *net operating income* for that fiscal year, which is the sum of income from all revenue sources, minus operating expenses (excluding those expenses for capital investments and transfers from cash).

Before May 2000, the GM had not been paid commissions. On May 10, 2000, City Council Resolution (CCR) 00-1593 authorized the City Manager (CM) "to execute the commission-based compensation agreement previously negotiated by the General Manager of WRR and the Director of Event Services". CCR 00-1593 also authorized the payment "not to exceed $248,536 … as a payroll adjustment of the current salary to WRR General Manager, ….in accordance with the corresponding commission-based compensation agreement, effective from May 1994 through September 1999."

To comply with the Council's Resolution, on May 23, 2000, the City paid the GM for FY 1994 through FY 1999, $159,939.43, after deductions for payroll taxes, employee retirement contributions, and deferred compensation contribution. The City also transferred to the retirement fund an additional $21,125.56 to cover the City's portion for pension.

City Charter, Chapter XX1, Sec. 1, states that "No contract, other than purchase orders for supplies and equipment and change orders …, shall be binding upon the city unless it has first been signed by the city manager and approved by the city attorney." There is no documented evidence that this agreement was approved by the City Manager (CM) and/or the City Attorney (CA) prior to the lump-sum payment in May 2000.

The GM has been in his current position since May 1994, and in addition to the commission-based compensation, the GM also receives an annual salary, which is currently $101,076. Since the lump-sum payment in May 2000, the GM has received annual commission payments through FY 2002-03.

# OPPORTUNITIES FOR IMPROVEMENT

We reviewed the supporting documentation for the lump-sum payment in May 2000, as well as the annual commission computations through FY 2002-03. (See *Attachment A*) Based on our review and the application of generally accepted accounting principles and other authoritative sources, we identified the following items in computing the commissions overpaid to the GM:

| Description | CAO's GM Commission Overpayment |
|---|---|
| FY 1993-94 | $17,957 |
| Depreciation Expense | $27,845 |
| GF indirect Cost Allocation | $31,138 |
| Supply & Material Costs-Differences for FY 1995-96, 1996-97, & 1997-98 | $12,723 |
| Rounding Difference | $20 |
| Total Overpayment | $89,683 |

- FY 1993-94:
  In accordance with CCR 00-1593 which specified the period for paying the commissions as "effective from May 1994 through September 1999", we used five months in computing the GM's commissions for FY 1993-94. Management paid commissions based on 12 months.

- Depreciation expense:
  An in-depth report on Governmental Accounting Standards Board (GASB) Statement No. 34 states:
  "A fundamental principle of accounting holds that a proper matching of "revenues" and "expenses" more accurately reflects the economic change that has occurred between two points in time. Thus, since capital assets are resources employed to help generate the revenue or services of an entity, the cost of "using up" the capital asset resources should be reported in the same period. That cost of using up a capital asset is more commonly referred to as depreciation." The same report also states that "Depreciation expense for capital assets that can be specifically identified with a functional category should be included in direct expenses of that function."

  Thus based on the GASB, annual depreciation should have been reported as an operating expense by WRR.

- General Fund Indirect Cost Allocation (GFICA):
  GASB No. 34, paragraph 112.a.(2) states that:

# OPPORTUNITIES FOR IMPROVEMENT

"… Interfund services provided and used should be reported as revenues in seller funds and expenditures in purchaser funds."

Thus, based on the GASB, annual GFICA should have been reported as operating expenses by WRR. Additionally, generally accepted accounting principles are applicable to WRR which is an Enterprise Fund.

- Differences in Supply & Material Costs for FY 1995-96, 1996-97, 1997-98: Amounts included by the Auditors agreed to the annual CAFR for WRR and to the City's RESOURCE accounting system reports for WRR operations for the specified periods.

  WRR incorrectly included amounts for Supply & Material Costs in the computation of the GM's commissions for the specified periods. WRR has not provided documentation and/or support for the identified amounts which were all understated.

Additionally, although the Compensation Agreement states that "… net operating income … is the sum of income from all revenue sources, minus operating expenses…", we question the appropriateness of including "Interest/Investment Revenues" in the determination of Operating Income for the GM's commission calculation.

The annual CAFR for WRR reports Interest revenues in the "Non-Operating revenues (expenses)" section of the CAFR. This is consistent with WRR's primary purpose of operating a radio station. GASB Statement No. 34, paragraph 102, footnote 42, states:

> "Revenue and expense transactions normally classified as other than operating cash flows from operations in most proprietary funds may be classified as operating revenues and expenses *if those transactions constitute the reporting proprietary fund's principal ongoing operations* (emphasis added). For example, interest revenue and expense transactions should be reported as operating revenue and expense by a proprietary fund established to provide loans to first-time homeowners."

Additionally, investment activities of the City are the responsibility of the Cash Management Division of the Office of Financial Services, and as such, WRR's GM does not control and or directly influence the investment decisions of the City. As a result of including interest income, the GM received *$87,722* in commissions for the period May 1994 through September 2003. *(Total CAO adjusted investment income for the period $1,349,577, times 6.5% commission, equals $87,722)*.

# OPPORTUNITIES FOR IMPROVEMENT

Therefore, the sum of the overpaid and questioned commissions paid to the GM totals $177,405.

These conditions exist because:

- The agreement was not in the format of a formal contract and did not appear to have been reviewed and/or approved by the CA. Major agreement terms are not adequately defined. The agreement is addressed to the Director of CES, rather than to the GM. This gives the appearance that the agreement was drafted and then sent to the Director of CES for signature.

- WRR's current control mechanisms were inadequate to ensure that:
  - The GM commission payments were calculated accurately and in accordance with applicable Council provisions.
  - The GM commission payment calculations were not adequately reviewed and approved by appropriate Department Director (CES and/or OCA). Our review of the requests for commission payments for FY2001-02 and FY 2002-03 show that the only approval for these payments were made by WRR's current Business Manager (BM), who reports to the GM.

- The written opinion of a City Controller, regarding the accounting treatment for certain types of transactions specific to WRR (and provided by WRR personnel), was ignored. There is no documentation to show that efforts were made to resolve ambiguous contract terms or other related issues prior to paying the commissions to the GM.

