

**CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF INSPECTOR GENERAL**

**AUDIT OF CPB GRANTS AWARDED TO
WQED MULTIMEDIA
PITTSBURGH, PENNSYLVANIA
FOR THE PERIOD OCTOBER 1, 2007 – SEPTEMBER 30, 2010
AUDIT REPORT NO. ASJ1102-1201**

December 12, 2011


KENNETH A. KONZ



Corporation
for Public
Broadcasting

Office of Inspector General

Date: December 12, 2011

To: Robert Winteringham, Deputy General Counsel

From: *Kenneth A. Konz*
Kenneth A. Konz, Inspector General

Subject: Audit of Grants Awarded to WQED Multimedia, Pittsburgh, Pennsylvania
For the period October 1, 2007 – September 30, 2010
Audit Report No. ASJ1102-1201

We have completed an examination of the Corporation for Public Broadcasting (CPB) Community Service Grants (CSG), as well as Interconnection, Digital Distribution Fund (DDF), and other grants awarded to WQED, for the period October 1, 2007 – September 30, 2010. The objectives of the examination were to determine whether WQED: a) claimed Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFRs) in accordance with CPB Financial Reporting Guidelines (Guidelines); b) complied with the Certification of Eligibility requirements and the statutory provisions of the Communications Act of 1934, as amended (the Act); and c) expended CPB grant funds in accordance with grant agreement requirements.

Overall, we found that WQED did not comply with CPB Guidelines for reporting NFFS on its AFRs, and improperly claimed [REDACTED] of unallowable NFFS as direct revenue contributions.

Unallowable NFFS

FY 08	\$ [REDACTED]
FY 09	[REDACTED]
FY10	[REDACTED]
Total	\$ [REDACTED]

This over-reporting of NFFS resulted in CPB making excess CSG grant payments totaling \$519,596 in FY 2010, and \$154,321 in FY 2011 and will result in excess payments of approximately \$124,264 in FY 2012, for a grand total of \$798,181. We classified these amounts as funds put to better use for reporting purposes.

Our examination of production grant expenditures identified \$7,200 in unsupported costs and \$6,929 for duplicate direct charges included in the indirect costs claimed as overhead expenses. Further, WQED did not maintain discrete accounting of CPB grant funds as required by grant agreement terms, but did comply with the requirements of the Act.

We performed this examination based on the Office of Inspector General's (OIG) annual audit plan objective to perform reviews of a cross-section of stations and organizations comprising the public broadcasting system. We performed our examination in accordance with *Government Auditing Standards* for attestation examinations. Our scope and methodology is discussed in Exhibit O.

In response to the draft report, WQED management did not agree with the majority of our findings concerning the improperly claimed NFFS revenues. However, WQED did agree with our finding on discrete accounting. They indicated the station's accounting system was restructured to discretely track revenue and expenses for each grant to prevent future overcharges to grants. WQED's response did not address our recommendations regarding overcharging CPB grants, unsupported costs, and AFR reporting. WQED's complete response to the draft report is attached in Exhibit P.

This report presents the conclusions of the OIG. The findings and recommendations contained in this report do not necessarily represent CPB management's final position on these matters. Accordingly, this report contains recommendations the OIG believes would be appropriate to resolve these findings.

In accordance with CPB audit resolution procedures, CPB management is responsible for determining the corrective actions to be taken. Based on WQED's response to the draft report, we consider recommendations 1a-d, 2a, 3b, and 4 unresolved. Recommendations 2b and 3a are considered resolved but open pending a management decision from CPB

BACKGROUND

WQED Multimedia is a nonprofit corporation chartered by the Commonwealth of Pennsylvania and licensed by the Federal Communications Commission (FCC) to operate WQED-TV and WQED-FM, public broadcasting stations serving southwestern Pennsylvania, eastern Ohio, northern West Virginia, and western Maryland. WQED Multimedia is the parent company of WQED-TV, WQED: The Neighborhood Channel, WQED: The Create Channel, Classical WQED-FM 89.3/Pittsburgh, WQED-FM 89.7/Johnstown, local and national television and radio productions, WQED Interactive (www.wqed.org), and the WQED Education Department.

WQED was the nation's first community-supported television station and went on the air on April 1, 1954. In 1973, Classical WQED-FM 89.3 was founded as the region's only 24-hour classical radio station. Subsequently, WQED's *Pittsburgh Magazine* evolved

from a program guide called QED Renaissance into a full-fledged city magazine. *Pittsburgh Magazine* was sold in May 2009 so that WQED could concentrate on its core educational mission through television, radio, and the internet.

Over the years, WQED has been honored with 60 Mid-Atlantic Emmy Awards (including 2 for Station Excellence); 61 National Emmy Awards; an Academy Award; 10 Peabody Awards; 5 Dupont/Columbia Batons; 10 Gabriel Awards; 27 CINE Golden Eagle Awards; an Edward R. Murrow Award; 81 Golden Quill Awards; 22 Pennsylvania Association of Broadcasters Awards; and 11 Telly Awards.

CPB awards CSGs to public television and radio stations based on the amount of NFFS claimed by stations on their AFRs. The CSG calculation process starts with the separate amounts appropriated for the television and radio CSG pools adjusted by distance and local service grants and the amount of the base grants. The funds that remain are called the Incentive Grant Pools, one is for television and the other is for radio. The Incentive Rate of Return (IRR) is calculated by dividing the Incentive Grant Pools by the total amount of NFFS claimed by all television/radio stations. The IRR is then multiplied by the station's reported NFFS to calculate the incentive award amount of the station's total CSG. There is a two year lag between the reported NFFS and CPB's calculation of the fiscal year's CSG amount. Thus, CPB used the NFFS claimed by WQED on its FY 2008 AFR to determine the amount of the CSG the station received in FY 2010.

During our audit period CPB paid WQED \$6,757,944, as shown in Exhibit A. WQED's audited financial statements for our three year audit period reported almost \$51 million in revenues. WQED's fiscal year begins October 1 and ends on September 30.

As part of CPB's oversight responsibilities the Office of Grants Administration performs desk reviews of the AFRs submitted by stations to obtain CSG funding. The CPB desk review of WQED's 2008 and 2009 AFRs disclosed that for several years WQED significantly overstated its NFFS by misreporting:

- advertising revenues from WQED's *Pittsburgh Magazine*;
- carriage fees WQED collected for broadcasts on its secondary channel (WQEX); and
- proceeds from the sale of its *Pittsburgh Magazine* in 2009.

The CPB desk review reported that the total overstated NFFS was \$ [REDACTED] for FY 2008 and \$ [REDACTED] for FY 2009. Details follow:

Unallowable NFFS Revenues

Revenue Categories	FY 2008	FY 2009
Magazine Advertising	██████████	██████████
Sale of Magazine		██████████
WQEX Revenue	██████████	██████████
Totals	██████████	██████████

CPB explained that WQED was the original creator and publisher of *Pittsburgh Magazine*. Although the magazine started out as a local program guide, it subsequently changed into a regional magazine with very broad content and scant references to public broadcasting programs. The desk review disclosed the magazine reported on the region's lifestyles, arts, culture, and fashion. In-depth articles also focused on the region's economic development, transportation issues, and health-care breakthroughs developed in Pittsburgh.

CPB concluded that because the magazine was a subsidiary enterprise of WQED, and was not involved in telecommunications activities, none of its revenues were for educational television or radio programming, and therefore were not allowable to be claimed as NFFS. The desk review concluded the unallowable magazine advertising revenues reported were \$██████████ in FY 2008 and \$██████████ in FY 2009.

The CPB review also disclosed that WQED's sale of its magazine was an exchange transaction from a non-qualifying source for a non-qualifying purpose. As result, WQED erroneously claimed the \$██████████ proceeds from the sale as NFFS.

The desk review further concluded that because WQED had leased its secondary channel, WQEX, to for-profit sources, such as Shop NBC, the carriage fees WQED collected from these leases were payments from a non-qualifying source for a non-qualifying purpose and also unallowable as NFFS. The station reported the \$██████████ in carriage fees received in FY 2008 and the \$██████████ received in FY 2009 as NFFS.

RESULTS OF REVIEW

We examined management's assertions of compliance with CPB's CSG and other grant agreement terms, Certification of Eligibility requirements, Communications Act requirements, and NFFS Guidelines for the periods ended September 30, 2008, September 30, 2009, and September 30, 2010. Management is responsible for compliance with those requirements. Our responsibility is to express an opinion on management's assertions about its compliance based on our examination.

WQED's claimed NFFS is included on Exhibit B. Our examination of claimed NFFS in Exhibits B-D disclosed that WQED was materially noncompliant with CPB Guidelines for reporting NFFS on its AFRs for the periods ended September 30, 2008, 2009 and 2010, by improperly claiming \$ [REDACTED] for unrelated business income, grants funded with Federal monies, fund-raising expenses, and contributions received for TV equipment upgrades as direct revenues. The over-reporting of NFFS in FY 2008 through FY 2010 resulted in CPB making excess CSG grant payments totaling \$673,917 to WQED during FY 2010 and 2011, and will result in overpayments of approximately \$124,264 during FY 2012.

