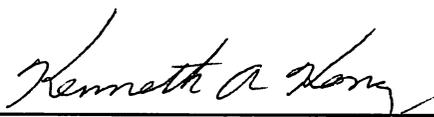


**CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF INSPECTOR GENERAL**

**EXAMINATION OF SELECTED CPB GRANTS AWARDED TO
RADIO BILINGÜE, INC., FRESNO, CALIFORNIA,
FOR THE PERIOD OCTOBER 1, 2008 – NOVEMBER 30, 2010**

AUDIT REPORT NO. ASR1103-1203

March 30, 2012



KENNETH A. KONZ



Corporation
for Public
Broadcasting

Office of Inspector General

Date: March 30, 2012

To: Robert M. Winteringham, Deputy General Counsel

From: 
Kenneth A. Konz, Inspector General

Subject: Examination of Selected Grants Awarded to Radio Bilingüe, Inc.,
Fresno, California, for the Period October 1, 2008 – November 30, 2010,
Audit Report No. ASR1103-1203

We have completed an examination of the Corporation for Public Broadcasting (CPB) Community Service Grants (CSG) awarded to Radio Bilingüe, Inc. (RB), for the period October 1, 2008 – September 30, 2010. We also examined other CPB grants awarded to RB for the period November 1, 2007 – November 20, 2010. The objectives of the examination were to determine whether RB: a) claimed Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFR) 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.

Based on our examination we found:

- questionable grant expenditures of \$285,760 and in-kind contributions of \$7,823 for lack of adequate supporting documentation;
- over-reported NFFS of \$28,150 resulting in excessive CPB payments of \$1,827 during FY 2011, classified as funds put to better use; and
- material noncompliance with the statutory provisions of the Communications Act (the Act).

We performed this examination in accordance with *Government Auditing Standards* for attestation engagements. Our scope and methodology is discussed in Exhibit O.

In response to the draft report, RB did not agree with our findings dealing with questionable expenditures and in-kind contributions based on a lack of adequate supporting documentation. However, RB did agree with our findings on overstated NFFS and non-compliance with the requirements of the Communications Act. RB's written response to the draft report is attached in Exhibit P. We did not include a 17 page attachment to RB's response, which included an after-the-fact analysis of the time

spent by the Executive Director on CPB projects for the periods June 1, 2009 to September 30, 2009 and June 1, 2010 to November 30, 2010. This information is available upon request from our office.

This report presents the conclusions of the OIG and the findings reported do not necessarily represent CPB management's final position on these matters. Accordingly, the 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 RB's response to the draft report, we consider recommendation 1a and b unresolved. Recommendation 4 is directed to CPB and is also considered unresolved. Recommendations 2 and 3 are considered resolved but open pending management decisions by CPB accepting RB's corrective actions and collection of overpayments.

BACKGROUND

RB is a nonprofit corporation founded by a group of farm workers, artists, and professionals with the mission of providing access to the airwaves for the Mexican-American community. They believed that radio could be an effective way to reach fellow farm workers with programming that would strengthen their culture and improve their lives. They succeeded in their vision to create an independent, Hispanic-controlled organization, which reflects the values and traditions of the Hispanic community.

RB first aired on July 4, 1980, and has grown to become a network of five stations in rural California. RB is the licensee of KSJV the lead radio station in the network located in Fresno, California. In addition, the network includes KTQX in Bakersfield, KMPO in Modesto, KHDC in Salinas, and KUBO in El Centro. RB has matured from a station that was primarily focused on Hispanic groups and issues, to become a multicultural organization. Although RB broadcasts primarily in Spanish and English, it has expanded its programming to include Hmong, Portuguese, and Mixtec, an indigenous language spoken in Oaxaca, Mexico.

CPB awards annual CSG grants to public television and radio stations based on the amount of NFFS claimed by all stations on their AFRs. The radio CSG pool of funds is adjusted by base grant awards and the Rural Listener Access Incentive Fund reserve. The funds that remain are called the Incentive Grant Pools. The Incentive Rate of Return (IRR) is calculated by dividing the Incentive Grant Pools by the total amount of NFFS claimed by all 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. For example, CPB used the NFFS claimed by RB on its FY 2007 AFR to determine the amount of the CSG the station received in FY 2009.

During our audit period CPB paid RB almost \$4.5 million in grant funds, per Exhibit A. RB's FY 2009 and 2010 AFRs are presented on Exhibit B. NFFS reported for both years is presented on Exhibit C. The final financial reports for the five production grants audited are presented in Exhibits D-H. RB's audited financial statements for the periods ending September 30, 2009 and September 30, 2010 reported total revenues of \$3,634,747 and \$4,946,560, as well as, functional expenses of \$3,428,597 and \$4,487,848.

SUMMARY OF RESULTS

We examined management's assertions of compliance with CPB's CSG grant agreement terms, Certification of Eligibility requirements, Act requirements, and NFFS Guidelines for the periods ending September 30, 2009 and September 30, 2010. We also examined expenditures for selected production grants, presented in Exhibits D-H, for the period November 1, 2007 – November 30, 2010 for compliance with grant requirements. 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.

Our examination was conducted in accordance with the *Government Auditing Standards* for attestation engagements and, accordingly, included examining, on a test basis, evidence about RB's compliance with those requirements, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on RB's compliance with specified requirements.

Our examination disclosed the following issues of material non-compliance with CPB grant agreement requirements, NFFS financial reporting requirements, and Communications Act requirements.

- questionable expenditures of \$285,760 for indirect costs, direct salaries, and fringe benefits, and in-kind contributions of \$7,823 for satellite services;
- over-reported NFFS of \$28,150 resulting in excessive CPB payments of \$1,827 during FY 2011, classified as funds put to better use; and
- material non-compliance with the statutory provisions of the Act for conducting open public meetings, maintaining an active Community Advisory Board (CAB), making financial and EEO records available to the public, and establishing operating procedures explaining how it complied with the five requirements of the Act.

In our opinion, because of the effect of the material non-compliance issues described above, RB has not complied with the aforementioned requirements for the periods ending September 30, 2009 and September 30, 2010.

FINDINGS AND RECOMMENDATIONS

Non-Compliance with Grant Requirements

Our examination found questionable costs of \$285,760 that lacked adequate supporting documentation. These items included indirect costs of \$167,668, as well as direct salary and fringe benefit costs of \$118,092. Additionally, we found that \$7,823 claimed as in-kind contributions for satellite services were not adequately supported. Specifically, we found that RB did not:

- use consistent indirect cost plans to claim the same indirect cost categories using different rates for different CPB grants;
- keep time records to support direct salaries charged to CPB grants; and
- provide an adequate allocation basis to support in-kind costs claimed for satellite services.

These conditions were materially non-compliant with CPB grant terms and conditions.

CPB's Terms and Conditions for Television, Radio and Other Media Production Grants, Section G. states:

Records. 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 Costs supplied by sources other than CPB; and
- (iii) permit an effective audit.

These terms and conditions require grantees to maintain sufficient records to support all costs charged to CPB grants i.e., direct, indirect, and allocations of costs to permit an effective audit. Because RB did not maintain adequate supporting documentation we could not verify the reasonableness of the costs charged to CPB grants.

Inconsistent Indirect Cost Plans

We found that RB used inconsistent indirect cost plans to support indirect costs claimed under each of the three radio production agreements¹ and the two Los Angeles (LA) Latino Program Service agreements audited. More specifically, RB used different indirect cost plans for each of the five agreements even though they claimed the same indirect cost categories such as, business manager's salaries, fringe benefits, and utilities, to name a few, under the five different indirect allocation

¹ The three production agreements are the "2008 Election Coverage," "Noticiero Latino," and "The Economic Crisis and Latinos: Access to Unemployment Help."

plans audited, as illustrated in Exhibit I. The plans presented charged different percentage rates for the same cost category during the same fiscal year to different CPB grants. The plans did not provide a rationale for the percentages claimed by cost category to provide a basis to evaluate the reasonableness of the methodologies used.

Specifically, we found that cost categories claimed as indirect costs were also used to claim costs directly to some of the grants, as well as, in-kind costs. The executive director's salary costs were claimed directly on some grants and indirectly on others. We could not verify that the direct and in-kind costs charged to the grants were appropriately adjusted from the total costs available by cost category that was also used to claim indirect costs.

Finally, we found that RB applied the grant agreement indirect cost rates to the project's total direct costs that included amounts spent on professional fees. Contracted services generally do not receive any benefit from an organization's overhead activities, and if they do it is generally at a significantly reduced rate.

RB stated that its indirect cost methodology met the spirit and intent of CPB's Financial Reporting Guidelines (Guidelines) and that their "Grantee-Developed Method" had been pre-approved by CPB. They also cited the Federal Acquisition Regulations (FAR) and the guidelines promulgated by the federal General Services Administration in defending their use of different indirect cost plans which included charging different percentages for the same cost category during the same fiscal year for the various projects.

We do not agree with RB's interpretation of the Guidelines on indirect costs, CPB's Guidelines address institutional stations claiming indirect costs as revenues as NFFS. CPB's guidance was not designed to approve indirect costs rates claimed under production or other CPB grant agreements. Further, FAR does not apply to CPB agreements; it is generally applied to for-profit government contractors. OMB Circular A-122 does provide Cost Principles for Non-Profit Organizations receiving federal funds. Under the Circular's general principles it states that allocable indirect costs be accorded consistent treatment and be determined in accordance with generally accepted accounting principles. Further, a cost may not be allocated to an award if any other costs incurred for the same purpose, in like circumstances, has been assigned to an award as a direct cost.

Additionally, RB's documentation showing CPB's approval of the indirect rates consisted of correspondence addressing numerous grant issues. The documentation provided did not demonstrate RB's quantitative calculation to justify charging different rates for the same indirect cost categories to different CPB grants during similar time periods, e.g., charging 20 percent of the Business Manager's time to one grant, 4 percent to a second grant, and 5 percent to a third grant, per Exhibit I. Under CPB's Guidelines, grantees are required to submit their Grantee-Developed Method for calculating indirect costs for prior CPB approval and it must

be in sufficient detail to demonstrate its quantitative calculation used in determining the self-developed indirect administrative support valuation.

Alternatively, to allow some indirect costs under these CPB agreements, we developed indirect rates for the three fiscal years audited based on the cost categories claimed by RB. We used a simplified allocation methodology using the functional expense information presented in RB's audited financial statements, per Exhibit K. We calculated a rate by using the Management & General reported information as a pool of indirect costs to be distributed across the other functional categories. We adjusted the direct costs by the professional fees presented in the functional expenses to eliminate contracted services costs to calculate an indirect rate for each fiscal year. We calculated the following yearly rates for each year, per Exhibit J.

Calculated Indirect Rates

Fiscal Year	Indirect Rate
2008	8.9%
2009	8.4%
2010	7.1%

Our calculated rates were comparable to the 7 percent and 6.6 percent indirect rates in the two LA Program Service grant agreements. Likewise, as presented in Exhibit I, our rates were also comparable to the plans presented by RB to support many of the indirect cost line items for the other three production agreements, but significantly lower than the 15 percent rate included in the three CPB production grant audited.

Applying the rates we calculated to each of the five agreements' direct costs reported by RB and shown in Exhibits D-H, we questioned \$167,668 in indirect costs claimed, as calculated in Exhibit K.

Lack of Documentation for Direct Time Charged to CPB Projects

Our examination found that time charged by RB personnel to CPB grant projects was not documented. While hourly employees prepared time sheets, their time sheets did not indicate the projects or activities that they worked on. Their timesheets only indicated the number of hours worked each day. Executive and professional staff members did not prepare time sheets.

The lack of documentation for time worked on CPB projects was problematic because many of the staff members' salary and fringe benefits were charged to multiple CPB projects at the same time, as well as, non-CPB activities. As a result, we could not determine whether the salary and fringe benefit charges claimed under the CPB grants were reasonable and not duplicative. As previously discussed, grantee's are required to keep books, records, and accounts sufficient to enable

CPB to verify all direct costs, overhead, and administrative allocations associated with grant projects.

Without documentation to verify direct salary costs claimed on the CPB grants, we developed an allocation methodology based on revenues to support allocating direct salaries and fringe benefits to CPB's grants. Specifically, we used the production revenues and total revenues reported in RB's audited financial statements to equitably allocate direct salaries and benefits to CPB grants and non-CPB activities. Exhibit M calculates this allocation rate using CPB production revenues and other production revenues based on total production revenues. To illustrate, the FY 2008 CPB production revenue of \$593,044 was 50 percent of that year's total RB production revenue (\$593,044/\$1,185,919). Similar rates calculated for FYs 2009 and 2010 were 51.4% and 71.9% respectively. We used these percentages to allocate RB production employees' salaries between CPB and non-CPB production activities.

Exhibit N shows that the CPB grant revenues for FYs 2008-2010 were 28.4 percent, 32 percent, and 53.3 percent, respectively of total RB revenues. These percentages were used to allocate RB's executive director's salary to CPB grants and all Radio Bilingüe activities based on total revenues (production and non-production) reported in the audited financial statements. Using the percentages shown in Exhibit M and N, we calculated questionable CPB salary and fringe benefit costs for multiple positions totaling \$118,092 for the fiscal years we audited.

Specifically, we calculated the allowable and questioned direct salary and fringe benefit expenses on a monthly basis for FYs 2008 through 2011 for its executive producer, producer, engineer, database coordinator, and satellite chief. For example, RB claimed \$2,910 in salary for one position as a direct expense from November through June, and \$4,497 in July, August and September for a total of \$36,768. We took the monthly salary for this position from the IRS Form W-2, and multiplied it by the percentage of CPB production revenue to total production revenue for each year. Then, we multiplied the allowable monthly charges by the number of months that salary costs exceeded CPB's allowable percentage and subtracted this amount from the total salary costs claimed to identify questionable salary costs. Questionable salary costs for the other employees were calculated in the same manner.

For questioned fringe benefits, we used the fringe benefit rates identified in the CPB approved budgets. All the production projects had a 20 percent fringe benefit rate except *The Economic Crisis and Latinos: Access to Unemployment Help* project, which was modified to a 23 percent rate. We multiplied that percentage rate by the questioned direct salaries to develop questioned fringe benefit costs.

Our calculation of questioned costs by project and fiscal year is presented in Exhibit L and is summarized in the following table.

Questionable Salaries & Fringe Benefits

Fiscal Year	Salaries	Fringe Benefits	Total
2008	\$22,001	\$4,400	\$26,401
2009	\$39,221	\$7,944	\$47,165
2010	\$22,201	\$4,747	\$26,948
2011	\$14,648	\$2,930	\$17,578
Total	\$98,071	\$20,021	\$118,092

RB believes that the percentages it used to accumulate direct salary and fringe benefit time charges to CPB grants was an accurate reflection of the actual time expended. As a result of our findings they prepared ad hoc lists of activities that occurred during the grant periods to support their direct salary and fringe benefit claims. Based on their reconstruction of the Executive Director’s time charges they found that he spent more time than required by the grant agreement on the LA Program Service Grant, Phase 2 project during 2009 and 2010. However, the lack of contemporaneous time sheets or other documentation of actual time spent on these grant projects prevented us from accepting the documentation developed after the fact.

