CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF INSPECTOR GENERAL

LIMITED SCOPE AUDIT OF INDIRECT ADMINISTRATIVE SUPPORT REPORTED AS NON-FEDERAL FINANCIAL SUPPORT AT KPBS TV AND RADIO, SAN DIEGO STATE UNIVERSITY, SAN DIEGO, CALIFORNIA FOR THE PERIOD JULY 1, 2015 THROUGH JUNE 30, 2016

REPORT NO. ACJ1706-1708

SEPTEMBER 22, 2017
Background

The objectives of our limited scope audit were to determine whether the station reported Indirect Administrative Support (IAS) as Nonfederal Financial Support (NFFS) on its Annual Financial Reports (AFR) in accordance with the Corporation for Public Broadcasting’s (CPB) Financial Reporting Guidelines (Guidelines) for Fiscal Year (FY) 2016. Accurate reporting of NFFS is critical to ensure an equitable distribution of CPB funds among stations.

Limited Scope Audit of Indirect Administrative Support Reported as Non-Federal Financial Support at KPBS TV and Radio, San Diego State University, San Diego, CA for the Period July 1, 2015 through June 30, 2016

What We Found

Based on our audit, we found that KPBS TV and Radio (KPBS) overstated the IAS it included as NFFS in FY 2016 by $1,233,242, resulting in a potential Community Service Grant (CSG) overpayment of $125,789 in FY 2018.

In response to our draft report, KPBS agreed with our findings and said it has taken corrective actions.

What We Recommend

That CPB take the following actions:

1) reduce KPBS’s FY 2018 CSG, or recover if paid, by the potential overpayment of $125,789;
2) require KPBS to identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines; and
3) review and clarify the AFR Schedule B guidelines for the Basic Method to help institutional stations with varying and unique organizational structures apply guidance consistently in calculating their IAS NFFS to ensure there is an equitable distribution of CPB funds.

This report contains the conclusions of the Office of Inspector General and does not represent CPB’s final position on the issues identified. CPB will issue a final determination in accordance with its audit resolution procedures.
Date: September 22, 2017

To: Jackie J. Livesay, Vice President, Compliance  
Ted Krichels, Senior Vice President, System Development and Media Strategy  
Kathy Merritt, Senior Vice President, Journalism and Radio

From: Mary Mitchelson, Inspector General

Subject: Limited Scope Audit of Indirect Administrative Support Reported as Non-Federal Financial Support at KPBS TV and Radio, San Diego State University, San Diego, California for the Period July 1, 2015 through June 30, 2016, Report No. ACJ1706-1708

Enclosed please find our final report, which contains our findings and recommendations. CPB officials must make a final management decision on the findings and recommendations in accordance with established audit resolution procedures.

Accordingly, we request that you provide us with a draft written response to our findings and recommendations within 90 days of the final report. We will review your proposed actions and provide our feedback before you issue a final management decision to the grantee, which is due within 180 days of the final report. For corrective actions planned but not completed by the response date, please provide specific milestone dates so that we can track the implementation of corrective actions needed to close the audit recommendations.

We will post this report to the Office of Inspector General’s website as required by the Inspector General Act of 1978, as amended. Please refer any public inquiries about this report to our website or our office.

Enclosure

cc: Lori Gilbert, Chair, CPB Board of Directors  
Bruce M. Ramer, Chair, CPB Audit and Finance Committee  
U.S. Senate Committee on Homeland Security and Governmental Affairs  
U.S. House of Representatives Committee on Oversight and Government Reform  
U.S. Senate Committee on Commerce, Science and Transportation  
U.S. House of Representatives Energy and Commerce Committee  
U.S. Senate Committee on Appropriations  
U.S. Senate Labor-HHS-Education Appropriations Subcommittee  
U.S. House of Representatives Committee on Appropriations  
U.S. House of Representatives Labor-HHS-Education Appropriations Subcommittee
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EXECUTIVE SUMMARY

We have completed a limited scope audit of the Indirect Administrative Support (IAS) reported as Non-Federal Financial Support (NFFS) for the period July 1, 2015 through June 30, 2016 at KPBS TV and Radio (KPBS) licensed to San Diego State University (SDSU), a campus of California State University. The objectives of our audit were to determine whether the station reported IAS as NFFS in accordance with the Corporation for Public Broadcasting’s (CPB) Financial Reporting Guidelines (Guidelines) for Fiscal Year (FY) 2016. Accurate reporting of NFFS is critical to ensure an equitable distribution of CPB funds among stations.

Based on our audit, we found that KPBS overstated IAS included as NFFS totaling $1,233,242, resulting in a potential Community Service Grant (CSG) overpayment of $125,789 in FY 2018.

We recommend CPB management take the following actions:

- reduce KPBS’s FY 2018 CSG, or recover if paid, by the potential overpayments of $125,789;
- require KPBS to identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines; and
- review and clarify the AFR Schedule B guidelines for the Basic Method to help institutional stations with varying and unique organizational structures apply guidance consistently in calculating their IAS NFFS to ensure there is an equitable distribution of CPB funds.

In response to the draft report, KPBS agreed with our findings and has taken corrective actions. We attached KPBS’s written response to the draft report as Exhibit G.

We performed this limited scope audit based on the Office of Inspector General’s (OIG) annual plan to audit multiple television (TV) and/or radio stations. We conducted our examination in accordance with Government Auditing Standards for performance audit engagements. Our scope and methodology is discussed in Exhibit F.

This report presents the conclusions of the OIG and the findings reported do not necessarily represent CPB’s final position on these issues. While we have made recommendations we believe would be appropriate to resolve these findings, CPB officials will make a final determination resolving our findings and recommendations in accordance with established CPB audit resolution procedures. Based on KPBS’s response to the draft report, we consider recommendations one and two resolved but open pending CPB’s final management decision. Recommendation three was directed to CPB and is open pending CPB’s final management decision.

Finally, under Other Matters we discuss a non-IAS reporting issue (including federal funds) that also resulted in overstated NFFS. In response to our draft report, KPBS agreed that it had overstated its NFFS and said it has updated its procedures to ensure accurate future AFR reporting.
BACKGROUND

KPBS

According to KPBS’s website, it is engaged in the production, broadcast, and distribution of content that is trusted, inspires, and educates its local communities via TV, radio, and digital media.

