

Portland's public access TV faces financial troubles

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By

Portland Community Media is supposed to be the city's electronic town square. The publicly funded nonprofit operates public access television stations on Comcast's local cable network -- a civic engagement and free-speech zone in the heart of corporate media.

But a review by The Oregonian shows PCM has operated in financial turmoil for years due to mismanagement and misuse of its public funding. Board minutes, financial records and reports to the City of Portland describe an organization without basic structures to ensure its employees show up and are productive. Time cards have been faked, petty theft has been tolerated and accounting controls were so weak there was no way to determine whether fraud was occurring.

Cable customers and Portland taxpayers foot most of the bill -- 70 percent of the current annual budget of \$2.5 million comes from those two sources. Yet the nonprofit operates with little effective oversight or accountability.

The mess has festered while Portland's cable regulator, the city's Office for Community Technology, has been negotiating a new franchise agreement with Comcast that delivers \$100 million to the city over the next 10 years.

PCM hasn't produced audited financial statements for 2010 or 2011, though it is required to deliver them to the city 90 days after the June 30 close of each fiscal year.

PCM's executive director says the auditor's recommendations for 2010 include more bad news: a \$700,000 writeoff of old equipment, and a separate write-down of more than \$600,000 in misused grant funds.

Despite a focus on generating revenue by selling services, PCM fell short of budget targets last year and continues to lag this year. According to board transcripts, it almost ran out of cash in August and could not have met payroll without an advance on its city contract.

Executive director Cece Hughley Noel says the cash crisis was exaggerated by PCM's former fiscal manager, Vijay Shankar, who was fired in August. Shankar was hired last year to help clean up PCM's money problems, but was let go after he repeatedly questioned the competence of PCM's leadership in front of the board. Hughley Noel now says she's not sure any of the financials he generated are reliable.

"It's a mess. I don't even know how messy it is," said Hughley Noel. "It's all junky accounting."

Shankar says he sticks by his work: PCM's financial statements reflect the balances in its accounting system at the time.

Portland Community Media

Studio: 2766 NE
Martin Luther King
Blvd., Portland

Founded: 1981

Employees: 15 full-
time equivalents

Annual budget:
About \$2.5 million

Mission: Broadcasts
public access
programming on six
channels on the
Comcast network.
Provides training and
access to cameras
and editing
equipment for
community
producers. Runs
media and youth
education
workshops.

Bottom line, no one is claiming responsibility.

PCM is financially dependent on Comcast and the city, but it operates at arm's length from both to preserve its mission and editorial independence. Comcast says it's concerned about the use of its subscribers' money, but has no leverage once it turns over the fees to the city. The city regulator says it's not in a position to act without a formal audit in hand and that the ultimate responsibility rests with PCM's board.

Meanwhile, the volunteer board is understaffed and its chairman says the board really functions only in an advisory role to executive director.

Almost everyone involved claims that PCM's financials, transcripts of its board and committee meetings and independent investigations in the last 18 months don't reflect its true condition today, but past problems.

David Olson, director of Portland's Office of Community Technology, suggests PCM is similar to any nonprofit during the recession. He says it has weathered the financial storm and is back in the black and meeting all obligations. Any suggestion otherwise, he said, is the spurious allegation of a disgruntled former employee.

If PCM has turned the corner, however, it only happened recently after staffing was stripped to the bone. As late as this summer, board members discussed scrubbing PMC to the corners.

"There is something in the core of this organization," Hughley Noel told board members in July, "that supports theft and misuse of funds. . . . It's almost like there needs to be a great whooshing of fresh air that sweeps everything dramatically clean."

Passing blame

PCM dates to the pioneering days of cable when companies across the country agreed to carry local public-interest content as one condition of their lucrative monopoly franchises.

In Portland, six television channels broadcast public meetings, educational shows and programs by community producers.

PCM provides the training, cameras and editing equipment. And it sells production services for community organizations, from churches to civic groups, looking to broadcast their own events.

The party line among current managers is that PCM's financial difficulties stem from the tenure of its former executive director, Sylvia McDaniel, who over expanded and squandered resources.

McDaniel resigned in mid-2010 and was replaced by Hughley Noel, who was chief operating officer at the time. McDaniel says she's being used as a scapegoat for problems that existed long before she arrived and apparently weren't solved after she left.

The politically inconvenient reality, she said, is that public access doesn't pay for itself. PCM has survived on shrinking handouts from the city and the proceeds of an investment account for years, but those reserves are exhausted, she said. Its free-form programming and history of unprofessional management make it tough to garner outside grant money, and PCM has never sold enough services to make up the gap.

