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**Public, Educational and
Governmental (PEG) Access
Channel Funding Audit**

July 12, 2019



**City of Fort Worth
Department of Internal Audit**

200 Texas Street
Fort Worth, Texas 76102

Audit Staff

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The Public, Educational and Governmental (PEG) Access Channel Funding Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2019 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to determine:

- the current account/fund balance; and,
- whether expenditures were made in accordance with program requirements.

Audit Scope

Our audit covered the period from October 1, 2016 through September 30, 2018. Transactions and balances from prior periods were reviewed as deemed necessary.

Opportunities for Improvement

Use of PEG money limited to eligible/allowable expenses

Auction proceeds credited to the proper accounts

Transferring non- PEG funds back to the General Fund

Consolidating multiple PEG capital project funds within the general ledger

Executive Summary

As part of the FY2019 Annual Audit Plan, the Department of Internal Audit conducted an audit of Public, Educational and Governmental (PEG) Access Channel Funding. Internal Audit concluded that PEG funds provide a source of funding for purchases that promote public education regarding City of Fort Worth governmental functions.

- The total balance available in PEG-funded projects general ledger accounts was \$8,171,669.92 as of September 30, 2018. However, this amount excludes interest earnings that were not credited to the Special Purpose Fund - Cable T.V. Project in FY2016 and FY2017.

The \$8,171,669.92 consists of general ledger balances in three accounting projects. Of the approximate \$8.2 million, a total of \$2,212,454.46 (\$300,000.00 plus \$1,912,454.46) was recorded in two separate project accounts for PEG capital project spending, increasing the complexity of accounting for PEG funding.

- The law requires that the spending of PEG funds be limited to facilities and equipment. However, the Department of Internal Audit concluded that \$6,053.13 in PEG funds were spent on payroll expenses from FY2015 to FY2018.
- Internal Audit also determined that \$2,350.00 in proceeds from Cable Office equipment, auctioned in FY2016, was credited to the General Fund and not to the Special Purpose Fund - Cable T.V. Project.
- We identified an unspent balance of \$74,626.34 for a project titled "Cable Consortium". The consortium project (funded using General Fund dollars) was completed in FY2006, leaving an unspent balance of \$76,406.84. In FY2018, \$1,780.50 was used to purchase PEG equipment, resulting in the \$74,626.34 ending balance (\$76,406.84 - \$1,780.50). This ending balance was not transferred back to the General Fund.

These audit findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

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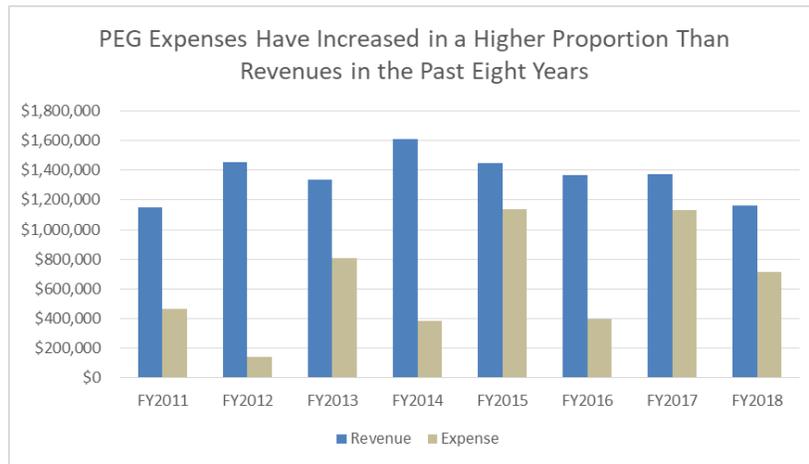


Background

The City’s Communications and Public Engagement Department (Communications Department) operates the Cable Office, which includes studio and video production facilities. The studio, video production facilities and related equipment are funded using Public, Educational and Governmental (PEG) access channel fees.

Cable video service providers charge their customers PEG access channel fees at a rate of \$1.00 per customer, each month. PEG revenue received from cable video service providers is to be recorded in the Special Purpose Fund #25002 - Cable T.V. Project #S00022 within the general ledger.

The following chart depicts revenue and expense trends over the last eight fiscal years.