- The agreement does not specifically require an independently audited annual CAFR to be used for the commission calculations. The agreement provides, "The allowance (commission) shall be determined by the comprehensive annual financial report prepared by the Department." However, WRR does not prepare a comprehensive annual financial report of its operations. The City's CAFR, which includes results of WRR operations, is prepared by the Department of Financial Services, City Controller's Office. The accuracy of the CAFR is management's responsibility.

- Determination of Net Operating Income for the commission computation is inconsistent with the City's financial statement presentation included in the CAFR for WRR.

- Some GM commission payment calculations, based upon unaudited financial statements, were prepared before the annual audited CAFR was issued. Adjustments were not subsequently made to the commissions paid after the annual CAFR was issued.

- The annual GM commission payments, subsequent to the Council authorized lump-sum payment in 2000, may not have been properly authorized. CCR 00-1593 did not address annual commission payments subsequent to the lump-sum payment. At a minimum, annual commissions exceeding $50,000, should have been submitted to City Council for review and approval.

- Other documentation relative to the GM's salary plus commission-based compensation agreement negotiated in May 1994 could not be located. Discussions indicate that potential relevant documentation appears to have been disposed of during the City's normal record retention and disposal process.

As a result, City Council may have been provided inaccurate information when they were requested to approve the lump-sum commission payment, and subsequent annual commission payments may not have been properly approved or were inaccurate**.** Furthermore, the basis for determining future employee retirement benefits may be overstated. Also, payroll taxes and deferred compensation contributions may be impacted.

Administrative Directive 3-69, *Recovery of Employment Overpayments*, requires each City department to promptly address and coordinate with their employees for the collection of any overpayment.

**We recommend** that the Director of the Office of Cultural Affairs:

- Consult with the City Attorney to:

  - Develop and implement a plan, including the guidelines established by AD 3-69, to recover the amount overpaid to the GM as commissions.
  - Determine impact on payroll taxes and deferred compensation.
  - Evaluate and formalize the commission-based agreement into a contract with the current WRR GM; ensure that applicable contract terms are clearly defined, specific, and free from misinterpretation and ambiguity; and that the contract requires the annual audited CAFR be used as the basis for the annual commission payment.
  - Determine whether CCR 00-1593 also covered annual commission payments subsequent to the lump-sum payment approved and made in May 2000.

- Consult with the Chief Financial Officer to request the City's external auditor to separately identify and include the amount transferred to the

General Fund to cover administrative expenses within the "Operating expenses" section of future annual CAFR of WRR as required by GASB 34.

- 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.

- Develop and implement applicable internal control mechanisms to ensure that WRR GM's annual commission payment calculations are adequately reviewed and verified for accuracy, and approved by appropriate OCA oversight personnel, before payment is made.

**Management's Response:**

Management Disagrees.
Between 1995 and 2004, the WRR General Manager was underpaid by $2,594.67. The difference between this figure and the Auditor's overpayment figure is a result of a 1994 Commission Agreement that was vague and subject to multiple reasonable interpretations. The ambiguous language in the agreement initially appeared in a 1987 Commission Agreement with a previous WRR General Manager. We have worked closely with the City Attorneys Office and City Auditors Office to develop a new Commission Agreement that is clear. The new Commission Agreement:

- Was authorized by City Council on April 13, 2005
- With the General Manager's consent, is retro-active to October 1, 2004
- Will result in significantly lower General Manager commissions

There are 3 differences in the way Management and the Auditor interpret the prior Commission Agreement:

1. Treatment of General Fund Indirect Cost Reimbursement
The City's audited financial statements have historically classified this cost as a "transfer" rather than an expense. The City's external auditor (KPMG) recently informed the CFO this cost should be classified as an "expense". The cost will be classified as an expense for FY 2003-04 and future years. The Commission agreement is to be based on annual financial reports. It is not appropriate to re-state the audited financial reports to the detriment of the employee.

2. Depreciation Expense
Depreciation is a normal Operating Expense. However, the old Commission Agreement indicates that "…expenses for capital investments…" should be excluded from Operating Expenses. Unfortunately, this phrase adds confusion since capital investments are

already not included in Operating Expenses. A reasonable interpretation is that the exclusion is for depreciation expense (which obviously results from capital investment). The new Commission Agreement is clear that depreciation will be considered an Operating Expense.

3. FY 1994-95 – Partial or Full Year

The GM began working at WRR in April 1994 and officially became the GM in May 1995. This was in the middle of FY 1994-95. The old Commission Agreement says that for each fiscal year of his employment as GM, he would be paid commission for that fiscal year. Since he was GM during the fiscal year, the old Commission Agreement is clear that he should be paid commission based on the results from that fiscal year – not just a portion of the fiscal year. The new Commission Agreement is clear regarding "pro-rating" commissions when the GM serves less than a full fiscal year.

Additionally, the new Commission Agreement is very clear that commission payments for FY 2004-05 and future years will be reviewed and approved by the City Manager, City Controller and Director of the Office of Cultural Affairs. The new Commission Agreement further stipulates that all commission calculations shall be verified by the City Auditor.

Management agrees that the City's Employees' Retirement Fund (ERF) Administrator be contacted to address the potential impact on the General Manager's pension benefits that may occur as a result of the May 2000 lump-sum commission payment. The lump-sum payment resulted from delays in paying annual commissions that were due under the previous Commission Agreement. Commissions for 6 fiscal years were delayed and paid in May 2000. A memorandum (signed by the City Manager, Assistant City Auditor and the WRR General Manager) was sent to the ERF Administrator requesting that, for the purpose of calculating the General Manager's pension, earnings from the May 2000 payment be "distributed" and treated as though they were paid in the 6 separate years.

**Auditor's Comment:**

WRR is an enterprise fund, and as such its accounting is to follow generally accepted accounting principles (GAAP). Therefore, all interpretations should have been based on GAAP. We have provided to management our professional opinion, based on GAAP, regarding the appropriate accounting treatment for WRR's revenues and expenses and management has chosen not to abide by that opinion and pay to the GM additional commissions which are not justified.

# OPPORTUNITIES FOR IMPROVEMENT

The accuracy of the financial statements is management's responsibility. GASB pronouncements and the *Government Accounting, Auditing, and Financial Reporting* book published by the Government Finance Officer's Association define what constitutes "an expense" or "a transfer". Re-statement of audited financial statements is not an issue, especially since audited statements were not the basis for management computing and paying the GM's commission.

The GM had no influence to affect WRR's performance prior to his arrival, May 1994.