KPBS is licensed to the Board of Trustees of California State University for its SDSU campus, which includes its non-profit auxiliary organization San Diego State University Research Foundation (Research Foundation).1 KPBS is a department of SDSU, which employs approximately 16 of the station’s 130 employees. The other 114 are employees of the Research Foundation. SDSU has a service agreement with the Research Foundation to provide KPBS’s financial accounting and administrative support for a fee.2 Therefore, in this report, we treat both SDSU and the Research Foundation as KPBS’s licensee in addition to the Chancellor’s Office of California State University.

All three of these entities are consolidated in California State University’s audited financial statements. KPBS’s calculations for indirect support included Institutional Support and Physical Plant Support (PPS) costs from SDSU, the Research Foundation, and the Chancellor’s Office of California State University. KPBS obtained the licensee’s financial information for direct and institutional support expenses used in its AFR Schedule B IAS calculations from each of the three entities.

Community Service Grants

CPB awards annual CSGs to public television and radio stations based on the amount of NFFS claimed by all stations on their AFRs. The CSG calculation process starts with separate amounts appropriated for the television and radio CSG pools adjusted by base grants and supplemental grants. The funds that remain are called the Incentive Grant Pools; one is for television and the other is for radio.

CPB calculates the Incentive Rate of Return (IRR) by dividing the Incentive Grant Pools by the total adjusted NFFS claimed by all television/radio stations. CPB then multiplies the IRR by the station’s total amount of adjusted NFFS to calculate the incentive award amount for the station’s total CSG. There is a two-year lag between the reported NFFS and CPB’s calculation of the FY CSG amount. For example, CPB used the NFFS claimed by KPBS on its FY 2015 AFR to determine the amount of the CSG the station received in FY 2017.

1 The Research Foundation is included as a discretely presented component unit of SDSU on California State University’s financial statements.

2 Per KPBS’s audited financial statements, the Research Foundation maintains the majority of the station’s accounts except for certain capital assets, University cash, notes payable, and interest related to certain state employees.
**Indirect Administrative Support**

Our past audits of institutional stations claiming IAS have found overstated NFFS related to stations’ calculations of IAS. The accurate reporting of IAS is critical for the equitable distribution of the CSG funds to public broadcasters.

Because OIG audits of individual stations are time consuming to perform, we undertook this project to look at a few stations but limited our focus to only IAS reported as NFFS. We will report separately on each station we audit and issue a summary report to CPB of any system issues we identify. We analyzed CPB’s records of NFFS reporting to identify stations that reported large amounts of IAS, and we narrowed our scope to focus on stations that applied the Basic Method for calculating their NFFS and that had not been recently audited by OIG. We judgmentally selected two stations to conduct a limited scope audit of NFFS reported as IAS.

CPB allowed IAS as NFFS starting in 1975 and for the first 20 years all stations used the grantee developed method. In 1990 the Guidelines allowed the option to use a federal Other Sponsored Activities (OSA) rate, and then in 1996 CPB developed the Basic Method as an additional option. CPB’s allowance of IAS as NFFS provides latitude to a station in determining its IAS calculation based on the reasonableness of distributed licensee’s resources to actual benefit to the station. Further, the IAS must be computed by trained accountants and independently audited.

Currently, CPB’s Guidelines allow grantees to choose one of the three methods for calculating IAS: Federal OSA, Basic Method, or Grantee-Developed Method (which requires pre-approval from CPB). The Guidelines state:

…The Basic Method is a CPB developed method in which the grantee calculates indirect administrative support by determining an institutional support rate. The rate may be calculated by either 1) determining the station’s net direct expenses (net of noncash support and capital outlays) as a percentage share of the licensee’s net direct expenses or; 2) determining the station’s total salaries and wages as a percentage share of the licensee’s total salaries and wages for direct activities. The institutional support rate is then multiplied by the licensee’s total institutional support costs (e.g., budget analysis, financial operations, human resources, etc.) that benefit the station operations.

In addition to calculating an institutional support rate, in the Basic Method the grantee calculates a physical plant support rate by determining the net square footage occupied by the station as a percentage share of the licensee’s total net assignable square footage. The rate is then multiplied by the licensee’s physical plant support costs (e.g., building maintenance, refuse disposal, custodial services, etc.) that benefit station operations.

Guidelines, Section 2.7.3 Calculating Indirect Administrative Support.

KPBS calculated its institutional support rate using CPB’s Basic Method net direct expense option.
During our audit period, KPBS received payments of $3,176,778 from CPB for CSG and interconnection grants, and $133,230 for other production grants as itemized in Exhibit A. In FY 2016 the station reported total NFFS of $27,433,432 (Exhibit B), which included $5,823,867 in IAS reported on AFR Schedule B (Exhibit C). KPBS’s audited financial statements reported total revenues and support of $33,123,574 in FY 2016. KPBS’s fiscal year begins July 1 and ends on June 30.

RESULTS OF AUDIT

Based on our audit KPBS generally complied with pertinent CPB requirements except that our examination disclosed KPBS overstated its FY 2016 IAS NFFS by $1,233,242, resulting in potential CSG overpayments of $125,789 in FY 2018.

Our limited scope audit was conducted in accordance with the Government Auditing Standards for performance audit engagements and, accordingly, included examining, on a test basis, evidence about KPBS’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our review provides a reasonable basis for our conclusion.

Other Matters

During our fieldwork, we also identified a non-IAS NFFS reporting issue on the FY 2016 AFR, Schedule A. KPBS overstated its NFFS by $16,253 because it included federal funds, resulting in a potential overpayment of $1,687 in FY 2018.

FINDINGS AND RECOMMENDATIONS

Overstated Indirect Administrative Support NFFS

Our audit found that KPBS overstated IAS NFFS totaling $1,233,242 as reported on its FY 2016 AFR Schedule B for TV and Radio, which could result in a potential CSG overpayment of $125,789 in FY 2018 as shown in the table below:

<table>
<thead>
<tr>
<th>Schedule B - Basic Method Net Direct Expenses</th>
<th>TV</th>
<th>Overstated NFFS</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total institutional costs benefiting the station</td>
<td>$197,712</td>
<td>$79,142</td>
<td>$276,854</td>
</tr>
<tr>
<td>Total physical plant support costs</td>
<td>$168,883</td>
<td>$56,296</td>
<td>$225,179</td>
</tr>
<tr>
<td>Total costs benefiting station</td>
<td>$366,595</td>
<td>$135,438</td>
<td>$502,033</td>
</tr>
<tr>
<td>Fees paid to licensee for overhead recovery, assessment, etc. that should have been deducted from NFFS</td>
<td>$523,022</td>
<td>$208,187</td>
<td>$731,209</td>
</tr>
<tr>
<td><strong>Total IAS Questioned/Overstated NFFS</strong></td>
<td><strong>$889,617</strong></td>
<td><strong>$343,625</strong></td>
<td><strong>$1,233,242</strong></td>
</tr>
</tbody>
</table>

2017 IRR\(^3\)  
11.95376348% 5.65930006%

**Potential FY 2018 CSG overpayments**  
$106,343 $19,446 $125,789

\(^3\) We applied CPB’s FY 2017 IRR because FY 2018 IRR calculations had not yet been established.
This overstatement occurred because KPBS’s FY 2016 TV and Radio AFRs, Schedule B, incorrectly reported:

- $11,435,847 of the licensee net direct expenses that affected the institutional support rate that KPBS applied to the licensee’s institutional support cost pools;
- $24,641,537 in its institutional ($5,721,210) and physical plant ($18,920,327) support cost pools that did not provide an essential or continuous benefit to the station;
- 671,030 square footage in its licensee’s net assignable square footage that did not benefit station operations; and
- $731,209 in fees it paid to its licensee for management and administrative services provided.