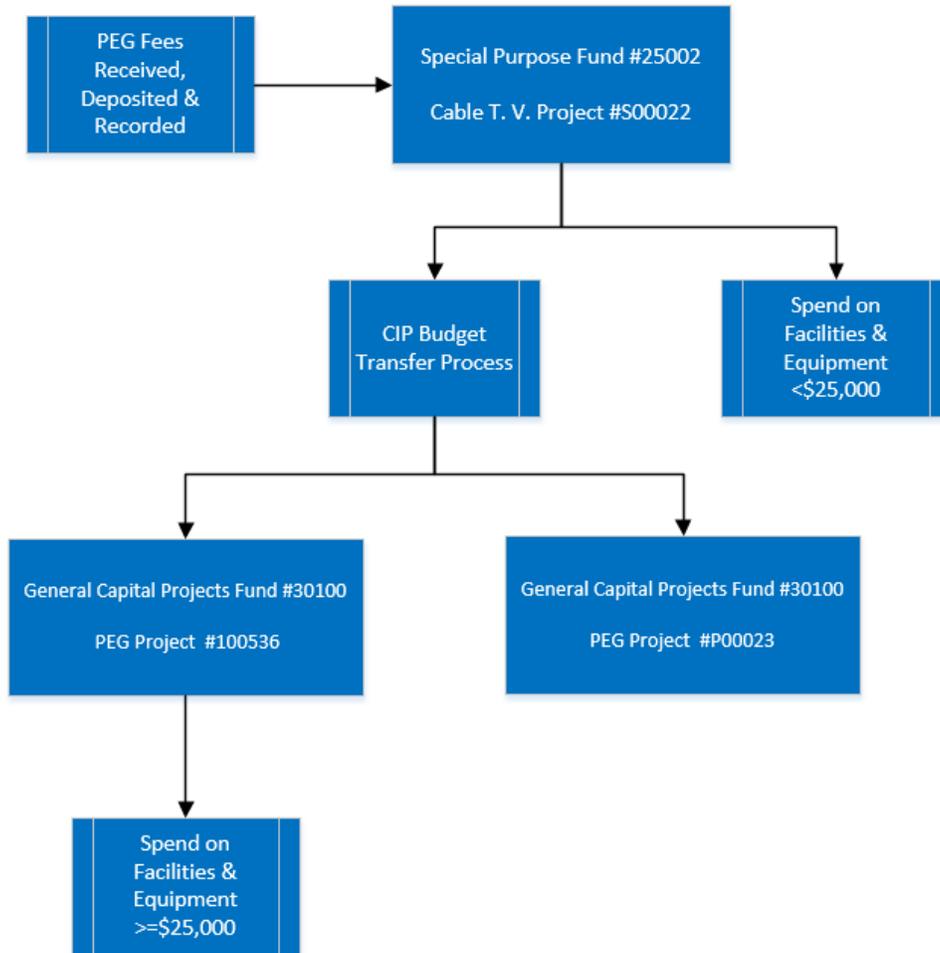


Source: General Ledger



Funds are transferred from the Special Purpose Fund - Cable T.V. Project to Capital Project funds as approved by the Mayor and City Council during the Capital Budget appropriation process. The transfer from the Special Purpose Fund is necessary because the City’s Capital Asset Policy requires that equipment purchases be made only from Capital Project funds.

PEG Fee Receiving & Spending Audit Period Process



Source: Auditor-Generated

Under the Texas Utility Code and Title 47 of the United States Code, spending of PEG fees is limited to facilities and other capital purchases. When no longer needed, Cable Office equipment purchased from PEG funds is auctioned. The Texas Utility and United States Code are silent regarding the use of auction proceeds.



Objectives

The objectives of this audit were to determine the current account/fund balance, and whether expenditures were made in accordance with program requirements.

Scope

Our audit covered the period from October 1, 2016 through September 30, 2018. Transactions and balances from prior periods were reviewed as deemed necessary.

We did not perform audit testing procedures to verify that cable video service providers were properly reporting PEG access channel fees to the City of Fort Worth (CFW). This was considered beyond the scope of this audit.

Methodology

To achieve the audit objectives, the Department of Internal Audit performed the following:

- reviewed state and federal requirements that govern PEG access channel fees;
- reviewed the CFW's Capital Assets (FD-13) and Inventory (FD-12) Financial Directives, as well as the City's Financial Management Policy Statements;
- interviewed personnel within the Performance and Budget, Financial Management Services, and Communications Departments;
- reviewed the City's general ledger and reports to identify available fund balances;
- reviewed records supporting auctions of equipment acquired with PEG access channel fees;
- requested and received legal opinions from the City Attorney's Office regarding PEG fund expenditures and interest earned; and,
- evaluated internal controls related to PEG access channel fees.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



Audit Results

As of September 30, 2018, available PEG fund balances totaled approximately \$8.2 million. We noted that between October 1, 2018 and February 28, 2019 (subsequent to our audit period), funds were encumbered or spent, reducing that balance by approximately \$857,000.00.

