

City of Santa Rosa

Finance Department – Internal Audit Unit

Performance Audit of Santa Rosa Community Media Access Center, Inc. (DBA CMEDIA)



**FINANCE DEPARTMENT
INTERNAL AUDIT UNIT**

The Internal Audit Unit was created in the Finance Department of the City of Santa Rosa for the purpose of building and maintaining public trust by performing the following functions:

- Report on the level and effectiveness of The City Santa Rosa's public services and benchmark the City to other public agencies and jurisdictions.
- Conduct financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Ensure the financial integrity and improve the overall performance and efficiency of city government.

The Internal Audit Unit may conduct internal financial audits, attestation engagements and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations. The Internal Audit Unit conducts audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office. These standards require:

- Independence of audit staff.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

For questions regarding the report, please contact Lisa Clark, Internal Auditor, at LClark@srcity.org or 707- 543-3804.



November 16, 2016

Attn: Deborah Lauchner, Chief Financial Officer
Eric McHenry, Chief Information Officer

The Internal Audit Unit was requested to conduct a performance audit of Santa Rosa Community Media Access Center, Inc. (DBA CMedia) to determine whether CMedia complied with the accounting, reporting and usage of Public, Educational, and Government Access Television (PEG) capital funds; to evaluate CMedia's ability to sustain its operations through March 31, 2017; to determine CMedia's current payroll liability and its ability to pay its employees; and to determine the amount of PEG funds advanced to CMedia that are now owed to the City.

The Internal Audit Unit presents the report for the performance audit of CMedia.

Reporting Period: April 1, 2014, through October 31, 2016

Results:

- CMedia incorrectly used and/or accounted for \$329,140.30 in PEG capital funds received from the City, and did not properly account for the PEG capital assets due to the City.
- CMedia does not have any reliable sources of revenue that will enable it to sustain its operations through March 31, 2017 while providing the level and quality of services acceptable to the City. Per available records, as of October 31, 2016 CMedia's total cash in various bank accounts is \$32,093.93 and its current liabilities total is \$51,898.11, including an estimated payroll liability of \$10,000.
- We identified about \$10,000 in credit card purchases that appear to be personal expenses that are not in line with CMedia's tax-exempt purpose.

Respectfully,

Lisa Clark
Internal Auditor

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PERFORMANCE AUDIT REPORT

The Internal Audit Unit presents its report concerning the performance audit of CMedia as follows:

Background

Per January 14, 2014 Agreement (Appendix A) between the City and CMedia, CMedia operates under an Agreement (“Agreement”) with the City of Santa Rosa (“City”) to provide for the operation of PEG access channels and the management of a community media center by CMedia in exchange for funding by the City. As such, CMedia became party to this agreement that is scheduled to expire on March 31, 2017. The agreement requires CMedia, at its own cost and expense, to maintain and repair all equipment and facilities owned, leased, or purchased with PEG capital funds provided pursuant to the Agreement. CMedia is required to submit to the City an annual proposed budget of capital equipment requirements for the upcoming year for the City’s review and consideration. At the City’s sole discretion, the PEG capital funding is to be provided to CMedia up to a maximum amount of \$150,000 per year **for the purchase of capital equipment** by CMedia. Upon the expiration or the termination of the Agreement, CMedia shall transfer all assets of CMedia representing City funded capital purchases and/or the proceeds to the City. At such time that CMedia is no longer the City’s designated PEG access services provider, all funds of any kind received from City and not expended by CMedia shall be returned to City. CMedia shall provide for such fiscal control and accounting procedures as are necessary to assure proper disbursement and accounting for funds received from the City. The unlawful use of funds shall be cause for the City to deduct such funds from any payments owed to CMedia and the immediate termination of this Agreement.

For the period of our audit, the City has advanced capital funds of \$149,900 for the period of July 1, 2014 through June 30, 2015; \$149,935 for the period of July 1, 2015 through June 30, 2016; and \$75,000 for the period of July 1, 2016 through the date of this report.

Reporting period: April 1, 2014 through October 31, 2016.

Objective and scope

The purpose of this performance audit was to obtain reasonable assurance that CMedia complied with the accounting, reporting and usage of PEG capital funds in accordance with the provisions of its Agreement with the City. Based upon the provisions of the City of Santa Rosa request dated November 2, 2016, between the City’s Internal Audit Unit and the City, the objectives of our performance audit were the following:

Objective 1:

Verify that the CMedia used the PEG capital funding provided by the City for the audit period in accordance with the Agreement (Appendix A) provisions, and that such amounts

for purchases agree with the underlying accounting records. Identify and report the amount of PEG capital funds owed to the City.

Objective 2:

Identify and report any significant revenue sources generated by CMedia relative to its ability to sustain operations through March 31, 2017.