Our examination of grant expenditures shown in Exhibits E-K identified \$7,200 in unsupported costs applicable to the Ready To Lead in Literacy grant and overcharges for two CPB production grants totaling \$6,929 for overhead expenses. Further, WQED did not maintain discrete accounting of CPB grant funds as required by grant agreement terms.

In our opinion, because of the effect of the material noncompliance described above, WQED has not complied with CPB Guidelines and grant requirements for the periods ended September 30, 2008, 2009, and 2010.

FINDINGS AND RECOMMENDATIONS

Reporting Non-Federal Financial Support

WQED did not comply with CPB Guidelines for reporting NFFS by improperly claiming \$ [REDACTED] as direct revenues and NFFS on its FYs 2008, 2009, and 2010 Television AFRs. Reporting unallowable NFFS resulted in CPB making \$673,917 of excess CSG grant payments to WQED during FYs 2008 and 2009. CPB will also make an additional CSG overpayment of approximately \$124,264 in FY 2012, unless WQED's FY 2010 AFR is adjusted to eliminate the unallowable NFFS reported that year. We classified these amounts as funds put to better use for reporting purposes because the funds overpaid to WQED could have been distributed to other public broadcasting entities.

Discussion with WQED officials indicated that the improper direct revenues claimed on its 2008 and 2009 AFRs were reported by personnel no longer employed by the station, and they were unaware why these revenues were claimed as NFFS. They also explained that the improper NFFS reported in FY 2010 occurred when its current employees followed the procedures and reporting format used by former employees because the current employees were unaware of the reporting issues affecting the prior fiscal years.

Unallowable Television NFFS and Calculation of Over Paid CSG Funds

NFFS Categories	FY 2008	FY 2009	2010	Total
Total NFFS Claimed	\$14,646,501	\$10,864,273	\$8,916,324	\$34,427,098
Unallowable NFFS Categories				
Unrelated Business Income	\$646,425	\$174,248	\$141,916	\$962,589
Funded with Federal Funds	42,000	0	276,500	318,500
TV Equipment Upgrades	1,854,000	686,159	25,000	2,565,159
Magazine & WQEX	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Special Fund-raising Expenses	<u>406,064</u>	<u>505,556</u>	<u>592,394</u>	<u>1,504,014</u>
Total Unallowable Revenue	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
CPB's TV Internal Rate of Return	[REDACTED]	[REDACTED]	[REDACTED]	
Total Over Paid CSG	<u>\$519,596</u>	<u>\$154,321</u>	<u>\$124,264</u>	<u>\$798,181</u>

Details concerning the various types of unallowable NFFS revenues reported by WQED are discussed below and itemized in Exhibits L, M, and N by fiscal year.

Unrelated Business Income

For the three years reviewed, we determined that \$962,589 of the unallowable NFFS was for unrelated business income. CPB Guidelines Section 2.3 defines the term "non-Federal financial support" (NFFS) as the total value of cash and the fair market value of property and services ... received –

- (A) as gifts, grants, bequests, donations or other contributions for the construction or operation of noncommercial educational broadcast stations, or for the production, acquisition, distribution, or dissemination of educational television or radio programs, and related activities, from any source other than (i) the United States or any agency or instrumentality of the United States; or (ii) any public broadcasting entity; or
- (B) as gifts, grants, donations, contributions, or payments from any State, or any educational institution, for the construction or operation of noncommercial educational broadcast stations or for the production, acquisition, distribution, or dissemination of educational television or radio programs, or payments in exchange for services or materials with respect to the provision of educational or instructional television or radio programs.

In simpler terms, an allowable NFFS transaction can be either a contribution or a payment provided for qualifying activities from an eligible source. CPB Guidelines also provide for allowable NFFS exchange transactions. These are defined as payments received from educational institutions, or state and local government agencies in exchange for producing, developing, or delivering educational or instructional programming, but excludes exchange transactions from for profit entities.

The Act prohibits including payments for advertising as NFFS. Beginning in FY 2001, CPB implemented a policy to exclude all contributions for acquiring new television broadcast and operational equipment, as well as new facilities, new construction, and facility upgrades and improvements.

The transactions we categorized as unrelated business income were payments received as exchange transactions either from ineligible sources or for ineligible activities. As a result, these transactions were unallowable as NFFS. To illustrate, a corporation paid to rent space within WQED's studio. A utility provider paid WQED to produce videos for use in the corporation's headquarters facility. The letter of understanding between WQED and the corporation explained that the videos belonged exclusively to the corporation. Additionally, a museum paid WQED to produce three six-minute videos that also belonged exclusively to the museum. The payments WQED received from these three entities were considered ineligible because the services WQED provided were not for the production of educational programming.

The NFFS amounts identified as unrelated business income also included payments received from another public television station in exchange for training WQED provided to the TV station's personnel. CPB Guidelines Section 2.3 provides that public broadcasting entities are ineligible sources for NFFS payments, and the services provided by WQED were not for production of a program. As a result, these payments were also considered unallowable NFFS. We also determined that an insurance reimbursement of more than \$92,000 for damage to WQED's antenna was unallowable in accordance with CPB Guidelines Section 2.3.1.

Exhibits L, M, and N provide more details concerning these transactions, as well as the remaining unrelated business transactions that comprise the \$962,589 considered unallowable in this category.

Exchange Transactions Funded with Federal Dollars

Two transactions totaling \$392,000 claimed as NFFS were funded with Federal dollars. Section 2.3.2 of CPB Guidelines states that, “. . . the act excludes all Federal funds from being included as non-Federal financial support or ‘NFFS.’” One of these was an exchange transaction from a corporation which paid WQED \$350,000 to produce training videos for the exclusive use of the corporation. Of this amount, 79 percent or \$276,500 was Federal funds. While the remaining \$73,500 were not Federal funds, we also considered this amount ineligible because the transaction was unrelated business income

The second was for a professional services contract that required WQED to provide guidance for the preparation of a one-hour documentary on the history of oil. The National Park Service funded \$42,000 of this project, which totaled \$139,795. Exhibits L, M, and N provide more details concerning these two transactions.

Television Equipment Upgrades

CPB Guidelines Section 2.8.2 stipulates that all contributions of, or for the purpose of acquiring new broadcast and operational equipment, as well as new facilities, new construction, and facility upgrades and improvements must be excluded from NFFS. This exclusion applies to gifts, grants, bequests, or any contribution restricted by the donor for capital purposes. The AFRs WQED submitted for FYs 2008 – 2010 reported grants and contributions totaling \$2,565,159 as NFFS that WQED received for TV equipment upgrades from various foundations and state agencies. These unallowable grants and contributions ranged from \$25,000 to more than \$1 million. Exhibits L, M, and N provide a complete list of these contributions and grants.

Pittsburgh Magazine and WQEX the Shopping Channel

Our follow-up on CPB’s desk review of WQED’s 2008 and 2009 AFRs disclosed that \$ [REDACTED] of over-reported NFFS still needed to be addressed by CPB. This included the \$ [REDACTED] identified for FY 2008 in the desk review, as well as, an additional \$ [REDACTED] identified in our audit testing.

Because our on-site audit work included reviews of more detailed information than what was available for the CPB desk review, we identified an additional \$ [REDACTED] of unallowable magazine sale proceeds and advertising revenues reported on WQED’s FY 2008 and 2009 AFRs. Further, we identified \$ [REDACTED] of unallowable NFFS for FY 2010, comprised of \$ [REDACTED] in additional magazine sale revenues recorded after CPB had completed its desk review, and \$ [REDACTED] in magazine bad debts recovered in FY 2010. In

total, we identified \$ [REDACTED] of additional unallowable NFFS claimed by WQED, as follows:

Unallowable Magazine and WQEX NFFS

Unallowable NFFS	FY 2008	FY 2009	FY 2010	Totals
Per Desk Review	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Per Audit	[REDACTED]	[REDACTED]	[REDACTED]	\$ [REDACTED]
Total Unallowable	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

Discussions with CPB personnel disclosed they initiated action to recover the CSG overpayments attributable to the \$ [REDACTED] of unallowable NFFS reported by WQED on its FY2009 AFR. However, CPB has not taken action to recover the CSG overpayments for FY 2008. As a result, CPB also needs to recover the CSG payments attributable to the \$ [REDACTED] of unallowable NFFS claimed in FY2008 and the additional \$ [REDACTED] of unallowable NFFS identified by this audit.

Exhibits L, M, and N provide more details concerning the magazine sale, advertising, and bad debts revenues discussed above.

Special Fund-raising Revenues

Our review of special fund-raising revenues identified a total of \$1,504,014 that was erroneously claimed as NFFS on the AFRs. As background, there are three types of unallowable special fund-raising revenues discussed in Exhibits L, M, and N. In the first type, WQED claimed revenues for *Memberships* that it reported on line 10 of the AFR. The second type is for pledges that were not off-set by the cost of the pledge premiums incurred for tickets provided to donors. The third was special fund-raising transactions that WQED misclassified as *Foundation and Business Underwriting*.