**2. Management oversight and monitoring controls over industry trade account activities are inadequate.**

WRR does not adequately monitor and control industry trades, and policies and procedures for trade activities are not approved by oversight management. WRR Policy Manual (Manual) states that a "Trade agreement is a contract authorized and approved by station management … through which goods and/or services are exchanged for air time. Trade agreements are negotiated on "an available" basis never to interfere with sold air time…" Trades provide additional means by which unsold air time can be exchanged for commodities needed in the station operation."

According to WRR personnel, trade revenue is recorded when an advertisement is broadcast by the station as a result of the trade agreement. Trade expense is recorded when the station uses the exchanged goods or services. According to the Manual, the value assigned the trade should be "equal to or greater than the value of the air time." OCA management does not approve trade contracts, trade usages, or the policies and procedures associated with trades.

We judgmentally selected 14 trade accounts and reviewed them for various attributes applicable to WRR's trade policies and procedures. We noted that:

A. Trade items used were to the benefit of WRR employees. We identified five occasions where employees used a trade agreement with a florist to provide plants/flowers, totaling $415, to funerals of relatives. This trade agreement was also used to provide flowers, valued at $69, for an employee's retirement party. These trade uses are considered personal. The Manual states that "Trades are never to be used for the personal gain of WRR employees, but for the benefit of the station only."

   By using trade goods or services to benefit WRR employees, the City's assets are not used for City's operations, the City's interests are not adequately protected, and the intent of the internal policy may not be accomplished.

# OPPORTUNITIES FOR IMPROVEMENT

B. Trade uses and authorization for the use are not consistently documented on the Trade Usage Form (TUF). The Manual requires that an employee using a trade must submit to the WRR Accounting Section a TUF approved by both the Sales Manager (SM) and the GM. A TUF includes the date, trade vendor, WRR representative, client represented, purpose of trade, trade amount used, and signature blocks for the SM and GM.

We noted that trade agreements for catering and hotel services, totaling $1,716 and used by four employees, were not documented on TUFs. Additionally, we requested, but were not provided TUFs for various station events. WRR personnel stated that station events do not warrant a trade usage form. We were unable to determine whether the trade uses for station events were properly authorized and the relevant trade goods/services were received by the City. WRR internal policies do not address trades used for station events.

Due to a lack of supporting documentation, station management could not demonstrate that:

- Trades were accurately reported and accounted for.
- Trade usages were properly approved.
- Trades were used properly.

C. Documentation of trade arrangements (TAs) and radio air contracts (RAC) were inconsistent and not always properly authorized. We noted that seven services traded, totaling $98,604.12, included some that did not have documented agreements/contracts, and some agreements/contracts provided did not contain required approvals. The exceptions were:

- TA/RACs were not provided for services traded: *Facility Rental* ($30,900); *Printing* ($7,870.87); and *Music* ($4,200).
- TA/RACs were provided for *Financial Sponsor* ($4,420) and *Travel* ($4,000), however, the TA/RACs were not shown approved by the GM. Also the TA/RAC for *Hotel* ($2,528.75) traded was not signed by the client.
- TA/RAC was only partially provided for *Food Caterer* ($44,684.50) services traded, and provided TA/RAC were not all approved by the GM.

Dallas City Code, Section 2-79, requires that “There shall be a contract made for the use of each period of air time sold by the station…and the sale to be represented by written contract. Each contract shall be signed by the station manager or shall be approved by the station manager if the sale was made by some subordinate.”

WRR internal policy regarding contract procedures states, "(WRR) Traffic Manager prints contract for signature by GM (General Manager) or *BM (Business Manager)* to send to client." The Manual states that "The trade agreement executed between WRR and the client includes proper authorization (signatures) representing the station and the client are required." WRR internal policy is not adequately aligned with the relevant City Code provisions.

Without proper documentation, trade arrangements may not be accurately and adequately tracked; and applicable traded goods and/or services may not be received or properly accounted for. Also, trade agreements and/or radio air contracts may not be valid since they are not signed by the authorized parties to contracts/agreements. Without properly authorized personnel signing the contracts/agreements, the trade arrangements may not be in the best interest of the City, and trade arrangements may be abused.

D. Trade uses were not consistently recorded on a timely basis. For August 2003, WRR reported a total of $187,677.26 in trade usage. We judgmentally selected eight accounts totaling $117,854.12 which were recorded as trade used for August 2003. Provided records show that only 15% ($17,316) of the $117,854.12 appeared to have been used during September 2002 through August 2003, and the remainder of the recorded trade uses appeared to have been used prior to September 2002. WRR's trade documentation is filed at the Marketing Office, Business Office, or with the relevant AE. Since trade documents are not centrally filed, WRR personnel may not timely and adequately track and record trade uses.

The Manual states that a final accounting of trade income versus trade expense is made at the end of each fiscal year. Without timely recording of trade uses, trade revenues are overstated and trade expenses are understated for the period prior to the use being recorded; and trade expenses are overstated for the period when the use was recorded.

E. The reported trade receivable (TR) balance, as of September 30, 2003, is inaccurate and unreliable. We judgmentally selected four trade accounts to test the validity of the account balance. We noted that:

- The trade term for two TRs totaling $77,580 had expired, (9/1/99 – 8/30/2000, and 1999 - 2000, respectively).
- The services for two TRs totaling $8,264.75, had been received by WRR, however, the TRs had not been written off.

According to the Manual, a subsidiary ledger is to be maintained for each client/account; when air time is received, a debit entry is made; when a commodity is used, a credit is made.

Reporting a trade receivable, that is no longer negotiable and valid, is misleading and provides management with inaccurate and unreliable operating information.

F. Current WRR trade practices do not agree with documented internal policy. The current WRR trade policy includes the following provision:

"No single Trade Agreement shall be for goods or services that exceed a value of $5,000 unless the established "advertise for bid" process is followed."

We discussed with WRR personnel that based on our review, the internal policy regarding the values contracted for trade agreements is not currently practiced, nor does it appear that this policy has been followed for some time. In reference to our observation, WRR personnel's response was that "This is an instance where the policy requires review and revision."

Without determining the intent of the policy, management may have entered into trade activities for goods/services which should have been handled differently.

G. Efforts expended on trade agreements are not consistently rewarded. Account Executives are not compensated for their efforts for trade sales agreements and/or contracts. However, trade transactions (sales as well as uses) are included in the GM's annual commission computation. WRR's internal policy manual does not address commission on sales from trade agreements, and authorization for this practice was not documented.