RB’s stated that the Executive Director worked 382 hours during 2009 and 749 hours during 2010 on the LA Program Service Grant, Phase 2 project. This was 15 percent over the 2009 grant budget allowance of 40 percent and 12 percent over the 2010 allowance. However, our review of the reconstructed time charges found that 134 hours of the Executive Director’s time during 2009 was incurred after an 8-hour workday was completed or occurred during weekends. Likewise during 2010 we identified 239 hours were incurred after an 8-hour workday or occurred during weekends.

Lack of Documentation to Support In-Kind Contributions

Our examination found that in-kind contributions for satellite services were not adequately documented to enable us to verify the reasonableness of the \$10,000 claimed on final financial reports to CPB for the “2008 Election Coverage” and “Noticiero Latino” projects, per Exhibits F and G. As a result, we have questioned \$7,823 of the \$10,000 claimed for in-kind contributions of satellite services.

RB records show annual incurred satellite costs of \$30,000, which supported all of its operations. The documentation provided by RB to support in-kind contributions identified satellite contributions of \$4,125 for the “2008 Election Coverage” and \$6,300 for the “Noticiero Latino” projects. However, this documentation did not adequately demonstrate the reasonableness of these charges or provide a methodology of how the \$30,000 in annual satellite costs was equitably distributed across all of RB’s broadcast activities to enable us to verify the reasonableness of

the \$10,000 that was reported against the CPB grants. The methodology RB presented for claiming in-kind contributions included a portion based on a calculation of estimated satellite usage, which we allowed, and an additional estimate of the intrinsic value that these programs provided in the context of all of RB's satellite program offerings. We questioned the \$7,823 estimate of intrinsic in-kind value because there was no methodology to capture these costs.

RB stated that their estimate of intrinsic value should be included in its final reports of costs submitted to CPB. They said the satellite service routinely provides its 93 affiliate stations with these programs and even though they do not charge their affiliates for these programs; they have value because their affiliates incur fees to present these programs. Finally, they stated that the questioned amount is hardly unrealistic when compared with NPR's fee schedule. However, we cannot accept intrinsic value estimates that are not reflected in RB's financial records.

Recommendations:

- 1) We recommend that CPB management :
 - a) recover \$285,760 in questioned CPB funds; and
 - b) provide additional guidance in future CPB grant agreements on record keeping and documentation requirements to ensure RB can support direct, indirect, and allocated costs claimed.

Radio Bilingüe Response

RB disagreed with recommendation 1a, saying they conducted a detailed and rigorous examination of its accounting records associated with all of the subject production grants. To aid in its examination, RB brought in an independent public accounting (IPA) firm, who specializes in not-for-profit organizations.

Regarding indirect costs, the IPA firm said that a retrospective "true-up" of indirect costs rates (and fringe benefits) based on actual expenditures was necessary. They developed an alternative allocation based on RB's audited financial statements and additional financial information provided by RB. Their results differed in several respects with the OIG's report that are further detailed in its letter attached to RB's response in Exhibit P. Specifically, the IPA raised questions regarding the OIG's allocation basis and what functional costs should have been included in the indirect cost pool to determine a "true-up" of the indirect cost rates for the years audited.

Regarding direct salary charges, RB asserted it had methods in place to produce the information necessary to support its allocation of staff time to the CPB projects. RB also stated that it conducted a retrospective study to verify the accuracy and reasonableness of its original allocation methods. They stated the IPA's analysis confirmed that RB's methods were acceptable under generally accepted accounting principles and included

adequate safeguards to assure that wage allocations did not result in an over-statement or duplication of personnel charges across multiple projects. Further, the IPA reviewed the OIG's allocations and concluded that the OIG's approach was susceptible to inequities as discussed further in its letter included in Exhibit P.

The IPA's review concluded that expenses were overstated by \$46,809. They also noted that RB incurred an additional \$60,724 in indirect expenses associated with the Los Angeles Public Media Phase II grant. They said that this amount was not included in the project expenses reported to CPB because it exceeded the budgeted line item for indirect expenses for the project. Further, they said inclusion of these additional costs would still leave the total costs of this project within the original project budget.

RB believes a retrospective "true-up" of expenses for the five CPB production grants should be done. Combining the \$46,809 overstated expenses with the \$60,724 in additional indirect costs would produce a net balance due to RB of \$13,915.

RB's response did not address recommendation 1b because it was directed to CPB management.

OIG Review and Comment

Based on RB's response we consider recommendations 1a & b unresolved pending CPB's management decision.

We reviewed the IPA's conclusions on the draft report's questioned costs of \$284,345 related to indirect costs, direct salaries, and fringe benefits. We also reviewed their conclusion that only \$46,809 in reported costs was questionable and that an additional amount of \$60,724 should be claimed in unreported indirect costs for the LA Program Service Grant, Phase 2 project.

As noted, the IPA's conclusions are based on a reconstructed "true-up" of indirect costs and fringe benefits based on actual expenditures. However, to accept any of the RB proposed reconstructed costs would require CPB officials to agree to modify the existing grant agreement terms for claiming fringe benefits for all the grant agreements and indirect costs for the LA Program Service Grant, Phase 2 project. Since CPB will not address these issues until a final audit report is issued, we have not accepted any of the proposed reconstructed costs. However, we did adjust the fringe benefit costs questioned in Exhibit L, limiting the amount questioned to the percentage rates specified under each grant agreement.

Additionally, we analyzed the methodologies used by RB's IPA and have the following issues that CPB should consider if they decide to entertain accepting any of RB's methodologies for revising its reported costs.

Indirect Costs

The IPA's analysis disagreed with the OIG's exclusion of professional service fees from RB's total direct costs because the allocation base utilized in the approved CPB budgets was total direct costs. The IPA also referenced federal guidelines (OMB Circular A-122, *Cost Principles for Non-Profit Organizations*), which permits grantees to include \$25,000 per subcontract in the allocation base to recognize that an organization incurs some indirect costs in connection with its use of subcontractors. Additionally, the IPA analysis contends that certain functional categories (Grants Administration) as reported in RB's audited financial statements were incorrectly treated by the OIG as direct program costs rather than as a component of Management and General costs; thereby both understating the indirect cost pool and overstating the indirect cost base. Additionally, the IPA stated that RB staff discovered that certain Management and General costs were misclassified as Grants and Underwriting in the functional schedule of expenses included in the audited financial statements, thus further understating the Management and General indirect cost pool.

Regarding the IPA's assessment that professional service fees should be included in the allocation base, we believe including such costs unreasonably increased the allocation base and the amount RB claimed as indirect costs. Professional service fees did not receive the same level of benefits from RB's indirect cost pool of activities as did RB's internal activities. While the IPA's presentation discussed claiming \$25,000 of each subcontractor's costs in the allocation base, we could accept such a methodology if RB had claimed its indirect cost claims based on a federal approved indirect cost rate.

Regarding the inclusion of the Grants Administration functional expenses as part of the Management and General functional costs, we disagree. Both LA projects had direct costs associated with either grant writing or grant management. Both categories were included in the Grants Administration functional expenses per the IPA's discussions with RB management officials. It is general practice that costs may not be allocated to a project as an indirect cost if such costs are also assigned to a project as a direct cost.

Finally, RB provided revised general ledger summary information related to the misclassification of Management and General functional expenses to the Grants and Underwriting category. While these adjustments might be correct, we relied on the audited financial statement schedule of functional expenses in presenting our draft finding. We could not verify these revised figures to the adjusted trial balances we had previously received from RB during our fieldwork.

Direct Salaries

The IPA's analysis contends that CPB's grant terms did not specifically require the grantee to maintain written, contemporaneous time and effort reports of the type the OIG requested. While they acknowledge that maintaining written, contemporaneous time and effort reports is generally regarded as a "best practice" for supporting time allocations, they said all that is really required is that they have a method in place for

evaluating the reasonableness of salary and related fringe allocations on an after-the fact basis. After we completed our on-site review, RB represented that it based its salary allocations on how employees were expected and budgeted,² to spend their time, with periodic reviews by project managers to ensure staff time spent on projects was in compliance with grant budgets. Further, RB management have now represented that such analysis took place during the course of each project, although this analysis was not documented.

Additionally, RB reconstructed the executive director's time spent on the LA Program Service Grant, Phase 2 project for the periods June – September 2009 and June – November 2010, as well as, other production officials time for selected months (August 2008, October 2008, November 2008, September 2009, January 2010, and March 2010).

Finally, the IPA's analysis also took exception to the OIG's allocations of direct wages based on revenues received contending that the OIG methodology is no more equitable than the method actually used by RB.

Regarding RB's claims that it allocated direct salaries based on scheduled assignments and project managers' conducted after-the-fact reviews that staff worked on assigned projects, we remain skeptical to what extent these reviews were conducted because they were not documented. When RB initially responded to this issue in November 2011 they made no reference to project managers conducting post reviews of staff work assignments. Specifically, RB's written response stated, "Radio Bilingüe generates a monthly labor distribution schedule that demonstrates the revenue source(s) for paying all or part of each staff members' pay during the period, based on each person's work assignments.... Staff was not assigned to revenue allocations unless they were assigned to the work contracted."

We disagree with the IPA's interpretation of CPB record requirements that the grantee does not need to maintain written, contemporaneous records of time charges under the grant agreement. CPB's agreements require the grantee to keep sufficient records to verify all direct costs, overhead, and administrative allocations to permit an effective audit. We believe this requires project time recordkeeping that can be verified against project manager's certifications and not merely be supported by a work assignment schedule.

Regarding the Executive Director's reconstructed time charges for the LA Program Service Grant, Phase 2 project, RB reported the Executive Director worked 382 of 693 available time hours during 2009 (55 percent of available hours or 15 percent over the approved-reimbursement rate of 40 percent). During 2010 RB reported that the

² The IPA reviewed three months of payroll allocations (October – December 2009) based on scheduled work assignments. The October 2009 report showed that 11 of 22 employees who worked on CPB projects also worked on other projects or unrestricted funded activities. RB had previously provided us with a similar allocation for January 2009; however, we were not advised that the work assignments were subsequently reviewed by RB project managers to verify their accuracy.

Executive Director worked 749 of 1,040 available hours on this project (12 percent over the approved-reimbursement rate of 60 percent).

As CPB officials evaluate the merit of the reconstructed hours presented by RB, the following observations are presented for consideration. Our review of the Executive Director's reconstructed hours for two of the months questioned identified the following:

- RB charged approximately 90 hours of the Executive Director's time to the LA project in October 2010 while his reconstructed time records for the month identified that he spent only 45 hours on LA activities on 4 different days (17 hours, 1 hour, 11 hours, and 16 hours for those 4 days); and
- RB charged approximately 308 hours of the Executive Director's time to the LA project in November 2010 while his reconstructed time records identified that only 59.5 hours were spent on the LA activities on 4 different days (12.5 hours, 11 hours, 18 hours, and 18 hours).

Additionally, our review of the Executive Director's reconstructed time records noted:

- in FY 2009, 116 hours were claimed for time that exceeded an 8-hour workday or were incurred over a weekend;
- in FY 2010, 247 hours were claimed for time that exceeded an 8-hour workday or were incurred over a weekend; and
- 23 days claimed at least 16 hours were spent on CPB activities.

While these reconstructed hours provide more accountability than the scheduled work assignments, they also contained inconsistencies between scheduled and the actual hours reconstructed. This information also provides insight on how that time was actually spent (e.g., travel time, dinner meetings, conferences, receptions, etc.). Additionally, questions can be asked about the level of productivity that is actually received for hours worked beyond the normal 8-hour workday.

Regarding the IPA's concerns about our methodology for questioning direct salaries; because we could not attest to the accuracy of the work assignment schedules we developed an alternative methodology that could be consistently applied allocating salaries based on revenues across all production activities. Further, we only questioned monthly direct salary charges in excess of CPB's proportionate investment in the audited CPB production projects, per Exhibits M and N.

Fringe Benefits

The IPA's analyses of fringe benefits agreed with the OIG's rates for FY 2008-2009, but stated that the rates used for FY 2010-2011 were incorrect. They also calculated separate rates for the LA Program Service Grant, Phase 2 project and for all the other RB projects. Based on their analysis we realized that we had inadvertently questioned fringe benefit costs on Exhibit L based on actual fringe benefits rates versus the grant term rates. Further, we identified that our calculation of the FY 2010-2011 fringe benefit

rates did not capture all of the LA Program Service Grant, Phase 2 fringe benefit costs. As a result, we corrected Exhibit L to question fringe benefits based on the grant agreement budgeted rates, which resulted in a revised questioned cost total of \$118,092 for direct salaries and fringe benefits.

Non-Compliant Non-Federal Financial Support

Our examination of NFFS found that RB improperly claimed \$28,150 in revenues received from public broadcasting entities as NFFS on its Radio FY 2009 AFR. Discussion with RB officials indicated that an oversight on their part caused the over-reported NFFS. This condition resulted in CPB making \$1,827 in excess CSG payments to RB during FY 2011. We classified this amount as funds put to better use for reporting purposes, because these funds could have been distributed to other public broadcasting entities.

Calculation of CSG Overpayment

Explanation	Overpayment
Revenues from Public Broadcasters	\$28,150
CPB's Incentive Rate of Return for Radio	.064888
Total Overpaid CSG	<u>\$1,827</u>

RB records showed that they claimed \$19,150 as NFFS which they received as their share of a CPB "Mortgage Crisis" grant that was distributed to public broadcasters in California. They also claimed as NFFS \$9,000 received from public television station KQED as a sub-grantee recipient of a two-year "Health Dialogues" grant award from The California Endowment.

Chapter 3 of CPB's Financial Reporting Guidelines provides that revenue received from public broadcasting entities including CPB must be excluded from NFFS. This resulted in RB receiving an increased FY 2011 CSG award by \$1,827.

RB agreed that the \$19,150 was an ineligible claim but questioned whether the \$9,000 claim that originated from The California Endowment who provided a grant to public broadcaster KQED and then subcontracted with RB was really ineligible. However, we believe that once The California Endowment granted the funds to the public broadcaster; those funds became public broadcasting funds regardless of the original source and thus were ineligible.

Recommendation

- 2) We recommend that CPB require RB to take the following actions:
 - a) Submit a revised FY 2009 Radio AFR, Schedule A, eliminating the unallowable direct revenues of \$28,150.

- b) Recover \$1,827 in excess CGS payments made to RB based on the FY 2009 reported NFFS.

Radio Bilingüe Response

RB's response stated that they simply erred in their accounting when they included, as NFFS, a small payment it received as part of a CPB-funded partnership. In the other case, they stated that they thought that the funds received from the California Endowment retained their character as foundation support and were properly classified as NFFS even though another public broadcaster acted as the fiscal agent. However, they acknowledged that the other public broadcaster might have claimed the endowment funds as its own NFFS and inappropriate double counting of the support would occur if RB also claimed the support as NFFS; and they acceded to the finding.

OIG Review and Comment

We consider Recommendation 2 resolved but open pending CPB's management decision on whether to require RB to submit a revised FY 2009 AFR Schedule A eliminating the unallowable direct revenues of \$28,150, and whether they agree to recover \$1,827 in excess CGS payments made to RB based on the FY 2009 reported NFFS.