CPB Guidelines Part III, AFR instructions for line 10 state in part that, Grantees are required to deduct from NFFS the fair market value of high-end premiums (i.e. thank you gifts) that are exchanged with donors for contributions. Thank you gifts may be anything of value from low-end premiums (e.g. coffee mugs and tee shirts) to high-end premiums (e.g. boxed set CDs or DVDs, coffee-table books, travel & lodging, gourmet foods & wines, tickets to performances, dinners or other events).

The unallowable *Memberships* transactions we identified were for three *Doo Wop Concerts* that WQED conducted during FYs 2008-2010 as pledge specials. As a pledge inducement WQED provided donors tickets to its annual *Doo Wop Concerts* the station produced and held in a Pittsburgh arena. However, each year WQED claimed the gross value of the pledges without deducting the fair market value of the tickets provided to donors as required by CPB Guidelines. We determined that the fair market value of the tickets was WQED's cost to provide the concert that included items such as

facility and equipment rental, as well as production costs. These costs, totaling \$643,460, should have been deducted from the amount claimed as NFFS, as follows:

Doo Wop Concert Revenues

Fiscal Year	Total Revenues	Production Expenses	Net Allowable Revenue
2008	\$192,776	\$96,156	\$96,620
2009	352,705	208,701	144,004
2010	<u>521,763</u>	<u>338,603</u>	<u>183,160</u>
Total	<u>\$1,067,244</u>	<u>\$643,460</u>	<u>\$423,784</u>

During each fiscal year we reviewed, WQED established separate control accounts to record and segregate revenues and expenses for a number of pledge events such as the *Doo Wop Concert*, the *Elsie Awards*, and its *Best Restaurants Party*. For the *Elsie Awards* and the *Best Restaurants Party*, WQED claimed net revenues after deducting expenses as required by CPB Guidelines. As a result, based on CPB's Guidelines, we considered \$643,460 in revenues claimed for *Doo Wop Concerts* as unallowable NFFS.

Each fiscal year, WQED also provided donors various types of *Pledge Premiums – Tickets* as inducements to provide pledges during its various membership drives. While WQED claimed the revenues from these pledge drives, it did not deduct the costs of the tickets provided to donors from NFFS. WQED used a single expense account (*Pledge Premiums – Tickets*) each year to accumulate the cost of these tickets, as follows:

Ticket Costs

Fiscal Year	<i>Pledge Premiums – Tickets</i> Account # 07-3013-88101
2008	\$227,615
2009	199,685
2010	<u>171,939</u>
Total	<u>\$599,239</u>

Based on CPB's Guidelines, we determined that these pledge premiums should have been deducted from the NFFS WQED reported during our audit period. As a result, the \$559,239 reported as NFFS is considered unallowable NFFS.

Each year, WQED also conducted a number of events and contests for which it reported the gross revenues received from business or foundations as underwriting. None of these events that included: concerts, an open house, scholarship award events, outreach to local schools, a young writer's contest, and a *Battle of the Bands* contest were broadcast on public television or radio. While the station incurred substantial amounts of expenses to conduct these events, WQED reported the funds provided by *Business and Industry* on line 9 of the AFR and funds provided by

Foundations and Nonprofit Associations on line 8. However, WQED should have considered these events as special fund-raising and claimed them on line 14 of the AFR – *Special Fund-raising and* deducted the \$261,315 in expenses incurred to host the special events from total revenues.

Further details concerning the special fund-raising events are in Exhibits L, M, and N.

Recommendations

- 1) We recommend that CPB management take the following actions to:
 - a) require WQED to submit revised Television AFRs, Schedules A , eliminating unallowable direct revenues for Fiscal Years 2008, 2009 and 2010;
 - b) recover \$673,917 in excess CGS payments made to WQED that we classified as funds put to better use based on the FYs 2008 and 2009 reported NFFS;
 - c) use the revised 2010 AFR submitted by WQED to recalculate the station's 2012 CSG to eliminate the overpayment of approximately \$124,264 in future CSG payments to WQED; and,
 - d) require WQED to identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines.

WQED Response

WQED generally disagreed with our findings and presented their understanding of the CPB Financial Reporting Guidelines. WQED also explained that its auditors made the same interpretations of the guidelines and certified the amounts WQED reported as NFFS. The following are a summary of WQED's responses to specific items identified as ineligible to be claimed as NFFS.

TV Equipment Upgrades

WQED's response stated that, "The guidelines on this matter tend to be very confusing and contradictory. 'The Public Broadcasting Act defines NFFS as the total value of cash and the fair market value of property and services received as gifts, grants, bequests, donations or other contribution for the **construction** or operation of noncommercial educational broadcast stations....'" In addition, the 2008 and 2009 CPB guidelines state that, "... the line item reporting requirements for lines 7 & 8 in-kind contributions are ineligible as NFFS. Specifically it states in item D that for TV only-property and equipment that includes new facilities (land and structures), expansion of existing facilities and acquisition of new equipment, in-kind contributions are ineligible. WQED did not receive any in-kind capital donations and thus included the grant funds received."

Magazine Revenue

WQED's response stated that, although this issue was previously addressed with CPB, WQED's reiterated its reasoning and again requested this revenue be considered for inclusion as NFFS. WQED stated "The *Pittsburgh Magazine* started as a published program guide and evolved over time into a community magazine. When it became more than a basic program guide WQED never included the full revenue from the subscription or advertising in the magazine as NFFS. Instead, based on the 2008 and 2009 CPB guidelines, pages 15 and 16 included under the caption '**Specific exclusions from NFFS**' it states 'Exclude all revenue (regardless of source) from...program guide advertising attributable to the **percentage** of total copies distributed that have been sold through normal retail outlets and/or by magazine subscription,' WQED did a prorata calculation and **excluded** revenue from NFFS based on this calculation."

Funded with Federal Funds

WQED concurs that the \$42,000 in Federal funds was included as NFFS in error. The \$350,000 excluded by the OIG had a portion that was funded with federal money which according to the grant agreement was 79%. Therefore approximately \$276,500 should in fact have been excluded rather than excluding the full amount. The remaining \$73,500 (21%) should be includable as NFFS because this grant clearly meets the criteria of educational television and is an activity related to what WQED does. WQED said its auditors concurred with their classification of this grant because the amount was received from a nonprofit educational institution and WQED provided education programs.

Unrelated Business Income

WQED contends that it properly included the disallowed unrelated business income because the payments were received from a public broadcasting station, a university, ██████████, a corporation, as well as an incorporated museum, a grant consortium and non-profit organizations to produce educational television programs, or educational videos to be used by these entities. WQED explained that all of these activities relate to its mission to produce educational programs. As a result, WQED asserts these activities and associated payments were for programming or related activities that met the source, form, purpose, and recipient criteria as outlined in the guidelines to be allowable NFFS, and WQED's auditors concurred with this classification.

Special Fundraising Expenses

WQED's response said that the special fundraising events all depict community outreach and provide a local connection with WQED which is pertinent to the continued success and stability of the organization. Further, they stated that, "This outreach provides continued name recognition and goodwill which creates a loyal membership.

The funds received were for underwriting recognition and all activities had spots air on WQED in which the sponsor/underwriter was named. No one who attended the event was charged and only a single organization provided the underwriting so these were not fundraising events.”

Ticket Premiums (2008, 2009, 2010)

WQED’s response stated that “WQED and its auditors concurred that these amounts should be included as NFFS since the premiums were individually of insubstantial value. From CPB Financial Reporting Guidelines, ‘All grantees must deduct from NFFS the fair market value of premiums (i.e. thank you gifts) that are exchanged with donors in quid pro quo transaction (except those that have insubstantial value).’”

Doo Wop Concert (2008, 2009, 2010)

WQED’s response stated that “The *Doo Wop Concerts* were not considered a fundraising activity and as a result were included as NFFS. The tickets were given as pledge premiums and the shows were produced as pledge shows rather than as a fundraising event. In the absence of a definition for a fundraising event in the CPB guidelines, the AICPA Not-for-Profit Audit Guide was used and defined a fundraising event as ‘activities undertaken to induce potential donors to contribute money, securities, services, materials, facilities, other assets or time.’ The *Doo Wop Concerts* do not appear to fall into this definition; rather they appear to be mission related activities.”

LN Concert (2010)

WQED’s response stated that “A concert promoter donated \$1 a ticket for a previously scheduled designated concert it held. The money received while based on the sale of tickets was not a fundraiser paid for by WQED. It was a donation only from the organization and the amount was based on the sale of tickets. As such it was considered a donation to carry on the mission of the organization and was included as NFFS.”

OIG Review and Comment

Based on WQED’s response we consider recommendations 1a-d unresolved pending CPB’s management decision. Section 2.8.2 of CPB’s Guidelines cited in the audit report explains that *all direct and in-kind* contributions for new equipment are ineligible. When referring to lines 7 and 8, WQED is citing the instructions for completing a schedule applicable only to in-kind contributions. As a result, the references for lines 7 and 8 do not discuss direct contributions. We disagree that a prorate portion of magazine advertising is eligible NFFS. As WQED’s response explained, “The *Pittsburgh Magazine* started as a published program guide and evolved over time into a community magazine.” As a community magazine, its advertising revenues no longer satisfy the NFFS purpose criterion.

