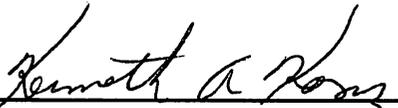


**CORPORATION FOR PUBLIC BROADCASTING**  
**OFFICE OF INSPECTOR GENERAL**

**EXAMINATION OF CESAR CHAVEZ FOUNDATION**  
**KUFW-FM, FISCAL YEARS 2008 - 2010**

**REPORT NO. ESR1107-1204**

**March 30, 2012**

  
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**Kenneth A. Konz**  
**Inspector General**

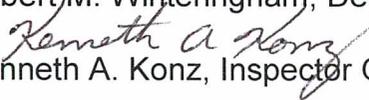


Corporation  
for Public  
Broadcasting

Office of Inspector General

Date: March 30, 2012

To: Robert M. Winteringham, Deputy General Counsel

From:   
Kenneth A. Konz, Inspector General

Subject: Examination of Cesar Chavez Foundation, KUFW-FM,  
Fiscal Years 2008-2010, Report No. ESR1107-1204

We have completed an examination of the Corporation for Public Broadcasting (CPB) Community Service Grants (CSG) awarded to the Cesar Chavez Foundation (Foundation), radio station KUFW-FM (KUFW), for the fiscal years ending December 31, 2008 - 2010. The objectives of this examination were to determine whether KUFW: 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. We initiated this examination to examine station compliance with CPB grant terms and conditions.

Based upon our examination, we found noncompliance with CPB requirements, as follows.

- KUFW did not expend CSG restricted grant funds for national programming resulting in questioned costs totaling \$363,891.
- KUFW over-stated NFFS by \$864,922 resulting in excess CSG payments totaling \$54,398 which we have classified as funds put to better use for reporting purposes.
- CPB grants expenditures were not discretely accounted for in the accounting records, they were comingled with other KUFW transactions and the AFRs did not separately report CPB restricted funds received.
- KUFW did not comply with the open meeting requirements of the Communications Act.

We performed our examination in accordance with *Government Auditing Standards* for attestation engagements. Our scope and methodology is discussed in Exhibit E. This report presents the conclusions of the Office of Inspector General (OIG).

In response to the draft report, the KUFW did not agree with our findings that CSG restricted grant funds were not expended for national programming, grants expenditures were not discretely accounted for; and in-kind contributions were over reported on the AFR. However, KUFW did agree that fundraising expenses were not reported according to CPB reporting guidelines and stated that they are implementing operating procedures to properly comply with the Communications Act requirements. KUFW's complete response to our draft report is included on Exhibit F.

This report presents the conclusions of the OIG and the findings reported do not necessarily represent CPB's final position on these issues. 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 KUFW's response to the draft report, we consider all eight recommendations unresolved, pending a CPB management decision.

## **BACKGROUND**

Public broadcasting station KUFW (89.7 FM, located) in Visalia, CA, is a member of Radio Campesina Network<sup>1</sup> which broadcasts using a Spanish format. The Cesar Chavez Foundation (CCF), formerly the National Farm Workers Service Center is the licensee of the Radio Campesina Network. The Radio Campesina Network's mission is to enhance the social and economic well being of the Latino community through quality educational radio programming. The stations broadcast programs targeting recent immigrants from rural Mexico and Central America between the ages of 25 and 49, an audience that has traditionally eluded educational radio.

Exhibit A reconciles CPB payments to CPB revenues reported on KUFW's 2008 – 2010 AFRs. Total revenues of, \$1,388,729 was reported for the CSGs and \$50,903 for a Fiscal Stabilization grant.

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 appropriated 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

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<sup>1</sup> The Radio Campesina Network is comprised of 9 radio stations, 7 commercial stations and 2 public broadcasting stations KUFW-FM and KNAI-FM. KNAI-FM is a transmitter station under KUFW's CPB grant.

fiscal year's CSG amount. For example, CPB used the NFFS claimed by KUFW on its FY 2007 AFR to determine the amount of the CSG the station received in FY 2009.

KUFW's reported total direct revenues of \$12,902,110 for FYs 2008 - FY 2010 presented in Exhibit B by fiscal year. KUFW also reported total NFFS of \$13,488,884 for FYs 2008 - 2010 per Exhibit C.