PEG Fund Balances as of September 30, 2018			
Fund Description	Project #	Project Description	Net Available
Special Purpose Fund	S00022	Cable T. V.	\$5,959,215.46
General Capital Projects	100536	Public Education & Gov't (PEG)	1,912,454.46
General Capital Projects	P00023	Public Education and Governmental	300,000.00
Total			\$8,171,669.92

Source: General Ledger

Except for the following, management of PEG funds was compliant with spending restrictions.

- Federal law limits PEG access channel fee spending to capital or facility purchases. However, \$6,053.13 was spent on payroll during the audit period.
- Proceeds from auctioned property, purchased with PEG access channel fees, were not posted within the Special Purpose Fund designated for PEG funds. Instead, the proceeds were posted in the General Fund.

During the audit, we searched through PeopleSoft transactions for projects that could have received PEG funds, based on the name of the project and other factors. As part of that search, we identified an accounting project titled "Cable Consortium".

- In FY2004, a total of \$101,207.00 was transferred to the "Cable Consortium" Project from the General Fund.
- Expenditures were made through FY2006, resulting in a balance of \$76,406.84.
- In FY2018, PEG equipment (costing \$1,780.50) was purchased with Cable Consortium Project funds, leaving a Cable Consortium Project balance of \$74,626.34.
- As of April 2019, the \$74,626.34 balance remained, was no longer necessary for the purpose intended, but had not been transferred back to the General Fund.



Overall Evaluation

High	Medium	Low
	<u>Ineligible expenses charged to PEG fee accounts</u>	
	<u>PEG-funded equipment auction proceeds not credited to the PEG project</u>	
	<u>An unspent balance (unrelated to PEG fees) not returned to the General Fund</u>	
	<u>Usage of two, versus one consolidated, PEG related capital projects</u>	



Detailed Audit Findings

1. Payroll expenses were paid with PEG fees.

Payroll expenses, totaling \$6,053.13 for temporary employees, were paid with PEG access channel fees. However, federal law restricts the use of PEG access channel fees to facilities and equipment. Since the CFW spent PEG fees on something other than facilities and the procurement of equipment, the City did not comply with applicable law. Additionally, the PEG fees fund balance is understated by \$6,053.13 and the General Fund is overstated by \$6,053.13.

Cable Office personnel indicated that the funds were inadvertently charged to the PEG-funded project.

Recommendation 1: *The Communications and Public Engagement Director should request that \$6,053.13 be transferred from the General Fund to the PEG fee project to offset the amount inadvertently spent on payroll expenses.*

Auditee's Response: Concur. We believe that this mistake happened when we were switching to the new payroll system. We are requesting that \$6,053.13 be transferred from the General Fund to the PEG fund to reimburse for the funds that were inadvertently spent on payroll expenses.

Target Implementation Date: July 31, 2019

Responsibility: The necessary paperwork will be completed by CPE [Communications and Public Engagement Department] staff.

2. Auction proceeds from the sale of Cable Office equipment were credited to the General Fund.

The most recent auction of Cable Office equipment was held in March 2016. Proceeds from that auction totaled \$2,350.00. However, those proceeds were credited to the General Fund. Auction proceeds were not credited to the Cable T.V. Project. As a result, the Cable Office was unable to use the \$2,350.00 that was generated from sale of its equipment.

Funds generated from expenditures or related balances should generally be matched to the funding source.

Recommendation 2: *The Chief Financial Officer should ensure that auction proceeds are credited to the fund/project that owned the assets prior to auction.*

Auditee's Response: Partially Concur. The procedures in place for the disposal of capital assets and the dispersion of funds related to asset sales ultimately record the revenue from capital asset sales to the home fund of the department selling/disposing the asset. Assets are transferred to the Home Fund of the fund the asset was purchased from at the end of the next fiscal year, with the exception of VEF (Vehicle & Equipment Replacement Fund) funds in the ESD (Equipment & Service Division), Grant funds, and Internal Service Funds. Because the CMO [City Manager's Office] /Cable Office department's home fund is 10100 – General Fund, all sales, whether capital or salvage, are ultimately recorded to the General Fund.

With the exception of the VEF Funds and Grant purchased assets, sales are not recorded back to individual projects, as those capital projects may have been closed months or years prior to the sale of assets. In the



case of the VEF fund, the revenue is recorded to an UNSPEC project so that it requires an M&C to appropriate the revenue toward future equipment purchases.

At the time equipment is auctioned, the Fixed Asset Coordinator for the departments is responsible for providing disposal forms to the Capital Assets Team to identify capital assets to be disposed by auction. To record sales of capital assets, the disposal process in the PeopleSoft Asset Management module generates journal entries offsetting the amounts in the Sales of Capital Assets account and records gains or losses to the department on the asset record at the time of sale. If equipment is sold which has not been recorded as a Capital Asset, or if an asset record is unable to be located for the item, the equipment must be recorded as a Salvage Sale. The longstanding process has been to record the revenue to the 013 department [Financial Management Services Department], as this revenue would be rolled up with other Governmental Departments' Operating revenue at Fiscal Year End to be appropriated in the future, since the original funding was provided by the General Fund. It appears that the items identified during the audit were not labeled as Capital Assets and; thus, recorded as salvage sales.