While WQED agreed that transactions funded with Federal funds dollars are ineligible, we still disagree that the \$73,500, of the \$350,000 payment, not funded with Federal dollars is NFFS eligible. The contract between WQED and the payee provided that the training videos belonged exclusively and entirely to the corporation as a commissioned work made for hire. After removing the Federal funds obstacle, these videos were not for public broadcasting and also considered unrelated business income. Similarly, our position remains unchanged regarding the other amounts categorized as unrelated business income because, except for the [REDACTED] payment, they were not related to public broadcasting. Additionally, the payments from [REDACTED] and the public broadcasting station are ineligible sources according to CPB Guidelines Section 2.3.1. Based on WQED's response we accepted the [REDACTED] payment and adjusted our report accordingly because the show aired on public television.

We also do not agree that special fund raising expenses for volunteer awards, leadership/scholarship awards, band contests, writers/illustrators awards, open house events, and design contests are NFFS eligible. The expenses we disallowed included scholarships, grants, and awards provided to event participants, and amounts WQED expended to host the events, not the funds received for underwriting. Additionally, none of the events were broadcast on public television, and the spots WQED provided were only to announce the events.

Regarding ticket premiums, instructions in CPB Guidelines for line 10 explicitly provide that grantees are required to deduct from NFFS the fair market value of high-end premiums such as tickets to performances. Also, we did not consider the tickets to be of insubstantial value because the station maintains a second account in its accounting system for low-end gifts. WQED also paid the promoter of the LN Concert \$12,500 so that WQED could be an event sponsor which we deducted as an expense. We allowed the \$1 a ticket the promoter paid to WQED.

Compliance With Grant Requirements

Our review of the grant funds claimed by WQED for the *Breakfast Anytime* and *A Ride Along The Lincoln Highway* production grants identified \$6,929 in questionable costs. The grant agreements for the *Breakfast Anytime* and *A Ride Along The Lincoln Highway* productions allowed WQED to claim both direct and indirect expenses. The amounts WQED claimed as direct expenses included the cost of insurance, payroll taxes, and telephone/fax. We also found that these expenses were included in WQED's indirect rate calculation. As a result, WQED claimed taxes, insurance and telephone expenses as both direct and indirect expenses, overcharging CPB \$6,929 (\$3,314 + \$3,615) as follows:

Amounts Claimed as Direct and Indirect Expenses

Expense Category	Productions	
	Breakfast Anytime	Lincoln Highway
Payroll Taxes	\$6,398	\$5,428
Insurance	1,500	2,000
Telephone & Fax	<u>1,000</u>	<u>400</u>
Totals	<u>\$8,898</u>	<u>\$7,828</u>
Charged to CPB Grants¹	<u>\$3,314</u>	<u>\$3,615</u>

Section 4G of CPB’s Terms and Conditions governing its grants require that grantees must keep books, records, and accounts sufficient to enable CPB to verify all direct costs, overhead, and administrative allocations associated with the grant project. Section 4K of this same reference requires WQED to certify that its financial reports submitted to CPB must be reconcilable to the station’s general ledger. The taxes, insurance and telephone amounts claimed as both direct and indirect expenses were not reconcilable to WQED’s general ledger. As a result, we questioned the direct expenses claimed for taxes, insurance and telephone, and accepted the amounts claimed as indirect expenses.

Recommendations

- 2) We recommend that CPB management:
- a) initiate action to recover questioned costs of \$6,929 that resulted when WQED claimed taxes, insurance and telephone expenses as both direct and indirect costs; and
 - b) require WQED to implement corrective actions to prevent future overcharges.

WQED Response

WQED did not respond directly to this recommendation, but its response to our finding regarding discrete accounting indicated it has implemented corrective action to prevent future overcharges to CPB grants.

¹ Calculated by applying the G&A rate and the CPB share of total project costs specified in the grant agreements.

OIG Review and Comment

Based on WQED's response we considered Recommendation 2a unresolved. Recommendation 2b is considered resolved but open pending CPB's management decision accepting WQED's corrective action to implement discrete accounting.

Lack of Discrete Accounting for CPB Grant Funds

During our audit period, WQED's accounting system did not separately identify the receipt and use of grant funds as required by CPB grant terms. Only revenues and expenditures for the *Breakfast Anytime* and *A Ride Along The Lincoln Highway* production grants were separately accounted for on a project basis. The lack of discrete accounting for the Ready To Lead in Literacy (RTLL) grant resulted in questioned costs of \$7,200 for lack of documentation of expenses incurred against this grant.

CPB's General Provisions and Eligibility Criteria for Television CSGs, Section 9.B, and Radio CSGs, Section 10.B. Record Keeping and Audit Requirements require stations to provide discrete accounting and proper documentation to support all CSG expenditures. It further establishes that:

- CSG funds which cannot be accounted for because of the recipient's failure to comply with this requirement may be subject to repayment;
- grant recipients must maintain financial records that facilitate an effective audit; and,
- records must be retained for no less than three years after the end of the expenditure period.

Additionally, CPB's website further explains that, "discrete accounting requires a unique code that identifies CSG revenues and expenses, restricted and unrestricted, so that both the grantor and the auditor can discretely track those funds within the accounting system. There is no requirement to segregate CSG funds in separate bank accounts. Co-mingling funds is allowable as long as the accounting system can easily identify transactions associated with a major activity (i.e., department, grant, contract or other project)."

Similarly, CPB's Terms and Conditions for Television, Radio and Other Media Production Grants that are applicable to all CPB grants including DDF, the Digital Conversion, Digital Television Transition, and Ready To Lead in Literacy grants also requires accounting for these grants on a project basis. Section 4.G of these Terms and Conditions specifies that, a Grantee must keep books, records, and accounts relating to the Grant and the Grant Project sufficient to:

- i) enable CPB to verify all direct costs, overhead, and administrative allocations associated with the Grant Project;
- ii) disclose fully the amount and use of the proceeds of the Grant, the Total Project Cost, and the amount and nature of any portion of the Total Project Cost supplied by sources other than CPB; and,
- iii) permit an effective audit.

While WQED maintained separate general ledger accounts for the receipt of radio and television² CSG revenues, separate accounts of CPB expenditures were not established for these two CSG grants. We also found that both the receipts and expenditures of DDF 10, DDF 12, Digital Conversion, Digital Television Transition grants, and portions of the expenses for the RTLL grant were also not accounted for on a project basis. Instead, all receipts of CPB digital grant funds were recorded into a single digital tech fund revenue account with the receipts from various other foundations and corporations. Likewise, all digital tech fund expenditures were also recorded in a single expense account.

To facilitate our audit of CPB revenues and expenditures, WQED identified the CPB revenues and the vast majority of CPB expenditures in accounts where CPB transactions were commingled with transactions funded from other sources. To illustrate, we were presented with PBS billings and invoices for other program acquisitions to evidence expenditures of CSG funds. These invoices supported expenditures in excess of the CPB's CSG funding levels for our audit period. Likewise, WQED officials provided contract documents, invoices, and payment information to evidence that they purchased the required equipment and services specified in CPB's DDF and other digital grants.

For this audit, we accepted management's assertion that the documentation they provided for expenses applicable to the CSG, DDF, and Digital grants, as well as the RTLL labor expenses were paid with CPB funds; however, we could not independently verify what expenditures were paid from what funding source because expenditures were commingled in common revenue and expense accounts.

We noted that a portion of the expenses claimed for year 3 of the RTLL grant such as salaries, benefits, and office supplies were separately accounted for on a project basis. However, the travel, photocopying, postage and other expenses for this grant were commingled with the expenses incurred for WQED's entire education department.

² Receipt of Interconnection grant funds also were not separated from Television CSG funds, but recorded in one account. Restricted Radio CSG funds were also not segregated from unrestricted Radio CSG funds, but again recorded in the same account.

WQED officials provided timesheets to document labor expenses claimed for year 3 of the RTLL.³ However, they could not adequately document RTLL expenses totaling \$5,200 claimed for other direct costs, e.g., photocopying, postage, and \$2,000 claimed for travel. WQED's general ledger only recorded other direct costs and travel expenses for the entire Education Department, and WQED officials were unable to substantiate which of these costs were applicable to the CPB grant. As result, we questioned the \$7,200 as unsupported.

Station officials stated they understood the need for better accountability. While we were on site at the station they began implementing a new accounting system that station officials indicated would separately track CPB revenues and expenditures in order to provide an adequate audit trail in the future.

Recommendations

- 3) We recommend that CPB management:
 - a) require WQED to comply with CPB's discrete accounting requirements and maintain sufficient financial records to facilitate an effective audit of CPB revenues and expenditures. Such records should discretely account for the grant income and expenditures for all CPB grants awarded to WQED.
 - b) recover the \$7,200 of unsupported Other Direct Costs and travel costs claimed for the Ready To Lead in Literacy grant.