Objective 3:

Identify and report if CMedia is currently solvent and its ability to meet its current payroll needs.

Objective 4:

Identify and report any unusual items noted during the review of the documents provided by CMedia.

Methodology

To meet the objectives of our performance audit, we performed the following procedures: reviewed the applicable terms of the Agreement and the adequacy of CMedia's procedures for collecting, recording, summarizing and reporting its PEG funds capital purchases; reviewed fixed assets schedules, bank statements, credit card statements, cash transaction activity at the general ledger and bank statement level, and payroll reports; evaluated the level of current liabilities; identified CMedia's sources of revenue; and performed inquiries with CMedia personnel.

Audit results

Based on the results of our performance audit for the period from April 1, 2014 through October 31, 2016, we found the following:

Objective 1:

Did the CMedia use the PEG capital funding provided by the City for the audit period in accordance with the Agreement (Appendix A) provisions? Do the amounts for PEG capital fund purchases agree with the underlying accounting records? Identify and report the amount of PEG capital funds owed to the City.

Finding: CMedia incorrectly used and/or accounted for \$329,140.30 in PEG capital funds received from the City, which is not in accordance with the Agreement provisions.

The amounts and equipment that CMedia reports on its records do not agree to the underlying records approved by the City. Per Table 1 below, the City advanced \$374,835 in PEG capital funds to CMedia. Table 2 shows the total of \$45,694.70 in PEG capital purchases that CMedia states it incurred during the audit period. Therefore, the remaining \$329,140.30 in PEG capital funds received from the City by CMedia has not been properly accounted for by CMedia and is now owed to the City. Additionally, we were not able to verify the existence of the assets listed in Table 2.

Table 1: The City provided the following PEG capital funds to CMedia:

From July 1, 2016 to current	\$75,000
From July 1, 2015 to June 30, 2016	\$149,935
From July 1, 2014 to June 30, 2015	\$149,900
Total PEG funds:	\$374,835

Table 2: CMedia's records show the following PEG capital funds purchases:

**Capital Purchases
Per CMedia Records
April 1, 2014 through October 31, 2016**

<u>Item</u>	<u>Acquisition Date</u>	<u>Cost</u>
Blackmagic Design Compact Video	5/1/2014	\$ 2,845.00
Blackmagic Design HyperDeck	5/1/2014	\$ 1,895.00
Blackmagic Design Videohub	5/1/2014	\$ 660.00
Blackmagic Design HyperDeck	5/1/2014	\$ 945.00
Marshall Elect. 17" Rack Mount	5/1/2014	\$ 949.00
Sennheiser ew Wireless Microphone	6/13/2014	\$ 780.00
Song BRBKHSD1 Output Card	6/20/2014	\$ 4,245.00
Playback Upgrade	7/10/2014	\$ 1,493.00
GoPro HERO3+ B066429C8	8/20/2014	\$ 438.00
2 Samsung Chrome Books	9/23/2014	\$ 446.00
Ensemble Avenue 1RU Control Mo	9/24/2014	\$ 356.00
Ensemble Avenue 1RU Frame	9/24/2014	\$ 552.00
Ensemble Avenue HD Downconv	9/24/2014	\$ 4,734.00
Ensemble Avenue 4x Analog A/V	9/29/2014	\$ 2,525.00
Blackmagic Design BLCVH Video	9/29/2014	\$ 2,845.00
iPad Mini 3 Wi-Fi 64GB	10/28/2014	\$ 535.00
iPad Mini 3 Wi-Fi 16GB	10/28/2014	\$ 3,220.00
13-inch MacBook Pro with Retine	12/22/2014	\$ 2,924.00
13-inch MacBook Air	1/21/2015	\$ 1,905.00
Airport Extreme 802.11 AC	2/5/2015	\$ 433.00
IPAD MINI WI-FI 16GB SILVER	8/27/2015	\$ 328.16
IPAD WI-FI 64GB SILVER Serial	8/27/2015	\$ 654.41
IPAD MINI WI-FI 16GB SILVER	8/27/2015	\$ 328.16
IPAD MINI WI-FI 16GB SILVER	8/27/2015	\$ 328.16
Alarm & Access System	4/15/2016	\$ 9,330.81

Total capital purchases:

\$ 45,694.70

The total of \$329,140.30 in PEG capital funds received from the City by CMedia has not been properly accounted for by CMedia and is now owed to the City.

Objective 2:

What are the significant revenue sources, if any, generated by CMedia relative to its ability to sustain operations through March 31, 2017?

Finding: Per review of bank statements, accounts receivable activity and IRS Form 990 reports, we did not identify any reliable revenue sources that would have a significant impact on CMedia's ability to sustain its operations through March 31, 2017 and provide the level and quality of services acceptable to the City.