Noncompliance With Communications Act Requirements

We found that RB was not materially in compliance with the statutory provisions of the Act or the CPB requirements for; conducting open meetings of its Board of Directors (Board) or its committees; establishing an active CAB; making all financial and EEO reports available to the public; and establishing operating procedures explaining how it complied with the five requirements of the Act. RB management annually certified its compliance with these requirements when applying for its annual Community Service Grant. However, RB had never established a formal CAB, as envisioned by the CPB guidelines, since it became a CSG recipient in 1980. Discussions with RB management indicated that they were not aware of the requirements of the Act or CPB guidelines. However, as a result of our audit, RB took immediate action to bring themselves into compliance with all the requirements of the Act. Our review found that RB complied with the Act's requirements for Equal Employment Opportunity (EEO) reporting and securing donor list information.

Open Meetings

RB was not in compliance with the provisions of the Act and CPB's minimum requirements for open meetings. RB had no records of when or how often its Board meetings were announced on air to the public. Also, meetings of the Audit, Finance,

Evaluation, and Nominating Committees of the Board were not announced to the public. On-air announcements were not made, on at least three consecutive days each calendar quarter explaining RB's open meeting policy and how the public could obtain information regarding the dates, times, and locations of public meetings. In addition, there was no documented record of when meetings were closed to the public as required.

Section 396(k)(4) of the Act (47 U.S.C. §396(k)(4)), prohibits the distribution of federally appropriated funds to the licensee of a public broadcasting station unless the governing body of the organization, any committees of such governing body, or any advisory body of any such organization holds open meetings preceded by reasonable notice to the public.

The minimum compliance for "reasonable notice" as stated in CPB's explanation of the Act requires stations to "Give reasonable notice to the public of the fact, time and place of an open meeting at least one week (7 days) in advance of the scheduled date" CPB's explanation of the Act also requires stations to provide three types of notice.

1. Notice placed in the "Legal Notices" or the radio and television schedules section of a local newspaper in general circulation in the station's coverage area; or, notice is available through a recorded announcement that is accessible on the station's phone system; or, notice is available through an announcement that is accessible on the station's web page.
2. Notice communicated by letter, e-mail, fax, phone, or in person to any individuals who have specifically requested that they be notified.
3. On-air announcements on at least three consecutive days once during each calendar quarter that explain the station's open meeting policy and provides information about how the public can obtain information regarding specific dates, times, and locations.

CPB's explanation of the Act requirements for open meetings also specifies that, if a meeting is closed in accordance with exceptions recognized by the Act, the station must make a written statement containing the reasons for closing the meeting and make that information available to the public within a reasonable time after the closed meeting date. This notice should be distributed in the same manner as announcements for open meetings. This same reference in the Act prohibits requiring the public to register their name or provide any other information, except as would be needed to maintain safety.

We were told that RB has an active Board. Management stated that meetings of the Board were announced over the air and that printed announcements were posted on the doors of the various radio station offices. However, there are no records of when or how often this information was posted or announced on air.

The lack of compliance with the specific requirements of the Act and CPB guidelines for providing reasonable notice to the public of the fact, time, and place of board and committee meetings deprived the public of the required information envisioned by the Act.

In response to our preliminary observations, RB told us that while they did not believe that they violated CPB's open meeting requirements; however, they acknowledged that documentation of its compliance could be improved. We do not agree that they were in compliance. RB's lack of awareness of specific open meeting requirements coupled with the lack of documentation of its compliance supports our conclusions.

Open Records

RB was not in complete compliance with the open financial records provision of the Act and CPB's minimum compliance requirements at the time of our audit fieldwork because they did not maintain a copy of the station's AFR submitted to CPB, other financial reports submitted to CPB for the production grants, or the EEO statistical report submitted to CPB in its files available for public inspection.

Section 396(k)(5) of the Act provides that funds may not be distributed to any public telecommunications entity that does not maintain for public examination its AFR filed with CPB, any audit reports or financial statements on the financial condition of the station, or other information regarding finances, submitted to CPB pursuant to subsection (l)(3)(B). CPB addresses this requirement in its minimum compliance requirements by stating that the following documents must be made available for public inspection:

- a) Annual Financial Report (AFR) filed with CPB;
- b) Audited financial statements, and
- c) Information regarding finances submitted to CPB related to any funding agreement with CPB that requires a financial report.

Section 396(k) (11) of the Act also established that funds may not be distributed to any public broadcast station, unless the annual EEO statistical report that is submitted to CPB is available to the public at the central office where more than five full-time employees are assigned to work.

We were told that the AFRs and AFSs were always available to the public but they were not in a file. Financial Statements were available on the RB web site. We were also told that the receptionist was instructed to refer the public seeking financial information to the Director of Broadcasting. Station managers were not aware of the requirement to also have available "other information regarding finances submitted to CPB related to any funding agreement with CPB that requires a financial report." They are now in the process of bringing their records system into compliance. They also stated that they will maintain a hard copy file of financial documents and EEO statistics in addition to the copies of its AFR and FCC annual EEO report it maintains on its web site. They stated that the file will be readily available to the public.

RB filed the appropriate Station Activities Survey (SAS) report with CPB. However, it did not have a copy of the EEO statistical portion of the SAS report available for public inspection, as required. RB did have an FCC EEO file but the information in that file did not comply with CPB guidelines.

Community Advisory Board

Our examination found that RB had never established a Community Advisory Board (CAB) since it had become a CSG recipient in 1980. However, in keeping with its mission, RB routinely convened groups of listeners, advisory groups, and other audiences to obtain feedback on issues and programs being aired or being considered for airing. However, these actions did not comply with the statutory and CPB requirements for CABs.

CPB guidance requires community licensees to establish a viable CAB pursuant to the statutory requirements of Section 396(k) (8) of the Act. This section provides that funds may not be distributed to a community public broadcast station unless it establishes a CAB that meets at regular intervals and CAB members regularly attend the meetings. Further, CPB's minimum compliance requirements state that the CAB is to:

- review programming goals established by the station;
- review the services provided by the station;
- review significant policy decisions rendered by the station; and,
- advise the governing board whether the programming and other policies of the station meet specialized educational and cultural needs of the communities served by the station

CPB guidance also requires that to qualify as a meeting, the sessions of governing bodies, including the CAB, must include the following elements:

- a quorum, for the purpose of taking action, must be in attendance;
- deliberations must take place; and
- the deliberations must . . . relate to public broadcasting.

The lack of a functioning CAB denied the public the opportunity to provide the specific input to management and the governing board envisioned by the Act on how well the station was accomplishing its public broadcasting mission. In response to our audit, and to supplement their ongoing efforts, RB told us that they created a permanent CAB which will meet periodically.

Documented Procedures

RB had not developed documentation or written procedures that explain how it complied with the open meeting, open financial records, CAB, EEO, or donor list and political activities requirements of the Act. These procedures should specify in detail how the station actually goes about complying with each of the five sections of the certifications

made by grant recipients. These procedures are necessary to provide the public with information they need to understand how the station complies with these responsibilities.

CPB provides the following guidance in its certification requirements for developing implementing instructions for the Act's requirements.

Each recipient of a CPB station grant . . . shall develop documentation . . . that will indicate, for example, the recognition of the provision by the relevant boards and committees, the procedure for open meetings, the method used to give reasonable notice to the public, examples of notices of open meetings . . . and other information indicating community response, if any, to open meetings.

This documentation shall be kept at a reasonable location by each station and be made available to CPB, upon request, to determine the fact and extent of compliance. Similar guidance also applies to the other four requirements under the Communications Act.

These policies are essential to ensure compliance with the Act and provide the public with information about station operations. For example, the lack of a written policy on RB's open meeting procedures hindered the ability of the public to obtain information regarding the dates, times, and locations of future Board, CAB, and all other meetings. Further, without written policies describing how the station complies with the open financial records and EEO requirements, the public cannot readily determine the type of records available for public inspection, the mechanisms for obtaining and reproducing available records, or any limitations on access to specific records.

In response to our audit, RB told us that they adopted and implemented policies and procedures to address the documentation requirements of the CPB guidelines which they provided in response to our preliminary observations. The guidelines cover open meeting of the Board of Directors, Open Records, and the Community Advisory Board. RB did not provide policies and procedures to address EEO and donor requirements.

Recommendations

- 3) We recommend that CPB require RB to fully comply with all requirements of the Communications Act and provide CPB documentation of its compliance over the next four calendar quarters. To comply adequately RB should:
 - a) Make on-air announcements for at least three consecutive days once each calendar quarter that explain the station's open meeting policy, and provide information how the public can obtain information regarding specific dates, times, and locations of public meetings.

- b) Provide seven days advance notice of all public meetings of the Board, committees of the Board, and the CAB.
 - c) Ensure that when a meeting is closed in accordance with exceptions recognized by the Act, RB makes a written statement containing the reasons for closing the meeting available to the public within a reasonable time after the closed meeting. This notice should be distributed in the same manner as announcements for open meetings.
 - d) Establish an operating CAB and provide CPB with copies of its by-laws, meeting agendas, and minutes to provide additional information on the operations of the CAB.
 - e) Establish written implementing policies that explain how the station will comply with open meeting, open financial records, CAB, EEO, and donor list requirements of the Act, and provide this documentation to CPB.
- 4) We recommend that CPB consider sanctioning the RB for its long period of non-compliance with the CAB requirements, without officially notifying CPB that it did not have an operating CAB. Sanctions could include a one-time financial penalty to a future grant award for not reporting its non-compliance.

Radio Bilingüe Response

RB's response stated that they agree with most, though not all, of our findings and that they have taken direct, specific, and immediate measures to assure full compliance with every provision of the CPB requirements and to remedy every issue identified in the report. They included references to specific actions that they have implemented to address shortcomings in procedures and processes for compliance with open meetings, CAB, open records and documentation of required procedures. This included identifying procedures to increase transparency and documentation of their actions to comply with all CPB requirements.

RB also requested that we withdraw our recommendation that CPB consider sanctioning RB, with possibly a financial penalty, for its long period of non-compliance with the CAB requirements, without officially notifying CPB that it did not have an operating CAB. RB stated that admittedly, they did not comply in all respects with CPB requirements; however, they noted that the OIG report did not indicate that RB's efforts to understand and serve its audience were ineffective.

OIG Review and Comment

We consider Recommendation 3 resolved but open pending CPB's management decision on whether to accept RB's corrective actions to comply with all requirements of the Act.

With respect to Recommendation 4; it remains unresolved and open pending CPB's management decision on whether to financially sanction RB for its long-term lack of compliance with CAB requirements. As was noted in our report and in RB's response, RB convened ad hoc groups when they decided it was necessary to seek the public's opinion on matters under consideration. However, as informative as this process may have been it did not substitute for a well organized panel charged with the specific responsibilities envisioned for the CAB. These responsibilities included providing the Board of Directors with regular assessments about the activities and programs of the radio stations under the RB umbrella. This formal structure and the ongoing responsibilities are essential to the success of a CAB.

Exhibit A

CPB Payments to RB

Date	Grant	FY 2008	FY 2009	FY 2010	Oct-Nov 2011	Total
	Digital:					
10/15/07	Contract #10062	\$112,500				\$112,500
11/15/07	Contract #8479	\$13,872				\$13,872
3/5/08	Contract #10062	\$112,500				\$112,500
5/30/08	Contract #9663	\$18,912				\$18,912
9/30/08	Contract #10062	\$50,500				\$50,500
	Sub-Total	\$308,284	\$0	\$0	\$0	\$308,284
	Production:					
11/6/07	Elections	\$135,000				\$135,000
7/31/08	Elections	\$135,000				\$135,000
2/17/09	Elections		\$135,000			\$135,000
5/15/09	Elections		\$45,000			\$45,000
8/1/08	Noticiero Latino	\$123,000				\$123,000
10/26/09	Noticiero Latino			\$234,500		\$234,500
6/8/10	Noticiero Latino			\$92,500		\$92,500
10/1/08	LA Latino Program Service, Phase 1		\$100,000			\$100,000
2/17/09	LA Latino Program Service, Phase 1		\$100,000			\$100,000
6/3/09	LA Latino Program Service, Phase 1		\$100,000			\$100,000
8/4/10	LA Latino Program Service, Phase 1			\$50,262		\$50,262
6/26/09	LA Latino Program Service, Phase 2		\$600,000			\$600,000
3/11/10	LA Latino Program Service, Phase 2			\$800,000		\$800,000
8/5/10	LA Latino Program Service, Phase 2			\$400,000		\$400,000
10/1/09	The Economic Crisis			\$150,000		\$150,000
10/19/10	The Economic Crisis				\$150,000	\$150,000
11/22/10	The Economic Crisis				\$100,000	\$100,000
	Sub-Total	\$393,000	\$1,080,000	\$1,727,262	\$250,000	\$3,450,262
	Community Service Grant:					
12/5/07	FY 2008 Radio CSG Unrestricted	\$86,095				\$86,095
12/5/07	FY 2008 Radio CSG Restricted	\$33,221				\$33,221
4/7/08	FY 2008 Radio CSG Unrestricted	\$83,581				\$83,581
4/7/08	FY 2008 Radio CSG Restricted	\$32,247				\$32,247
1/13/09	FY 2009 Radio CSG Unrestricted		\$85,184			\$85,184
1/13/09	FY 2009 Radio CSG Restricted		\$30,101			\$30,101
3/5/09	FY 2009 Radio CSG Unrestricted		\$85,184			\$85,184
3/5/09	FY 2009 Radio CSG Restricted		\$30,101			\$30,101
1/14/10	FY 2010 Radio CSG Unrestricted			\$80,579		\$80,579
1/14/10	FY 2010 Radio CSG Restricted			\$28,770		\$28,770
3/8/10	FY 2010 Radio CSG Unrestricted			\$80,579		\$80,579
3/8/10	FY 2010 Radio CSG Restricted			\$28,769		\$28,769
	Sub-Total	\$235,144	\$230,570	\$218,697	\$0	\$684,411
	Other:					
1/13/10	Fiscal Stabilization Grant			\$21,654		\$21,654
	Total	\$936,428	\$1,310,570	\$1,967,613	\$250,000	\$4,464,611

