



Montgomery County Government

MEMORANDUM

December 14, 1994

TO: County Council

FROM: Karen Orlansky,^{KO} Director
Office of Legislative Oversight

SUBJECT: Memorandum Report: Study of Montgomery Community Television's
Billing, Cash Management, and Reporting Practices

Background

Multiple questions have been raised over the years about the structure of Montgomery Community Television, Inc.'s cash flow, accounting, billing, and reporting requirements. In July, the Council's contract with KPMG Peat Marwick (Peat Marwick) was amended to include a review of the following recurring issues:

- How does MCT internally account for monies it receives from Montgomery County and from outside sources?
- To what extent does Montgomery County provide advance funding to MCT, and is this advance funding necessary, based on MCT's cash flow and billing practices?
- What information is MCT required to include on and with its bills to Montgomery County? What information does MCT actually include?
- How does MCT report the use of Cable Fund monies and outside revenue?
- Are there any changes needed to the structure of MCT's accounting and billing procedures and/or to the reporting requirements outlined in MCT's contracts with the County?

Comments Received on Draft Report

Peat Marwick completed a draft report in early November. OLO distributed the draft report to Executive Branch staff and Montgomery Community Television, Inc. for review and comment.

Office of Legislative Oversight

100 Maryland Avenue, Rockville, Maryland 20850, 301/217-7990

The written comments received on the draft report are attached, beginning at circle 15. Comments were received from MCT's Board of Directors, MCT staff, and MCT's outside auditing firm, Stoy Malone and Company, P.C. Executive Branch comments were received from the Office of Management and Budget, the Office of Public Information, the Office of Consumer Affairs, and the Department of Finance. A review of the written comments evidences how MCT and the County Government continue to have different viewpoints on specific issues related to MCT's billing and cash management practices.

Peat Marwick's Final Report

Peat Marwick's final report is attached, beginning at circle 2. As indicated in the transmittal memo (circle 1), Peat Marwick reviewed the written comments submitted on the draft report. The final report incorporates a number of technical and substantive changes that were made in response to the comments received. At the Council's request, Peat Marwick is prepared to discuss its reasons for incorporating some of the changes suggested by the written comments into the final report and not incorporating others.

OLO Recommendation

OLO recommends that KPMG Peat Marwick's Study of Montgomery Community Television's Billing, Cash Management, and Reporting Practices be referred to the Management and Fiscal Policy (MFP) Committee for review. Once the Committee has had the opportunity to review and discuss the Peat Marwick study, a Committee report of findings and recommendations would then be made back to the full Council.

Attachments

	Circle(s)
KPMG Peat Marwick's final report dated December 13, 1994	1-14
Comments on draft report	
MCT Board of Directors	15-16
MCT staff	17-22
Stoy Malone and Company, P.C.	23-24
Office of Consumer Affairs	26-28
Office of Public Information	29-30
Office of Management and Budget	31
Department of Finance	32



Peat Marwick LLP

Certified Public Accountants

2001 M. Street, N.W.
Washington, DC 20036

December 13, 1994

Ms. Karen Orlansky
Director
Office of Legislative Oversight
Stella B. Werner Council Office Building
100 Maryland Avenue, Room 509
Rockville, MD 20850

Dear Ms. Orlansky:

In accordance with contract number 21385AA, contract amendment #7, we have performed an analysis of issues related to Montgomery Community Television, Inc.'s (MCT) billing, cash management, and reporting practices. We have enclosed our final report with this letter.

We read the comments submitted by MCT, the Office of Consumer Affairs, the CableT.V. Franchise Administration, the Office of Public Information, the Office of Management and Budget, and the Department of Finance, and have incorporated changes, as appropriate, to our final report.

Please contact Vince Loiacono at (202) 467-3013 or John Hummel at (202) 467-3139 if you wish to discuss this report.

KPMG Peat Marwick LLP



Member Firm of
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**STUDY OF
MONTGOMERY COMMUNITY TELEVISION'S
BILLING, CASH MANAGEMENT, AND REPORTING PRACTICES**

December 13, 1994

PURPOSE

The purpose of this study was to perform an analysis of Montgomery Community Television, Inc.'s (MCT's) cash flow management. The study reviews MCT's billing and reporting processes and the effect of advance funding provided by Montgomery County (the County). The Government Services Practice of KPMG Peat Marwick LLP performed this report.