WQED Response

WQED's response said that over the last year, WQED's new financial management team restructured the system in order to discretely track revenues and expenses for each grant. Therefore, as recommended in the audit report, WQED has implemented corrective actions to prevent future overcharges to grants.

OIG Review and Comment

We consider Recommendation 3a resolved but open pending CPB's management decision on whether to accept WQED's corrective action to implement discrete accounting. However, based on WQED's response Recommendation 3b is considered unresolved.

³ WQED discretely accounted for office supplies totaling \$3,012 that it did not claim as a grant expense.

AFR Reporting

WQED needs to revise its procedures for preparing AFRs to improve the accuracy of information submitted to CPB. The Television and Radio AFRs WQED submitted each fiscal year reported the CSGs received in the subsequent year e.g., the Fiscal Year 2010 AFRs reported the FY 2011 CSG revenues. Each year, CPB provides stations an advisory communication telling them the amount of their CSGs for the coming Fiscal Year. When WQED received this communication late in the year, it recognized the grant revenues on its accounting records and reported it on the AFR for the current fiscal year. However, CPB did not officially award the CSG discussed in the advisory communication until the next fiscal year. As a result, WQED recorded the CSG revenue in the fiscal year before the grant was officially awarded and accepted by WQED.

Furthermore, WQED's radio AFR did not separately report the amount of the restricted and unrestricted CSG funds it received, as required by CPB instructions for completing AFRs. Instead, WQED reported only the total amount of the CSG on line 2A. CPB Guidelines Part III, AFR instructions for line 2A states in part to use this line to report the unrestricted Radio CSG funds received, and to use line 2C to report the restricted portion of the Radio CSG funds. We also found that radio FM conversion grant funds and Federal Stimulus Grant funds for radio were reported on the TV AFR.

Recommendation

- 4) We recommend that CPB require WQED management to revise its procedures for recording CSGs and preparing AFRs to ensure the correct CSG grant amounts are reported on AFRs, and that restricted and unrestricted radio CSG funds are separately reported on the AFRs.

WQED Response

WQED's response to the draft report did not address this recommendation, but indicated its agreement with our recommendation during the exit conference.

OIG Review and Comment

Recommendation 4 is considered unresolved pending CPB's final management decision.

**CPB Grant Awards with Payments Made to WQED
During the Period October 1, 2007 – September 30, 2010**

Media	Grant Type	Award Date	Grant Payments
TV	FY 2008 CSG - Unrestricted	October-07 October-07 March-08	\$914,346 888,058
TV	FY 2008 - Interconnection	October-07 October-07 March-08	19,181 18,901
FM	FY 2008 CSG - Unrestricted	October-07 October-07 March-08	56,186 54,542
FM	FY 2008 CSG - Restricted	October-07 October-07 March-08	21,680 21,043
TV	FY 2009 CSG - Unrestricted	October-08 October-08 March-09	918,021 918,021
TV	FY 2009 - Interconnection	October-08 October-08 March-09	18,854 18,853
FM	FY 2009 CSG - Unrestricted	October-08 October-08 March-09	51,200 51,200
FM	FY 2009 CSG - Restricted	October-08 October-08 March-09	18,093 18,092
TV	FY 2010 CSG - Unrestricted	October-09 October-09 March-09	920,764 920,764
TV	FY 2010 - Interconnection	October -09 October-09 March-09	18,364 18,365
FM	FY 2010 CSG - Unrestricted	October -09 October-09 March-10	56,112 56,112
FM	FY 2010 CSG - Restricted	September 09 October-09 March-10	20,034 20,034
TV	Fiscal Stabilization Grant	January-10 January-10	158,471
FM	Fiscal Stabilization Grant	January-10 January-10	14,140
	Subtotal		\$6,209,431

Exhibit A (Continued)

**CPB Grant Awards and Payments Made to WQED
During the Period October 1, 2007 – September 30, 2010**

Media	Grant Type	Award Date	Grant Payments
TV	DDF Round 10	September-07 July-08 May-10	\$252,700 97,120
TV	DDF Round 12	November-08 November-08 February-10	2,500 2,446
TV	A Ride Along The Lincoln Highway	July-07 March-08 August-08 February-09 January-09	25,000 20,000 19,010
TV	Breakfast Anytime	July-09 June-09 April-10	45,000 25,000
TV	Ready To Lead in Literacy (RTLL)	January-07 November-07 January-09	16,000 1,500
TV	Digital Television Transition	May-09 May-09	15,867
FM	Digital Conversion	July-06 August-10	<u>26,370</u>
	Grand Total:		<u>\$6,757,944</u>

**WQED SUMMARY OF NON-FEDERAL FINANCIAL SUPPORT
REPORTED TO CPB**

RADIO

AFR Schedule	FY 2008	FY 2009	FY2010	Total
Direct Revenue (Schedule A)	\$1,572,531	\$1,586,485	\$1,729,624	\$4,888,640
Indirect Administrative Support (Schedule B)	0	0	0	0
In-Kind Contributions (Schedules C&D)				
a. Services and Other Assets (Schedule C)		0	0	0
b. Property and equipment (Schedule D)	0	0	0	0
TOTAL NFFS	\$1,572,531	\$1,586,485	\$1,729,624	\$4,888,640

TELEVISION

AFR Schedule	FY 2008	FY 2009	FY 2010	Total
Direct Revenue (Schedule A)	\$13,914,853	\$10,139,306	\$8,581,324	\$32,635,483
Indirect Administrative Support (Schedule B)	0	0	0	0
In-Kind Contributions (Schedules C&D)				
c. Services and Other Assets (Schedule C)	731,648	724,967	335,000	1,791,615
d. Property and equipment (Schedule D)	0	0	0	0
TOTAL NFFS	\$14,646,501	\$10,864,273	\$8,916,324	\$34,427,098

WQED Television FYs 2008-2010 AFRs

Line	Schedule A, Source of Income:	2008	2009	2010
1	Amounts provided directly by federal government	\$515,095	(\$275)	\$192,266
2.A	CPB-CSG	2,100,065	1,841,528	1,337,586
2.B	CPB-Digital Grants		18,367	28,836
2.D	CPB-Interconnection Grants	38,221	36,729	25,781
2.E	CPB--All other Funds	17,500	100,000	
2.F	PBS-All payments except royalties	508,492	639,085	222,543
2.H	Public Broadcasting Stations - all payments	958,547	990,306	311,779
3	Local Boards and Departments of Education	96,050	49,512	
4	State boards and Departments of Education	2,649,767	826,020	318,200
5	State colleges and universities	0	0	2,764
7	Private Colleges and Universities	604,346	242,672	84,703
8	Foundation and Nonprofit Associations	2,988,769	1,108,371	1,660,714
8.a	Amount Received as Underwriting	71,254	58,326	55,301
9	Business and Industry	6,262,128	5,410,540	2,817,475
9.a	Amount Received as Underwriting	433,281	449,371	395,881
10	Memberships and Subscriptions (net of write-offs)	4,570,029	4,193,928	3,903,671
14	Special Fundraising Activities	38,875		256,672
14.A	Gross Special Fund-raising Revenues	104,208		422,150
14.B	Direct Special Fund-raising Revenues	65,333		165,478
15	Passive Income	205,540	81,269	72,610
15.A	Interest and Dividends	186,655	80,510	72,405
15.B	Royalties	18,885	759	205
16	Gains and Losses on Investments/ Sale of Assets	(662,597)	(23,404)	229,611
16.A	Gains on Sales of Property and Equipment	0	3,500	0
16.B	Realized Gains/Losses on Investments	73,258	(222,517)	7,420
16.C	Unrealized Gains/Losses on Investments	(735,855)	195,613	222,191
19	Gifts and Bequests from Major Donors	0	578,466	1,386,465
20	Other Direct Revenue	69,605	74,357	58,966
21	Total Revenue	\$21,025,765	\$16,167,471	\$13,076,122
	Adjustments to Revenue			
22	Federal revenue	\$515,095	(\$275)	\$192,266
23	Public broadcasting revenue	3,622,825	3,626,015	1,926,525
24	Capital Fund Exclusion - TV Only	0	0	0
25	Other Revenue (line 21) Not to be included as NFFS	3,570,256	2,425,829	1,980,918
26	Other Automatic Subtraction from Revenue	(597,264)	(23,404)	395,089
26.B	Special fundraising event expenses	65,333	0	165,478
26.C	Gains From Sales of Property and Equipment	0	3,500	0
26.D	Realized Gains/Losses on Investments	73,258	(222,517)	7,420
26.E	Unrealized Gains/Losses on Investments	(735,855)	195,613	222,191
27	Total Direct Nonfederal Financial Support	\$13,914,853	\$10,139,306	\$8,581,324

Exhibit C (Continued)