## **RESULTS OF REVIEW**

We examined KUFW management's assertions of compliance with CPB's CSG grant agreement terms, Certification of Eligibility requirements, Act requirements, and NFFS financial reporting guidelines for the periods ending December 31, 2008 - 2010. Management is responsible for compliance with those requirements. Our responsibility is to express an opinion on management's assertions about its compliance based on our examination.

Our examination was conducted in accordance with the *Government Auditing Standards* for attestation engagements and, accordingly, included examining, on a test basis, evidence about KUFW'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 KUFW's compliance with specified requirements.

Our examination disclosed the following material noncompliance issues with CPB's CSG grant agreement terms, Certification of Eligibility requirements, NFFS reporting requirements, and Communications Act requirements applicable to the periods ending December 31, 2008 - 2010.

- KUFW did not expend CSG restricted grant funds for national programming resulting in questioned costs totaling \$363,891.
- KUFW over-stated NFFS by \$864,922 resulting in excess CSG payments totaling \$54,398 which we have classified as funds put to better use for reporting purposes.
- CPB grants expenditures were not discretely accounted for in the accounting records, they were comingled with other KUFW transactions and the AFRs did not separately report CPB restricted funds received.
- KUFW did not comply with the open meeting requirements of the Communications Act.

In our opinion, because of the effect of the material noncompliance described above, KUFW has not complied with the aforementioned requirements for the periods ending December 31, 2008 - 2010.

## **FINDINGS AND RECOMMENDATIONS**

### **Use of Restricted Radio CSG Grant**

Our review of KUFW's CSG expenditures identified that KUFW did not comply with CPB restricted funding requirements to use restricted radio funds to acquire national programming. The station expended these funds on salaries, fringe benefits and operational expenses to produce educational programming, but the programs were not placed in the national marketplace of public radio programming. As a result, we questioned \$363,891 in restricted funds.

FY 2008 Radio Community Service Grant (CSG), General Provisions & Eligibility Criteria, Section 3., A., 2., Restricted Portion of the CSG, states:

This portion of the CSG must be used exclusively for the acquisition, production, promotion, and distribution of national programming of high quality...To qualify as a national program for funding from CSG funds, a program must be placed in the national marketplace of public radio programming... Expenditures from the restricted portion of the CSG must fall in four categories:

- (1) Production
- (2) Program and Content Acquisition
- (3) Distribution
- (4) Promotion ...

Discussions with station officials disclosed that they were not aware of this requirement. In a written response to our preliminary observations they stated that their educational programs were distributed by satellite to nine radio markets and surrounding communities in the states of California, Arizona, and Washington through their network of radio stations. The original content that they produced was broadcast to approximately half a million listeners in these markets on a daily basis and reached thousands of other listeners nationally and internationally via their internet stream. However, the programs produced by the Network Department were not placed in the national marketplace of public radio programming.

By not expending these funds on national programming the wider public broadcasting community did not fully benefit from this investment in programming. As a result, we questioned \$363,891, per Exhibit D.

### **Recommendations**

We recommend that CPB management take the following actions:

1. Recover \$363,891 in restricted funding that was not used to pay for the acquisition, production, promotion or distribution of national programming.

2. Require KUFW to establish controls over spending to ensure future radio restricted funds are expended on qualified national programming.

### **KUFW Response**

In response to recommendation 1, KUFW officials disagreed with the finding on the expenditure of restricted funds to acquire national programming. They stated that they expended the restricted funds on the development and distribution of CCF's original educational content that is delivered to approximately half a million listeners in their markets on a daily basis and thousands of other listeners nationally and internationally via their internet streaming and content downloads. They also said that Foundation officials have presented programs at conferences held by the National Federation of Community Broadcasters and Public Radio Program Directors where station representatives were informed about the availability of their original programming.

KUFW officials did not address recommendation 2.

### **OIG Review and Comment**

Based on KUFW's response we consider recommendations 1 and 2 unresolved pending CPB's management decision. CPB Radio CSG General Provisions and Eligibility Criteria cited in this report require that the restricted portion of the CSG be used for programming that is placed in the national marketplace of public radio programming. We disagree that programming created by and distribution to the nine Radio Campesina network stations, seven of which are commercial, qualified as programming placed in the national public radio marketplace.

### **Non-Compliant Non-Federal Financial Support**

Our review of KUFW's AFRs found that NFFS was over-stated by \$864,922 for the three years audited because KUFW incorrectly reported fundraising revenues and overstated the value of an in-kind contribution. This over-statement of NFFS resulted in excessive CPB payments of \$54,398 (\$52,883 for fundraising income and \$1,515 for in-kind contributions) during FYs 2010 - 2012. For reporting purposes, we have classified the \$54,398 as funds put to better use.