STUDY OBJECTIVES AND SCOPE

During this study, we addressed each of the following objectives:

1. How does MCT internally account for monies it receives from the County and from outside sources?
2. How does MCT report the use of Cable Fund monies and outside revenues?
3. What information is MCT required to include on and with its bills to the County? What information does MCT actually include?
4. To what extent does the County provide advance funding to MCT, and is this advance funding necessary, based on MCT's cash flow and billing practices?
5. Are there any changes needed to the structure of MCT's accounting and billing procedures and/or to the reporting requirements outlined in MCT's contracts with the County?

In accordance with our contract, we did not consider MCT's efficiency, program accomplishments, or overall purpose.

OUR PROCEDURES

In accordance with our contract, we performed the following procedures:

Step 1 - Obtained and Reviewed Copies of Relevant Documents

We reviewed several documents provided by the Office of Legislative Oversight (OLO), including:

- the two government channel contracts for fiscal years 1993, 1994, and 1995;
- the master contracts for fiscal years 1992 through 1994 and 1995 through 1996;
- MCT's fiscal year 1993, 1994, and 1995 budget requests;

MCT is independent of the County in several ways. MCT has its own by-laws, articles of incorporation, and Board of Directors. It is independent in determining programming for its cable television stations. This independence prevents the County government from dictating content of program, as well as decisions on operational matters. However, MCT is dependent on the County for use of the County's cable channels and most of its funding. In FY94, 93% of MCT's revenues were provided by the County.

Montgomery County provides MCT's funding through three sources: a master contract, an executive contract, and a council contract. MCT's revenues, which are provided by the County, are summarized below:

<u>MCT's Funding Source</u>	<u>FY95 Appropriations</u>	<u>FY94 Appropriations</u>	<u>*FY94 Actual</u>
Master Contract	\$ 1,725,000	1,856,000	1,856,000
Executive Contract	201,000	**201,000	**220,360
Council Contract	160,000	165,000	143,354
Total Cable Funds	\$ 2,086,000	2,222,000	2,219,714

MCT also generated other revenues which totaled \$175,136 as reported in the FY94 audited financial statements. The revenues consisted of:

Production	\$ 92,342
Training	33,477
Syndication	24,942
Corporate underwriting	12,676
Interest income	4,018
Other	7,681
Total	\$ 175,136

Master Contract

The master contract is a fixed price contract made with and administered by the Office of Consumer Affairs, Cable T.V. Franchise Administration. It provides for public access/training, news, and public affairs programming on the County's public access channels. The funds are deposited into the County's Cable Television Special Revenue fund and appropriated to MCT through the County's Cable Television Communication Plan. The FY94 master contract allocated funding as follows:

Public access	\$ 755,228
News programming	455,498
Operating expenses	470,728
Capital expenditures	108,000
Fund support (marketing)	66,546
Total	\$ 1,856,000

* Information obtained from the FY94 audited financial statements.

** See Objective 5 point A for discussion on contract deliverables.

2. How does MCT report the use of Cable Fund monies and outside revenues?

The master contract requires MCT to provide reports to the County quarterly and annually. The executive and council contracts require MCT to provide reports monthly. MCT submits a log of aired programs and an activity report with the executive and council contracts' monthly invoices. As a requirement of the master contract, MCT also distributes a detailed quarterly report to meet its contractual reporting obligations for all revenue sources and communicates its activity with MCT's board members, various County officials, and other organizations. The County's contract reporting requirements are included in Appendix A.

MCT's annual report (audited by their independent auditors) provides a simplified expense analysis by disclosing expenses in the following operational categories:

Functional:

Training
Operating
Programming
Production
News

Supporting Services:

General and Administrative
Marketing

Conclusion

Based on our study, we conclude that MCT has met the County's contract reporting requirements. However, some of the information requested in the contracts (e.g., number of scoops and the variety of financial reports, as detailed in Appendix A) appears to be excessive, redundant, and not useful. Coupled with MCT's detailed narratives which are in excess of the contractual requirements, MCT's reports to the County are voluminous and confusing.