Effective internal control mechanisms ensure that relevant policies and guidelines are consistently followed and adequately monitored.

**We recommend** that the Director of the Office of Cultural Affairs develop and implement control mechanisms to ensure that:

A. Each WRR employee is required to annually review the City's Code of Ethics and annually complete a form acknowledging that as an employee of WRR the employee will not personally benefit from trade or other WRR activities. The form should also refer to the Code of Ethics and/or the City's Personnel Rules regarding the consequences for non-compliance.

B-E OCA management reviews, revises, and approves WRR's policies and procedures for trades. (Developed policies and procedures should take into consideration industry practices).

# OPPORTUNITIES FOR IMPROVEMENT

- Ensure that policies and procedures for trade usages address all usages (station as well as employee), required documentation, the levels of approval required for usages (based on the type of goods/service), and exceptions, if any.
- Ensure that WRR's internal policies and procedures are fully aligned with relevant City policies and guidelines, and identified conflicts are corrected, before approval by OCA management.
- Implement tracking mechanisms on trade activities. This should include monitoring expiration dates, usages, adjustments, balances, etc. and requiring WRR to provide detailed periodic reports (no less often than quarterly) on trade activities to OCA management.

F. The intent of establishing the $5,000 dollar value threshold for trade agreements is taken into consideration before changes are made to the current internal policy.

G. Consistent internal policies are developed and implemented for rewarding sales from trade agreements.

**Management's Response:**

2.A. WRR is in compliance with the current Citywide practice of notifying employees of the City's Code of Ethics and the City's Personnel Rules. WRR along with all City employees are informed of the City's Code of Ethics document, as well as the City's Personnel rules upon hiring. It is part of the formal introduction to City employment.

2.B-E Part 1 of 3. Management agrees with this recommendation. Management is currently reviewing and updating all policies and procedures.

Part 2 of 3. Management agrees with this recommendation and is currently reviewing and updating all policies.

Part 3 of 3. Management agrees with this recommendation.

2F. Management will update the policies and procedures on trade value to reflect current industry trade practices.

2G. Management does not agree with this recommendation. It is industry practice to compensate a commissioned sales force on cash revenue. WRR currently operates within industry practice regarding the structure of trade usage. Management recommends no changes to current compensation structure regarding trade.

# OPPORTUNITIES FOR IMPROVEMENT

**Other Management Comments:**

All trade transactions for WRR have been accounted for and used for the benefit of the station. WRR usage of trade is within the broadcast industry accepted practices.

A. Management considers the sending of flowers for deceased employees and their family members to be consistent with city policy and practices. Trade is not used for the following: birthdays, anniversaries, weddings, and births.

B/C. Management concurs that trade usages are not consistently documented on a "Trade Usage Form". Management will update the policy to reflect other acceptable forms being used to track and document trade activities.

D. Trade usage can extend beyond more than one fiscal year. The timing of trade usage occurs when it is most beneficial to both parties. The industry refers to this as "time-banking".

Management has since made changes in the centralized filing of trade usage. All trade activities are now initially filed with the business office in addition to the originating division. The primary file for all trade will be maintained in the business office.

E. Management does not concur with the finding that the trade receivable balance is inaccurate and unreliable. Management uniformly verifies trade usage and expired usage before writing off a trade account to assure accurate and up to date accounts.

This action is reflected in a monthly trade balance report. The two instances cited reflect a situation where a business publication was sold and the media trade was not transferred to the new ownership.

F. Management proposes to update the policy to reflect current trade practices that will benefit the station by keeping it competitive within the broadcast industry.

G. The account executives' compensation structure is consistent WRR's Policy Manual and industry standards. Account executives are allowed to use trade to support client retention and recruitment.

**Auditor's Comment:**

2G. Documented industry practices were requested but not provided by WRR management.

# OPPORTUNITIES FOR IMPROVEMENT

### 3. Controls over Account Executives' (AEs') draws, commissions and compensation need improvement.

Draws exceed City's approved amounts and overpayments are not timely collected. WRR AEs' commissions are paid based on the dollar amount of air time billed, and not on the amount collected. WRR AEs are paid draws against sales commissions. Draws are paid bi-weekly through the City's payroll system.

Our review of the City's Miscellaneous Salary Schedules for the period October 1999 to October 2003, approved each year by City Council, show $1,000 - $2,000 as the AE's monthly allowed draw amount. Also, the current Manual, dated March 2002, specifies that an AE's monthly draw amount is $2,000.

A. During our audit, we judgmentally reviewed the commission activity for six former WRR AEs who were terminated during the period January 2001 through December 2003. We noted that:

(a) Three AEs' draws exceeded the amount authorized by City Council or specified in the Manual. Our review of selective payroll records and commission calculation worksheets revealed that these employees were paid monthly draw amounts ranging between $2,400 and $3,000, during their probationary period. After probation one AE's monthly draw amount remained at $3,000, while the other two AEs' monthly draws were each reduced to $2,000.

WRR personnel stated that the SM then "deemed it necessary to provide a training incentive in order to compensate the AE for having a proven sales record and compete in the market place, when hired." This practice has not been included in WRR's operating procedures, nor is there documentation that approval was requested from OCA management regarding this practice.

(b) WRR management did not take adequate actions to recover deficit draws from an AE prior to, or after the AE's termination. (This was one of the three AEs discussed in A. above.) WRR management entered into a separate agreement with this AE to reduce the monthly draw from $3,000 to $2,000 effective September 2003. As of the termination date, December 2003, WRR's documentation showed that the former AE owed the City $10,862 in accumulated deficit draws.

Regarding this matter, WRR management stated that:

- WRR management will not attempt to recover the draw unless otherwise instructed.

- The total revenues generated by the former AE exceeded his draw deficit.
- The industry standard is not to collect on overdraws from former AEs.

Administrative Directive 3-69, *Recovery of Employment Overpayments*, requires each City department to promptly address and coordinate with their employees for the collection of any overpayment. If the overpayment is discovered after all final payments have been made, the department is to address collection under AD 4-10, *Delinquent and Uncollectible Accounts Receivable*. City policies and procedures prevail when conflicts exist with industry standards.