Annual Financial Report

Line	Description	2009	2010
	<i>Schedule A, Source of Income:</i>		
1	Amounts provided directly by federal government	\$179,404	\$453,154
2	Amounts provided by Public Broadcasting Entities	\$1,163,070	\$2,638,786
2.A.	CPB-CSG	\$170,368	\$138,641
2.B.	CPB-Digital Project Grants	\$0	\$0
2.C.	CPB-Restricted CSG	\$60,202	\$80,057
2.D.	CPB-TV Interconnection grants	\$0	\$0
2.E.	CPB-all other funds	\$932,500	\$2,420,088
2.F.	PBS	\$0	\$0
2G	NPR	\$0	\$0
2H	Public broadcasting stations - all payments	\$0	\$0
2I	Other PBE funds (specify)	\$0	\$0
3	Local boards & departments of education or other local government sources	\$121,050	\$35,590
4	State boards & departments of education or other state government sources	\$0	\$122,876
5	State colleges and universities	\$0	\$0
6	Other state-supported colleges and universities	\$21,300	\$26,800
7	Private colleges and universities	\$0	\$0
8	Foundation and nonprofit associations	\$1,491,603	\$1,194,854
8a	How much of the revenue was received as underwriting? (2009 - \$3,600)		
9	Business and Industry	\$95,525	\$34,483
9a.	How much of the revenue was received as underwriting? (2009 - \$28,525)		
10	Memberships and subscriptions	\$0	\$0
11	Revenue from Friends groups less any revenue included on line 10.	\$28,046	\$32,743
12	Subsidiaries and other activities unrelated to public broadcasting	\$0	\$0
13	Auction revenue	\$0	\$0
14.A.	Gross special fundraising activities	\$168,674	\$0
14.B	Direct special fundraising expenses	\$306,883	\$0
15	Passive Income	\$1,759	\$253
15.A.	Interest and dividends	\$1,759	\$253
20	Other Direct Revenue	\$7,486	\$4,526
21	Total Revenue	\$3,277,917	\$4,544,065
	<i>Adjustments to Revenue</i>		
22	Federal revenue	\$179,404	\$453,154
23	Public broadcasting revenue	\$1,163,070	\$2,638,786
26	Other automatic subtractions from total revenue	\$168,674	\$0
26B	Special fundraising event expenses-limited to the lesser of lines 14a or 14b	\$168,674	\$0
27.	Total Direct Nonfederal Financial Support	\$1,766,769	\$1,452,125

Annual Financial Report

Line	Description	2009	2010
	Schedule C		
1	Professional Services	\$14,650	\$60,315
2	General Operational Services	\$3,300	\$3,300
3	Other Services	\$0	\$0
4	Total in-kind contributions eligible as NFFS	\$17,950	\$63,615
5	In-kind contributions ineligible as NFFS	\$254,640	\$254,640
6	Total in-kind contributions	\$356,830	\$402,495
	Schedule E, Expenses:		
	Program Services		
1	Programming and production	\$2,004,917	\$3,261,507
2	Broadcasting and engineering	\$565,277	\$662,514
3	Program information and promotion	\$59,182	\$58,560
	Support Services		
4	Management and general	\$212,726	\$240,002
5	Fund raising and membership development	\$306,883	\$25,627
6	Underwriting and grant solicitation	\$279,612	\$239,638
7	Depreciation and amortization	\$0	\$0
8	Total Expenses	\$3,428,597	\$4,487,848
	Investment in Capital Assets		
9	Total capital assets purchased or donated	\$176,688	\$170,153
	Total expenses & investment in capital assets	\$3,605,285	\$4,658,001
	Additional Information		
11	Total expenses (direct only)	\$3,071,767	\$4,085,353
12	Total expenses (indirect and in-kind)	\$356,830	\$402,495
13	Investment in capital assets (direct only)	\$176,688	\$170,153
14	Investment in capital assets (indirect and in-kind)	\$0	\$0
1	Data from AFR		
1.a.	Schedule A, Line 21	\$3,277,917	\$4,544,065
1.b.	Schedule B, Line 5	\$0	\$0
1.c.	Schedule C, line 6	\$356,830	\$402,495
1.d.	Schedule D, Line 8	\$0	\$0
1.e.	Total from AFR	\$3,634,747	\$4,946,560

**Summary of Non-Federal Financial Support
Reported to CPB
Certifications by Head of Grantee**

AFR Schedule	FY 2009	FY 2010	Total
Direct Revenue (Schedule A)	\$1,766,769	\$1,452,125	\$3,218,894
Indirect Administrative Support (Schedule B)	0	0	0
In-Kind Contributions (Schedules C&D)			
a. Services and Other Assets (Schedule C)	17,950	63,615	81,565
b. Property and equipment (Schedule D)	0	0	0
TOTAL NFFS	\$1,784,719	\$1,515,740	\$3,300,459

**Los Angeles Latino Program Service
Research & Development Phase 1, Final Report
October 1, 2008 - June 1, 2009**

Budget Category	Budget	Actual	Variance
Revenue:			
CPB Grant	\$350,262	\$350,262	\$0
Total Project Funds	\$350,262	\$350,262	\$0
Expenses:			
Radio Bilingüe Personnel	\$29,101	\$27,721	\$1,380
Fringe Benefits @ 20%	\$5,820	\$5,505	\$315
Total Radio Bilingüe Personnel and Fringe Benefits Costs	\$34,921	\$33,226	\$1,695
Direct Expenses:			
Consultants			
Project Management Firm	\$187,839	\$187,401	\$438
Partnership Facilitator	\$47,817	\$51,539	(\$3,722)
Communications Specialist(s)	\$25,768	\$25,768	\$0
Legal Counsel	\$885	\$885	\$0
Media Trainer	\$11,500	\$11,312	\$188
Total Direct Expenses	\$273,809	\$276,905	(\$3,096)
Operating Expenses:			
Travel	\$11,399	\$11,535	(\$136)
Hosting meeting Expense	\$7,219	\$10,287	(\$3,068)
Total Operating Expenses	\$18,618	\$21,822	(\$3,204)
Subtotal Project Expenses	\$327,348	\$331,953	(\$4,605)
Indirect @ 7%	\$22,914	\$22,914	\$0
Total Project Costs	\$350,262	\$354,667	(\$4,605)

Exhibit E

**LA Program Service Content Development
and Testing Phase 2, Final Report
June 1, 2009 - November 30, 2010**

Budget Category	Budget	Actual	Variance
Revenue:			
CPB Grant	\$2,451,419	\$2,451,419	\$0
Total Project Funds	\$2,451,419	\$2,451,419	\$0
Expenses:			
Administration			
Radio Bilingüe Personnel	\$131,470	\$133,636	\$2,166
Fringe Benefits @ 20%	\$26,294	\$21,361	(\$4,933)
Total Radio Bilingüe Personnel and Fringe Benefits Costs	\$157,764	\$154,997	(\$2,767)
Los Angeles Personnel			
Los Angeles Personnel	\$288,442	\$288,521	(\$79)
Fringe Benefits (Excluding Project Director) @ 20%	\$19,409	\$15,525	\$3,884
Total Los Angeles Personnel and Fringe Benefits Cost	\$307,851	\$304,046	\$3,805
Administration Subtotal	\$465,615	\$459,043	(\$6,572)
Content Production Personnel			
Content Production Personnel	\$492,035	\$477,937	\$14,098
Fringe Benefits @ 20%	\$97,807	\$76,201	\$21,606
Content Production Subtotal	\$589,842	\$554,138	\$35,704
Research			
Research			
Research Firm	\$315,650	\$314,790	\$860
Audience Discussion Groups	\$1,760	\$1,760	\$0
Research Subtotal	\$317,410	\$316,550	\$860
Facilities/Infrastructure			
Facilities/Infrastructure			
Space Rental	\$50,601	\$52,833	(\$2,232)
Remote Studios	\$1,917	\$1,924	(\$7)
Infrastructure Advisor	\$37,103	\$36,541	\$562
Laptops (17)	\$44,436	\$44,665	(\$229)
Printers (7)	\$3,000	\$3,205	(\$205)
Web Server and Software	\$12,075	\$8,707	\$3,368
Public interactive Content Management	\$12,363	\$10,148	\$2,215
Bright Cove website video player	\$3,500	\$5,500	(\$2,000)
ENCO Server	\$17,634	\$17,351	\$283
Audio/Video Production Equipment	\$56,999	\$56,068	\$931
Facilities/Infrastructure Subtotal	\$239,628	\$236,942	\$2,686

Exhibit E-1

**LA Program Service Content Development
and Testing Phase 2, Final Report
June 1, 2009 - November 30, 2010**

Budget Category	Budget	Actual	Variance
Operating			
Office & General Supplies	\$7,005	\$7,592	(\$587)
Phone	\$7,826	\$7,843	(\$17)
Postage/Shipping /Printing	\$3,761	\$3,938	(\$177)
Meetings	\$13,749	\$14,081	(\$332)
Travel	\$114,088	\$114,320	(\$232)
Subscriptions/Music/Dues	\$5,601	\$5,981	(\$380)
Payroll Fees	\$3,815	\$3,803	\$12
Operating Subtotal	\$155,845	\$157,556	(\$1,711)
Development and Marketing – Contracted			
Development Specialist(s)	\$125,200	\$125,200	\$0
Foundation Researcher/Grant Writer(s)	\$25,200	\$21,740	\$3,460
Marketing/Branding/Communications Specialist(s)	\$44,000	\$44,000	\$0
Event(s) and in-house Marketing for web Launch	\$45,000	\$44,430	\$570
Promotional Materials	\$12,000	\$9,550	\$2,450
Development and Marketing Subtotal	\$251,400	\$244,920	\$6,480
Professional Fees			
Search professional(s)	\$43,046	\$48,012	(\$4,948)
Partnership Facilitator	\$55,270	\$43,089	\$12,181
Radio Bilingüe Organizational Development	\$40,800	\$38,211	\$2,589
Business Plan Creation/Management Advisement	\$24,500	\$24,500	\$0
Operating Structure Development/501c3 Development	\$40,000	\$40,000	\$0
Broadcast Option Scan	\$9,000	\$9,000	\$0
National Program Partnership Option Negotiator	\$52,000	\$52,000	\$0
Attorney fees	\$15,611	\$15,560	\$51
Professional Fees Subtotal	\$280,245	\$270,372	\$9,873
Contingency (station acquisition negotiations and business modeling)	\$20,000	\$20,000	\$0
Indirect @ 6.6% of Project (excluding RB staff and contingency)	\$131,318	\$131,318	\$0
Subtotal Without Contingency	\$2,431,303	\$2,370,839	\$60,464
Total Project Costs with Contingency	\$2,451,303	\$2,390,839	\$60,464

**2008 Election Coverage Final Report
November 1, 2007 - January 31, 2009**

Budget Category	Budget	Actual	Variance
Revenue			
CPB	\$450,000	\$450,000	0
Grantee Guarantee In-kind	\$28,000	\$28,000	0
Total Revenue	\$478,000	\$478,000	0
Expenses			
Personnel Salaries	\$178,894	\$178,893	\$1
Fringe Benefits @ 20%	\$39,805	\$38,056	(\$1,749)
Total Personnel Expenses	\$214,672	\$216,949	(\$1,749)
Contract Personnel			
Web News Editor Consultant	\$26,100	\$36,269	(\$10,169)
Web Master Consultant	\$9,900	\$0	\$9,900
Reporter	\$3,000	\$3,500	(\$500)
Interpreter	\$820	\$820	\$0
Free Lance Module Reporters	\$12,000	\$12,000	\$0
Total Contractor Expenses	\$51,820	\$52,589	(\$769)
Marketing			
Promotional Materials	\$20,000	\$17,531	\$2,469
Honorariums for Host	\$8,000	\$7,000	\$1,000
Lodging and Per Diem	\$26,958	\$27,552	(\$594)
Total Marketing Expenses	\$54,958	\$52,083	\$2,875
Operating Expenses			
Facilities-news room & offices	\$6,000	\$6,000	\$0
Equipment Maintenance & Repairs	\$11,000	\$10,390	\$610
Laptop Computer(Dell)	\$1,703	\$1,703	\$0
Production Supplies-CDs, minidisks	\$2,267	\$2,252	\$15
Convention Transmission	\$9,579	\$9,114	\$465
Total Operating Expenses	\$30,550	\$29,459	\$1,091
Other Operating Expenses			
Office Supplies	\$6,000	\$6,000	\$0
Telephone services (\$500./Mo)	\$16,500	\$17,330	(\$830)
Utilities (\$125./Mo)	\$8,000	\$8,088	(\$88)
Total Other Operating Expenses	\$30,500	\$31,418	(\$918)

**2008 Election Coverage Final Report
November 1, 2007 - January 31, 2009**

Budget Category	Budget	Actual	Variance
Indirect Expenses @ 15%	\$67,500	\$67,500	\$0
Subtotal Project Expenses	\$450,000	\$450,000	\$0
In-kind Contribution			
Facilities-news room & offices	\$9,000	\$9,000	\$0
Studio Time Production	\$15,000	\$15,000	\$0
Satellite and other Distribution	\$4,000	\$4,000	\$0
Total Grantee In-kind Contribution	\$28,000	\$28,000	\$0
Total Project Expenses	\$478,000	\$478,000	\$0

**Noticiero Latino Final Report
July 1, 2008 - November 30, 2010**

Budget Category	Budget	Actual	Variance
Revenue			
CPB	\$500,000	\$500,000	\$0
Grantee Guarantee In-kind	\$30,000	\$30,000	\$0
Total Projected Funds	\$530,000	\$530,000	\$0
Expenses:			
Personnel Salaries	\$190,314	\$190,314	\$0
Fringe Benefits @ 20%	\$40,732	\$39,391	\$1,341
Total Personnel Expenses	\$231,046	\$229,705	\$1,341
Contract Personnel			
Free Lance Reporters	\$97,577	\$98,113	(\$536)
Marketing Web Consultant	\$25,138	\$24,888	\$250
Production Consultant	\$6,725	\$6,912	(\$187)
Total Contractor Expenses	\$129,440	\$129,913	(\$473)
Marketing			
Promotional Expenses	\$33,292	\$34,282	(\$990)
Travel and Conferences	\$21,805	\$22,883	(\$1,078)
Total Marketing Expenses	\$55,097	\$57,165	(\$2,068)
Other Operating Expenses			
Supplies (125.00/Mo)	\$3,150	\$3,000	\$150
Telephone services (\$500./Mo)	\$12,900	\$12,000	\$900
Utilities (\$125./Mo)	\$3,150	\$3,000	\$150
Total Other Operating Expenses	\$19,200	\$18,000	\$1,200
Indirect Expenses @ 15%	\$65,217	\$65,217	\$0
Total Project Expenses	\$500,000	\$500,000	\$0
Grantee In-Kinds			
Facilities-news room & offices	\$18,000	\$18,000	\$0
Equipment Maintenance &Repairs	\$6,000	\$6,000	\$0
Satellite and other Distribution	\$6,000	\$6,000	\$0
Total Grantee In-kinds	\$30,000	\$30,000	\$0
Total Expenses	\$530,000	\$530,000	\$0

**The Economic Crisis and Latinos:
Access to Unemployment Help Final Report
September 1, 2009 - November 30, 2010**

Budget Category	Budget	Actual	Variance
Revenue			
CPB Grant	\$475,000	\$400,000	\$75,0000
Total Project Funds	\$475,000	\$400,000	\$75,000
Expenses:			
Personnel Salaries	\$271,883	\$271,883	\$0
Fringe Benefits @ 23%	\$63,182	\$63,937	(\$755)
Total Personnel Expenses	\$335,065	\$335,820	(\$755)
Contract Personnel			
Reporters & Contributors	\$20,426	\$20,339	\$87
Webmaster	\$15,324	\$14,556	\$768
Web Editor	\$21,400	\$21,230	\$170
Total Contractor Expenses	\$57,150	\$56,125	\$1,025
Marketing			
Promotional Expenses	\$6,210	\$7,298	(\$1,088)
Travel and Conferences	\$6,335	\$5,999	\$336
Total Marketing Expenses	\$12,545	\$13,297	(\$752)
Other Operating Expenses			
Equipment Repair	\$7,650	\$7,200	\$450
Production materials & Supplies	\$3,300	\$3,300	\$0
Telephone/ Internet Services	\$13,050	\$13,318	(\$268)
Utilities	\$3,850	\$3,550	\$300
Total Other Operating Expenses	\$27,850	\$27,368	\$482
Subtotal Project Expenses	\$432,610	\$432,610	\$0
Indirect Expenses @ 15%	\$42,390	\$42,390	\$0
Total Project Expenses	\$475,000	\$475,000	\$0