As a result, KPBS’s FY 2016 IAS calculations overstated its institutional support by $276,854 and its physical plant support by $225,179 and claimed $731,209 in support it paid for directly.

CPB Guidelines permit institutional stations to include certain revenues from their own licensees as NFFS.

- Direct Revenues, including appropriations from the licensee and expenses incurred or absorbed by the licensee specifically for the station
- Indirect administrative support

Guidelines, Section 2.7.1 Indirect Administrative Support Overview.

CPB’s Guidelines and instructions for claiming IAS also define what types of institutional costs the station may receive as a benefit from its licensee and are described as:

**Facilities and Administrative Costs (F&A)** are costs that are incurred for common or joint objectives and, therefore, cannot be identified readily or specifically with a particular sponsored project, and instructional activity or any other institutional activity and cannot be directly charged. F&A costs are also referred to as indirect costs.

**Facilities costs (operations and maintenance of plant)** are those that have been incurred for the administration, supervision, operation and maintenance, preservation of the institution’s physical plant….

**General administration** expenses are those that have been incurred for general executive and administrative office of educational institutions and other expenses of a general character which do not relate solely to any major function of the institution (e.g., instruction, research, other sponsored activities and other institutional activities) ….

Guidelines 2.7.2 Types of Indirect Administrative Support that May be Claimed as NFFS.

KPBS applied CPB’s Basic Method to complete its AFRs Schedule B for IAS and completed the CPB Worksheet II based on the Guidelines in Section 6, Completing the AFR Schedule B.
The instructions for the Basic Method consists of four steps as summarized below:

1. Station Net Direct Expenses
   a. Determining the station’s direct expenses and deductions required to calculate its net station direct expenses – per station’s audited financial statements.

2. Institutional Support Rate
   a. Determining the licensee’s net direct activities – per licensee’s audited financial statement. (These are the institution’s mission costs.)
   b. Calculating the institutional support rate to be applied to institutional cost pools benefiting the station. Station net direct expense divided by licensee net direct activities.
   c. Identifying licensee’s institutional support costs pools that provided essential and continuous support to the station’s operations and multiplying the institutional support rate times the cost pool to determine the amount of IAS to report as NFFS.\(^4\)

3. Physical plant support rate calculation
   a. Determining the physical plant support rate, station square footage divided by licensee square footage.
   b. Identifying licensee’s physical plant operations support costs pools that provided essential and continuous support to the station’s operations.
   c. Multiplying the physical plant support rate times the benefiting plant support cost pools to determine the amount of IAS to report as NFFS.

4. Total costs benefiting stations operations.

In addition, stations may claim IAS for occupancy value based on CPB’s basic method formula, but KPBS did not.

After completing steps 1-4 and determining an occupancy value under the Basic Method, the IAS calculated automatically forwards to a total section on the AFR Schedule B but requires additional manual input for deductions to the amounts calculated for:

- Deductions: Fees paid to the licensee for overhead recovery, assessment, etc.
- Deductions: Support shown on lines 1 and 2 in excess of revenue reported in financial statements.

AFR Schedule B, Worksheet II, Tab 3.

After the required deductions, the report calculates the total IAS NFFS to be reported on AFR Schedule B and Summary NFFS report.

\(^4\) CPB AFR Schedule B Line 2.c.3 guidance provides for deductions from the institutional costs reported on the licensee’s financial statement for costs that do not benefit the station. CPB’s Guidance states: “Cost groups that do not benefit the operations of the station generally include the alumni office, commencement, contract administration, development office, faculty recruitment, medical careers improvement, office of the registrar, publication services, purchasing, bad debts, capital outlays, contingencies, and prior period adjustments…”
CPB stated that its Basic Method was modeled on the federal Office of Management and Budget (OMB) guidance for direct and indirect cost allocations, which would include OMB Circular A-21 for educational institutions.

…Costs incurred for the same purposes in the like circumstance must be treated consistently as either direct or F&A costs. Where an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs of all activities of the institution.…

OMB Circular A-21, Section D.1, currently found in Title 2 Code of Federal Regulations220 Appendix A, D.1.

KPBS applied CPB’s Basic Method to calculate the IAS that it claimed as NFFS. Our audit identified errors in calculating the licensee’s net direct expenses, costs pools not benefiting the station, square footage not benefiting the station, and fees the station paid as direct costs to its licensee for management and support. The effect of these findings on the IAS NFFS calculation, resulting in the $1,233,242 overstatement, are summarized in Exhibit D and discussed below.

Calculating Station and Licensee Net Direct Expenses

KPBS overstated its licensee net direct activities by $11,435,847, which were reported on the station’s AFRs Schedule B line 2.a.2 and used to calculate its institutional support allocation rate.

The AFR Schedule B calculations come from both the station’s financial statements and the licensee’s financial statements. The station’s direct expenses on AFR Schedule B are populated from the station’s expenses reported on its AFR Schedule E - Expenses.5 The licensee’s net direct activities reported on AFR Schedule B excluded direct expenses from SDSU’s general fund totaling $2,222,726 for public broadcasting and direct utility expenditures. In addition, $14,389,782 in Research Foundation expenditures for academic support and student services were included in the licensee net direct activities. Finally, KPBS as a department of SDSU has an operating agreement with and pays the Research Foundation directly to provide the station with financial management and general support services. $731,209 of the costs for these services were in the station’s net direct expenses, because KPBS had paid for them. However, this fee was recognized as revenues by the Research Foundation and not in the licensee’s net direct activities base.6

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5 KPBS did not correctly identify $245,853 in CPB other grant funded expenditures on its FY 2016 AFR Schedule E - Expenses as CPB required. However, this misreporting did not affect the calculation of its IAS. KPBS reported the other CPB funds in the category all other non-CPB funds under program services. During our audit fieldwork, KPBS corrected its procedures to properly identify and report other CPB grant funds to comply with CPB guidance.