3. What information is MCT required to include on and with its bills to the County? What information does MCT actually include?

What are the monthly billing requirements?

Master Contract

The master contract does not require MCT to submit monthly invoices to the County, although it does require specific quarterly financial reports which are addressed in Discussion of Objectives, Point # 2.

Executive and Council Contracts

The executive and council contracts require a standard invoice which includes itemized expense categories, such as direct labor, direct materials, indirect labor, other direct costs, and overhead costs. Each invoice is to include a detailed summary of expenses, such as the number of hours, description of activities and services, and itemized

MCT's cash balance decreased \$114,115 from \$156,554 on July 1, 1993 to \$42,439 on June 30, 1994.

Currently, MCT receives a form of advance funding from all three contracts:

- The master contract payments are received at the beginning of the month.
- One sixth of the council contract is received at the beginning of the fiscal year.
- The council contract's fixed costs are billed at the beginning of the month.
- The FY95 executive contract provides a \$9,000 advance payment at the beginning of each month.

The Level of Cash Balances

During our interview process, County officials indicated that although advance payments may be necessary for MCT to operate, the County does not understand why adequate cash reserves have not been achieved to alleviate MCT's need for advance funding. MCT contends it has not been able to develop and maintain adequate cash reserves for the following reasons:

- MCT was not incorporated with sufficient capitalization.
- MCT has been limited by legal barriers and the County's position on advertising which MCT contends is restrictive.
- Except for the master contract, the County's contracts with MCT do not allow MCT to establish a fund balance. MCT indicated that it is difficult to retain unexpended appropriations from the master contract when the County reduced its appropriations to MCT for FY95, and services are not expected to be reduced.
- The County's contracts do not allow MCT to enter into a bank loan or line of credit.

County officials contend the following:

- The County contributed approximately \$1.5 million in studio facilities and equipment in order to assist MCT in developing its business in 1986. In FY89, MCT was permitted to use \$100,000 of funds previously allocated for equipment as a working capital fund. The County further contends that it has continued to provide annual appropriations to replace and update the equipment.
- The County has continued to appropriate funds for fund support (marketing) despite issues raised by MCT, as noted above.
- The master contract allows MCT to retain any unexpended appropriation. MCT's appropriations for FY's 91-94 have been above \$1.8 million, yet no cash reserves have been achieved.

5. **Are there any changes needed to the structure of MCT's accounting and billing procedures and/or to the reporting requirements outlined in MCT's contracts with the County?**

As a result of our study, we offer the following additional observations and recommendations:

A. Define and Price Contract Deliverables

We recommend that MCT review its cost structure and develop standard unit costs (including both direct and indirect costs) for various functional services to be defined in the contracts such as press conferences, 30 minute studio productions, 1 hour field productions, etc. MCT could present this information to the County to:

- help determine whether proposed funding is appropriate,
- help identify those services where unnecessary costs are incurred by MCT, which may allow MCT and the County to eliminate such costs,
- better link costs with revenues, ensuring that each service earns a profit, and
- help avoid situations such as under the FY94 executive contract where MCT exceeded its funding by approximately \$18,000. MCT officials contend that they are required to provide services at the County's request and must always be in a standby state of readiness. MCT was asked to provide certain services and did provide them, knowing that MCT would exceed its funding. See point D for discussion on contract monitoring and recommendation on avoiding the FY94 executive contract incident.

The master contract addresses a minimal level of service requirements. The executive and council contracts do not address the levels of services to be provided. However, all three contracts fail to identify the costs associated with each functional service.

For example, under the executive and council contracts, production, playback, and equipment maintenance services have different costs. The cost of a press conference may typically include one camera and a staff person, whereas the cost of multi-coverage production, studio production, or field production may include several camera operators, the use of studio facilities, editing services, and video playbacks.

B. Develop Overhead Allocation Methodology

We recommend that MCT develop a comprehensive, systematic cost allocation plan. The plan would identify the methodology used to accumulate and allocate costs to MCT's contracts and outside revenues. This will allow County officials to ascertain that each contract is being charged for its equitable share of MCT's overhead costs. We also recommend that the plan be developed before the beginning of the new fiscal year's budget process, and that an independent third party review the plan for reasonableness.