Exhibit I

Analysis of Indirect and In-kind Percentage Rates

Cost Category	Elec 11/07-1/09	Notic 7/08-11/10	LA 1 10/08-6/09	Econ 9/09-11/10	LA 2 6/09-11/10
Personnel:					
Business Manager	20%	4%	5%	4%	26%
Grants Admin	15%	10%	5%	7%	26%
Exec Secretary	7%	8%		4%	26%
Grant Develop	5%				26%
Grant Develop					26%
Dir of Broadcasting *	2%				
Exec Dir	5%	7%		4%	
Maintenance	4%				
Pledge Drive Coordinator	8%				
Fringe Benefits	21%	21%		21%	
KHDC Station Mgr*	9%				
KHDC Producer *	9%				
Engineering*	2%				
Other Operating Expenses:					
Legal & Accounting Fees	7%	5%	6%		20%
Transmission & Studio Eng	5%	5%			20%
Grants & Funds Solicitation					20%
Consultants - Other					20%
Office Supplies/Consumables		5%	5%	3%	20%
Telephone/Communications			7%		20%
Postage & Shipping			5%		20%
Rent	7%	8%	5%	10%	20.0%
Building & Grounds	5%	3%	5%	4%	20%
Utilities			5.0%		20%
Insurance	10%	7%	5%	7%	20%
Equipment Repairs		2%	5%		20%
Equipment Rental					20%
Depreciation					20%
Printing			5%		20%
Conference, Meetings & Seminars	5%		5%		20%
Travel			5%		20%
Travel-Exec Dir					20%
Satellite (indirect & in-kind*)	2% / 11%	9%		15%	
Distribution					20%
News Subscription					20%
Advertising & Marketing					20%
Fund Raising Expense					20%
Membership & Dues	2%		5%		20%
Misc	15%		5%		20%
Interest Expense					20%
Equipment (Purchase Fixed Assets)					20%

In-Kind rates are larger and reflected in Bold and Italics

Exhibit J

Calculation of Indirect Rate Based on Functional Expenses

Expenses	LA Public Media	Programming & Prod	Broadcast	Grant Admin	Grants & Underwriting	Fundraising	Total Direct	Mgt & General	Indirect Rate
2008:									
Operating Expenses		\$1,482,373	\$335,911	\$64,942	\$343,851	\$263,844	\$2,490,921	\$210,094	
Professional Fees		(\$173,928)	\$0	\$0	(\$90,999)	(\$3,075)	(\$268,002)	(\$11,233)	
Adjusted Total	\$0	\$1,308,445	\$335,911	\$64,942	\$252,852	\$260,769	\$2,222,919	\$198,861	8.9%
2009:									
Operating Expenses	\$215,396	\$1,705,281	\$306,337	\$59,182	\$265,962	\$306,883	\$2,859,041	\$212,726	
Professional Fees	(\$24,427)	(\$420,603)	(\$5,294)	\$0	(\$39,410)	\$0	(\$489,734)	(\$13,206)	
Adjusted Total	\$190,969	\$1,284,678	\$301,043	\$59,182	\$226,552	\$306,883	\$2,369,307	\$199,520	8.4%
2010:									
Operating Expenses	\$1,727,984	\$1,449,283	\$344,259	\$58,560	\$239,638	\$25,627	\$3,845,351	\$240,002	
Professional Fees	(\$637,136)	(\$164,023)	(\$7,271)	(\$125)	(\$10,933)	\$0	(\$819,488)	(\$26,604)	
Adjusted Total	\$1,090,848	\$1,285,260	\$336,988	\$58,435	\$228,705	\$25,627	\$3,025,863	\$213,398	7.1%

Methodology: We developed a simplified indirect cost rate by using the functional expense information presented in RB's audited financial statements. We calculated the rates by using the Management and general reported information as a pool of indirect costs to be distributed across the other functional categories. We adjusted the direct costs by the professional fees presented in the functional expenses to eliminate professional fees to calculate an indirect rate for each fiscal year. We calculated the rates for each year. We did not include in-kind expenses in total direct cost calculation because they were not subject to indirect costs under the grant budgets.

Calculation of Questionable Indirect Costs

Budget Category	Election	Noticiero	LA Phase 1	Economic	LA Phase 2				Total Questioned
					Admin	LA Media	Content	Total	
Expenses:									
Personnel Salaries	\$178,893	\$190,314	\$27,721	\$271,883	\$133,636	\$97,123	\$477,939	\$708,698	
Fringe Benefits	\$38,056	\$39,391	\$5,505	\$63,937	\$21,361	\$15,525	\$76,201	\$113,087	
Total Personnel	\$216,949	\$229,705	\$33,226	\$335,820	\$154,997	\$112,648	\$554,140	\$821,785	
Contract Personnel	\$52,589	\$129,913	\$276,905	\$56,125	\$0	\$191,398	\$585,162	\$776,560	
Marketing Contracted	\$0	\$0	\$0	\$0	\$0	\$0	\$190,940	\$190,940	
Marketing	\$52,083	\$57,165	\$0	\$13,297	\$0	\$0	\$53,980	\$53,980	
Operating	\$29,459	\$0	\$0	\$0	\$0	\$0	\$157,556	\$157,556	
Other Operating	\$31,418	\$18,000	\$21,822	\$27,368	\$0	\$0	\$1,760	\$1,760	
Facilities/Infrastructure	\$0	\$0		\$0	\$0	\$0	\$236,942	\$236,942	
Total Non-Personnel	\$165,549	\$205,078	\$298,727	\$96,790	\$0	\$191,398	\$1,226,340	\$1,417,738	
Total Direct Expenses	\$382,498	\$434,783	\$331,953	\$432,610	\$154,997	\$304,046	\$1,780,480	\$2,239,523	
Adjustments:									
Contracted Services	(\$52,589)	(\$129,913)	(\$276,905)	(\$56,125)	\$0	(\$191,398)	(\$776,102)	(\$967,500)	
Admin Salaries & Benefits	\$0	\$0	\$0	\$0	(\$154,997)	\$0	\$0	(\$154,997)	
Adjusted Total Direct	\$329,909	\$304,870	\$55,048	\$376,485	\$0	\$112,648	\$1,004,378	\$1,117,026	
Auditor Calculated Indirect Rate	8.9%	7.1%	8.4%	7.1%				7.1%	
Allowable Indirect Costs	\$29,362	\$21,646	\$4,624	\$26,730				\$79,309	
Claimed Indirect Costs	\$67,500	\$65,217	\$22,914	\$42,390				\$131,318	
Questioned Indirect Costs	\$38,138	\$43,571	\$18,290	\$15,660				\$52,009	\$167,668

Schedule of Direct Salaries and Fringe Benefit Questioned Costs

Description	CPB Projects*	"Economic Crisis" Project	Total Questioned Costs
FY 2008:			
Questioned Direct Salaries	\$22,001		\$22,001
Fringe Benefit Rate	20%		
Questioned Fringe Benefits	\$4,400	\$0	\$4,400
Total FY 2008 Questioned Costs	\$26,401	\$0	\$26,401
FY 2009:			
Questioned Direct Salaries	\$35,911	\$3,310	\$39,221
Fringe Benefit Rate	20%	23%	
Questioned Fringe Benefits	\$7,182	\$761	\$7,944
Total FY 2009 Questioned Costs	\$43,093	\$4,071	\$47,165
FY 2010:			
Questioned Direct Salaries	\$11,952	\$10,249	\$22,201
Fringe Benefit Rate	20%	23%	
Questioned Fringe Benefits	\$2,390	\$2,357	\$4,748
Total FY 2010 Questioned Costs	\$14,342	\$12,606	\$26,949
FY 2011:			
Questioned Direct Salaries	\$14,648		\$14,648
Fringe Benefit Rate	20%		
Questioned Fringe Benefits	\$2,930	\$0	\$2,930
Total FY 2011 Questioned Costs	\$17,578	\$0	\$17,578
TOTALS:			
Total Questioned Direct Salaries	\$84,512	\$13,559	\$98,071
Total Questioned Fringe Benefits	\$16,902	\$3,119	\$20,021
TOTAL QUESTIONED COSTS	\$101,414	\$16,678	\$118,092

* FY 2008: "Election Coverage" and "Noticiero Latino"

FY 2009: "Election Coverage," "Noticiero Latino," & "LA Program Service Phase 2"

FY 2010: "Election Coverage," "Noticiero Latino," & "LA Program Service Phase 2"

FY 2011: "LA Program Service Phase 2"

Exhibit M

Calculation of Allocation Rates Between CPB Productions Revenue and Other Production Revenues

Acct #	Cost Category	FY 2008	FY 2009			FY 2010		
			Radio Bilingüe	LA Media	Total	Radio Bilingüe	LA Media	Total
459012	Production*	\$399,150	\$616,211	\$0	\$616,211	\$777,250	\$0	\$777,250
459016	Features*	\$162,200	\$233,890	\$0	\$233,890	\$137,190	\$0	\$137,190
459017	News Report*	\$31,525	\$32,375	\$0	\$32,375	\$29,375	\$0	\$29,375
	CPB Production**	\$593,044	\$932,500	\$0	\$932,500	\$2,420,088	\$0	\$2,420,088
	Total Production Related	\$1,185,919	\$1,814,976	\$0	\$1,814,976	\$3,363,903	\$0	\$3,363,903
	CPB % of Total Production Revenues	50.0%			51.4%			71.9%

Methodology: Percentages calculated by dividing CPB production revenue by total production revenues

* Production, Features and News Report revenues taken from general ledger accounts.

**CPB production revenues taken from CPB revenues reported on AFRs.

Exhibit N**Calculation of Allocation Rates Between CPB Revenues and Total Revenues**

Cost Category	FY 2008	Percent	FY 2009	Percent	FY 1010	Percent
Grant Revenues:						
Federal	\$80,480.00		\$179,404.00		\$453,154.00	
CPB	\$828,188.00	28.4%	\$1,163,070.00	32.0%	\$2,638,786.00	53.3%
Foundation	\$1,171,486.00		\$1,441,363.00		\$1,175,715.00	
Local/Other	\$159,865.00		\$255,990.00		\$235,888.00	
Fundraising	\$158,584.00		\$192,786.00		\$28,190.00	
Underwriting	\$40,041.00		\$32,125.00		\$0.00	
Contributions	\$5,402.00		\$3,934.00		\$4,553.00	
Other Revenue	\$26,567.00		\$9,245.00		\$7,779.00	
Sub-Total	\$2,470,613.00		\$3,277,917.00		\$4,544,065.00	
In-kind Contributions	\$440,440.00		\$356,830.00		\$402,495.00	
Total	\$2,911,053.00	100%	\$3,634,747.00	100%	\$4,946,560.00	100%

Methodology:

*Percentages calculated by dividing CPB revenues by total revenues.
Revenues taken from audited financial statements.*

SCOPE AND METHODOLOGY

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

The scope of the audit included tests of the preparation of the AFRs and the data reported on them for the Fiscal Years ended September 30, 2009 and 2010. We tested the accuracy of NFFS claimed on RB'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 the 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 \$800,000 of the \$1.8 million of NFFS claimed for FY 2009 and over \$500,000 of the \$1.5 million claimed for FY 2010. We concentrated our judgmental testing on the larger revenue amounts selected from the higher risk revenue categories.

CPB places restrictions on how a portion of the Radio CSG can be expended. Thus, we concentrated our review of CSG expenditures on the restricted portion of the CSG. We reviewed over \$19,000 of the \$117,000 of FY 2009 and 2010 restricted CSG funds to determine compliance with the CSG grant agreement terms.

We reviewed documentation of RB's compliance with the Communications Act requirements. Specifically, we reviewed Radio Bilingüe's public inspection files, Board of Director meeting minutes and 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 RB'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 RB's independent public accountant (IPA), we met with representatives of the firm that conducted RB's financial statement audit and attestation work on RB'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 RB's AFRs.

We gained an understanding of RB'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 to select those areas that posed the greatest risk to the accurate reporting of NFFS.

We also reviewed the “2008 Elections Coverage,” “Noticiero Latino,” “The Economic Crisis and Latinos: Access to Unemployment Help,” “Los Angeles Latino Program Service Research & Development, Phase 1,” and LA Program Service Content Development and Testing, Phase 2” CPB funded grants to determine whether costs claimed were expended in accordance with the grant terms.



Radio Bilingüe, Inc.

National Latino Public Radio Network
Listen Live! On the Web: <http://www.radiobilingue.org>

January 27, 2012

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Program Services

Linea Abierta
Noticiero Latino
La Placita Bilingüe
La Hora Mixteca

Partners

WRTU
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Radio Educación
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CSU
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Mr. William J. Richardson, III
Corporation for Public Broadcasting
Office of Inspector General
401 Ninth Street, N.W.
Washington, D.C. 20004-2129

RE: Draft Audit Report
No. ASR 1103-XXX

Dear Mr. Richardson:

Thank you for this opportunity to respond to the above-referenced draft audit report of CPB grants awarded to Radio Bilingüe (“RB”).

Radio Bilingüe has played a central role in addressing public broadcasting’s obligations to Latino, Spanish-language and low-income audiences through over three decades of public radio service. The organization is deeply committed to community involvement and partnerships, transparency, excellence, and accountability in every aspect of its work. Radio Bilingüe strives to be a responsible steward of the public funds with which it is entrusted. It shares and makes real CPB’s commitments to Diversity, Dialogue, and Digital innovation.

SUMMARY OF RESPONSE

The Corporation for Public Broadcasting’s Office of Inspector General (“OIG”) has identified areas in which Radio Bilingüe needs to address and improve its compliance with standards for Community Advisory Boards, Open Meeting, and

Exhibit P
Radio Bilingüe Response
Page 1 of 35

Open Records. Radio Bilingüe agrees with much of this assessment (though not all) and has taken direct, specific, and immediate measures to assure full compliance with every provision of CPB requirements in these matters and to remedy every issue in this area that is raised in the OIG Report.

The OIG Report finds that Radio Bilingüe collected \$1,827 in Community Service Grant funds due to an overstatement of nonfederal financial support (NFFS). This finding relates to two payments from public broadcasting entities, which must be excluded from NFFS calculations. Radio Bilingüe accedes to the OIG findings on this matter.

The OIG also questioned the supporting documentation of \$292,168 in expenses and in-kind contributions related to multiple program production grants and seeks recovery of these funds. With most of this assessment Radio Bilingüe respectfully disagrees.