Per review of the cash flow projection and operating budget provided by CMedia, we found the data used by CMedia to be unrealistic and not supported by evidence.

Objective 3:

Does CMedia have the ability to meet its current liabilities and payroll needs?

Finding: CMedia has the following ending cash balances in various bank accounts, per available bank statements:

<u>Bank statement period</u>	<u>Bank account description</u>	<u>Ending cash balance</u>
October 2016	Non-Profit Business Checking (operating)	\$16,373.25
August 2016	Capital Equipment (PEG)	\$14,102.94
August 2016	Business Prime Share	\$50
August 2016	Business Money Market	\$583.65
August 2016	Local Non Profit Checking	\$984.09
Total cash in bank:		\$32,093.93

CMedia has the following current liabilities:

Accounts payable	\$8,136.55
Credit card balance	\$33,761.56
Payroll (estimated liability based on the available payroll records)	\$10,000
Total current liability:	\$51,898.11

Based on these amounts, CMedia does not have enough cash to meet its current liabilities. Review of the cash flow activity per bank statements and the transactions recorded on the general ledger, CMedia made transfers from PEG capital funds to the operating cash account. Per review of the operating cash account, the majority of the activity consists of payroll expenses. Based on the above amounts, CMedia can meet its current payroll obligation, however, it would be by using the operating cash account balance that consists of transfers from restricted PEG capital funds.

Objective 4:

Identify and report any unusual items noted during the review of the documents provided by CMedia.

Finding: Per review of the activity on the credit card statements, we noted about \$10,000 of expenses that appear to be personal expenses. They consisted of numerous restaurant, bars and wine lounges charges, and were not in line with CMedia's tax-exempt purpose. Per inquiry with CMedia's personnel, CMedia does not have controls in place to review the credit card charges activity, and does not have supporting receipts for the transactions charges.

APPENDIX A (relevant pages only):

AGREEMENT BETWEEN THE CITY OF SANTA ROSA AND SANTA ROSA COMMUNITY MEDIA ACCESS CENTER, INC.

This "Agreement" is made this 14th day of January 2014, by and between the City of Santa Rosa, a municipal corporation ("City"), and Santa Rosa Community Media Access Center, Inc., dba CMedia, a California nonprofit corporation ("CMedia").

RECITALS

- A. The State of California enacted the Digital Infrastructure and Video Competition Act of 2006 ("DIVCA"), effective January 1, 2007, Public Utilities Code sections 5800 et seq., which reserved to the State the exclusive right to issue franchises for video service providers.
- B. On August 26, 2008, the City enacted Title 3 Chapter 3-50 of the Santa Rosa City Code entitled ("DIVCA Ordinance") for the purpose of implementing relevant provisions of DIVCA and the rules of the California Public Utilities Commission promulgated thereunder.
- C. AT&T, Comcast, and Sonic.net ("Companies") each hold State franchises to provide video services in the City of Santa Rosa ("DIVCA Franchisees") pursuant to DIVCA.
- D. Under DIVCA, the DIVCA Franchisees must provide public, educational, and governmental ("PEG") access channels and the City may establish a fee to support PEG channel facilities consistent with federal law. The City has established a PEG support fee of 1% of gross revenues, payable to the City. Under federal law, PEG fees may be used for capital expenses associated with the construction of PEG access facilities, which may include equipment, but not training, staff time or other operations costs. (Alliance for Community Media v. FCC 529 F.3d 763 (6th Cir. 2008).
- E. The City entered into an agreement with CMedia on April 16, 1996 ("1996 Agreement"), providing for the operation of PEG access channels and the management of a community media center by CMedia in exchange for funding by City. On April 16, 2001 and September 30, 2006, the parties extended this agreement for two additional five year terms, to end on June 30, 2011. On June 28, 2011, September 27, 2011, and December 13, 2011, the parties further amended the agreement to extend the term to end on March 31, 2012. On September 10, 2013, the parties further amended the agreement to extend the term to end March 31, 2014. The parties intend that the 1996 Agreement, as amended, will terminate upon the effective date of this Agreement.
- F. Pursuant to Section 16 of the 1996 Agreement, all funds of any kind received from City and not expended by CMedia must be returned to City upon termination of the 1996 Agreement. The parties intend that upon an accounting of these funds acceptable to the City, all or some of the funds may remain with CMedia under this Agreement.
- G. On May 14, 1996, the City and the Santa Rosa School District entered into an agreement

APPENDIX A (continued)

such results. To the extent that CMedia obtains permission to, and does, use City facilities, space, equipment or support services in the performance of this Agreement, this use shall be at the CMedia's sole discretion based on the CMedia's determination that such use will promote CMedia's efficiency and effectiveness. Except as may be specifically provided elsewhere in this Agreement, the City does not require that CMedia use City facilities, equipment or support services or work in City locations in the performance of this Agreement.