6 The licensee incurred the related expenses in its institutional support expense cost pool, which were the same licensee institutional support cost pools used to determine the station’s IAS for NFFS. Therefore, the management fees paid by the station were in both the station’s direct costs and in its indirect institutional support costs. CPB’s instructions require a deduction for a station’s direct payments to its licensee for overhead recovery (i.e., licensee’s indirect cost pools). CPB’s Guidelines AFR Schedule B
Therefore, the total licensee’s net direct activities were overstated $11,435,847.

**Non-Benefiting Costs in Institutional Administrative Support Cost Pools**

The station’s IAS cost pools were overstated $24,641,537 because the licensee’s costs included costs we questioned as not essential or continuous to station operations: institutional support $5,721,210 and PPS $18,920,327 ($11,507,033 for utilities as the station was directly charged for its utilities and $7,413,294 for the Research Foundation’s property management expenses not benefiting the station).

The licensee’s institutional support cost pool included $5,059,419 for student tech services (SDSU), $311,302 in bad debts, other non-benefiting costs (Research Foundation), and $350,489 in alumni and institutional wide development (California State University) expenses totaling $5,721,210. In addition, KPBS did not identify station benefiting cost pool categories on the AFR Schedule B worksheet per CPB instructions.

KPBS received $922,536 in direct transfers from SDSU for utilities that were included in the station’s net direct expenses and also in SDSU’s PPS cost pool in its plant utility account, which totaled $11,507,033. This cost pool account was included in the licensee’s PPS cost pool to calculate KPBS’s IAS. Therefore, KPBS reported utilities both as a direct and indirect costs.7

KPBS also included $7,413,294 of the Research Foundation’s property management expenses in the licensee PPS cost pool, but KPBS did not receive a benefit from these costs. The station did not check off the benefiting PPS categories on the AFR Schedule B worksheet.

**Licensee Net Assignable Square Footage**

The licensee’s square footage used in calculating KPBS’s PPS IAS included the Research Foundation, which did not provide indirect PPS services to the station.

KPBS included 671,030 net assignable square footage in the licensee total square footage amount reported for Research Foundation property. KPBS’s building is not included in nor does KPBS receive benefit from operations of the Research Foundation’s square footage. SDSU provided this PPS benefit to KPBS. The square footage affects the physical plant support rate applied to the benefiting cost pool. We used the revised rate to calculate the physical plant support as shown on Exhibit D.

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7 KPBS reported the $922,536 direct transfer as an NFFS contribution on AFR Schedule A, Line 5.1.C – Appropriations from State College Licensee. Therefore, without eliminating the entire cost pool from the IAS calculation or subtracting it as fee paid to licensee for overhead recovery, KPBS overstated its NFFS contributions.
Fees Paid to Licensee for Management and Support

KPBS did not deduct $731,209 in management fees it paid to the Research Foundation from the total IAS NFFS reported and claimed on its AFRs Schedule B Total section line 3-deductions for fees paid to licensee for overhead recovery. As stated above, KPBS pays the Research Foundation for some of its institutional support directly. Therefore, per CPB’s AFR Schedule B worksheet instructions, KPBS should have deducted this amount from the total IAS NFFS it calculated.

Contributing Factors to Reporting Indirect Administrative Support

There were three contributing factors to the overstated IAS claimed as NFFS on KPBS’s TV and Radio AFRs Schedule B. First, the station’s IAS CPB Basic Method calculation procedures, including determining which licensee institutional and physical plant cost pools benefit the station, had not been updated or annually reviewed prior to our audit to determine if the calculations and cost pools currently meet CPB’s requirements. Second, KPBS’s station net direct expenses were not reconciled (or cross-walked) to its licensee’s net direct activities per audited financial statements. Finally, CPB’s guidance for using the Basic Method does not clearly define some reportable terms for each line item or required deductions on the Basic Method worksheets.

KPBS did not update or review its AFR Schedule B procedures

KPBS, as a department of SDSU and a cost center for discretely presented Research Foundation expenses, is consolidated in California State University’s audited financial statements. KPBS’s calculations for indirect support included institutional support and PPS costs from SDSU, the Research Foundation and the Chancellor’s Office of California State University. KPBS obtained the licensee’s financial information for direct and institutional support expenses used in its AFR Schedule B IAS calculations from each of the three entities.

KPBS’s audited financials are a combination of financial information processed through the Research Foundation and SDSU direct transfers. KPBS’s audited financial statement functional statement categories are based on CPB reporting requirements not KPBS’s licensee’s functional categories. Therefore, reconciling the station’s expenses to the licensee’s functional statement requires a crosswalk, which KPBS did not have.

KPBS’s financial management stated that it had been using its current procedures for at least 15 years. The station assumed that the procedures it followed were calculating the proper IAS as the amounts reported were audited as part of its annual financial statement audit. KPBS did formalize and document its procedures during our audit fieldwork and is currently reassessing its procedures based on our audit findings. KPBS’s current management said it had not questioned the institutional support and PPS benefit cost pool detail that the licensee provided because these cost pools appeared consistent from year to year.

KPBS did not crosswalk its expenses to that of its licensee

Because KPBS’s expenses flow through both SDSU’s and the Research Foundation’s financial
statements, several crosswalks were required to determine if the station’s net direct expenses were also in the licensee’s net direct expenses. KPBS provided crosswalks during the audit, which identified the following:

- station net direct expenses included $922,536 in utility costs that were also in the licensee’s physical plant cost support pools;
- the $731,209 in management fees KPBS paid to the Research Foundation were in the station’s net direct expenses but were not in the licensee net direct expenses used for the institutional support rate percentage calculation (i.e., the station’s net direct expenses should be part of the total licensee net direct expenses that are included in the licensee’s audited financial statements to calculate an accurate percentage of the station to licensee cost institutional support rate to be applied to IAS cost pools); and
- licensee net direct expenses included non-mission support activity costs but excluded some mission functions.

KPBS had been applying the same procedures for calculating its IAS for NFFS reporting consistent with prior years and did not have any background information on how it applied CPB’s guidance to its procedures or how it evaluated its licensee’s indirect cost pools to determine if they were an essential and continuous service to station operations. The station reported its station direct expenses based on its audited financial statement expenses and its licensee direct expenses based on what the licensee provided to KPBS as the licensee’s financial statement net direct expenses. Without preparing a crosswalk between the two, the station could not verify that its net direct costs were in the licensee’s net direct activities total.