(c) WRR management did not take timely actions to recover identified overpayments from a former AE who:

- Worked three days during the two-week period, prior to termination, and was paid the draw amount for the entire two-week period. The draw overpayment was $678.36.
- Received payment for double the amount due for unused vacation. The vacation overpayment was $2,385.22.

WRR personnel provided documentation that the former AE earned $1,180.00 commission on accounts, which had not been paid. Thus, the net overpayment to the former employee is $1,883.58.

These conditions existed because:

- WRR management did not ensure applicable established guidelines and procedures were adequately followed.
- WRR internal procedures do not ensure adequate and timely actions are taken to prevent an accumulated excessive deficit draw on AEs' accounts, or subsequently recover the funds from the employee.
- Due to the WRR transition from CES to OCA, the overpayment was inadequately tracked. WRR is currently attempting to recover the overpayment.

As a result of these conditions:

- Approved Council actions, established City guidelines, and WRR internal policies and procedures were violated.
- By not taking timely or adequate actions, the City may not be able to recover the overpayment and the City's interests are not adequately protected.

B. WRR commission policy and procedures were not consistently followed. We judgmentally tested ten accounts consisting of 22 invoices that had been past due for over 90 days, as of 9/30/2003. Except for one account reviewed, applicable commissions were charged and subsequently reinstated properly. An AE's commissions of $600, that was charged back, had been reinstated after a partial payment was made on two invoices that were outstanding for over eight months.

WRR commission policy states:

- If a purchaser (client) does not make full payment within 120 days of the billing date, the AE is charged back the commission on the amount not paid and must refund the commission to WRR.
- If the client pays the amount due after 120 days, but before 150 days from the billing date, the AE will be entitled to the commission on the amount paid.
- After 150 days from the billing date, no commission will be paid to the AE on amounts received from a client.

WRR BM stated that due to a verbal agreement between the client and WRR's GM, the client requested not to penalize the AE for the late payment, thus the commission was reinstated. WRR control mechanisms were inadequate to ensure that applicable policy and procedures are followed, and policies and procedures were not documented to address exceptions. WRR oversight management has not been involved in approving WRR's commission structures. As a result, commissions were overpaid and the City's interests were not adequately protected.

Internal control mechanisms are established and implemented to ensure that applicable policy and procedures are adequately followed. Any exceptions require prior approval by oversight management before action is taken.

C. The current commission structure does not adequately maximize AEs' selling potentials. Current WRR commission structure may not adequately promote or reward new business sales. WRR personnel stated that 8.4% of WRR revenues for FY 2002-03 are from new business and the remaining 91.6% is from repeat business. We analyzed the December 2002 commission records for two of WRR's highest paid AEs. We noted that one AE (Commissions of $18,615.15) had only 1.83% of his/her commission from new business while the other AE (Commissions of $15,346.80) had no new business sales for the month.

During November and December 2002, WRR surveyed more than 30 nation-wide radio stations with diverse formats, regarding sales commission rates.

# OPPORTUNITIES FOR IMPROVEMENT

WRR personnel stated that the survey showed that WRR staff is underpaid when compared to the industry.

However, based upon our review of WRR's survey records, it appeared that commission rates varied among radio stations nation-wide. Additionally, the survey revealed that various radio stations paid sales incentives to AEs, and their commission rates were closely tied to sales performance and the type of sales (e.g., new or repeating business).

D. WRR's commission structure has not been recently updated nor authorized by applicable WRR oversight body/bodies. WRR records showed that the 20% commission rate for local sales can be traced back to a 1986 commission calculation worksheet and a 1990 WRR Account Executive Commission and Benefits Policy.

Discussions with WRR personnel revealed that WRR management sets its own commission structure; and neither the previous or current WRR oversight body/bodies (i.e., CES or OCA) was involved in setting or approving WRR commission structure. WRR personnel also stated that WRR management has been monitoring the commission structure and periodically revises it to fit the market. They also stated that they believe that the current commission structure serves the station well, and is within industry standards. WRR management adopted a previously developed commission structure without documented oversight management approval.

A flat commission rate may not adequately:

- Reward an AE for his/her selling efforts, attract or retain high producers.
- Encourage AEs to explore, or reward them for new business opportunities.
- Maximize station sales revenues.

Without appropriate authorized body/bodies approving commissions, AEs may not be properly compensated. A commission program should be structured to maximize an AE's sales performance and the organization's revenue potential. Additionally, authorized body/bodies should periodically review, update, and approve the commission structures for operating entities.

**We recommend** that the Director of the Office of Cultural Affairs:

A. (a) Develop control mechanisms to ensure that applicable Council actions and guidelines, as well as other established internal policies and procedures, are complied with. Exceptions, if any, require prior approval from OCA management and/or City Council.

(b) Establish and implement internal policies and procedures to ensure that WRR management monitors draw balances and takes timely actions to prevent excessive accumulated deficit draws on AEs' accounts, and subsequently recover the deficit funds from the employee.

(c) Follow AD 3-69 to recover the overpayment from the former WRR employee and consult with the City Attorney.

B. Ensure that established internal policies and procedures are complied with. Exceptions, if any, require prior approval from OCA management.

Collect the applicable reinstated commission from the AE.

C. Develop and approve a commission structure for WRR that will maximize AEs' sales performances and the organization's revenue potential.

D. Periodically evaluate WRR's commission structure for adequacy and reasonableness.

**Management's Response:**

3A(a) Management concurs with these recommendations.

3A(b) Management concurs that collection efforts should be made to recoup the deficit draw accumulated after the six month probationary period. Management further believes that an exception to A.D. 3-69 would be appropriate to reflect the "guaranteed draw against commission" for the six month probationary period of an account executive. Any deficit against the draw would be collectable after the six month probationary period.

3A(c) Management concurs and will consult with the City Attorney to recover the overpayment from the former WRR employee.

3B. Management agrees that prior approval for reinstated commissions should occur at department level. However, in this instance, the account executive was able to retain the business and the station collected the outstanding balance; therefore collection of the reinstated commission from a former account executive is not recommended in this instance. This collection is noted in finding #5.

3C. Management will continue to monitor and revise (with appropriate approvals) the commission structure to ensure alignment with revenue generation methods to maximize both the station's and the account executives' revenue potential.

# OPPORTUNITIES FOR IMPROVEMENT

3D. Management concurs with this recommendation.