Following the OIG's preliminary findings, Radio Bilingüe conducted a stringent, multi-year financial review of production grants funded in whole or in part by CPB. Radio Bilingüe also retained a nationally recognized public accounting firm to conduct a third-party review of both its own work and the recommendations of the OIG. Radio Bilingüe's review and the independent evaluation conclude that a full re-examination of the questioned areas of expense – salaries, benefits, and indirect costs – supports a claim of actual expenses in the subject grants that exceeds the amount CPB has paid to Radio Bilingüe. That is, a full, retrospective “true-up” of actual, supportable expenses for these production grants would result in CPB owing funds to Radio Bilingüe, not the other way around.

1. The OIG Report identified several concerns regarding how Radio Bilingüe fulfills CPB requirements associated with Community Service Grants.

Radio Bilingüe has long operated in ways that closely connect it to the communities it serves and with a genuine spirit and practice of openness and accountability in its governance. However, CPB has established specific procedures and processes by which recipients of Community Service Grants must comply with several accountability and openness provisions of the

Communications Act. The OIG Report correctly identified several areas in which Radio Bilingüe has not addressed these procedures and processes.

Community Advisory Board

Radio Bilingüe appreciates that the OIG Report expressly states that “Radio Bilingüe routinely convened groups of listeners, advisory groups and other audiences to obtain feedback on issues and programs aired or being considered for airing.” While Radio Bilingüe will continue to convene multiple advisory groups and use other means to ascertain community needs and interests, it now understands that these efforts were not an acceptable substitute for the Community Advisory Board measures required by CPB and the Communications Act and that this was a serious mistake by the organization.

Accordingly, Radio Bilingüe formally established a new Community Advisory Board that met in March and November of 2011. Radio Bilingüe is also complying with all related CAB requirements.

Open Meetings

Meetings of the Radio Bilingüe Board of Directors have always been open to the public, preceded by on-air announcements and postings in Radio Bilingüe’s headquarters and stations. The OIG report points out that Radio Bilingüe is required to keep a running record of these announcements and postings that is available for inspection. Radio Bilingüe has adopted the procedures to do so.

Regarding board committee meetings, Radio Bilingüe has not consistently provided proper notice to the public in the past. Radio Bilingüe has remedied this practice going forward. Policy actions have not and are not made at Radio Bilingüe’s board committee meetings.

Open Records

Radio Bilingüe has made its Annual Financial Report (AFR) and other documents available to the public by postings on its website. The OIG Report pointed out that hard copies of such

documents must be maintained as part of the organization's public files as well. Radio Bilingüe has made this change.

Documentation of CPB Required Procedures

Following the concerns expressed in the OIG Report regarding documentation, Radio Bilingüe created a single document – “Radio Bilingüe Procedures for Compliance with CPB Requirements” – for its staff, governing board, Community Advisory Boards, and the public. In summary, this document highlights that all meetings of the Radio Bilingüe governing board, its committees and Radio Bilingüe's Community Advisory Board (“CAB”) are open to the public; that all open meetings are to be preceded by “reasonable notice” to the public; that explanations for meetings closed in accordance with the Act will be given in the same manner as the notice of open meetings; that all documents required to be made available to the public, including the EEO statistical portion of the Station Activities Survey (“SAS”), are to be made available for public inspection; that the CAB will meet regularly and provide Radio Bilingüe with advice on its programming goals and policies; and, finally, that Radio Bilingüe will adequately document compliance with each of these requirements. Radio Bilingüe is confident that these “Procedures” bring it into full compliance with all requirements of the Act.

Summary of Compliance issues

While Radio Bilingüe's prior efforts admittedly did not comply in all respects with CPB requirements, the Report contains no evidence that its robust efforts to understand and serve its audience were ineffective. Contrary to proposed findings in the Report, Radio Bilingüe did continuously provide the public with information about station operations and organized forums to allow the public opportunities to provide input to management.

In light of these facts, Radio Bilingüe asks that the OIG withdraw its recommendation that CPB sanction Radio Bilingüe for noncompliance with the CAB requirements. A financial penalty, as is recommended by the Report, would be applied to “a future grant award” and would thus potentially reduce the scope and impact of a CPB-funded project or the quality of Radio Bilingüe programming. Those most injured by such a penalty would be the public whose interests CPB is

dedicated to advancing and the Latino audience that Radio Bilingüe is uniquely devoted to serving.

Further, imposition of a financial penalty would be inconsistent with recommendations made in similar audit reports. For example, in Report No. ECR906-906 (August 14, 2009), the OIG found that although WCQS “did not always have an established CAB that complied with the Act” and had not complied with open meeting or documentation requirements, corrective actions by the Station were sufficient to bring it into compliance with CPB requirements. No financial penalty was recommended in that report. Radio Bilingüe respectfully submits that none is warranted here.

2. The OIG Report identified an overpayment to Radio Bilingüe of \$1,827 due to \$28,150 in funds erroneously reported as nonfederal financial support.

Payments that Community Service Grant recipients receive from other public broadcasting entities are normally excluded from stations’ nonfederal financial support (NFFS). Radio Bilingüe simply erred in its accounting when it included in its NFFS total a small payment it received as part of a CPB-funded partnership.

In a separate instance, Radio Bilingüe received funds for a partnership project funded by the California Endowment that were channeled through another public broadcasting station that acted as fiscal agent for the project. Radio Bilingüe assumed these funds retained their character as foundation support and were properly classified as NFFS. However, it may be the case that the station acting as fiscal agent claimed the Endowment funds in its own NFFS, which would result in inappropriate “double counting” of the support if Radio Bilingüe and the other partners claimed it, too. Since the amount is modest, and the resulting difference in Community Service Grant funds is even smaller, Radio Bilingüe will accede to the conclusion in the OIG Report.

3. The OIG Report questions costs of \$292,168 associated with five production projects for lack of supporting documentation.

Radio Bilingüe has responded to the OIG Report findings with respect to expense documentation with a detailed and rigorous examination of its records and accounting associated with all the subject production grants. To aid in that examination and add an independent perspective, Radio Bilingüe decided to seek a third-party opinion on the issue raised in the OIG Report and Radio Bilingüe's preliminary response.

Radio Bilingüe brought in Calibre CPA Group LLLC, a certified public accounting firm based in Washington, DC, and Chicago, whose practice is focused on not-for-profit organizations. Steven C. Darr, CPA, CMA, the engagement partner for this assignment, is a nationally recognized expert in accounting and reporting for non-profit organizations.

Calibre CPA's report follows and is incorporated as part of this response. Key findings are summarized below.

Indirect Costs and Fringe Benefits

In claiming expenses for indirect costs and fringe benefits in each of the production projects, Radio Bilingüe used indirect cost rates it had negotiated with CPB staff at the time the funding agreements were executed and that were specified in the respective project budgets.

The OIG Report called for a retrospective calculation of indirect cost rates based on actual experience of the organization during the various grant periods. The OIG Report constructed such a calculation as part of its findings.

Calibre CPA concurred with the need for a retrospective "true up" of indirect cost rates (and fringe benefits) based on actual expenditures in the organization's direct and indirect costs centers during the appropriate periods. Calibre CPA developed such allocations based on Radio Bilingüe's audited financial statements and additional financial data supplied by Radio Bilingüe. Calibre CPA's allocations, which are detailed in the attached report, differed in several important

respects from those made in the OIG Report and thus produced different results with respect to questioned expenses for each project.

Documentation for Direct Time Charged to CPB Projects

The OIG Reports questioned how Radio Bilingüe documented time spent by its hourly employees and executive and professional staff. Radio Bilingüe asserts it has had methods in place that can produce the information necessary to support its allocation of time and its staff and did a thorough collection of this information following its exchange with the OIG.

Radio Bilingüe conducted a retrospective study to verify the accuracy and reasonableness of its original allocation methods, the details of which are described in the attached Calibre CPA report. An especially detailed analysis was conducted of the Executive Director's allocations, a final summary of which is also attached. Calibre CPA confirms that Radio Bilingüe's methods are acceptable under generally accepted accounting principles and include adequate safeguards to assure that allocations of wages and salaries do not result in over-statement or duplication of personnel charges across multiple projects.

Calibre CPA also reviewed alternate allocations proposed in the OIG Report and concluded that the proposed approach was susceptible to multiple inequities.

Although CPB's Terms and Conditions for production grants do not require contemporaneous time and effort reports, Radio Bilingüe will consider revising its employee documentation of effort and plans to discuss this approach with its board of directors later this spring.

In-Kind Contributions

The OIG questions Radio Bilingüe's inclusion of \$7,823 for in-kind contributions of satellite services, a cost Radio Bilingüe assigned to services it provided to 93 affiliate stations that carry its bilingual programming. This remains a basic difference of opinion between Radio Bilingüe and the OIG and Calibre CPA was not asked for an opinion on this matter.

Summary of Financial Findings

The Calibre CPA analysis, with which Radio Bilingüe concurs, shows an overstatement of expenses by Radio Bilingüe across the five production grants of \$46,809.

Calibre CPA also notes that Radio Bilingüe incurred an additional \$60,724 in supported, recoverable indirect expenses associated with the final grant of this period, Los Angeles Public Media Phase II (LAPM II). This amount is not included in the calculation of overstated expenses because it exceeds the budgeted line item for indirect expenses in that project. However, inclusion of this amount would still leave the total costs of LAPM II within the original total project budget.

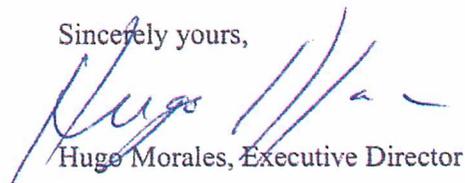
Radio Bilingüe believes a retrospective “truing up” of expenses in production grants should apply to all five projects under examination. Combining the \$46,809 in overstatement with the \$60,724 in additional supportable costs produces a net balance of \$13,915 in Radio Bilingüe’s favor.

If reduced by the overpayment of CSG funds (\$1,827), with which Radio Bilingüe agrees, and the questioned in-kind support (\$7,823), which Radio Bilingüe disputes, a balance to Radio Bilingüe of \$4,265 still remains.

The independent report from Calibre CPA follows.

Radio Bilingüe again thanks CPB for the opportunity to respond to the findings and recommendations of the OIG Report and looks forward to a resolution of these matters.

Sincerely yours,



Hugo Morales, Executive Director

Cc:
Robert Winteringham
Mark Erstling
Bruce Theriault



CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS ADVISORS

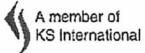
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January 25, 2012

Mr. Hugo Morales
Executive Director
Radio Bilingüe, Inc.
5005 E. Belmont Avenue
Fresno, CA 93727

Dear Mr. Morales:

This letter details our findings, conclusions and recommendations to Radio Bilingüe, Inc. (RB) in connection with its response to a draft report, dated December 12, 2011, issued by the Office of Inspector General (OIG) of the Corporation for Public Broadcasting (CPB) in connection with the OIG's examination of selected CPB grants awarded to Radio Bilingüe for the period November 1, 2007 – November 30, 2011.

The matters discussed in this letter are based on our review of the draft OIG's report, discussions with RB management and staff, and our review and analysis of financial information provided to us by RB. We did not conduct an audit or examination of such information in accordance with either auditing or attestation standards issued by the American Institute of Certified Public Accountants, the objective of which is the expression of an opinion on financial and related information. Accordingly, we do not express an opinion on any of the financial and related information accompanying this report. In addition, had we conducted an audit or examination, additional

information may have come to our attention which may have affected the analysis and conclusions reached herein.

Calibre CPA Group PLLC, is a certified public accounting firm with offices in Washington, DC and Chicago, IL. Our approximately 100 professional and support staff provide audit, compliance, consulting and related services to over 400 tax-exempt organizations, which account for over 85% of our firm's client base. We provide services to not-for-profit organizations throughout the United States and abroad, from small community-based charities with annual revenues of \$1 million to large, international nongovernmental organizations with revenues exceeding \$100 million. Steven C. Darr, CPA, CMA, the engagement partner responsible for our services provided to RB, is a nationally-recognized expert in accounting and reporting for tax-exempt organizations, having worked with over 300 such organizations during his 30-year career. The majority of Mr. Darr's clients have been organizations similar to RB, exempt under Internal Revenue Code (IRC) Section 501(c)(3) and funded principally by foundation and/or governmental grants and similar awards.

Background and Understanding

Radio Bilingüe, Inc. is a not-for-profit California corporation that operates noncommercial public radio stations KSJV-FM in Fresno, KMPO-FM in Modesto, KTQX-FM in Bakersfield, KUBO in El Centro, KHDC in Salinas, and KVUH in Mendocino. RB also produces national programming distributed to affiliate stations. The Corporation for Public Broadcasting provides RB with annual Community Service Grants (CSG) as well as periodic production grants under CPB's Television, Radio and Other Media Production Grants program.

The Office of Inspector General of CPB conducted an examination of CSG grants awarded to RB for the years ended September 30, 2009 and 2010, and of five production grants awarded to RB for the period November 1, 2007 through November 30, 2011 for compliance with grant requirements. Those examinations were conducted by the OIG in accordance with *Government Auditing Standards* for attestation engagements.

The OIG issued a draft report of its findings dated December 12, 2011. The findings and recommendations in that draft report are those of the OIG. Final determination of the findings and recommendations in that report will be made by CPB officials in accordance with established CPB audit resolution procedures.

RB requested that Calibre CPA Group, PLLC, review the OIG's draft report as well as related financial information provided by RB for the purpose of determining whether the conclusions and recommendations reached in the OIG's report are consistent with established accounting and reporting guidelines under U.S. generally accepted accounting principles and the terms of RB's grant awards with CPB.

In its draft report dated December 12, 2011, the OIG reported the following findings:

- Questioned costs of \$284,345, consisting of questioned indirect costs of \$167,668 and questioned direct salary and fringe benefit costs of \$116,677, due to lack of adequate supporting documentation;

- Questioned in-kind contributions of \$7,823 due to lack of adequate supporting documentation;
- Over-reported Non-Federal Financial Support (NFFS) of \$28,150, resulting in excessive CPB payments to RB of \$1,827 during the year ended September 30, 2011; and
- Material noncompliance with the statutory provisions of the Communications Act (the Act).

Based on our understanding of this engagement and our own qualifications, we did not assess and are therefore not providing any guidance with respect to the OIG's questioned in-kind contributions of \$7,823, the finding of over-reporting of NFFS and related excessive CPB payments to RB, nor the finding of any material noncompliance with the statutory provisions of the Act. Rather, our review and analysis, findings, and recommendations are solely in connection with the questioned costs of \$284,345 related to salary, fringe, and indirect costs due to lack of adequate supporting documentation.

The five non-CSG grants awarded to RB by CPB and examined by the OIG are as follows:

- CPB Account No. 10946, 2008 Election Coverage, Grant Amount \$450,000.
- CPB Account No. 11933, Noticiero Latino, Grant Amount \$500,000.
- CPB Account No. 12744, The Economic Crisis and Latinos: Access to Unemployment Help, Grant Amount \$475,000.
- CPB Account No. 12030, LA Latino Program Service Research & Development Phase I (LAPM Phase I), Grant Amount \$350,262.

- CPB Account No. 12518, LA Program Service Content Development and Testing Phase II (LAPM Phase II), Grant Amount \$2,451,302.