As a result of our audit findings KPBS is updating its AFR Schedule B IAS calculation procedures, including preparing crosswalks to reconcile station expenses to its licensee’s expenses and re-evaluating institutional cost pool benefits to the station.

*CPB guidance is not clear enough*

CPB’s Guidelines and Basic Method worksheet instructions do not provide complete or sufficient definitions of what the station’s net direct expenses or licensee’s net direct activities are in relation to each other. In addition, the instructions do not explain that the station’s net direct expenses, theoretically following the federal model, should be included in the licensee’s net direct activities because they are used for the institutional rate allocation percentage to calculate a fair percentage of station to licensee expense ratio. This calculated rate is then applied to the licensee benefiting cost pools to determine the amount of IAS to claim as NFFS. If the station’s costs are not in the licensee’s net direct activities then an adjustment might be necessary to ensure an equitable calculation of IAS.

Further, CPB’s Guidelines worksheet II instructions clearly require that certain deductions be made to the station’s direct expenses to calculate the station’s net direct expense, such as depreciation, amortization, in-kind, the licensee IAS, and any other non-direct expense from its audited financial statement. CPB’s Guidelines, Section 6 instructions state, “under the Basic Method using the station’s net direct expenses (net of noncash support and capital outlays),” but this instruction does not mention deducting indirect (General and
Administrative (G&A) or fundraising) from the station’s expenses.  

Our review also noted that CPB’s AFR Schedule B worksheet II Tab 3 in CPB’s Integrated Station Information System included a line for deducting direct fees paid to licensees for overhead support. CPB’s Guidelines do not reference or explain these deductions.

Based on our review of CPB’s guidance, the information provided would not have readily led KPBS to prepare a crosswalk to ensure station direct expenses were not in a licensee indirect cost pool.

Based on our audit, we questioned $1,233,242 in IAS claimed as NFFS on KPBS’s FY 2016 AFRs Schedule B, TV ($889,617) and Radio ($343,625). These NFFS overclaims resulted in potential CSG overpayments totaling $125,789 (TV $106,343 and Radio $19,446) in FY 2018, as shown in Exhibit D.

**Recommendations**

We recommend CPB management take the following actions:

1. reduce KPBS’s FY 2018 CSG for potential overpayment of $125,789 or recover if paid for overstated AFRs Schedule B;
2. require KPBS to identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines; and
3. review and clarify the AFR Schedule B guidelines for the Basic Method to help institutional stations with varying and unique organizational structures apply guidance consistently in calculating their IAS NFFS to ensure there is an equitable distribution of CPB funds by:
   a) ensuring Guidelines and AFR Schedule B worksheets have complete and consistent instructions (i.e., Guideline instructions should also explain CPB’s required deductions, such as for fees paid to licensee, from AFR Schedule B NFFS Summary);
   b) defining the relationship between station net direct expenses and required deductions and the licensee net direct activities, to include crosswalks to reconcile the station’s direct costs to the licensee’s direct costs in licensee’s accounting

---

8In April 2017, subsequent to our audit FY 2016 scope, CPB issued a compliance alert advising stations that indirect G&A, fundraising, membership development, and grant solicitation expenses should not be included when calculating total net direct station expenses, but the alert did not clarify if the indirect expenses meant non-cash or the station’s functional support expenses. Based on conversations with CPB management, this alert was intended to relate to the station’s functional statement for support costs that were not already deducted, such as depreciation, in-kind, and IAS, but not defined as non-cash or as costs not in the licensee’s net direct activities. CPB management further indicated that it did not consider the alert to be policy guidance.
records including any adjustments; and

c) providing training on these clarifying instructions.

**KPBS’s Response**

KPBS agreed with our findings and recommendations one and two and commented on recommendation three, which was directed to CPB management. KPBS outlined its corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines. The station is updating its procedures/methodology to correct errors found in the audit, preparing detailed reconciliation crosswalks, and developing better cost pool analytics. KPBS said that it has in good faith applied CPB’s guidance to calculate its IAS and agreed that additional CPB guidance clarifications would assist it in reporting the station’s IAS NFFS.

**OIG Review and Comment**

Based on KPBS’s written response to our draft report, we consider recommendations one and two resolved but open pending CPB’s final management determination and acceptance of KPBS’s corrective actions. Recommendation three is unresolved pending CPB’s final management determination as it was directed to CPB.

**Other Matters**

During our audit work on IAS, we found KPBS also overstated its FY 2016 NFFS because it included $16,253 in federal work-study payments as a contributed appropriation from its state licensee on its TV and Radio AFRs Schedule A, line 5.1.C. This amount should have been reported as federal funds, which are ineligible as NFFS.

CPB’s Guidelines clearly identify federal work-study payments received from the station’s licensee as federal funds ineligible as NFFS:

**Federal work study programs**

The Federal Work-Study (FWS) program is considered a campus-based program because it is administered directly by the financial aid office at each participating school (not all schools participate) … Because each institution distributes FWS funds formulaically based on need and application the element of discretion is diminished. As a result, the institution does not have the necessary discretion over the funds to warrant the funds losing their federal identity when they are transferred to the public broadcasting station. Instead, the funds remain federal and should be reported on Schedule A, line 1B or FSR Part 1, line 1, which automatically excludes them from NFFS based on the Federal source.

Guidelines, Section 2.3.3 Federal Funds, Federal Work-Study Programs.

The station identified $16,253 in direct transfers from SDSU as FWS when it prepared its reconciliation of KPBS’s expenses to the licensee’s accounting records for our audit. KPBS claimed all direct transfers from SDSU as appropriations from state licensee on AFRs Schedule
A, line 5.1.C, instead of classifying the FWS as federal funds on line 1. Therefore, KPBS did not deduct the FWS funds as federal funds from the total NFFS it claimed in FY 2016.

Based on this misreporting of federal funds, we found KPBS’s TV and Radio FY 2016 AFRs Schedule A overstated NFFS by $16,253 ($12,190 TV and $4,063 Radio), resulting in potential CSG overpayments in FY 2018 of $1,687 ($1,457 TV and $230 Radio), as shown in Exhibit E.