**Other Management Comments:**

3A(a) To remain competitive in recruiting sales talent, management implemented a $1,000 training incentive to attract new hires with exemplary sales experience to the classical format. This was initially executed for the six-month probationary period for new hires, and subsequently extended for one employee. This was designed by the Local Sales Manager to recruit high performing account executives to a difficult format to sell such as classical radio. At the same time, management recognizes a need to adjust the commission draw, which had been in existence since the early 1980's. In the FY 04/05 budget process an adjustment to the commission draw was requested.

3A(b) Management disagrees that no action was taken to recover deficit draws during the AE's employment. Management reduced the earned commission by the amount of draw during the Account Executive's employment.

3A(c) The overpayment was miscalculated by the newly installed payroll system and subsequently identified by management. The payroll report was not available to management until after the employee had terminated. Management attempted to contact the employee to no avail. Management attempted to recover overpayment from the former employee when it was identified. Management continues to attempt to recover the overpayment.

**4. Some WRR's internal policies and procedures conflict with citywide policies and guidelines.**

During our review, we noted that:

A. WRR's gift policy does not agree with the City's Code of Ethics. The Manual, under the subject Trade Agreements, states that:

> "At Christmas time and other special occasions, it is customary for the station to trade for gifts to be used commensurate with normal business practices. This practice is widely accepted by commercial stations *as a means to express appreciation and encourage goodwill*. No gift item shall exceed a value of $400. Approval of each gift item by the general manager shall be required."

Although we did not obtain and review documentation regarding whether employees received gifts in accordance with this internal policy, there exists a conflict with citywide policies and procedures.

Sections 12.A-5 (a), and (b) of the Code of Ethics state:

(a) "General rule. A city official or employee shall not solicit, accept, or agree to accept any gift or benefit that:

(1) reasonably tends to influence or *reward official conduct*; ..."

(b) "All city officials and employees required to file a financial disclosure statement under Section 12A-19 of this chapter shall report all gifts over $250 in the financial disclosure statement."

Although section (b) above may not directly apply to WRR's employees, it does establish a dollar limit on gifts.

Current WRR's mechanisms are inadequate to identify and address conflicts between internal policies and procedures with citywide policies and guidelines. As a result, employees may have conflicts of interest while performing their official duties. Also, the intent of the City's Conflict of Interest policy may not be fully achieved.

B. Contract provisions are not consistent with relevant City guidelines and contract payment terms are not clearly stated. We noted that:

- WRR advertising contracts do not include statements regarding assessment of fees for late payments. WRR personnel stated that WRR has not charged fees on late payments.

  Administrative Directive 4-10 specifies, "All invoices must contain statement advising customers of the payment due date and that interest of ten percent will be assessed annually."

- Standard contract payment terms are not clearly stated. The standard WRR advertising contract specifies, "The agency (client) agrees to pay for broadcasts covered by this contract…on or before the last day of the month following that in which broadcasting is done…" However, the contract also specifies that, "Client agrees to monthly payments to WRR in the amount of previous month's billing…" The two contract provisions are not consistent. WRR personnel stated that all WRR's invoices show a payment term of net 15 days.

## OPPORTUNITIES FOR IMPROVEMENT

Management oversight was inadequate to ensure that contract provisions are consistent with applicable City guidelines and that contract payment provisions are clearly stated.

Ambiguous contract payment terms may delay payments and necessitate additional collection actions and their related costs. There is also no incentive to pay on a timely basis since there are no penalties imposed, such as late fees.

Contract provisions should be consistent with relevant City policies and guidelines and contract terms and conditions should be clearly stated and communicated to intended users.

**We recommend** that the Director of Office of Cultural Affairs:

A. Develop and implement oversight procedures to ensure that WRR's gift policy is revised to comply with citywide policies and guidelines, and that the gifts already received, based on WRRs current gift policy, are reviewed, and then take appropriate actions.

B. 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.
- Ensure contract payment terms are clear and free from ambiguity.

**Management's Response:**

A. Management is currently updating all policies and procedures for the station.

B. Part 1. Management does not agree with this recommendation. It is not accepted practice in the advertising and broadcast industries. Charging late fees for clients would put the station at a disadvantage with out competitors in the marketplace. 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. Management recommends WRR be exempted from the City practice.

Part 2. Management agrees with this recommendation.

# OPPORTUNITIES FOR IMPROVEMENT

**Auditor's Comment**:

Part 1. Accepted practices in the advertising and broadcast industries were requested but not provided. We found the following terms and conditions in documents (not WRR's) for separate entities in the broadcasting industry:

**Contract**: "…Payments not made within 30 days shall bear interest at the rate of 1 ½% per month or the maximum amount permitted by law if less than 1 ½ % per month".

**Invoice**: "…Any delinquent account will be charged 1 ½% finance per month on those balances over 60 days due".

We encourage WRR management to implement the recommendation.

## 5. Earned revenues were not collected and verified on a timely basis.

A. WRR does not timely collect earned revenues on local and national sales. During our audit, we noted that some Accounts Receivable (AR) are significantly overdue. We reviewed and summarized WRR's AR aging report as of September 30, 2003 in the following table. Based on our analysis, we note that 40.71% of the AR is between 60 days and three years old.

<table>
<tr><th>Total AR as of 9/30/2003</th><th><30 Days</th><th>30-59 Days</th><th>60-89 Days</th><th>90-119 Days</th><th>120-179 Days</th><th>Over 6 Months Less Than 1 Year*</th><th>Over 1Year Less Than 2 Years*</th><th>Over 2 Years Less Than 3 Years*</th><th>Over 3 Years*</th></tr>
<tr><td>$362,272</td><td>$134,323</td><td>$80,464</td><td>$53,366</td><td>$25,121</td><td>$6,414</td><td>$10,500</td><td>$14,075</td><td>$18,799</td><td>$19,210</td></tr>
<tr><td rowspan="3">100.00%</td><td colspan="2">$214,787</td><td colspan="3">$84,901</td><td colspan="4">$62,584</td></tr>
<tr><td colspan="2">59.29%</td><td colspan="3">23.43%</td><td colspan="4">17.28%</td></tr>
<tr><td colspan="2"></td><td colspan="7">40.71%</td></tr>
</table>

* The aging categories (i.e., days that the accounts have been outstanding) in our analysis are slightly different from WRR's AR aging report as of 9/30/2003 (e.g., WRR AR aging report shows that $13,475 had been outstanding for over six months, but less than one year. Our data presentation is based upon the actual invoice date).