Since it is necessary to ensure that the sale of assets purchased with PEG funds are recorded / recognized in purchasing Fund / Project, Financial Management Services will update the disposal process to reflect this and the PEG Fund / Project will receive the revenue from the sales.

Target Implementation Date: September 30, 2019

Responsibility: Accounting Services Supervisor, Capital Asset

3. General Fund monies, totaling \$74,626.34, remained in an account that could be perceived as PEG-related.

While searching through PeopleSoft transactions, we identified a non-PEG funded project titled "Cable Consortium" with an unspent available balance. The Cable Consortium project was funded by a transfer of \$101,207.00 from the General Fund and with other funding sources, for total revenue of \$113,203.06. The project funded a review for non-compliance with customer service standards related to the cable franchise.

The net project spending totaled \$36,796.22, leaving an available balance of \$76,406.84 as of FY2006. There was no additional spending from the project until FY2018, when \$1,780.50 was used for Cable Office equipment purchases. The FY2018 spending left an available balance of \$74,626.34.

Funds appropriated by the Mayor and City Council, for specific purposes, should be spent accordingly per the City Charter. Balances that remain unspent for years represent an inefficient use of City resources and may be at increased risk for inappropriate or unauthorized use. Also, monies recorded in an account that could be perceived as PEG-related could result in spending General Fund monies for non-general purposes.

Recommendation 3A: *The Chief Financial Officer should ensure that the Cable T.V. PEG Project reimburses the Cable Consortium Project the \$1,780.50 that was spent on Cable Office equipment purchases.*

Auditee's Response: Concur. Financial Management Services will work with the Budget office to make the transfer.

Target Implementation Date: September 30, 2019



Responsibility: Accounting Services Supervisor, Capital Asset

Recommendation 3B: *The Chief Financial Officer should ensure that after the Consortium Project is reimbursed by the Cable T.V. PEG Project, the \$76,406.84 Cable Consortium project balance is returned to the General Fund.*

Auditee’s Response: Concur. Once the transfer in Recommendation 3A is made, Financial Management Services, the Budget Office and the Cable Office will work together to make the transfer.

Target Implementation Date: September 30, 2019

Responsibility: Accounting Services Supervisor, Capital Asset; Budget Office; Cable Office

4. Two PEG-funded capital project accounts were identified in the general ledger.

As noted in the Background section of this report, the general ledger has two capital projects accounts (see following table) configured for PEG capital purchases. These two capital project accounts, combined with one non-capital project account, makeup the total balance available for PEG-funded projects

Capital Projects Accounts				
Project #	Project Title	Year(s) Funded	Budgeted Amount	Balance 9/30/18
P00023	Public Education and Government	FY2016	\$300,000	\$300,000
100536	Public Education & Gov’t (PEG)	FY2017-FY2019	\$3,325,000	\$1,912,454

Source: General Ledger

Establishing separate accounts for different purposes is considered necessary. However, the use of more than one set of project accounts for the same purpose increases complexity and increases the likelihood that funds may be used inappropriately or not spent. Simple processes are less subject to errors and/or misinterpretation.

Recommendation 4: *The Communications and Public Engagement Director should initiate the process to combine the two PEG capital projects into a single project, and should ensure that the combining of those capital projects is properly completed.*

Auditee’s Response: Concur. Financial Management Services has recommended that this responsibility be transferred to the Communications and Public Engagement Department. CPE [Communications and Public Engagement Department] agrees that the funding for P00023 was intended to be spent on equipment purchases and was stipulated as PEG Funding. Project 100536 is the current capital project facilitating the purchase of equipment using PEG Funding. CPE agrees that since the revenue originally transferred to P00023 has not been spent, it should be combined into Project 100536.

Management of these capital projects falls under the responsibility of the Cable Office. CPE will work with the Budget Office to transfer the budgeted amounts from P00023 to 100536, then the Cable Office Fiscal Coordinator will be responsible for entering and submitting journal entries to move the revenue from P00023 to 100536.

Target Implementation Date: September 30, 2019



Responsibility: Communications and Public Engagement Director



Acknowledgements

The Department of Internal Audit would like to thank the Communications and Public Engagement Department, the City Attorney's Office, the Performance and Budget Department, and the Financial Management Services Department for their cooperation and assistance during this audit.