During our audit fieldwork and in its response to our draft report, KPBS agreed that it had overstated its NFFS for the FWS, and stated that it understands this error could result in a potential overpayment of $1,687 in FY 2018. The station said it has updated its procedures to ensure accurate future AFR reporting. We suggest KPBS work with CPB to address the potential overpayment in FY 2018.
## CPB Grant Payments to KPBS
### July 1, 2015 – June 30, 2016

<table>
<thead>
<tr>
<th>CPB Grants</th>
<th>TV</th>
<th>Radio</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Service Grants</td>
<td>$2,585,725</td>
<td>$542,873</td>
<td>$3,128,598</td>
</tr>
<tr>
<td>Interconnection</td>
<td>$48,180</td>
<td>$0</td>
<td>$48,180</td>
</tr>
<tr>
<td><strong>Total CSG Grant Payments</strong></td>
<td><strong>$2,633,905</strong></td>
<td><strong>$542,873</strong></td>
<td><strong>$3,176,778</strong></td>
</tr>
<tr>
<td>Other CPB Grants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Journalism Center Video</td>
<td>$84,000</td>
<td></td>
<td>$84,000</td>
</tr>
<tr>
<td>Spectrum Auction</td>
<td>$34,230</td>
<td></td>
<td>$34,230</td>
</tr>
<tr>
<td>Veterans Coming Home</td>
<td>$15,000</td>
<td></td>
<td>$15,000</td>
</tr>
<tr>
<td><strong>Total other CPB Grants</strong></td>
<td><strong>$133,230</strong></td>
<td></td>
<td><strong>$133,230</strong></td>
</tr>
<tr>
<td><strong>Total CPB Payments TV and Radio FY 2016</strong></td>
<td><strong>$2,767,135</strong></td>
<td><strong>$542,873</strong></td>
<td><strong>$3,310,008</strong></td>
</tr>
</tbody>
</table>
**KPBS Summary of Non-Federal Financial Support**  
For the period ending June 30, 2016  
Certified by Head of Grantee and Independent Account’s Report

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>TV FY 2016</th>
<th>Radio FY 2016</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Summary of Non-Federal Financial Support:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Direct Revenue (Schedule A)</td>
<td>$13,008,133</td>
<td>$7,924,125</td>
<td>$20,932,258</td>
</tr>
<tr>
<td>3</td>
<td>Indirect Administrative Support (Schedule B)</td>
<td>$4,190,058</td>
<td>$1,633,809</td>
<td>$5,823,867</td>
</tr>
<tr>
<td>4</td>
<td>In-Kind Contributions (Schedule C)</td>
<td>$50,375</td>
<td>$626,932</td>
<td>$677,307</td>
</tr>
<tr>
<td>5</td>
<td><strong>Total Non-Federal Financial Support</strong></td>
<td><strong>$17,248,566</strong></td>
<td><strong>$10,184,866</strong></td>
<td><strong>$27,433,432</strong></td>
</tr>
</tbody>
</table>
## KPBS Annual Financial Report
### Schedule B - Indirect Administrative Support
#### July 1, 2015 – June 30, 2016

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>TV 2016</th>
<th>Radio 2016</th>
<th>Total 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total support activity benefiting station</td>
<td>$4,190,058</td>
<td>$1,633,809</td>
<td>$5,823,867</td>
</tr>
<tr>
<td>2</td>
<td>Occupancy value</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>3</td>
<td>Deductions: Fees paid to the licensee for overhead, recovery, assessment, etc.</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>4</td>
<td>Deductions: Support shown on lines 1 and 2 in excess of revenue reported in financial statements</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>5</td>
<td><strong>Total Indirect Administrative Support</strong></td>
<td><strong>$4,190,058</strong></td>
<td><strong>$1,633,809</strong></td>
<td><strong>$5,823,867</strong></td>
</tr>
<tr>
<td>6</td>
<td>Please enter an institutional type code for your licensee.</td>
<td>SU</td>
<td>SU</td>
<td></td>
</tr>
</tbody>
</table>
### Excerpt for Worksheet Schedule B

#### Overstated Indirect Administrative Support NFFS

<table>
<thead>
<tr>
<th>KPBS -San Diego State University</th>
<th>KPBS Reported AFRs</th>
<th>OIG Audit</th>
<th>Variance KPBS Reported vs OIG Audit</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TV</td>
<td>Radio</td>
<td>Combined Total</td>
<td>TV</td>
</tr>
<tr>
<td>Basic Method AFR Schedule B line</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2a. Net Direct Method</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2a.1 Station Net Direct Expenses</td>
<td>$17,496,287</td>
<td>$7,003,540</td>
<td>$24,499,827</td>
<td>$17,496,287</td>
</tr>
<tr>
<td>2a.2 Licensee net direct expenses</td>
<td>$312,881,949</td>
<td>$312,881,949</td>
<td>$312,881,949</td>
<td>$301,446,102</td>
</tr>
<tr>
<td>2a.3 Percentage of allocation</td>
<td>5.59%</td>
<td>2.24%</td>
<td>7.83%</td>
<td>5.80%</td>
</tr>
<tr>
<td>2c. Institutional support calculation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2c.2 Costs per licensee financial statements</td>
<td>$63,794,929</td>
<td>$63,794,929</td>
<td>$63,794,929</td>
<td>$63,794,929</td>
</tr>
<tr>
<td>2c.3 Less: Cost groups that do not benefit the station</td>
<td>$462,700</td>
<td>$462,700</td>
<td>$6,183,910</td>
<td>$6,183,910</td>
</tr>
<tr>
<td>2c.4 Costs benefiting the station</td>
<td>$63,332,229</td>
<td>$63,332,229</td>
<td>$57,611,019</td>
<td>$57,611,019</td>
</tr>
<tr>
<td>2c.5 Percentage of allocation</td>
<td>5.59%</td>
<td>2.24%</td>
<td>7.83%</td>
<td>5.80%</td>
</tr>
<tr>
<td>2c.6 Total institutional costs benefiting the station</td>
<td>$3,541,524</td>
<td>$1,417,627</td>
<td>$4,959,150</td>
<td>$1,338,485</td>
</tr>
<tr>
<td>3. Physical plant support calculation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3a. Net square footage occupied by station</td>
<td>50,588</td>
<td>16,863</td>
<td>67,451</td>
<td>50,588</td>
</tr>
<tr>
<td>3b. Licensee's net assignable square footage</td>
<td>3,761,656</td>
<td>3,761,656</td>
<td>3,761,656</td>
<td>3,090,626</td>
</tr>
<tr>
<td>3c. Percentage of allocation</td>
<td>1.34%</td>
<td>0.45%</td>
<td>1.79%</td>
<td>1.64%</td>
</tr>
<tr>
<td>3d.2 Costs per licensee financial statements</td>
<td>$48,273,885</td>
<td>$48,273,885</td>
<td>$48,273,885</td>
<td>$48,273,885</td>
</tr>
<tr>
<td>3d.3 Less: Cost groups that do not benefit the station</td>
<td>$49,643</td>
<td>$49,643</td>
<td>$18,969,970</td>
<td>$18,969,970</td>
</tr>
<tr>
<td>3d.4 Costs benefiting the station</td>
<td>$48,224,242</td>
<td>$48,224,242</td>
<td>$29,303,915</td>
<td>$29,303,915</td>
</tr>
<tr>
<td>3d.5 Percentage of allocation</td>
<td>1.34%</td>
<td>0.45%</td>
<td>1.79%</td>
<td>1.64%</td>
</tr>
<tr>
<td>3d.6 Total physical plant support costs</td>
<td>$648,536</td>
<td>$216,183</td>
<td>$864,718</td>
<td>$479,652</td>
</tr>
<tr>
<td>4. Total costs benefiting station</td>
<td>$4,190,059</td>
<td>$1,633,810</td>
<td>$5,823,869</td>
<td>$3,823,464</td>
</tr>
</tbody>
</table>

