



Corporation
for Public
Broadcasting

June 6, 2018

VIA ELECTRONIC MAIL AND HARDCOPY TO FOLLOW

Ms. Lisa Trapani Shumate
Associate Vice President & General Manager
Houston Public Media
4343 Elgin Street
Houston, TX 77204-0008

Dear Ms. Shumate,

RE: Limited Scope Audit of Indirect Administrative Support Reported as Non-Federal Financial Support at Houston Public Media, A Division of the University of Houston System, Houston, Texas for the Period September 1, 2015 – August 31, 2016 (Report No. ACJ1802-1801)

The audit found that Houston Public Media “generally complied” with the indirect administrative support calculation according to the Corporation for Public Broadcasting’s (CPB) Office of Inspector General (OIG), except that it overstated non-federal financial support (NFFS). The overstatement resulted in a \$202,404 overpayment of its 2018 television and radio community service grants (CSG) totaling \$2,147,761. The specific audit findings and CPB’s determinations are as follows.

Recommendations 1 & 2: The OIG recommends that CPB recover the CSG overpayment as detailed below and require Houston Public Media to identify the corrective actions it will implement to ensure its future compliance with CPB’s Financial Reporting Guidelines (Guidelines).

CPB Determination:

1. Direct Costs \$716: We agree with the finding that Houston underreported its licensee’s direct costs and must return the resulting \$716 CSG overpayment to CPB.
2. Cost Pools \$204,160: With the exception of auxiliary services as explained below, we agree with the finding that Houston included the cost pools below to calculate its indirect administrative support which are not allowed by the Guidelines. Therefore, Houston must return the resulting CSG overpayment of \$199,896 to CPB.
 - Non-mission Functions: The non-mission costs included in 12 cost categories were not allowed pursuant to the Guidelines.

- **Costs Without Essential Benefit:** Services that did not meet the essential or continuous benefit test were disallowed. However, the OIG recognized a portion of the costs that Houston reported for the university's research departments, including grants and contracts that are associated with managing its CSGs, because those costs met the required benefit test. After the audit was completed Houston provided us with additional documentation, arguing that more costs should be recognized. We have reviewed the same and found the test was not met.
 - **Alumni Relations:** The OIG disallowed the alumni relations department costs because they typically do not meet the required benefit test. After the audit was completed, Houston asked that we reconsider this issue because the alumni department occasionally assisted in recruiting people to serve on Houston's board. This periodic service does not meet the required continuous and essential benefit test set forth in the Guidelines.
 - **Auxiliary Services:** The OIG disallowed the majority of the licensee's auxiliary service costs¹ because most of these services are not indirect services as required by the Guidelines but was willing to recognize between 10 and 19 percent of those costs, if Houston provided appropriate documentation. We have reviewed the documentation provided to us on or about March 30, 2018, and we will recognize 15 percent of the \$6,666,359 of these costs (i.e. a \$4,264 reduction in the CSG overpayment). Going forward, Houston must provide adequate documentation to substantiate those types of costs.
3. **Net Square Footage (\$2,471):** We agree with the finding that Houston's CSG would have been \$2,471 higher, if it had applied an updated gross square footage number and we will credit this amount from the overpayments above.
 4. **Corrective Actions:** The OIG recommends that Houston identify the corrective actions it will implement to ensure similar errors do not occur. While we appreciate that Houston promptly organized a team to review their processes, we require that it provide us with a detailed description of the same.

Action: CPB requires that Houston return \$198,140 (\$128,377 for television and \$69,763 for radio) in CSG overpayments to us by reducing its NFFS on its FY 2017 annual financial reports (AFRs). With this adjustment CPB will recoup the overpayment from Houston's FY 2019 CSGs². Closer to the filing date, we will provide Houston with specific instructions. Please forward the documentation describing the corrective actions undertaken, within 45 days of the date of this letter, to Kate Arno, Director of TV CSG Policy and Review at karno@cpb.org.

CPB adopted the CSG Non-compliance Policy to encourage stations to comply with the applicable provisions governing their CSG and the Communications Act of 1934, 47 U.S.C. §396, et sec. Failure to comply with these requirements which result in an overpayment of the recipient's CSG subjects it to a penalty of ten percent of the amount of the overpayment, in addition to refunding the overpayment. Therefore, we are assessing a penalty of \$19,814 against Houston which it must provide CPB within 45 days of the date of this correspondence. Please make the check payable to CPB and forward it to the attention of Nick Stromann, Vice President, Controller, Corporation for Public Broadcasting, 401 Ninth Street N.W., Washington, D.C. 20004-2129.

¹ Auxiliary services included costs funded by paying customers or covered through an allocation directly to the user, i.e. parking, transportation, printing, postal, property services and other services.

² The incentive rate of return varies each year. Therefore the 2019 calculations may produce a slight overpayment or underpayment. If so, CPB will make an additional grant adjustment to ensure the correct amount is recovered.

That policy also provides that CPB may require a recipient to review its records for the prior two years to ensure that similar errors were not made. Considering the errors were judgmental in nature and made in the course of applying policy as opposed to double counting costs or an issue a station's independent auditor should identify, and the inherent difficulties in securing financial information from a licensee, we will not impose such a review.

Recommendation 3: The OIG recommends that CPB 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 when calculating indirect administrative support to ensure there is an equitable distribution of CPB funds.

CPB Determination: Since this recommendation is directed at CPB, we have responded separately and that response is available on our website.

Action: No action required by Houston.

If you wish CPB to consider additional information relating to this matter, please provide the same in writing within 30 days of the date of this letter. Failing that, CPB will consider these determinations final and Houston will be required to comply with the action set forth above. CPB reserves the right to take any other action CPB deems appropriate until these issues are resolved to CPB's satisfaction.

Kind regards,



Jackie J. Livesay
Assistance General Counsel & Vice President, Compliance

CC: VIA ELECTRONIC MAIL

Jim McShan, Senior Vice Chancellor/Senior Vice President, University of Houston
Michael Levy, Executive Vice President & Chief Operating Officer, CPB
Steven J. Altman, Executive Vice President & Chief Policy & Business Affairs Officer, CPB
J. Westwood Smithers, Jr., Senior Vice President & General Counsel, CPB
William P. Tayman, Jr., Chief Financial Officer & Treasurer, CPB
Ted Krichels, Senior Vice President, System Development and Media Strategy
Kathy Merritt, Senior Vice President, Journalism and Radio
Erika Pulley-Hayes, Vice President, Radio, CPB
Greg Schnirring, Vice President, CSG and Station Initiatives, CPB
Nick Stromann, Vice President, Controller, CPB
Katherine Arno, Director, TV CSG Policy & Review, CPB
Andrew Charnik, Director, Radio CSG Policy & Administration, CPB
Nadine Feaster, Director, Grants Administration, CPB
Mary Mitchelson, Inspector General, CPB
William J. Richardson, Deputy Inspector General, CPB