The method of allocating overhead costs to each contract or outside revenue source is not documented and does not systematically identify, accumulate, and distribute

E. Improve the Communication Process by Defining Roles and Duties

We recommend the role of contract administrator be strengthened and that a process be outlined and followed for dispute resolution.

The communication process between MCT and the County appears ineffective, particularly in dispute resolution. In one instance, MCT chose to bypass the County's claim process and requested the County Executive's involvement in a contract dispute. A significant amount of communication is performed by written requests for information between the contract administrator and MCT, but even written requests do not result in a resolution of the dispute. The interviewees agreed that enhancing the communication process between MCT and the County is imperative and that the County and MCT need an effective method of resolving their differences.

* * * * *

We would like to take this opportunity to thank the County's representatives and MCT's management team for their cooperation and professionalism during this study. We would be pleased to discuss any questions or comments at your convenience.

II. The following reports are due annually by October 1:

- An affirmative action report on FCC Form 395.
- An MFD procurement report.
- An annual updated equipment inventory specifying the purchase date (prior/subsequent to November 14, 1986), the type of funds that purchased the equipment, and an indication if the equipment was donated.
- An annual audit (see Article III of contract).
- Report on fundraising activity with a comparison of funds raised to the costs expended in raising funds.
- Number of individuals participating in producing programs and number of productions per person in the past year.

III. Following are additional reports required:

- A copy of all annual or other periodic/special reports (including the annual audit) due within 5 days of issuance to MCT's Board of Directors.
- An advance copy of all notices and agendas of the Board meetings.
- A copy of all notices, newsletters, flyers, or other material provided by MCT to citizens or certified producers/technicians due at the same time (or earlier) the materials are distributed.
- A copy of the channel program schedule provided to the public or to a publisher due the same time they are mailed to the public or within 5 days of delivery to a publisher.

The executive and council contacts require the following reports:

- monthly activities report.
- monthly log of programs aired.
- monthly and quarterly summary of the number of hours of on-air programming for the County access.

Montgomery

COMMUNITY TELEVISION, INC.
7548 Standish Place, Rockville, MD 20855

(301) 424-1730
FAX (301) 294-7476

December 2, 1994

Ms. Karen Orlansky, Director
Office of Legislative Oversight
Montgomery County Council
100 Maryland Avenue
Rockville, MD 20850

Dear Ms. Orlansky:

This is in response to your request of November 7, 1994, asking for the comments of Montgomery Community Television (MCT), on the draft report of KPMG Peat Marwick, regarding issues of MCT's cash flow and other matters.

Enclosed you will find staff comments that I have reviewed, as well as comments and analysis provided by MCT's outside auditing firm, Stoy Malone, of Bethesda.

The matter of MCT's cash flow requirements seems to have perplexed County officials for some time. As a Certified Public Accountant, therefore, I am pleased to see that Peat Marwick unequivocally recognizes this problem and recommends that the County provide advance funding.

"Based on our study, and given MCT's dependence on the County's funding and timing of payments, and MCT's decrease in cash reserves, we concluded that MCT would not be able to fund its expenditures on a timely basis without continued advance funding or some form of additional cash injection."

This is consistent with my long-held professional beliefs as well as the recommendations of MCT's outside auditors.

For those not familiar with accounting concepts, I offer the following two points in an effort to foster better understanding of this issue:

- (1) It is virtually impossible for a non-profit organization -- without initial capitalization -- to build a working capital fund when
 - (a) Two of its three contracts with the County (Executive and Council) are structured as cost-

December 2, 1994

**COMMENTS OF MONTGOMERY COMMUNITY TELEVISION
ON PEAT MARWICK'S STUDY OF CASH FLOW ISSUES**

MCT's comments are tied to the individual issues and objectives in the Peat Marwick report.

How does MCT internally account for monies it receives from the County and from outside sources? (page 4)

We are pleased that Peat Marwick recognizes the strengths of MCT's internal procedures for handling the funds it receives from all sources, including the segregation of duties within the administrative team to achieve good internal controls, as required by traditional accounting procedures.