WQED Television FYs 2008-2010 AFRs

Line	Schedule A, Source of Income:	2008	2009	2010
	Schedule C, In-Kind Contributions:			
2.A	Annual Rental Value of Space	\$335,000	\$335,000	\$335,000
3.B	State Public Broadcasting Agencies	396,648		
4	Total In-kind Contributions	\$731,648	\$335,000	\$335,000
	Schedule E, Expenses:			
	Program Services			
1	Programming and Production	\$8,191,198	\$6,724,830	\$5,793,149
2	Broadcasting and Engineering	1,978,878	1,524,460	998,137
3	Program Information and Promotion	3,364,794	2,403,326	266,289
	Support Services			
4	Management and General	3,792,720	3,246,336	3,080,834
5	Fund raising and Membership Development	2,888,599	2,671,504	3,020,862
6	Underwriting and Grant Solicitation	529,766	459,462	449,036
7	Depreciation and Amortization	1,082,908	1,166,344	1,182,418
	Total Expenses	\$21,828,863	\$18,196,262	\$14,790,725

WQED-FM FYs 2008-2010 Annual Financial Reports

Line	Schedule A, Source of Income:	2008	2009	2010
1	Amounts provided directly by federal government	\$41,470	\$0	\$0
1.A	PTFP Facilities Grant	\$41,470	\$0	\$0
2.A	CPB-CSG	136,305	152,292	158,843
2.C	CPB-Restricted portion of Radio CSG	0	0	0
3	Local Boards and Departments of Education	50,000	50,000	100,000
4	State Boards and Departments of Education	8,000		
7	Private Colleges and Universities	148,918	34,347	65,559
8	Foundation and Nonprofit Associations	136,355	125,414	384,807
8.a	Amount Received as Underwriting	105,005	82,107	90,509
9	Business and Industry	228,838	274,909	271,620
9.a	Amount Received as Underwriting	196,303	230,908	227,836
10	Memberships and Subscriptions (net of write-offs)	973,566	1,022,197	896,669
17	Endowment Revenue	(49,209)	16,660	26,343
17.B	Interest and Dividend on Endowment Funds	26,854	10,868	9,969
17.C	Net Investment Gains and Losses	(76,063)	5,792	16,374
19	Gifts and Bequests from Major Donors	0	68,750	1,000
21	Total Revenue	\$1,674,243	\$1,744,569	\$1,904,847
	Adjustments to Revenue			
22	Federal Revenue from Line 1	41,470		
23	Public broadcasting revenue	136,305	\$152,292	\$158,843
26	Other Automatic Subtraction from Revenue	(76,063)	5,792	16,374
26.F	Net Investment Gains and Losses	(76,063)	5,792	16,374
27	Total Direct Nonfederal Financial Support	\$1,572,531	\$1,586,485	\$1,729,624
	Schedule C, In-Kind Contributions:			
2.A	Annual Rental Value of Space	\$0	\$0	\$0
4	Total In-kind Contributions	\$0	\$0	\$0
	Schedule E, Expenses:			
	Program Services			
1	Programming and Production	\$441,689	\$461,026	\$436,392
2	Broadcasting and Engineering	315,285	300,401	270,736
3	Program Information and Promotion	66,997	68,957	71,352
	Support Services			
4	Management and General	492,010	497,868	577,890
5	Fund raising and Membership Development	190,512	184,270	240,272
6	Underwriting and Grant Solicitation	39,875	45,441	61,232
7	Depreciation and Amortization	83,024	133,794	133,794
8	Total Expenses	\$1,629,392	\$1,691,757	\$1,791,668
9	Capital Asset Purchased and Donated	2,943	77,768	0
9.B	Equipment	2,943	77,768	0
10	Total Expenses & Investments in Capital Assets	\$1,632,335	\$1,769,525	\$1,791,669

**Digital Distribution Fund Round 10, Grant No. 11194
Final Financial Report to Corporation for Public Broadcasting
June 30, 2007 – November 18, 2009**

Revenue and Expenses	Grant Budget	Actual Expenditures	Variance
Revenue			
CPB Funded Equipment/Services	\$388,720		
WQED Funded Equipment/Services	<u>388,720</u>		
Total Revenue	<u>\$777,440</u>		
Expenses			
DTV Transmitter System			
5kW Avg. DTV Solid State Transmitter	\$288,690	\$288,690	0
4-Port Motorized Switch	5,250	5,250	0
Station Load	2,700	2,700	0
Transmitter Electrical Installation	10,500	14,000	3,500
System Installation and Proof of Performance	15,000	17,000	2,000
Antenna and Transmission Line			
Antenna and Mounting Pole	170,000	162,500	(7,500)
Transmission Line	50,000	36,908	(13,092)
Elbow Complex	7,800	8,433	633
Pedestal	50,000	8,373	(41,627)
Installation	150,000	203,680	53,680
Shipping and Offloading	7,500	6,741	(759)
Other Eligible Expenses			
Engineering Design Consulting	10,000	9,420	(580)
Permits, Building, HVAC, Electrical	<u>10,000</u>	9,036	(964)
Transmission Line Parts**		5,900	5,900
Termination Kit for Combiner**		<u>7,610</u>	<u>7,610</u>
Final Project Totals	<u>\$777,440</u>	<u>\$786,241</u>	<u>\$8,801</u>
CPB Funded Share (50%)	50%		
CPB Payments	<u>\$388,720</u>		

**Digital Distribution Fund Round 12, Grant No. 12052
Final Financial Report to Corporation for Public Broadcasting
August 1, 008 – May 1, 2009**

Revenue and Expenses	Grant Budget	Actual Expenditures	Variance
Revenue			
CPB Funded Equipment/Services	\$5,025		
WQED Funded Equipment/Services	<u>1,675</u>		
Total Revenue	<u>\$6,700</u>		
Expenses			
PSIP Generator Upgrade	\$4,200	\$4,094	\$106
PSIP installation and Training	<u>2,500</u>	<u>2,500</u>	<u>0</u>
Final Project Totals	<u>\$6,700</u>	<u>\$6,594</u>	<u>\$106</u>
CPB Funded Share	75%	75%	
CPB Payments	<u>\$5,025</u>	<u>\$4,946</u>	<u>\$79</u>

**A Ride Along The Lincoln Highway, Grant No. 10834
Final Financial Report to Corporation for Public Broadcasting
June 1, 2007 – November 14, 2008**

Revenue and Expenses	Grant Budget	Actual Expenditures	Variances
Revenue			
CPB	\$100,000		
Grantee Guarantee	<u>199,939</u>		
Total Revenue	<u>\$299,939</u>		
Expenses			
Project Staff	\$100,156	\$102,664	\$2,508
Operating Expenses	3,800	3,527	(273)
Travel	28,500	24,708	(3,792)
Talent & Rights	9,480	8,680	(800)
Remote Production	49,192	50,206	1,014
Post-Production	27,224	26,425	(799)
Promotion	24,500	24,500	0
Web Site Design	3,000	3,000	\$0
Overhead	<u>54,087</u>	<u>53,617</u>	(470)
Total Expenses	<u>\$299,939</u>	<u>\$297,327</u>	<u>(\$2,612)</u>
CPB Share		33.3%	
CPB Payments		<u>\$99,010</u>	

**Breakfast Anytime, Grant No. 12456
Final Financial Report to Corporation for Public Broadcasting
June 1, 2009 – August 31, 2010**

Revenue and Expenses	Grant Budget	Actual Expenditures	Variances
Revenue			
CPB	\$100,000		
Grantee Guarantee	199,899		
Total Revenue	<u>\$299,899</u>		
Expenses			
Project Staff	\$94,388	\$106,104	\$11,716
Operating	3,550	951	(2,599)
Travel	34,610	24,542	(10,068)
Talent & Rights	9,840	5,539	(4,301)
Remote Production	49,508	46,167	(3,341)
Post-Production	35,968	50,453	14,485
Promotion	17,955	11,398	(6,557)
General & Administrative*	<u>54,080</u>	<u>53,934</u>	<u>(146)</u>
(legal, accounting, etc., @22%)			
Total Expenses	<u>\$299,899</u>	\$299,088	<u>(\$811)</u>
CPB Share		33.3%	
CPB Payments		\$99,730	

**Digital Television Transition Grant No. 12688
Final Financial Report to
Corporation for Public Broadcasting
As of June 30, 2009**

Revenue and Expenses	Grant Budget	Actual Expenditures
Revenue		
CPB	<u>\$15,867</u>	
Total Revenue	<u>15,867</u>	
Expenses		
Transmitters		<u>\$22,560</u>
Total Expenses		<u>\$22,560</u>
CPB Payments		<u>\$15,867</u>

**WQEJ-FM Digital Conversion, Grant No. 9401
Final Financial Report to Corporation for Public
Broadcasting
May 27, 2005 – May 31, 2010**

Revenue and Expenses	Grant Budget	Actual Expenditures
Revenue		
CPB*	\$75,000	
Grantee Guarantee	<u>40,532</u>	
Total Revenue	<u>\$115,532</u>	
Expenses		
Digital Transmitter	\$53,820	\$55,900
Spare parts	1,970	1,530
HD Importer	5,070	7,778
HD Exporter**	10,920	0
Digital Audio Processor	7,795	8,280
Miscellaneous	10,611	10,611
PCI Sound Cards**	7,788	0
Site Commissioning**	4,800	0
Shipping**	2,571	0
Transmitter Interface**	2,336	0
Power Metering Equipment**	3,249	0
Digital Toolbox**	2,262	0
HD Exciter**	<u>2,340</u>	0
Total Expenses	<u>\$115,532</u>	\$84,099
CPB Share		70%
CPB Payments		<u>\$58,870</u>