Documentation provided, regarding the six accounts totaling $62,584, that are between six months and three years old, revealed that these accounts have been referred to the CA. WRR personnel indicated that, as of April 2004, one account for $2,975 was paid in full. Also, one client has filed bankruptcy, and the other four accounts are in various stages of negotiation in the CA.

Relevant provisions of AD 4-10 require that the department:

- Send one demand letter no later than two business days following payment due date.
- Draft and transmit a demand letter to the CA for their signature for accounts that are 30 days past due and refer any account in excess of $1,000 in writing to the CA for collection, if the accounts remain unpaid ten days following preceding procedures.

WRR's internal policy and procedures regarding collections of accounts receivable include:

- Amounts 30 days past due, send the client a statement with the past due amount.
- Amounts not paid in 60 days, the AE contacts the client directly.
- Amounts not paid in 90 days, the Business Office contacts the client.
- After 90 days for Local accounts, and after 120 days for National accounts, these past due accounts may be referred to the CA for further collection.

As a result of these conditions:

- Revenues have not been collected.
- City's interests are not adequately protected.
- Additional efforts are required to collect these accounts.

WRR does not follow AD 4-10, which specifies that, "All practical efforts should be made to collect delinquent accounts." However, AD 4-10 does not include special provisions regarding a unique City division such as WRR. During July 2003, for a separate audit engagement, (Audit of the City Attorney's Office Process For Handling Delinquent Accounts), WRR personnel commented that the station does not follow AD 4-10, but industry standards. According to WRR personnel, the industry standard business practice on AR collections is net 30 days for local sales; and collections on national sales normally exceed 30 days due to the number of agencies involved in the process to verify services received.

WRR did not have adequate control mechanisms to ensure periodic verification, updates, and documentation of clients' credit information are performed. According to WRR personnel, WRR generally did not periodically verify credit information for accounts that have long and good credit standing with the station.

B. WRR does not have adequate controls over some revenue receipts. WRR contracted with an advertising agency to broadcast commercials for advertisers that the agency represents. As a result of this direct response radio advertising campaign, WRR was to be paid for each product inquiry call made, within a specified time period, to the telephone number featured in the commercial aired by the station. WRR Business Office received monthly payments (ranging from $200 to $2,000, based on the AE's commissions statement), from the advertising agency depending upon account activities. Our discussions with WRR Business Office (WBO) personnel revealed that WRR personnel do not adequately validate revenue receipts from this client.

WRR personnel stated that:

- Upon receipt, WBO personnel deposit the check and record the payment;
- The AE assigned to this client verifies the amount received against the client's monthly statement, which primarily includes the agency's stated date of the inquiry, number of inquiries, and the payment rate,
- Advertiser's phone records are not used for payment verification, and
- The client pays for inventory (air time) that would not be used otherwise, and it is not cost beneficial to verify the amount received.

WRR did not implement reasonable procedures to ensure that all revenues earned from the direct response advertising campaign were adequately validated.

Without adequately verifying clients' payments, WRR may not be paid the amounts actually earned and the City's interests may not be adequately protected. Control mechanisms should be implemented to reasonably ensure that the City's interests are protected.

**We recommend** that the Director of the Office of Cultural Affairs ensures WRR:

A. 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 AD 4-10 upon receiving approval of policies and procedures from the CCO.

Implement procedures to comply with approved guidelines.

B. Develop and implement adequate industry/other control mechanisms to reasonably validate revenue receipts.

**Management's Response**:

5A. Management concurs with this recommendation.

5B. Management concurs with this recommendation.

**Other Management Comments:**

Finding 5A. All revenues are collected and received on a timely basis. Management will seek an exception to AD 4-10 to reflect the radio broadcast industry's actions to collect outstanding debt.

Management currently complies with AD 4-10, Section 1.1 which states: "All practical efforts should be made to collect delinquent accounts."

The station's practice is to keep receivables on the books until every practical collection avenue is exhausted, while establishing an allowance to recognize those accounts that may be uncollectible. This practice has resulted in the following results for the six accounts cited in the "6 months to over 3 years" categories totaling $62,584:

- Over 6 months, less than one year totaling $10,500:
  - $10,500 was received May 2004
- Over 1 year, less than 2 years totaling $14,075:
  - $11,100 represents a bankruptcy that is still pending.
  - $2,975 was received March 2004
- Over 2 years, less than 3 years totaling $18,799:
  - $10,605 was negotiated by the City Attorney's office to receive 75% of the balance due. The client is making monthly payments and the current balance is $3,422.
  - $8,194 continues to be researched.
- Over 3 years
  - $19,210 was paid in full June 2004.

Management has instituted additional control mechanisms to ensure periodic verification, updates and documentation of clients' credit information by becoming an active member of the National Association of Credit Managers-Southwest Media Division. This organization provides members with access to credit histories for potential and existing clients.

Finding 5B. Adequate and appropriate procedures are already in place to validate revenue receipts.