"When I got there in 2008, I told the board we had a problem," McDaniel said. "They can't pin this on me."

Either way, a June 2010 forensic accounting investigation by an outside firm, Portland-based Morones Markee, revealed some eye-opening problems:

Financial reporting was incomplete and unreliable; purchases on debit and credit cards were rarely supported by a documented business rationale or any indication of the purpose; deposits and expenditures often weren't posted for months; and there was no easy way to determine what accounts receivable and payable were outstanding at any given time.

Documentation was so poor, and internal controls so weak, Morones Markee said, that there was no way to conclusively determine if fraud was occurring.

It also found worrisome commingling of restricted and unrestricted funds.

About 35 percent of PCM's revenue comes from Comcast subscriber fees that are restricted to equipment and other capital purchases. Another 35 percent comes from the city general fund to cover day to day operations.

The two pots are supposed to be strictly separated and expenditures closely tracked. That didn't happen.

Morones Markee's investigation concluded that during the nine months before April 30, 2010, PCM showed little distinction between operating and capital funds, spending \$116,000 of capital funds on day-to-day expenses.

Preliminary audit

PCM's board hired the local firm Bishop French for its 2010 audit -- now more than a year overdue. Bishop French representatives didn't return calls from The Oregonian.

Hughley Noel blames the delay on the depth of the work, the maternity leave of the auditor and the failure of PCM's former fiscal manager to complete work required for the audit.

Shankar insists there was no delay in the external audit because of him, though he said it was impossible for him to reconcile the equipment PCM had on its books with the physical inventory and related documentation.

The auditor did unveil preliminary findings to the board in May in executive session, closed to the public. But Hughley Noel said one finding was that PCM used \$610,000 in capital funds for operations.

The second finding, she said, is that the value of equipment on PCM's books was inflated by \$700,000.

While transcripts of board meetings include some discussion of "missing assets," Hughley Noel insists there's no equipment missing. PCM's books, she said, were never updated when old equipment was fully depreciated, sold or given away.

Misuse of the grant funds is more problematic. The city required PCM to "pay back" the \$116,000 that the Morones Markee investigation identified.

PCM's board has discussed the possibility of borrowing against its building or selling part of it to pay back missing capital funds. But PCM doesn't generate sufficient cash flow to repay a significant loan. And it has already made big cuts to address

its cash crisis, lopping half its staff, cutting pay and limiting operating hours.

Bare bones staffing already is limiting public access to the facility.

Interviews with staff as well as the transcripts and summaries from board and committee meetings this summer are full of financial and operational red flags:

Staff were unproductive, often idle and faked time sheets, according to board and committee transcripts. PCM has a ballooning liability for unused vacation. Shankar told board members the problems went all the way up to the executive leadership.

Staff considered the employee handbook and its policies "a joke," Shankar told board members. Hughley Noel told board members the lackadaisical work ethic stemmed from an expectation of ongoing handouts from the city.

Staff lack the business background or training to bring in revenue. The organization had no standard pricing for its services until recently, Hughley Noel said.

Petty cash has been stolen. One employee who stole was allowed to stay for three months after it was discovered, according to a board committee transcript.

PCM's mismanagement of operational money makes banks reluctant to provide financing, and dissuades foundations and corporations from providing support, Hughley Noel and Shankar told board members.

A new contract

The city and Comcast just concluded 18 months of negotiations for a new franchise agreement, and Hughley Noel hopes there will be more money coming PCM's way when it renegotiates its own contract with the city.

At least twice during that 18 month period, however, Comcast expressed concerns about the PCM's misuse of the access fees paid by its subscribers. The company says it is still waiting for some reassurance that the city is on top of PCM's problems.

"We give (the fees) to the city to manage, and they have the contract with PCM," said Theresa Davis, a Comcast spokeswoman. "But we still feel like the city needs to be held accountable."

Olson, the director of the Office of Community Technology, says Comcast was being more cynical, launching a strategic attack to lower the public benefits it provides under the franchise agreement, not safeguard fees paid by its subscribers.

"If these audits reveal any more problems, we will respond," Olson said. Requiring any capital funds used for operations to be repaid "would be most unfortunate."

Kohel Haver, PCM board chairman, said board members are still trying to get things back on track.

"We get a lot of money from the city," he said. "We should be able to manage it properly ... I don't want to kill this organization while we cut out this cancer."

-- **Ted Sickinger**

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