How does MCT report the use of Cable Fund monies and outside revenues? (page 5)

We are pleased that Peat Marwick concludes that MCT has met the reporting requirements of all three contracts with County Government. We agree that some of the information required by the contracts is "excessive, redundant and not useful" to anyone. This conclusion is consistent with recommendations of the recently-concluded Performance Evaluation of MCT.

Peat Marwick goes on to state, "Coupled with MCT's detailed narratives which are in excess of the contractual requirements, MCT's reports to the County are voluminous and confusing." For many years MCT has provided the detailed narrative about our quarterly activities because we fervently believe that many of our activities do not lend themselves to statistical or financial reporting. Thus a full understanding of our services to County citizens requires some narrative reporting.

What information is MCT required to include on and with its bills to the County? What information does MCT actually include? (pg. 5)

- (1) Master contract -- Peat Marwick's discussion of the master contract fails to note the reason that monthly payments are provided in advance by the County, and why the contract does not require monthly invoicing. That suggestion is contained OLO Report No. 89-5, dated

allocated funds for equipment, as a working capital fund." We draw the reader's attention to page 59 of OLO Report 89-5 which states that

". . . the County, in essence, allowed MCT to use this \$100,000 as a temporary [emphasis supplied] working capital fund to meet MCT's cash requirements and contingencies."

We must emphasize that this issue needs a permanent solution, and in an amount greater than \$100,000. Please see discussion in MCT's cover letter to this document.

- (4) County officials state that "The County has continued to appropriate funds for fund support (marketing) . . ." This is permitted under the master contract and is designed to assist MCT in meeting the costs of beginning a new, untested method of fund raising required when advertising was prohibited by the County. Fund Support is not a working capital fund but merely start up costs for obtaining outside (non-government) revenue.
- (5) Master contract delays -- Peat Marwick states that nine of the twelve monthly payments were late in FY94, but fails to note that the total was 106 days, or an average of 29 percent of the year and of each month. Such habitual delays result in serious, cumulative problems for a small company such as MCT. They include late payment of bills; lost interest; and possibly not adequate cash to meet a payroll.

We are not sympathetic to excuses regarding staff shortages in the Cable Office. The County review process should be conducted in a manner that will result in scheduled payments being made according to the terms of the contract.

- (6) Executive contract delays -- On more than one occasion, the delay resulted from a one-cent difference in the calculation of the amount due, resulting from rounding.
- (7) Conclusion and Recommendation on Advance Funding -- We are pleased that Peat Marwick recognizes the need for advance funding of MCT.

"Based on our study, and given MCT's dependence on the County's funding and timing of payments, and MCT's decrease in cash reserves, we concluded that MCT would not be able to fund its expenditures on a timely basis without continued advance funding or some form of additional cash injection."

The following is a list of the deliverables contained in the master contract:

- o 400 persons trained;
- o 125 hours per year of news programming;
- o At least 8 newsletters per year;
- o At least 3 training workshops per year;
- o At least 6 meetings of certified volunteers per year;
- o Schedule at least 70 hours of programming per week at each of MCT's two channels;
- o Provide 24 hour per day playback services for MCT's two channels.

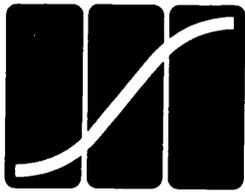
For example, the 400 persons trained, as well as the newsletters, workshops and monthly meetings of volunteers motivates them to produce programming so that MCT is able to schedule at least 70 hours of programming per week. All of these efforts are interrelated.

Finally, a unit cost approach to public access would require a major alteration in MCT's budgeting process which has been governed from the beginning by the County's budget submission requirements as contained in the master contract.

- (2) Develop Overhead Allocation Methodology -- MCT has long maintained that the Executive and Council contracts are not bearing their fair share of MCT's overhead costs. This is due to the arbitrary nature by which those allocations were developed by a prior County official many years ago. As a result the master contract is subsidizing some of those costs.

We would welcome a change in this regard, but with two caveats: (1) If it is agreed that this should be done, MCT -- along with its auditors -- should develop those cost allocations rather than having a system imposed upon us; and (2) it should be done before MCT's Fiscal Year 1996 budget is submitted to the County, because it will greatly alter how MCT's budget is structured. This may also require an amendment to the master contract which presently describes in great detail the format MCT must use in making its budget presentation.