# WRR General Manager's Commission Payment Analysis – FY 1994 through FY 2003

Attachment A

## WRR's Calculation of GM's Commission Payments

WRR's Calculation of GM's Commission Payments

| | FY 93-94 | FY 94-95 | FY 95-96 | FY96-97 | FY97-98 | FY98-99 | Lump Sum | FY99-00 | FY00-01 | FY01-02 | FY02-03 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | | | | |
| Customer Charges | $1,846,000 | $2,125,000 | $2,153,000 | $2,317,000 | $3,128,000 | $3,485,357 | **$15,054,357** | $4,378,792 | $4,398,383 | $3,558,775 | $3,018,903 | **$30,409,210** |
| Other | 286,000 | 53,000 | 63,000 | 57,000 | 62,000 | 85,033 | **606,033** | 72,620 | 2,892 | 56,516 | 332,510 | **$1,070,571** |
| Interest/Investments | 50,000 | 92,000 | 114,000 | 122,000 | 162,000 | 82,781 | **622,781** | 227,289 | 301,452 | 104,498 | 123,143 | **$1,379,163** |
| **Total revenues** | 2,182,000 | 2,270,000 | 2,330,000 | 2,496,000 | 3,352,000 | 3,653,171 | **16,283,171** | 4,678,701 | 4,702,727 | 3,719,789 | 3,474,556 | **$32,858,944** |
| **Expenses** | | | | | | | | | | | | |
| Personal Services | 851,000 | 911,000 | 994,000 | 1,100,000 | 1,407,000 | 1,527,855 | **6,790,855** | 1,962,290 | 1,930,415 | 1,889,295 | 1,557,305 | **$14,130,161** |
| Supplies & Materials | 394,000 | 248,000 | 71,000 | 325,000 | 292,000 | 308,451 | **1,638,451** | 212,264 | 215,037 | 164,096 | 324,325 | **$2,554,173** |
| Contractual & Other Svcs | 537,000 | 589,000 | 640,000 | 669,000 | 847,539 | 821,669 | **4,104,208** | 1,278,897 | 1,217,430 | 992,793 | 991,688 | **$8,585,017** |
| Depreciation Expenses | | | | | | | **0** | | | 48,544 | 41,158 | **$89,702** |
| Refunds/Reimbursements | (73,000) | | (1,000) | | | | **(74,000)** | | | | | **($74,000)** |
| Transfers Out | | | | | | | **0** | | | 66,488 | 80,628 | **$147,116** |
| **Total expenses** | 1,709,000 | 1,748,000 | 1,704,000 | 2,094,000 | 2,546,539 | 2,657,975 | **12,459,514** | 3,453,451 | 3,362,882 | 3,161,217 | 2,995,105 | **$25,432,169** |
| **Operating income** | **473,000** | **522,000** | **626,000** | **402,000** | **805,461** | **995,196** | **3,823,657** | **1,225,250** | **1,339,845** | **558,572** | **479,451** | **$7,426,775** |
| **WRR-GM Commissions 6.5% Operating income)** | **$30,745** | **$33,930** | **$40,690** | **$26,130** | **$52,354** | **$64,687** | **$248,536** | **$79,641** | **$87,090** | **$36,307** | **$31,164** | **$482,738** |

## City Auditor's Calculation of GM's Commissions (CAFR Format with information obtained from RESOURCE)

| | FY 93-94** | FY 94-95 | FY 95-96 | FY96-97 | FY97-98 | FY98-99 | Lump Sum | FY99-00 | FY00-01 | FY01-02 | FY02-03 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Operating revenues** | | | | | | | | | | | | |
| Customer Charges | $769,221 | $2,007,282 | $1,952,686 | $2,076,268 | $3,128,671 | $3,485,357 | **$13,419,485** | $4,378,792 | $4,398,383 | $3,558,775 | $3,018,903 | **$28,774,338** |
| Other | 119,249 | 170,876 | 263,320 | 296,699 | 61,772 | 85,033 | **996,949** | 72,620 | 2,892 | 56,516 | 332,510 | **$1,461,487** |
| **Total operating revenues** | 888,470 | 2,178,158 | 2,216,006 | 2,372,967 | 3,190,443 | 3,570,390 | **14,416,434** | 4,451,412 | 4,401,275 | 3,615,291 | 3,351,413 | **$30,235,825** |
| **Operating expenses** | | | | | | | | | | | | |
| Personal Services | 354,403 | 910,738 | 994,101 | 1,099,884 | 1,407,120 | 1,527,855 | **6,294,101** | 1,962,290 | 1,930,415 | 1,889,296 | 1,557,306 | **$13,633,408** |
| Supplies & Materials | 164,377 | 248,001 | 165,107 | 407,142 | 311,494 | 308,451 | **1,604,572** | 212,264 | 215,037 | 164,096 | 324,325 | **$2,520,294** |
| Contractual & Other Svcs*** | 224,039 | 588,822 | 638,497 | 669,221 | 847,553 | 821,669 | **3,789,801** | 1,278,897 | 1,217,430 | 992,794 | 991,688 | **$8,270,610** |
| Capital Outlay | | | 1,707 | | | | **1,707** | | | | | **$1,707** |
| GF Indirect Cost Allocation | 25,133 | 47,063 | 47,063 | 39,643 | 87,149 | 99,900 | **345,951** | 99,900 | 57,261 | 66,488 | 56,529 | **$626,129** |
| Refunds/Reimbursements | (30,383) | | (1,500) | | | | **(31,883)** | | | | | **($31,883)** |
| **Total operating expenses excl depr/amort** | 737,569 | 1,794,624 | 1,844,975 | 2,215,890 | 2,653,316 | 2,757,875 | **12,004,249** | 3,553,351 | 3,420,143 | 3,112,674 | 2,929,848 | **$25,020,265** |
| **Operating income excluding depr/amort** | **150,901** | **383,534** | **371,031** | **157,077** | **537,127** | **812,515** | **2,412,185** | **898,061** | **981,132** | **502,617** | **421,565** | **$5,215,560** |
| Depreciation/amortization | 26,537 | 64,518 | 45,169 | 58,676 | 57,588 | 58,292 | **310,780** | 59,986 | 57,621 | 48,544 | 41,158 | **$518,089** |
| **Operating income** | **124,364** | **319,016** | **325,862** | **98,401** | **479,539** | **754,223** | **2,101,405** | **838,075** | **923,511** | **454,073** | **380,407** | **4,697,471** |
| **Non-operating revenues:** | | | | | | | | | | | | |
| Interest | 20,701 | 91,381 | 113,652 | 122,191 | 162,488 | 82,781 | **593,194** | 227,290 | 301,452 | 104,498 | 123,143 | **$1,349,577** |
| **Income before operating transfers*** ** | **145,065** | **410,397** | **439,514** | **220,592** | **642,027** | **837,004** | **2,694,599** | **1,065,365** | **1,224,963** | **558,571** | **503,550** | **6,047,048** |
| **City Auditor-GM's Commission (6.5% of Income Before Transfers)** | **$9,429** | **$26,676** | **$28,568** | **$14,338** | **$41,732** | **$54,405** | **$175,148** | **$69,249** | **$79,623** | **$36,307** | **$32,731** | **$393,057** |
| **Net GM Commission Overpayment/(Underpayment)** | **$21,316** | **$7,254** | **$12,122** | **$11,792** | **$10,623** | **$10,281** | **$73,387** | **$10,393** | **$7,467** | **$0** | **($1,566)** | **$89,679** |

** Commissions calculated for 5 months (May -September 1994). WRR used 12 months in calculating commssions.

*** FY 97-98 amount adjusted by $381,461 for transfers incorrectly reported as expenditures.