*Includes a \$5,000 CPB prepaid iBiquity credit

** Included with Transmitter when purchased

**Ready To Lead in Literacy-Year 3, Grant No. 10800
Final Financial Report to Corporation for Public Broadcasting
As of December 2008**

Revenue and Expenses	Grant Budget		Actual Expenditures	
	CPB Share	WQED Share	CPB Share	WQED Share
CPB Matchable Budget Items				
Employee Compensation				
Training Staff	\$7,000	\$7,000	\$7,800	0
Program Coordinator	0	10,000	0	25,000
Program Manager	0	25,000	0	5,000
Clerical	0	0	0	5,000
Unit Manager	0	0	0	1,080
Benefits	1,960	0	0	
Travel	1,800	0	2,000	
Other Direct Costs			0	
Insurance				1,500
Legal				1,000
Photocopy	450		1,500*	
Postage			1,500*	
Book Purchase				5,000
Local Events			1,500*	
Office Supplies	3,790	15,000		
Telephone/Fax		500		700
Ad and Promotion			700*	800
Project Materials Development				12,500
Overhead				8,368
Station In-kind				7,700
Total Expenses	\$15,000	\$57,500	\$15,000	\$73,648
CPB Payments			\$15,000	
Amount Questioned			<u>7,200</u>	
Amount Accepted			<u>\$7,800</u>	

* Other Direct Expenses claimed totaled \$5,200.

Schedule of FY 2008 Ineligible NFFS Reported by WQED

<i>FY 2008 Donor/Event</i>	Unrelated Business Income	Contributions for TV Equipment Upgrades	Special Fund-raising Expenses	Funded With Federal Dollars	Unrelated Magazine and WQEX Revenue
Government Television	\$96,050				
Local Government		\$104,820			
Local Government		640,430			
Foundation EH		1,000,544			
Foundation H		25,000			
University [REDACTED]	232,010				
C Corp.	20,993				
Foundation D			\$17,744		
V Company		83,206			
Insurance Company	92,405				
Utility D			49,044		
C Inc.	104,967				
Doo Wop Concert			96,156		
Ticket Premiums - Not Deducted			227,615		
O Corp.				\$42,000	
National Schools			15,505		
Producer	100,000				
WQEX & Magazine Advertising					[REDACTED]
Totals for FY08	\$646,425	\$1,854,000	\$406,064	\$42,000	[REDACTED]

Schedule of FY 2009 Ineligible NFFS Reported by WQED

<i>FY 2009 Donor/Event</i>	Unrelated Business Income	Contributions for TV Equipment Upgrades	Special Fund-raising Expenses	Funded With Federal Dollars	Unrelated Magazine and WQEX Revenue
Government Television	\$49,512				
Government Corp		\$182,847			
State		478,312			
Foundation H		25,000			
Non-profit Corp.	30,903				
Non-profit	16,287				
C Corp.	20,363				
Foundation D			\$20,925		
C Inc.	57,183				
Foundation E			19,578		
Utility D			21,667		
Doo Wop Concert			208,701		
Ticket Premiums - Not Deducted			199,685		
Open House			35,000		
WQEX & Magazine Advertising					
Totals for FY09	\$174,248	\$686,159	\$505,556	\$0	

Schedule of FY 2010 Ineligible NFFS Reported by WQED

FY 2010 Donor/Event	Unrelated Business Income	Contributions for TV Equipment Upgrades	Special Fund-raising Expenses	Funded With Federal Dollars	Unrelated Magazine and WQEX Revenue
Consortium	\$25,000				
Corporation A	73,500			\$276,500	
University	43,416				
Foundation H		\$25,000			
Magazine Sale Proceeds					██████
Magazine Sale Proceeds					██████
Magazine Sale Proceeds					██████
Recovery of Mag. Bad Debts					██████
Foundation D			\$5,076		
Foundation E			29,234		
LN Concert			12,500		
Doo Wop Concert			338,603		
Ticket Premiums - Not Deducted			171,939		
Society W			25,501		
Utility A			9,541		
Totals for FY10	\$141,916	\$25,000	\$592,394	\$276,500	██████

SCOPE AND METHODOLOGY

We performed this audit as a compliance attestation examination under *Government Auditing Standards (GAS)* to determine whether WQED reported NFFS in accordance with CPB's Guidelines; complied with Certification of Eligibility requirements and selected provisions of the Communications Act of 1934, as amended (the Act); and, spent grant funds in accordance with grant terms. We performed our audit field work during the period May 2011 through August 2011.

The scope of the audit included tests of the AFRs, Schedules A and C, and the data reported on them for the fiscal years ended June 30, 2008, 2009, and 2010. For these years we tested the accuracy of the \$39 million of NFFS claimed on WQED's AFRs by performing financial reconciliations and comparisons to underlying accounting records and the audited financial statements to verify transactions recorded in the general ledger and reported on the AFRs. We evaluated compliance with CPB Guidelines, in part, by reviewing documentation of cash receipts, donations, underwriting contract agreements, and reviewing the fair value reported for in-kind contributions. We tested over \$8.9 million of the \$16.2 million of NFFS claimed for FY 2008, \$4.3 million of the \$12.5 million claimed for FY 2009, and \$3.5 million of the \$10.6 million claimed for FY 2010. We concentrated our judgmental testing on the larger revenue amounts selected from the higher risk revenue categories.

We also reviewed expenditures that totaled more than the \$6.8 million of the \$8.6 million that WQED incurred for the FYs 2008-2010 CSGs and Interconnection, DDF, Digital Conversion, and the *Breakfast Anytime* and *A Ride Along Lincoln Highway* production grants shown in Exhibit A. We tested expenditures for compliance with grant agreement terms.

We reviewed documentation of WQED's compliance with the Act requirements. Specifically, we reviewed WQED's public inspection files, Board of Director's (BOD) and Community Advisory Board (CAB) meeting minutes, evidence that meetings were announced to the public. We reviewed the open financial records file and Equal Employment Opportunity (EEO) documents to ensure they were available for general public inspection in compliance with the Act. Finally, we reviewed WQED's compliance with CPB's donor list and political activities requirements.

To assist in our audit planning and assure ourselves that we could rely on the work performed by WQED's independent public accountant (IPA), we met with representatives of the firm that conducted WQED's financial statement audit and attestation work on WQED's AFRs. We reviewed their tests of internal controls and their fraud risk assessment analysis. For the attestation review, we also reviewed their test work on the accuracy of WQED's AFRs.

We gained an understanding of WQED's internal controls over the preparation of the AFRs and cash receipts as part of our overall risk assessment. We used this understanding to plan our audit work and select those areas that posed the greatest risk to the accurate reporting of NFFS.



Nov. 4, 2011

changes lives.

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

RE: Response to the examination of WQED Multimedia, CPB Grants for the Period October 1, 2007 – September 30, 2010, Report No. ASJ1012-xxx

Dear Mr. Richardson:

Please accept the following as WQED's response to the above noted examination. As noted in the report both the 2008 and 2009 NFFS reports were the responsibility of and submitted by an individual who is no longer employed at WQED. The 2010 report, due to timing and turnover, followed the previous reports as a template and made adjustments in accordance with the few items that had been eliminated in previous desk reviews. Many of the items addressed in the audit are an honest dispute and interpretation of the CPB guidelines. Both WQED and its auditors concurred with the same interpretation whereas this audit provided a different interpretation. This response clarifies why these items identified by the CPB audit were included in NFFS and substantiated by WQED's independent auditors.

Following are management's response to specific items determined to be ineligible in the examination.

- **TV Equipment Upgrades**

The guidelines on this matter tend to be very confusing and contradictory. Included in the statutory definition of non-Federal support for all the years under examination "The Public Broadcasting Act (47 U.S.C. Sec. 397 (9)) defines NFFS as the total value of cash and the fair market value of property and services received as gifts, grants, bequests, donations or other contribution for the *construction* or operation of noncommercial educational broadcast stations..." .

4802 Fifth Avenue

Pittsburgh, PA 15213

412.622.1300 • 800.876.1316

Television • Radio • Publishing • Interactive • Education

www.wqed.org

Exhibit P
Page 1 of 6

In addition, WQED's auditors signed off on this inclusion based on the statutory definition as well as the fact that in the 2008 and 2009 guidelines which state on page 7 (the year in which a majority of these costs were included and considered ineligible by the auditor) that the line item reporting requirements for lines 7 & 8 in-kind contributions are ineligible as NFFS. Specifically it states in item D. that for TV only-property and equipment that includes new facilities (land and structures), expansion of existing facilities and acquisition of new equipment in-kind contributions are ineligible. WQED did not receive any in-kind capital donations and thus included the grant funds received. All of the amounts received for capital purposes were from Foundations or the State of PA and as such meets the Source, Form, Purpose and Recipient criteria outlined in the guidelines. Further in the "Specific Exclusions from NFFS" section of the 2008 and 2009 CPB Financial Reporting Guidelines there is no mention of an exclusion of contributions for capital items.