** See variance footnotes on Exhibit D continued page.
Overstated Indirect Administrative Support NFFS

<table>
<thead>
<tr>
<th>Schedule B Totals</th>
<th>KPBS Reported AFRs</th>
<th>OIG Audit</th>
<th>Variance KPBS Reported vs OIG Audit</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TV</td>
<td>Radio</td>
<td>Total</td>
<td>TV</td>
</tr>
<tr>
<td>KPBS - San Diego State University</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Total support activity benefiting station</td>
<td>$4,190,059</td>
<td>$1,633,810</td>
<td>$5,823,869</td>
<td>$3,823,464</td>
</tr>
<tr>
<td>2. Occupancy Value</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>3. Deductions: Fees paid to licensee for overhead recovery, assessment, etc.</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>($523,022)</td>
</tr>
<tr>
<td>4. Deductions: Support shown on lines 1 and 2 in excess of revenue reported in financial statements</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>5. Total Indirect Administrative Support (Forwards to Line 2 of the Summary of Non-federal Financial Support)</td>
<td>$4,190,059</td>
<td>$1,633,810</td>
<td>$5,823,869</td>
<td>$3,823,464</td>
</tr>
</tbody>
</table>

|                  |       |       |           |       |       |           |       |       |           |          |
| Total Overstated NFFS |       |       |           |       |       |           |       |       |           |          |
| 2017 IRR* |       |       |           |       |       |           |       |       |           |          |
| 2017 IRR* | 11.95376348% |       |           |       |       |           |       |       |           |          |

*Potential CSG overpayments 2018

$106,343 $19,446 $125,789

*We applied CPB’s FY 2017 IRR as FY 2018 IRR calculations had not yet been established.

**Variance Notes:

- OIG Audit Adjustments
  2) Licensee Institutional Support Adjustments – deduct ($5,059,419) SDSU, ($311,302) Research Foundation and ($350,489) from the Chancellor’s Office California State University for total deduction of ($5,721,210).
  3) Licensee Net Assignable Square Footage Adjustments – deduct (671,030) Research Foundation.
  4) Licensee Physical Plant Operations Adjustments – non-benefit or directly charged – deduct ($11,507,033) SDSU and ($7,413,294) Research Foundation for total deduction of ($18,920,327).
  5) Adjustment to total NFFS - deduct ($731,209) KPBS IAS NFFS on AFR Schedule B Total for management fees paid to licensee for overhead.
## Other Matters: Overstated NFFS – Licensee Appropriation

<table>
<thead>
<tr>
<th>Schedule A - KPBS -San Diego State University</th>
<th>KPBS Reported AFRs</th>
<th>OIG Audit</th>
<th>Overstated NFFS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TV</td>
<td>Radio</td>
<td>Total</td>
</tr>
<tr>
<td>AFR Schedule A line 5 - State Colleges and Universities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Line 5.1.C - NFFS Eligible - Appropriations from Licensee (1)</td>
<td>$1,568,062</td>
<td>$642,892</td>
<td>$2,210,954</td>
</tr>
<tr>
<td>Total Overstated NFFS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017 IRR*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potential CSG Overpayment</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Federal Work-Study included in licensee’s appropriation is ineligible for NFFS.

*We applied CPB’s FY 2017 IRR as FY 2018 IRR calculations had not yet been established.
Scope and Methodology

We performed a limited scope audit to determine KPBS’s compliance with CPB Guidelines. The scope of the audit included reviews and tests of the information reported on its AFRs Schedule B and AFRs Schedule E for the period ending June 30, 2016 and certifications on its financial reports submitted to CPB.

We tested the allowability of NFFS claimed on KPBS’s AFRs by performing financial reconciliations and comparisons to underlying accounting records (general ledger) and the audited financial statements for the station and the licensee amounts reported on AFRs Schedule B to calculate the IAS. In addition, we judgmentally selected indirect cost pools included in KPBS’s IAS calculations and tested for allowability based on CPB’s Guidelines requirement that the station received an essential and continuous benefit from the cost pool.

Our procedures included interviewing station and licensee officials. We gained an understanding of internal controls over the preparation of AFRs Schedules B and E. We used this information to assess risks and plan the nature and extent of our testing to conclude on our objectives.

We conducted fieldwork from April 24, 2017 through July 24, 2017. We performed our audit in accordance with the Government Auditing Standards for performance audits.
September 15, 2017

Mr. William J. Richardson III
Deputy Inspector General
Corporation for Public Broadcasting
401 Ninth Street, NW
Washington, DC 20004-2129

RE: Limited Scope Audit of Indirect Financial Support reported as Non-Federal Financial Support ("NFSS") at KPBS TV/Radio, San Diego State University for the period July 1, 2015 through June 30, 2016 Report No. ACJ1706-XXXX

Dear Mr. Richardson,

Thank you for this opportunity to respond to the Office of Inspector General Draft Audit Report for the period indicated above. We worked closely with the Inspector General’s Office staff and appreciate the thoroughness and professionalism of the audit, audit team, and accompanying communication.

The determination of Indirect Administrative Support ("IAS") for KPBS-TV and KPBS-FM (the "Stations") is a relatively in-depth process and involves incorporating elements of support from California State University ("CSU"), San Diego State University ("University") and the San Diego State University Research Foundation ("Foundation") into the indirect financial support calculation.