We reviewed all five of the above grant agreements. All of the agreements are cost-reimbursement grants, meaning that CPB was only obligated to reimburse RB for its actual costs incurred in connection with each of the awards. Each grant contained an approved line item budget. Fringe benefit costs were budgeted at 20% of salaries in all of the agreements except for The Economic Crisis, for which the budgeted rate was 23% of direct salaries. Indirect costs were included as a line item in all five agreements, but at differing rates, as follows:

- 2008 Election Coverage – 15% of total direct costs.
- Noticiero Latino – 15% of total direct costs.
- The Economic Crisis – 15% of total direct costs, although indirect cost recovery was not requested for a portion of the activities performed under this grant, so the total budgeted amount for the entire award was less than 15%.
- LAPM Phase I – 7% of total direct costs.
- LAPM Phase II – 6.6% of total direct costs.

For each grant, RB reported expenditures for fringe benefits based on actual expenses up to the amount in the approved grant budget, and reported indirect costs based on the budgeted rates included in the grant agreements rather than on actual costs incurred. Although neither specifically required nor prohibited under the terms of RB's grant agreements with CPB, it is not uncommon for interim grant expenditure reports to be based on budgeted rates for fringe benefits

and indirect costs. However, at the end of each of a grant recipient's fiscal years there must be a "truing up" of the actual rate, meaning that the actual rates for fringe benefits and indirect costs must be determined based on actual expenses incurred, and appropriate adjustments made to amounts previously reported on an interim basis. This process is similar to that employed on Federal grants and similar cost-reimbursement contracts, for which it is typical for recipients to report expenditures for fringe benefits and indirect costs based on "provisional" rates that are subsequently modified to be "final" rates based on actual fiscal year expenses incurred.

The OIG's Finding Regarding Inconsistent Indirect Cost Plans

In its draft report, the OIG reported that RB used inconsistent indirect cost plans with respect to each of the five grant agreements, which is true, but solely as a result of RB reporting indirect costs based on the budgeted amounts approved for each agreement, rather than reporting such costs based on actual expenses incurred. As noted above, while perhaps acceptable for reporting on an interim basis, RB should have determined its actual indirect cost rate for each fiscal year and appropriately adjusted the costs reported for each year for each of the five grant agreements.

The OIG also reported that RB claimed certain cost categories as direct costs on some grants and as indirect costs on other grants. The only specific example cited was that "The Executive Director's salary costs were claimed directly on some grants and indirectly on others." In our review, we noted that, for example, part of the Executive Director's time was in fact charged as a direct cost to LAPM Phase II, as was contemplated in the approved budget and workplan. Most of the Executive Director's other time was charged to either a management and general category or a fundraising and development category. These treatments are not necessarily inconsistent.

Our understanding is that the time spent by the Executive Director (as well as certain other RB staff) related to the LAPM Phase II project was for direct program management and administration, which should, as explained below, be allowable as a direct cost. Time spent related to the overall management and administration of the organization should be charged to a management and general category (a component of indirect costs), but time spent directly managing a program is a direct program cost, not an indirect cost. Such treatment is actually required under U.S. Generally Accepted Accounting Principles (GAAP) for not-for-profit organizations, as detailed in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 958-720-45-8, "The costs of oversight and management usually include the salaries and expenses of the governing board, the chief executive officer of the Not-for-Profit, and the supporting staff. *If such staff spend a portion of their time directly supervising program services or categories of other supporting services [e.g., fundraising], however, their salaries and expenses shall be allocated among those functions.*"

The OIG also claims that RB applied the grant agreement indirect cost rates to each project's total direct costs. That is a correct statement, as this was the allocation basis used in the CPB-approved grant budgets. The OIG also claims that such total direct costs included amounts spent on subcontractors, and that subcontractors generally do not receive any benefit from an organization's indirect costs, and if they do it is generally at a significantly reduced rate. The OIG then made its own calculations of RB's indirect cost rates, using amounts reported in RB's audited financial statements and eliminating what OIG determined to be subcontractor costs. However, the amounts determined by the OIG to be subcontractor costs were actually expenses for professional fees.

There is a significant difference between expenditures for subcontractors and those for professional and consulting fees. Subcontractors are those individuals or organizations hired for the purpose of carrying out significant portions of a program's activities, with limited supervision or oversight by the pass-through entity. Subcontractors conduct significant portions of an activity as if they were standing in place of the pass-through entity, and typically are reimbursed by the pass-through entity for their actual costs incurred. Consultants and other professionals typically charge an hourly or daily rate for their services and are under the direct supervision of those by whom they have been hired. Based on our discussions with RB management and staff and an itemization of the related amounts incurred, it seems clear that the amounts recorded in RB's financial records as expenses for professional fees are appropriately described as such, and that such expenditures do not represent amounts paid to subcontractors.

There are a number of allocation bases that an organization may use for allocating indirect costs to other final cost objectives. In practice, some organizations use total direct salaries as the allocation base; some use total direct employee hours; others use square footage, total direct costs or, in some cases, modifications to total direct costs. There is no bright line test for determining which allocation base a particular organization should use. Each organization should use an allocation base that results in an equitable distribution of indirect costs among its other final cost objectives. Here it is important to recognize that the allocation base utilized in the approved budgets for all of RB's grant awards from CPB is total direct costs.

The allocation base for indirect costs that the OIG attempted to arrive at is what is commonly referred to as MTDC – Modified Total Direct Costs. MTDC is an indirect cost allocation base

frequently used in Federal grants. Although not applicable to RB's awards from CPB, the concept of MTDC is discussed in U.S. Office of Management and Budget (OMB) Circular A-122, *Costs Principles for Non-Profit Organizations*, Section D2c, which reads, "The distribution base may be total direct costs (excluding capital expenditures and other distorting items, such as major subcontracts or subgrants), direct salaries and wages, or other base which results in an equitable distribution."

In practice, "major subcontracts or subgrants" have been interpreted to mean the amount of a subcontract or subgrant in excess of \$25,000. We have read and reviewed dozens of Negotiated Indirect Cost Rate Agreements entered into between the Federal government and not-for-profit organizations for which MTDC has been stipulated as the rate base for allocating indirect costs, and in all cases the portion of such costs to be excluded in the rate determination has been just the amounts in excess of \$25,000 for each individual subcontract or subgrant. The \$25,000 threshold gives recognition to the fact that an organization still incurs indirect costs in connection with its use of subcontractors and subgrantees, but that the amount of such indirect costs incurred doesn't increase in direct proportion to the actual subcontract and subgrant expenditures.

So even if the OIG were to continue to argue that amounts incurred for professional fees are, in the OIG's opinion, amounts incurred for subcontractors, only such amounts incurred for each vendor in excess of \$25,000 should be eliminated in determining the rate base and allocations. We obtained an itemization from RB of all professional fees incurred during the fiscal years ended September 30, 2008, 2009 and 2010, and noted the following:

- Of total professional fees incurred during FY08 of \$279,234, total amounts in excess of \$25,000 per vendor were \$64,439.
- Of total professional fees incurred during FY09 of \$502,940, total amounts in excess of \$25,000 per vendor were \$217,920.
- Of total professional fees incurred during FY10 of \$846,093, total amounts in excess of \$25,000 per vendor were \$483,329.

Another error in the OIG's calculation of indirect cost rates is in its treatment of certain functional expense categories as reported in RB's annual audited financial statements. In general, we agree with the approach of using an organization's annual audited financial statements as a basis for calculating its actual indirect cost rates. However, during the course of our discussions with RB management and staff, it became clear that certain functional categories as reported in RB's audited financial statements were incorrectly treated by the OIG as direct program costs rather than as a component of management and general costs, thereby both understating the indirect cost pool and overstating the indirect cost base, substantially understating the overall indirect cost rate. In addition, it also came to light during these discussions that certain management and general salaries and related fringe costs were incorrectly reported as a component of a fundraising and development expense category rather than as a component of a management and general expense category. Accordingly, we have recalculated RB's indirect cost rates for the years in question based on amounts reported in RB's audited financial statements, our understanding of the underlying activities for which costs are grouped in each functional category reported in the audited financial statements, and subsequent discovery of misclassifications in amounts previously reported, as discovered by RB staff.

RB reports the following functional expense categories in its annual audited financial statements:

- Programming and Production
- Broadcast
- LA Public Media Service
- Grants Administration
- Grants and Underwriting
- Management and General
- Fundraising

The first three categories listed above – Programming and Production, Broadcast, and LA Public Media Service - are clearly recognized by all, including the OIG, as programmatic expense groupings. Similarly, the last two categories are clearly and correctly labeled as Management and General and as Fundraising, respectively. In question is the correct classification of Grants Administration and Grants and Underwriting. We discussed with RB management and staff the nature of the activities for which costs are assigned to the Grants Administration and the Grants and Underwriting categories, for which we were provided with the following descriptions:

Grants Administration – this cost category includes the salary and fringe benefits of RB's grants administration manager and all other expenses related to the administration of all awarded grants and contracts, such as preparing and submitting narrative and financial

reports, preparing grant work orders and grant status reports, managing the internal administrative website and organizational directories, etc.

Grants and Underwriting – this cost category includes the salary and fringe benefits of RB’s Development Director, a significant portion of the salary and benefits for RB’s Executive Director for time spent on development efforts, grant writing consultants and all expenses associated with building funder relationships (travel and meetings), writing grant proposals and other requested materials to raise organizational revenue.

Based on those descriptions the only reasonable conclusion to be reached is that Grants Administration is a component of Management and General, while Grants and Underwriting is a component of Fundraising. Therefore, the correct functional groupings and how they should have been reported in RB’s annual audited financial statements as well as in Form 990, in our opinion, are as follows:

Program Services

Programming and Production

Broadcast

LA Public Media Service

Fundraising

Grants and Underwriting

Fundraising Other (i.e., events, pledge drives, etc.)

Management and General

Grants Administration

Management and General

For purposes of calculating RB's indirect cost rate, then, the categories of Grants Administration and Management and General comprise the indirect cost pool, and the remaining categories comprise the rate base. As noted above, during the process of reviewing the financial activities of RB for the audit period for purposes of responding to the OIG draft report, RB staff discovered that the salaries and fringe benefit costs allocable to the Management and General category were incorrectly reported in the Grants and Underwriting category, and vice versa, for the fiscal years ended September 30, 2009 and 2010.

We therefore calculated RB's actual indirect cost rates to be as follows (see Table- Page 26):

FYE 9/30/08	11.34%
FYE 9/30/09	10.63%
FYE 9/30/10	8.05%
FYE 9/30/11	11.37%

The OIG's Finding Regarding Lack of Documentation for Direct Time Charged to CPB Projects

In its draft report, the OIG reported that time charged by RB personnel to CPB grant projects were not documented. While RB hourly employees prepared time sheets, their time sheets did not indicate the projects or activities on which they worked. Executive and professional staff members did not prepare time sheets. The OIG indicated that the lack of documentation for time worked on CPB projects was problematic because many RB employees' salaries and benefits

were charged to multiple projects, so the OIG could not determine whether amounts charged to CPB projects were reasonable and not duplicative.

As an alternative, the OIG developed its own method for allocating the salaries and fringe benefits of RB employees to grant-funded and other activities, based on total revenues reported in RB's accounting records and its financial statements. Specifically, the OIG used production revenues and total revenues reported in RB's audited financial statements to allocate direct salaries and benefits to CPB-funded and nonCPB-funded activities for all production employees. The OIG then used the ratio of CPB grant revenues to total RB revenues to allocate salaries and fringe benefits for RB's Executive Director to CPB-funded activities.

We reviewed CPB's *Terms and Conditions for Television, Radio and Other Media Production Grants*, dated November 2002, available from CPB's website. We could not find a version of this document with a more recent effective date. Section 4 of that document, *Budget and Financial Reporting*, paragraph G, Records, states, "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." In addition, paragraph F, Authorized Use of CPB Funds, states in part, "The salary of any employee who works on multiple projects must be allocated on the basis of time spent by the employee on each project."

We could find nowhere in the CPB document a requirement that a grantee maintain written, contemporaneous time and effort reports of the type the OIG requested and for which the absence thereof led the OIG to conclude that it could not determine whether amounts charged to CPB projects were reasonable and not duplicative.

While it is certainly true that maintaining written, contemporaneous time and effort reports is generally regarded as a "best practice" for supporting time allocations, all that is really required of organizations is that they have a method in place for evaluating the reasonableness of salary and related fringe allocations on an after-the-fact basis. RB has represented that it based its salary allocations on how employees were expected and budgeted, to spend their time, with periodic review by project managers to ensure staff time spent on projects was in compliance with grant agreements and that grant deliverables were being met within those parameters. We reviewed a sample of allocation spreadsheets used by RB that support that representation. In fact, the allocation spreadsheets can be traced directly to postings in RB's general ledger, so that it is clear how individual employees' salaries were allocated in the accounting records, and that it would not have been possible for the salary of any one individual to have been allocated to multiple projects in a manner resulting in a duplication or overstatement in total of their salary.

Nevertheless, allocating employee salaries based on how their time was budgeted, or expected, to be spent on multiple projects only results in an equitable allocation if an organization then examines how employees actually spent their time, after-the-fact, and assess whether the initial allocations were reasonable. Members of RB management have represented that such analysis took place during the course of each project and after-the-fact, though not documented in

writing. In response to a written document issued by the OIG titled "Preliminary Observations" and dated October 5, 2011, RB undertook a review to document, in writing, an after-the-fact analysis.

The RB study was performed on a sampling basis due to time constraints, but RB believes the results of that study support the conclusion that the actual time allocations made in RB's accounting records were in fact reasonable reflections of how employees actually spent their time. Although it certainly would have been preferable for this documentation to have been developed on a more contemporaneous basis, that fact alone does not diminish its utility. In fact, we are familiar with organizations that do not require or maintain contemporaneous time and effort reports, but do in fact perform after-the-fact analyses on just such a sampling basis. In addition, RB conducted a similar but more thorough study of how its Executive Director spent his time from throughout the audit period and is able to support his salary and fringe allocations.

We reviewed the alternative salary allocation methodology developed by the OIG and found a number of inequities in its application. Although it appears to us that the OIG was attempting to give RB credit for some salary and fringe costs in the absence of contemporaneous time and effort reports, the methodology employed by the OIG results in no more of an equitable allocation than the method actually employed by RB.

For the OIG's methodology to be equitable, a number of conditions would have to exist, namely:

- All of RB's revenues would have to be restricted for programmatic and/or administrative support, and all revenue would have to be limited to recognition on a cost-reimbursement basis. Since RB has some contract revenue that is recognized on a production basis rather than on a cost-reimbursement basis and also has other unrestricted support, the OIG's methodology results in an inequitable allocation.

- The percentage of allowable costs incurred on all grant- and contract-funded activities for salaries and fringe benefits would have to be the same for all agreements. Under the OIG's methodology, agreements with higher recorded revenues would be allocated a greater share of salaries and fringe benefits than those with lower recorded revenues, regardless of the relative levels of effort. Just looking at the five CPB grants that were audited, there is significant disparity with respect to the percentage of budgeted costs related to salaries and fringe benefits; the total salaries and fringe benefits for the five agreements as a percentage of the total grant awards are as follows:

○ 2008 Election Coverage	53.1%
○ Noticiero Latino	46.2%
○ The Economic Crisis	70.5%
○ LAPM Phase I	10.0%
○ LAPM Phase II	44.3%

- All employees would have to be compensated at exactly the same salary and fringe benefit levels.