- (3) Simplify the Monthly Invoices and Reporting Requirements -- We have no problem with the suggestion that monthly invoices on the Executive and Council contracts be modified to include all costs for a particular calendar month on each invoice. However, the Peat



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November 30, 1994

Mr. Ralph Malvik
Executive Director
Montgomery Community Television, Inc.
7548 Standish Place
Rockville, MD 20855

Dear Ralph:

At your request, I have reviewed KPMG Peat Marwick's report entitled "Study of Montgomery Community Television's Billing, Cash Management, and Reporting Practices" (the "Study"), dated October 31, 1994. It is my understanding that the purpose of the Study was to perform an analysis of Montgomery Community Television, Inc.'s ("MCT's") cash flow management. While the Study addresses many different issues, please note that the observations and comments expressed in this letter are directed at the accounting and/or cash flow issues raised, not the policy issues.

A. THE LEVEL OF CASH BALANCES (PAGE 7 OF THE STUDY)

According to the Study, the "County does not understand why adequate cash reserves have not been achieved to alleviate MCT's need for advance funding". The Study cites four contentions made by county officials that lead them to this lack of understanding. Three of these four contentions are discussed below:

Contention #1:

While the County did contribute the studio facility and equipment back in 1986 and continues to provide annual appropriations to replace and update MCT's equipment, such transactions/funding had and have no impact on MCT's cash balances.

Contention #3:

The fact that the Master Contract allows MCT to retain any unexpended appropriation does not in itself translate automatically into excess cash available for MCT. MCT's operating expenses (before depreciation) together with capital purchases in recent years have been at a level which has not yielded any unexpended appropriations. (In other words, the funding received and revenue generated by MCT from all sources in recent years approximates the cost to operate the organization. Accordingly, there is no excess available.) In



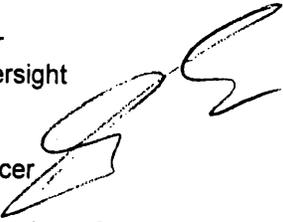
Montgomery County Government

ROCKVILLE, MARYLAND 20850

MEMORANDUM

December 2, 1994

TO: Karen Orlansky, Director
Office of Legislative Oversight

FROM: Gene Lynch
Chief Administrative Officer 

SUBJECT: KPMG Peat Marwick's Review of the Montgomery Community Television's Billing,
Cash management, and Reporting Practices

Thank you for the providing the Executive Branch with the opportunity to comment on KPMG Peat Marwick's Review of the Montgomery Community Television's Billing, Cash Management, and Reporting Practices.

The comments from the Office of Consumer Affairs, the Office of Public Information and the Office of Management & Budget are attached.

Attachments

Karen Orlansky
November 29, 1994
Page 2

the budget. But there is no explanation as to why that is the case. There are no recommendations for changes.

Item #4: This section concludes that MCT should develop information which may be used to determine why it has not been able to develop adequate cash reserves but gives no hint of how to go about doing this. There is the implication that despite years of enormous annual payments and substantial start-of-year advances, delay of just one monthly payment puts MCT on the brink of, or actually in, a deficit situation with no ability to provide services or seek immediate alternative funding. What is the problem here? What is the generally acceptable way to handle these kind of circumstances. How do we identify the costs and savings referred to in this conclusion? There is an indication that the "master" contract may be "absorbing" costs of the other contracts. Is it? What leads the consultant to this statement? How do we determine if this is true?

Item #5 A & B These recommendations state that further work is needed to develop, utilize, understand and properly allocate costs. If this work is beyond the scope of this study or outside the normal work of this consultant, then is another study or audit is in order to address the problems identified by the consultant and follow-up on the consultants recommendations? If that is the conclusion of the consultant, then it should clearly be indicated. From my reading the study and from my discussions with the consultant it seems that such a recommendation is appropriate yet it is not so stated.

Item #5 C. Here the consultant states that the reporting requirements and the reports themselves contribute to the difficulty in conducting a proper analysis to account for these funds. However, there are no specific recommendations which give us direction as to how to correct these problem.