### ***Fundraising Revenue***

KUFW did not report fundraising revenues net of direct expenses on line 14A of the AFRs or reported the related expenses as fundraising expenses on line 14B of Schedule A as required by CPB Financial Reporting Guidelines. The AFR reconciliation worksheets prepared by the Foundation showed that fundraising expenses were initially netted from the fundraising revenue. However, when the AFR was prepared they were not shown on Line 14B reducing the reported revenues. As a result, NFFS was

overstated by a total of \$840,522, resulting in NFFS overpayments of \$52,883 for the three year period as calculated in Exhibit D.

CPB Financial Reporting Guidelines, Section 5 Completing AFR Schedule A, Direct Revenue, Line 14, states that to be claimed as NFFS, all direct costs of special fund raising activities including those costs incurred to produce such events and costs for prizes distributed should be deducted from the gross proceeds on line 14B of the AFR or reported net of direct expenses on line 14A of the AFR.

### ***Trade and In-Kind Contributions***

KUFW entered into a trade/underwriting agreement where they traded radio announcements for a 2004 Chevrolet truck which was valued at \$36,400 on Schedule D of the FY 2010 AFR. Our review indicated that the amount claimed as in-kind contribution was far greater than the fair market value of a 2004 Chevrolet truck, approximately \$12,000, at the January 23, 2010 donation date.

Generally accepted accounting principles (GAAP) requires that grantees record all significant contributed support at fair value at the time of donation, provided there is a clearly measurable and objective basis for determining the value. In addition, GAAP also requires that documentation of contributed goods and services must support the determination of fair value. Sufficient evidence must be retained by the grantee and be available for audit purposes. An invoice or letter from the donor is an example of such documentation. Donors must independently document their contributions as to description, date(s) of donation, fair value and method of valuation.

KUFW did not determine the fair market value of the truck when claiming it as an in-kind trade but simply used the original purchase documents provided by the donor to assign value. As a result, KUFW's NFFS on Schedule D of the FY 2010 AFR was overstated by \$24,400 resulting in a \$1,515 over-payment by CPB.

### **Recommendations**

We recommend that CPB management take the following actions:

3. Recover \$54,398 in potential CPB over-payments because of over-reported FY 2008-2010 NFFS.
4. Require KUFW to submit revised AFRs, Schedules A for FY 2008, eliminating questionable direct revenue of \$864,922.
5. Require KUFW to establish internal controls over the AFR preparation to ensure that the AFR schedules A and C report revenues correctly.

### **KUFW Response**

In response to this finding, KUFW officials acknowledged that fundraising revenues were not reported in accordance with CPB Financial Reporting Guidelines. They said

that there was a change in the AFR reporting format that changed the fundraising expenses from the expense line item to an offsetting revenue item, which effectively changed the net revenues. They also stated that this change in reporting will be corrected in the future.

With respect to the in-kind trade of underwriting for the Chevrolet truck, KUFW officials stated that the trade was based on an agreement with the donor and the station relied on the fair market value of the truck because the donor provided a copy of an invoice to support the value of the contribution. They further stated that this practice was fully consistent with industry practice, and although they agreed to change their practice to conform to CPB requirements, they should not be penalized for following industry practice.

KUFW officials did not specifically respond to any of these three recommendations.

### **OIG Review and Comment**

Based on KUFW's response we consider recommendations 3, 4, and 5 unresolved pending CPB's management decision. While CCF's response acknowledged the future fundraising reporting would be corrected, they did not specify what corrective actions they will be taking. The requirement to deduct fund raising expenses from fund raising revenues has been in effect for many years. The change in the AFR reporting format, i.e., adding a line to show the fund raising expense to be deducted was made to reinforce the requirement that fundraising revenues had to be reported net of direct expenses.

With respect to CCF's comments on the in-kind trade value of a six year old Chevrolet truck, we did not find the grantee's response acceptable. As stated above, GAAP requires that grantees record in-kind contributions at the fair value at the time of donation. In this case, we did not find a six year old truck valued at the original purchase price to be a fair value, particularly when the market value of a used truck is readily available on the internet.