In addition, the OIG's methodology would also have the effect of allowing a greater cost recovery for salaries and fringe benefits were RB to have inappropriately billed CPB for costs that it did not in fact incur. Since the determination of allowable salary allocations were determined by the OIG based on recorded revenues, had RB overbilled on its CPB grants, the OIG would have permitted a greater percentage of allowable salaries and fringe benefits on such grants, in essence defeating the intention of the OIG's methodology.

Given the above factors, we believe it is reasonable to conclude that RB's allocation methodology results in a more equitable allocation of salaries and fringe benefits than the methodology suggested by the OIG, even had RB not performed after-the-fact analyses to support the reasonableness of the original claims that were made.

Summary

In the attached tables we have calculated what we believe represents a reasonable determination of the allowable costs incurred under the five CPB production grants. Fringe benefit and indirect cost allocations have been made based on actual rates for each fiscal year. We used the fringe rates implicit in the OIG draft report for FY08 and FY09, but the rates used by the OIG for FY10 and FY11 were incorrectly calculated. For those two years, we calculated actual fringe rates based on the final audited amounts for FY10 and the draft audited amounts for FY11, and also determined separate rates for the LAPM Phase II project and for all other RB projects. As a result of these calculations, we believe an appropriate determination of the questioned costs incurred under these grants is as follows:

2008 Election Coverage	\$23,149
Noticiero Latino	19,308
The Economic Crisis	4,091
LAPM Phase I	-
LAPM Phase II	<u>261</u>
Total	<u>\$46,809</u>

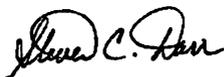
The calculation for LAPM Phase II is based on the fact that CPB has not previously approved a budget line item reallocation from the direct to the indirect cost category. If CPB had approved such a request, there would have been sufficient funding available in the grant award total (before any subsequent de-obligation) to allow RB an additional cost recovery of \$60,724 over the amounts calculated herein.

Radio Bilingüe may use the information contained in this report in connection with any further response to the OIG's report, as well as in connection with anticipated discussions with CPB officials in accordance with established CPB audit resolution procedures.

If you have any questions or require any additional information, please do not hesitate to contact us.

Very truly yours,

Calibre CPA Group PLLC



Steven C. Darr, CPA, CMA
Partner

Radio Bilingüe, Inc.
 Recalculation of CPB Grant Expenses
 Applying Actual Fringe and Indirect Cost Rates by Fiscal Year

	2008 Election Coverage				
	FYE 9/30/2008	FYE 9/30/2009	FYE 9/30/2010	FYE 9/30/2011	Total
Total direct salaries	\$ 127,959	\$ 50,935	\$ -	\$ -	\$ 178,894
Fringe at actual fringe rate	<u>28,791</u>	<u>10,747</u>	<u>-</u>	<u>-</u>	<u>39,538</u>
Total personnel costs	156,750	61,682	-	-	218,432
Other direct costs	<u>131,969</u>	<u>33,582</u>	<u>-</u>	<u>-</u>	<u>165,551</u>
Total direct costs	288,719	95,264	-	-	383,983
Indirect costs at actual rate	<u>32,741</u>	<u>10,127</u>	<u>-</u>	<u>-</u>	<u>42,868</u>
Total allowable costs	<u>\$ 321,460</u>	<u>\$ 105,391</u>	<u>\$ -</u>	<u>\$ -</u>	426,851
Costs claimed					<u>450,000</u>
Questioned costs					<u>\$ (23,149)</u>

Radio Bilingüe, Inc.
 Recalculation of CPB Grant Expenses
 Applying Actual Fringe and Indirect Cost Rates by Fiscal Year

	<u>Noticiero Latino</u>				
	<u>FYE</u> <u>9/30/2008</u>	<u>FYE</u> <u>9/30/2009</u>	<u>FYE</u> <u>9/30/2010</u>	<u>FYE</u> <u>9/30/2011</u>	<u>Total</u>
Total direct salaries	\$ 20,291	\$ 89,604	\$ 70,515	\$ 9,904	\$ 190,314
Fringe at actual fringe rate	<u>4,565</u>	<u>18,906</u>	<u>17,268</u>	<u>2,430</u>	<u>43,169</u>
Total personnel costs	24,856	108,510	87,783	12,334	233,483
Other direct costs	<u>16,300</u>	<u>82,405</u>	<u>102,224</u>	<u>4,149</u>	<u>205,078</u>
Total direct costs	41,156	190,915	190,007	16,483	438,561
Indirect costs at actual rate	<u>4,667</u>	<u>20,294</u>	<u>15,296</u>	<u>1,874</u>	<u>42,131</u>
Total allowable costs	<u>\$ 45,823</u>	<u>\$ 211,209</u>	<u>\$ 205,303</u>	<u>\$ 18,357</u>	480,692
Costs claimed					<u>500,000</u>
Questioned costs					<u>\$ (19,308)</u>

Radio Bilingüe, Inc.
 Recalculation of CPB Grant Expenses
 Applying Actual Fringe and Indirect Cost Rates by Fiscal Year

	<u>Economic Crisis</u>				<u>Total</u>
	<u>FYE</u> <u>9/30/2008</u>	<u>FYE</u> <u>9/30/2009</u>	<u>FYE</u> <u>9/30/2010</u>	<u>FYE</u> <u>9/30/2011</u>	
Total direct salaries	\$ -	\$ 19,536	\$ 242,610	\$ 9,737	\$ 271,883
Fringe at actual fringe rate	-	4,122	59,411	2,389	65,922
Total personnel costs	-	23,658	302,021	12,126	337,805
Other direct costs	-	2,271	86,749	7,770	96,790
Total direct costs	-	25,929	388,770	19,896	434,595
Indirect costs at actual rate	-	2,756	31,296	2,262	36,314
Total allowable costs	<u>\$ -</u>	<u>\$ 28,685</u>	<u>\$ 420,066</u>	<u>\$ 22,158</u>	470,909
Costs claimed					<u>475,000</u>
Questioned costs					<u>\$ (4,091)</u>

Radio Bilingüe, Inc.
 Recalculation of CPB Grant Expenses
 Applying Actual Fringe and Indirect Cost Rates by Fiscal Year

<u>LAPM Phase I</u>					
	<u>FYE</u> <u>9/30/2008</u>	<u>FYE</u> <u>9/30/2009</u>	<u>FYE</u> <u>9/30/2010</u>	<u>FYE</u> <u>9/30/2011</u>	<u>Total</u>
Total direct salaries	\$ -	\$ 27,721	\$ -	\$ -	\$ 27,721
Fringe at actual fringe rate	-	5,849	-	-	5,849
Total personnel costs	-	33,570	-	-	33,570
Other direct costs	-	294,122	-	-	294,122
Total direct costs	-	327,692	-	-	327,692
Indirect costs at actual rate	-	34,834	-	-	34,834
Total allowable costs	<u>\$ -</u>	<u>\$ 362,526</u>	<u>\$ -</u>	<u>\$ -</u>	362,526
Adjust to grant maximum					(12,264)
Net allowable costs					350,262
Costs claimed					<u>350,262</u>
Questioned costs			(Cost recovery limited to grant maximum)		<u>\$ -</u>

Radio Bilingüe, Inc.
 Recalculation of CPB Grant Expenses
 Applying Actual Fringe and Indirect Cost Rates by Fiscal Year

LAPM Phase II					
	FYE <u>9/30/2008</u>	FYE <u>9/30/2009</u>	FYE <u>9/30/2010</u>	FYE <u>9/30/2011</u>	<u>Total</u>
Total direct salaries, excl. Project Director	\$ -	\$ 35,643	\$ 142,873	\$ 28,391	\$ 206,907
Fringe at actual fringe rate	-	7,521	24,409	4,695	36,625
Subtotal	-	43,164	167,282	33,086	243,532
Project Director	-	68,486	132,875	13,889	215,250
Total personnel costs	-	111,650	300,157	46,975	458,782
Other direct costs	-	50,807	1,389,158	360,513	1,800,478
Total direct costs	-	162,457	1,689,315	407,488	2,259,260
Indirect costs at actual rate	-	17,269	135,990	46,331	199,590
Total allowable costs	<u>\$ -</u>	<u>\$ 179,726</u>	<u>\$ 1,825,305</u>	<u>\$ 453,819</u>	2,458,850
Reduce indirect costs claimed to budget maximum pending approval by CPB					<u>(68,272)</u>
Net allowable costs					2,390,578
Costs claimed					<u>2,390,839</u>
Questioned costs					<u>\$ (261)</u>

Radio Bilingüe, Inc.
 Actual Fringe Rates by Fiscal Year

	<u>FYE</u> <u>9/30/2008</u>	<u>FYE</u> <u>9/30/2009</u>	<u>FYE</u> <u>9/30/2010</u>	<u>FYE</u> <u>9/30/2011</u>
Per OIG draft report dated 12/12/11	<u>22.50%</u>	<u>21.10%</u>		
Per audited financial statements (FY11 draft only):				
<u>LAPM Phase II Only</u>				
Fringe benefits				
Employee insurance			\$ 17,574	\$ 30,285
Workers compensation insurance			7,357	-
Retirement plan 401k			-	-
Employee leave			12,530	630
Payroll taxes			38,268	32,649
Other employee benefits			-	1,195
			<u>75,729</u>	<u>64,759</u>
Total salaries			576,148	405,531
Less Project Director, not receiving fringe benefits			<u>(132,875)</u>	<u>(13,889)</u>
Salaries that benefit from fringe			<u>443,273</u>	<u>391,642</u>
Fringe rate			<u>17.08%</u>	<u>16.54%</u>

RB Projects Other Than LAPM Phase II

Fringe benefits				
Employee insurance			\$ 154,679	\$ 157,318
Workers compensation insurance			18,240	14,886
Retirement plan 401k			2,451	2,400
Employee leave			6,029	(8,256)
Payroll taxes			105,003	111,715
Other employee benefits			6,000	6,000
			<u>292,402</u>	<u>284,063</u>
Total salaries			<u>1,194,058</u>	<u>1,157,697</u>
Fringe rate			<u>24.49%</u>	<u>24.54%</u>

Radio Bilingüe, Inc.
 Calculation of Indirect Cost Rates
 Fiscal Years Ended September 30, 2008 - 2011

Summary of Rates

	<u>Total Indirect Costs</u>	<u>Total Direct Costs</u>	<u>Indirect Cost Rate</u>
FYE 9/30/08	<u>\$ 275,036</u>	<u>\$ 2,425,979</u>	<u>11.34%</u>
FYE 9/30/09	<u>\$ 295,223</u>	<u>\$ 2,776,544</u>	<u>10.63%</u>
FYE 9/30/10	\$ 305,149		
Less depreciation on CPB-financed equipment	<u>(977)</u>		
	<u>\$ 304,172</u>	<u>\$ 3,780,204</u>	<u>8.05%</u>
FYE 9/30/11	\$ 364,359		
Less depreciation on CPB-financed equipment	<u>(6,426)</u>		
	<u>\$ 357,933</u>	<u>\$ 3,149,387</u>	<u>11.37%</u>

Radio Bilingüe, Inc.
 Calculation of Indirect Cost Rates
 Fiscal Years Ended September 30, 2008 - 2011

	Programming and Production	Broadcast	L.A Public Media Service	Grants and Underwriting	Fundraising	Total Direct Costs	Grants Administration	Management and General	Total Indirect Costs	Total Expenses
FYE 9/30/08										
Total salaries and fringe benefits per audited financial statements*	\$ 828,077	\$ 80,695	\$ -	\$ 191,283	\$ 65,318	\$ 1,165,373	\$ 53,734	\$ 152,124	\$ 205,858	\$ 1,371,231
Adjustment to reclassify misposting between cost categories**	-	-	-	-	-	-	-	-	-	-
Corrected salaries and fringe benefits	828,077	80,695	-	191,283	65,318	1,165,373	53,734	152,124	205,858	1,371,231
All other direct costs	654,296	255,216	-	152,568	198,526	1,260,606	11,208	57,970	69,178	1,329,784
Total expenses	\$ 1,482,373	\$ 335,911	\$ -	\$ 343,851	\$ 263,844	\$ 2,425,979	\$ 64,942	\$ 210,094	\$ 275,036	\$ 2,701,015
FYE 9/30/09										
Total salaries and fringe benefits per audited financial statements*	\$ 874,532	\$ 74,279	\$ 145,186	\$ 161,202	\$ 58,320	\$ 1,313,519	\$ 48,037	\$ 137,887	\$ 185,924	\$ 1,499,443
Adjustment to reclassify misposting between cost categories**	-	-	-	(23,315)	-	(23,315)	-	23,315	23,315	-
Corrected salaries and fringe benefits	874,532	74,279	145,186	137,887	58,320	1,290,204	48,037	161,202	209,239	1,499,443
All other direct costs	830,749	232,058	70,210	104,760	248,563	1,486,340	11,145	74,839	85,984	1,572,324
Total expenses	\$ 1,705,281	\$ 306,337	\$ 215,396	\$ 242,647	\$ 306,883	\$ 2,776,544	\$ 59,182	\$ 236,041	\$ 295,223	\$ 3,071,767
FYE 9/30/10										
Total salaries and fringe benefits per audited financial statements*	\$ 859,540	\$ 78,633	\$ 803,268	\$ 169,739	\$ 15,409	\$ 1,926,589	\$ 48,595	\$ 163,152	\$ 211,747	\$ 2,138,336
Adjustment to reclassify misposting between cost categories**	-	-	-	(6,587)	-	(6,587)	-	6,587	6,587	-
Corrected salaries and fringe benefits	859,540	78,633	803,268	163,152	15,409	1,920,002	48,595	169,739	218,334	2,138,336
All other direct costs	589,743	265,626	924,716	69,899	10,218	1,860,202	9,965	76,850	86,815	1,947,017
Total expenses	\$ 1,449,283	\$ 344,259	\$ 1,727,984	\$ 233,051	\$ 25,627	\$ 3,780,204	\$ 58,560	\$ 246,589	\$ 305,149	\$ 4,085,353
FYE 9/30/11										
Total salaries and fringe benefits per audited financial statements*	\$ 860,326	\$ 88,011	\$ 470,290	\$ 215,128	\$ 38,470	\$ 1,672,225	\$ 48,949	\$ 190,876	\$ 239,825	\$ 1,912,050
Adjustment to reclassify misposting between cost categories**	-	-	-	-	-	-	-	-	-	-
Corrected salaries and fringe benefits	860,326	88,011	470,290	215,128	38,470	1,672,225	48,949	190,876	239,825	1,912,050
All other direct costs	596,838	200,970	419,505	83,331	176,518	1,477,162	7,599	116,935	124,534	1,601,696
Total expenses	\$ 1,457,164	\$ 288,981	\$ 889,795	\$ 298,459	\$ 214,988	\$ 3,149,387	\$ 56,548	\$ 307,811	\$ 364,359	\$ 3,513,746

* Amounts for FYE 9/30/11 are per draft audited financial statements; all other years per final audited financial statements.
 ** Per info received from Maria Castro at Radio Bilingüe, Inc.