We understand the ultimate financial impact of the audit findings is the potential overpayment to the Stations of $125,789 in Fiscal Year 2018, which when compared to the 2017 aggregate Community Service Grant ("CSG") payments of $3,290,000, represents approximately 3.8% of the grant total. We further understand the potential CSG overpayments discussed in the Draft Report have not yet been paid to the Stations. As such, the recommended deductions discussed in the Draft Report would be used in calculating upcoming CSG payments to the Stations.

Stations management viewed this limited scope audit as an opportunity to work closely with the IG team to conduct a detailed review of our internal process and procedures, which the Stations have consistently followed for many years. Although the findings identify a potential overpayment, we appreciate the acknowledgement that the Stations generally complied with pertinent CPB requirements. Therefore, our response below focuses on the NFSS overstatement resulting from the miscalculation of IAS (before application of the Incentive Rates of Return to determine the CSG payment impact) as provided in the "Overstated IAS NFSS" table on page 4 of the Draft Report.

For your convenience, we have organized our discussion of the Draft Report findings according to the Schedule B reporting categories included in the Stations' Annual Financial Reports ("AFRs") and summarized in the Table of Overstated IAS NFSS on page 4 of the Draft Report and the finding referred to in the Draft Report as “Other Matters”.

Tom Karlo
General Manager

KPBS
Station Management Response to Specific Draft Report Findings

(1) Total institutional costs benefiting station $276,854
This adjustment resulted primarily from the inclusion of a University cost pool that, upon detailed analysis, was determined to not provide benefit to the Stations. Therefore, Station management agrees with this finding and has updated its procedures and financial models accordingly.

(2) Total physical plant support costs benefiting station $225,179
This adjustment resulted mainly from the inclusion of the University utilities cost pool in the support calculation. The University utilities cost pool should not have been in the calculation as the applicable costs were a direct cost funded by the University. Also, the elimination of Foundation property management expenses and square footage was essentially NFFS neutral to the Stations. Station management agrees with the findings and has updated its procedures, calculation details, and financial models accordingly.

(3) Fees paid to Foundation for overhead recovery $731,209
The Stations are licensed to the CSU Board of Trustees for the University and organized as a department of the University. The Foundation is a separately incorporated not-for-profit California auxiliary organization of the CSU, which under a service agreement between the University, the Foundation and the Stations, provides financial accounting and administrative support to the Stations.

This adjustment, representing 59% of the IAS questioned in the audit, is the largest single component of the audit findings. The adjustment resulted from inclusion of certain Foundation costs in the NFFS calculation while also including the 2016 direct payment made to the Foundation under the service agreement. Station management agrees, under the approach utilized, the service agreement fee directly paid to the Foundation should be deducted from the total NFFS reported and claimed on the AFR Schedule B Total section line 3. The Stations have updated procedures, general ledger coding and financial models accordingly.

(4) Other Matters - Federal Work Study payments of $16,253
The Stations agree that federal work-study payments should have been reported as federal funds and excluded from reported NFFS. We understand the potential overpayment to the Stations is $1,687. The Stations have updated their procedures as well as general ledger coding to segregate these amounts to ensure accurate future AFR reporting.

Station Management Response to Specific Draft Report Recommendations

- For the sake of clarity, we will address each of the Draft Report’s recommendations individually.
(1) Reduce the Station’s FY 2018 CSG for potential overpayment of $125,789 or recover if paid for overstated AFRs Schedule B.

As discussed above, Station management agrees with the Draft Report’s findings concerning overstated IAS and therefore also agrees with this recommendation. We further understand the potential grant overpayment has not yet been provided to the station, and as recommended would be included in the determination of a future CSG payment.

(2) Require the Stations to identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines.

The Stations agree with this recommendation and have already started implementing further controls to ensure accurate NFFS reporting. As a result of the audit findings, Station management has completed/or is in the process of:

1. Updating Station IAS procedures/methodology to correct the errors found as a result of this audit. This update includes modification of written procedures as well as revision of calculation templates, and will be completed and formalized prior to submission of the 2017 AFRs.

2. Preparing detailed reconciliations ("crosswalks") for tracing the Stations’ net direct expenses to the Licensee's net direct activities per audited financial statements (Stations-Foundation-University-CSU). These crosswalks, along with the evaluation of Station benefit from applicable costs, will be incorporated in annual fiscal year end audit preparations beginning with the fiscal year ended June 30, 2017.

3. Documenting cost pools in greater detail and developing better cost pool analytics for year-to-year changes. These procedures will be formalized prior to the submission of the 2017 AFRs.

(3) Review and clarify the AFR Schedule B guidelines for the Basic Method to help institutional stations with varying and unique organizational structures apply guidance consistently in calculating their IAS NFFS to ensure there is an equitable distribution of CPB funds.

This recommendation is not directed at the Stations. Rather, the Draft Report recommends CPB management clarify its advice to institutional CSG recipients, such as the Stations, regarding the calculation of IAS for reporting on the AFR. Station management agrees CPB’s guidance on the matters discussed in the Draft Report should be strengthened as the current advice contained in CPB’s guidelines does not fully explain how institutional CSG recipients are to calculate IAS. Station management has consistently, and in good faith, attempted to calculate IAS based on CPB’s instructions, but as the Draft Audit’s findings demonstrate, the Stations’ understanding has been hampered by a lack of clear guidance.
The calculation of IAS is complicated and every institution is unique in structure. As the Draft Report points out, we understand and support CPB’s approach of providing latitude to an institutional CSG recipient in determining its IAS NFFS based on the reasonableness of the distribution of licensee’s resources to actual benefit received by a station housed within the institutional licensee. We further confirm as a result of complexities in determining IAS as NFFS, such calculations must be computed by trained accountants. Given the history and evolution of IAS as NFFS, the Stations agree further clarification of AFR Schedule B guidelines are both necessary and would be highly appreciated.

However, because of the current lack of clarity in CPB’s guidance in calculating IAS, the Stations would certainly hope that any changes to requirements for calculating IAS and to Schedule B reporting would be applied prospectively. Given the Draft Report’s findings regarding this issue, a retroactive revision of reporting requirements would unfairly penalize institutional CSG recipient stations for past mistakes caused by the current lack of clarity in CPB’s guidance.

Station management has consistently attempted to accurately report NFFS, as acknowledged by the Draft Report’s finding that the Stations have generally complied with pertinent CSG requirements with the exception of the matters discussed above. While the Stations endeavored to comply with CPB’s IAS calculation requirements, the lack of clarity contributed to the Stations miscalculations. Station management appreciates the Draft Report does not recommend any penalties on the Stations and further hopes CPB agrees with that approach.

Sincerely,

[Signature]

Tom Karlo
General Manager