In summary, I find the study too general and lacking in specific findings and recommendations. Granted that there was a considerable amount of information for the consultant to review in a short period of time, but I still would expect more substance to the final report.

It is clear that there are numerous problems which we need to address in order to properly and responsibly account for nearly two million dollars of public funds annually provided to one contractor - MCT. The KPMG consultants recurring references to improper cost allocation echo similar conclusions of another accounting consultant employed by the Procurement Office in



Montgomery County Government

MEMORANDUM

November 30, 1994

TO: Karen Orlansky, Director, Office of Legislative Oversight
FROM: Donna *Donna Bigler* Bigler, Assistant Director, Office of Public Information
SUBJECT: KPMG Peat Marwick's Review of Montgomery Community Television's Billing, Cash Management, and Reporting Practices

I have reviewed the study by KPMG Peat Marwick of Montgomery Community Television's (MCT's) billing, cash management and reporting practices and want to point out some errors and clarify some areas of concern. These include:

- The table on page 3 contains two errors. The FY95 appropriation for the Executive contract is \$201,000 -- not \$209,000. The FY94 actual expenditures for the Executive contract total \$200,435.04 -- not \$220,360. Note that two invoices from the FY94 contract totalling \$18,853.27 have not been paid, since they contain a number of charges that are not documented or verified.

- The report states on page 4, under the "Executive and Council Contracts" heading, that "the fixed costs are intended to compensate MCT for overhead expenses, such as utilities and rent." The fixed costs also cover full-time employees who work under the contract. The report fails to mention that an additional 18.51 percent overhead rate is applied to all direct labor charges under the Executive branch contract. I have concerns that there are duplicative charges in this area. This office pays directly as a fixed cost a portion of MCT's utilities, rent and property taxes. We also pay an hourly rate and personnel costs whenever the Executive branch uses the MCT studio facility, and we provide free office space for the employees who work directly under the Executive branch contract.

- Page 6 of the study, under the "Executive Contract" heading, states that "... MCT's invoicing does meet the contractual requirements." However, as the report then points out, the FY94 invoices were untimely, confusing and made it difficult to track and report costs in a manner which did not meet the contract requirements. MCT's practice of combining the variable expenses from the previous month with the fixed expenses from the current month of the invoice made it difficult to monitor costs under the contract. Furthermore, this billing method had the effect of an advance payment to MCT for fixed costs, which was in addition to the 16.7 percent advance payment provided to MCT at the start of the contract. The study does

MEMORANDUM

November 23, 1994

TO: Karen Orlansky, Office of Legislative Oversight

FROM: Robert K. Kendal, Director, Office of Management and Budget 

SUBJECT: KPMG Peat Marwick's Review of Montgomery Community Television's Billing, Cash Management, and Reporting Practices

My staff have reviewed the report titled "KPMG Peat Marwick's Review of Montgomery County Television's Billing, Cash Management, and Reporting Practices", and found it to be very useful and insightful. I believe that the report clearly identifies areas which must be addressed before the beginning of the new fiscal year. As identified in the report, perhaps the most urgent issues are: the MCT cash management and cash flow problems, timely monthly payments from the County, and strategies to improve communication between the parties. I concur with the report's author that the current contract reporting requirements and contract monitoring process must be revised. I support the recommendation that additional effort be directed to pricing deliverables and the development of a clear overhead allocation method. I look forward to working with the Cable Office and MCT to resolve these issues.

We have contacted Vince Loiacono of KPMG Peat Marwick in relation to technical issues, and those were quickly resolved. We would like to take this opportunity to request additional clarification of the following points:

1. On page 3, the audited expenditure totals do not equal budget totals nor actual expenditures for Montgomery Community Television (MCT) as shown on the county financial records. Can these figures be explained? Perhaps MCT's books are closed on dates which do not correspond to county financial records, or perhaps the books close on a date before the end of the County fiscal year. Since the data comes from the audited MCT financial statement, perhaps the figures should be verified by the contract holder in the future.
2. The MCT total, again on page 3, for the Executive Contract exceeds the budgeted amount for that contract. Can this difference be explained?

Thank you for the opportunity to review and comment on this study.

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