- C. If, in the performance of this Agreement, any third persons are employed by CMedia, such persons shall be entirely and exclusively under the direction, supervision, and control of CMedia. Except as may be specifically provided elsewhere in this Agreement, all terms of employment, including hours, wages, working conditions, discipline, hiring, and discharging, or any other terms of employment or requirements of law, shall be determined by CMedia. It is further understood and agreed that CMedia shall issue W-2 or 1099 Forms for income and employment tax purposes, for all of CMedia's assigned personnel and subcontractors.
- D. The provisions of this Section 10 shall survive any expiration or termination of this Agreement. Nothing in this Agreement shall be construed to create an exclusive relationship between City and CMedia. CMedia may represent, perform services for, or be employed by such additional persons, local governments, or companies as CMedia sees fit.

Section 11. Assignment and Subletting. Neither this Agreement nor any interest herein shall be assigned or transferred by CMedia, except as expressly authorized in writing by City.

Section 12. CMedia Reporting Obligations/Fiscal Audit. CMedia shall submit to City:

- A. On or before September 30, an annual report for CMedia for the fiscal year ending June 30, which shall include, at a minimum, the following information:
 - 1. Statistics on programming and services provided;
 - 2. Current and complete listing of CMedia's Board of Directors; and
 - 3. Year-end financial statements audited by an independent certified public accountant.
- B. CMedia shall maintain all necessary books and records in accordance with generally accepted accounting principles.
- C. Upon reasonable request from City, CMedia shall, at any time during normal business hours, make available all of its records with respect to all matters covered by this Agreement.

Section 13. Funding from City.

- A. Pursuant to DIVCA Ordinance section 3-50.070, the Companies each have an obligation to provide to the City a PEG support fee in the amount of one percent (1%) of their gross revenues. These funds will be held by the City in a special fund, designated "Cable Public, Educational, and Government (PEG) Support Fund." Annually CMedia shall submit to City a detailed proposal of capital equipment requirements for the upcoming year for City's review and consideration. At City's sole discretion, PEG support fee funding will be provided to

APPENDIX A (continued):

CMedia up to a maximum of amount of \$150,000 per year for the purchase of capital equipment by CMedia, provided that such purchases have been approved by the City Manager or the City Manager's designee in writing in advance.

- B. City shall provide to CMedia operating funds to be used by CMedia for the provision of the services described in Section 1. City shall provide to CMedia the operating funds in quarterly installments at the beginning of each quarter as follows:

First Year of Agreement	\$360,000 (\$90,000 quarterly)
Second Year of Agreement	\$275,000 (\$68,750 quarterly)
Subsequent Years through the Term of Agreement	\$200,000 (\$50,000 quarterly)

- C. Upon the expiration or termination of this Agreement, CMedia shall promptly return to City all funds of any kind received from City under this Agreement and not expended by CMedia.

Section 14. Annual Plan and Budget.

- A. As used herein, the fiscal year begins on July 1 and ends on June 30.
- B. On or before April 1, CMedia shall provide to City an Activities Plan and Preliminary Budget for the City's review and approval, outlining activities and programs planned for the following fiscal year. Such plan shall contain: (1) statement of anticipated number of hours of local original programming; (2) training classes to be offered and frequency of classes; (3) other access activities planned by CMedia; (4) operating, capital equipment and facilities budget; and, (5) a marketing and fund raising plan. The Activities Plan and Budget shall include CMedia's performance goals for the term of this Agreement, and a plan for achieving these goals by CMedia.
- C. Upon request by the City Manager or his/her representative, CMedia shall provide a written report and oral presentation to the City Council on a topic to be determined by the City Manager, at a date and time to be mutually determined between the City and CMedia.

Section 15. Accounting; Expenditure of Funds. At such time that CMedia is no longer the City's designated PEG access services provider, or upon expiration or termination of this Agreement, all funds of any kind received from City and not expended by CMedia shall be returned to City. CMedia shall provide for such fiscal control and accounting procedures as are necessary to assure proper disbursement and accounting for funds received from City. CMedia shall provide to City an annual accounting of all expended funds during the previous fiscal year in accordance with generally accepted account principles no later than 60 days following the end of the fiscal year. The unlawful use of funds shall be cause for City to deduct such funds from any payments owed to CMedia and the immediate termination of this Agreement.

Section 16. Funding From Other Sources. CMedia may, during the course of this Agreement, receive supplemental funds from other sources, including, but not limited to fundraising activities.