Finally, when filing the reports the station is required to tie to the total revenue reported on the audit to the revenue in the ISIS system. Based on the guidelines it appears the amounts put in as capital should have been automatically excluded (page 41 of the 2009 CPB guidelines), however if the grant amounts are placed into the Foundation or State sources these amounts never make it to the Capital contribution area. There is nothing noted when filling out revenues by source that capital contributions should not be included. In addition, within the expense area of the filing there is a line to include investment in capital asset. It seems that if there is no revenue excluded but there are amounts included in the investment in capital asset, these amounts should be automatically excluded or flagged in the desk review process.

- **Magazine revenue**

Although this issue was addressed previously based on a desk review by CPB, WQED management would like to document the reasoning and again request this revenue be considered for inclusion as NFFS. The Pittsburgh Magazine started as a published program guide and evolved over time into a community magazine. When it became more than a basic program guide WQED never included the full revenue from the subscription or advertising in the magazine as NFFS. Instead, based on the 2008 and 2009 CPB guidelines, pages 15 and 16 included under the caption "Specific exclusions from NFFS" it states "Exclude all revenue (regardless of source) from...program guide advertising attributable to the *percentage* of total copies distributed that have been sold through normal retail outlets and/or by magazine subscription", WQED did a prorata calculation and *excluded* revenue from NFFS based on this calculation. Our auditors made the same interpretation of the guidelines and as a result certified the amount included in the annual reports to CPB.

- **Funded with Federal Funds**

WQED concurs with the 2008 amount as being included in error due to the fact that the grantor did not indicate in the grant agreement the amount of Federal funds included in the grant amount to WQED. During the audit WQED contacted the grantor and determined that the \$42,000 was in fact federally funded.

The \$350,000 excluded for 2010 had a portion that was funded with federal money which according to the grant agreement was 79%. Therefore approximately \$73,500 (21%) should be includable as NFFS and the remaining \$276,500 should in fact have been excluded rather than excluding the full amount. As noted the grant was for the production of educational videos that will be used to train teachers. As noted in the definition of NFFS, it is the total of cash and the fair market value of property and services...*received* – and is further described as ...for the construction or operations of non-commercial educational broadcast stations, or for the production, acquisition, distribution, or dissemination of educational television or radio programs and *related activities*.... This clearly meets the criteria of educational television and is an activity related to what WQED does. Our auditors concurred with our classification of this grant due the facts that the amount was received from a nonprofit Educational Institution and WQED provided education programs. As such they concluded it met the Source, Form, Purpose and Recipient criteria.

- **Discrete accounting of grants**

Within the WQED financial system it has been difficult in the past to discretely track grants. Over the last year the new financial management team identified this issue and has restructured the system in order to discretely track revenues and expenses for each grant. Therefore, as recommended in the audit report, WQED has implemented corrective actions to prevent future overcharges to grants.

Unrelated Business Income

- **Public Television Station (2008, 2009)**

WQED provided services for the start-up of another public broadcasting station. As such WQED had its producers on site for extended periods of time actually producing programs to air on the new station. In *creating* productions with the start-up's staff, WQED was training the producers, videographers and editors. The payments received WQED believes were related to the production of educational television programs and met the Source, Form, Purpose and Recipient criteria.

- **University (2008)**

WQED included this amount due to the fact that it was from a non-profit educational entity and the production was to be used for educational purposes by the University. Thus it is felt this is a *related activity* and it met the Source, Form, Purpose and Recipient criteria as outlined in the guidelines.

- **C Incorporated (2008, 2009)**

These funds were also received for the purpose of providing educational videos and as a result WQED included these funds as NFFS. Our auditors concurred with WQED's treatment.

- **(2008)**
The provided these funds under a co-production agreement with WQED to produce a 60 minute program and town hall meeting related to the program. WQED developed, created, photographed, edited and completed the program while the assisted with the subject matter and provided the town hall meeting. WQED aired this on the WQED TV station several times between September and November of 2008. WQED believes this program met the Source, Form, Purpose and Recipient criteria and should have been included as NFFS.
- **(2008)**
This amount was granted to produce and air the Newshour from Pittsburgh. Both WQED and its auditors felt it met the Source, Form, Purpose and Recipient criteria and therefore should have been included in NFFS.
- **(2009)**
A non-profit group on behalf of a local museum granted funds for the production of a video to educate museum visitors. WQED considered this a *related activity* and the grant met the Source, Form, Purpose and Recipient criteria and should be incorporated in the NFFS total.
- **(2009)**
This was another situation where a non-profit organization granted funds to produce an educational video for the organization's constituents. As a result WQED and its auditors felt it was a *related activity* and met the Source, Form, Purpose and Recipient criteria and as such should be includable as NFFS.
- **Grant Consortium (2010)**
The state granted WQED funds to develop and build a website for the Summer of Innovation project. WQED considered this a *related activity* resulting in an internet presence to inform and educate individuals. The website was produced and presented to the grantor. Because this was a *related activity* and the funds met the Source, Form, Purpose and Recipient criteria it was included as NFFS and WQED's auditors concurred with this classification.
- **University (2010)**
The funds were granted from a University source for the purpose of documenting in video Philanthropy in Western Pennsylvania to inform current and future generations about the importance of philanthropy. WQED included this amount in NFFS because it was a *related activity* that met the criteria outlined in the guidelines for inclusion.

All of the above items relate to WQED's mission to produce educational programs. None of these activities was included in WQED's 990T as unrelated business income and as a result we believe the revenue granted to provide these services should be considered NFFS.

Special Fundraising Expenses

The following special fundraising events in the attached report all depict community outreach and provide a local connection with WQED which is pertinent to the continued success and stability of the organization. This outreach provides continued name recognition and goodwill which creates a loyal membership. The funds received were for underwriting recognition and all activities had spots on WQED air in which the sponsor/underwriter was named. No one who attended the event was charged and only a single organization provided the underwriting so these were not fundraising events.

- **Foundation D (2008, 2009, 2010) – Volunteer awards**
 - **Utility D (2008, 2009) & Utility A (2010) – [REDACTED] Leadership/Scholarship awards**
 - **[REDACTED] (2008) – [REDACTED] contest**
 - **Foundation E (2009, 2010) – Reading Rainbow Young Writers and Illustrators contest**
 - **Open House (2009) – Local non-profit sponsored [REDACTED] Open House event at WQED**
 - **Society W (2010) – [REDACTED] contest for middle and high school students to work with engineers to design mechanical products**
-
- **Ticket premiums (2008, 2009, 2010)**

WQED and its auditors concurred that these amounts should be included as NFFS since the premiums were individually of insubstantial value. From CPB Financial Reporting Guidelines, “All grantees must deduct from NFFS the fair market value of premiums (i.e. thank you gifts) that are exchanged with donors in quid pro quo transaction (except those that have insubstantial value).”
 - **DooWop Concert (2008, 2009, 2010)**

The DooWop Concerts were not considered a fundraising activity and as a result were included as NFFS. The tickets were given as pledge premiums and the shows were produced as pledge shows rather than as a fundraising event. In the absence of a definition for a fundraising event in the CPB guidelines, the AICPA Not-for-Profit Audit Guide was used and defined a fundraising event as “activities undertaken to induce potential donors to contribute money, securities, services, materials, facilities, other assets or time”. The DooWop concerts do not appear to fall into this definition; rather they appear to be mission related activities.
 - **LN Concert (2010)**

A concert promoter donated \$1 a ticket for a previously scheduled designated concert it held. The money received while based on the sale of tickets was not a fundraiser paid for by WQED. It was a donation only from the organization and the amount was based on the sale of tickets. As such it was considered a donation to carry on the mission of the organization and was included as NFFS.

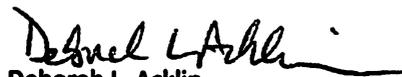
As you stated in your report WQED has been in existence since 1954 and was the first Public Television station in the United States. Over the years there have been tremendous fluctuations in the funding of this public asset. WQED lost most of its state funding in 2008, sold a magazine and broadcast license in order to focus on the core mission of the organization. In addition, we have seen a decrease in the sale of program DVDs due to the aging of the products. Federal funding from CPB has increased or decreased in conjunction with the revenue changes and all the while our dues to PBS have continued to either increase or stay flat. This has created a financial hardship for the organization that has grown over the years. While this does not explain the issues identified in the report it provides a background.

In conclusion, in every case the above stated interpretations by WQED of the CPB guidelines had the concurrence of WQED's auditors. There was never an elimination of revenues included in NFFS through desk reviews; therefore the internal staff concluded the amounts included were valid.

In consideration of all these mitigating factors, WQED respectfully requests CPB consider the responses made above when assessing the recommendations made by the Inspector General's Office.

I have also included a copy of the report with the items we would like redacted from the report posted on the CPB webpage highlighted. We are currently considering a large fundraising campaign and we believe this information could be financially damaging to WQED. Additionally, the amounts from the operations and sale of the magazine are proprietary and contractually confidential.

Sincerely,



**Deborah L. Acklin
President and CEO**