### **Discrete Accounting Needed to Document the Use of CSG Funds**

KUFW's accounting system did not separately identify the use of CSG funds in accordance with CPB grant terms. CPB funds and expenses were comingled with other station revenue and expenses, and we could not independently verify the use of CPB funds without the assistance of Foundation accounting officials.

CPB's General Provisions and Eligibility Criteria for TV and Radio CSGs, Section 10.B. Record Keeping and Audit Requirements, require stations to provide discrete accounting and proper documentation to support all CSG revenues and expenditures. Further, CPB's Radio, CSG, Section 3. Use of Grant Funds – Purpose and Restrictions, provides guidance on the use of the discretionary portion of the CSG on seven different

cost categories:

- Programming and Production
- Broadcasting, Transmission, and Distribution
- Programming Information and Promotion
- Fundraising and Membership Development
- Underwriting and Grant Solicitation
- Management and General
- Purchase, Rehabilitation, or Improvement of Capital Assets

Our review found that separate CPB revenue accounts were not established in the general ledger to record the use of CPB funds. CPB funds and expenses were comingled with other station revenue and expenses. We had to rely on Foundation accounting officials to identify expensed charged to the CSG grant. We were told by these officials that they fully expended CSG grant funds during the year they were received.

Additionally, we identified that KUFW inaccurately reported CPB funds on its AFRs by not separately identifying the restricted portions of their CSG grants on Line 2.C. for the three years audited totaling \$363,891 and by not separately reporting the 2010 Fiscal Stabilization Grant totaling \$50,903 on Line 2.E. of the 2010 AFR. In each instance the restricted and stabilization funds were included in the revenues reported as CSG unrestricted funds.

This finding was also discussed with Foundation officials and they said that they were not aware of the separate accounting reporting requirements for CPB grant funds. They acknowledged that their accounting system did not provide discrete accounting of CPB grant expenses and understood the need for better accountability. They agreed to add a general ledger object code or account to separately track CPB revenues and expenses to provide an adequate audit trail and facilitate the accurate reporting of grant revenues.

### **Recommendations**

We recommend that CPB take the following actions to require KUFW to:

6. Establish discrete accounting for CPB grant funds, to separately track CPB revenues and match to expenditures to provide an adequate audit trail of the use of CPB grant funds.
7. Ensure controls established in response to Recommendation 5 over the AFR preparation process included properly reporting restricted CPB funds received.

### **KUFW Response**

KUFW officials disagreed with recommendation 6. They explained that CCF used fund accounting as its basic accounting format and the public broadcasting operations of

CCF operates as a division within their organization. The public broadcasting operations are reported in separate funds to provide segregation of assets, liabilities, revenues, expenses and net assets. These funds are labeled with unique account coding that identifies only the accounts of the public broadcasting operations where the funds of the CSG are recorded. They stated that all transactions related to revenue and expenditure of public broadcasting funds are recorded and tracked within these funds. The education fund within this account coding is considered to be the primary fund where the receipt of the CSG funds is recorded. Expenditures related to the CSG funds are recorded in the education fund, as well as in the other funds within the public broadcasting operations. Allocating CSG funds among other public broadcasting funds allowed for the optimum use of the CSG funds.

KUFW officials did not respond to recommendation 7.

### **OIG Review and Comment**

Based on KUFW's response, we consider recommendations 6 and 7 unresolved pending CPB's management decision. While the CCF used fund accounting to separately track the different divisions within the foundation, the comingling of CPB revenues and expenditures within the public broadcasting division did not discretely account for CPB revenues and expenses. Further, the comingling of all public broadcasting activities did not facilitate our audit of CPB funds. The fact that expenditures related to the CSG funds were recorded in the education fund, comingled with other funds within the public broadcasting division contributed to our inability to identify specific expenses paid from CSG funds, without the assistance of CCF officials.

### **Compliance with Communications Act Requirements**

Our examination found that the Foundation did not comply with the open meetings requirements of the Communications Act. The Foundation Board of Directors (BOD) met twice a year. A review of the BOD meeting minutes showed that they discussed the Radio Campesina Network operation (including public broadcasting activities) and made network business decisions. However, the Foundation board meetings were not open to the public as required by the Communications Act. Further, the Foundation did not:

- provide seven days advance notice of public meetings of the Foundation BOD;
- provide quarterly on-air announcements on at least three consecutive days of the station's open meeting policy and how the public could obtain information on the dates, times, and location of upcoming BOD meetings; and
- document operating policies for complying with CPB's open meeting requirements.

In addition KUFW and KNAI have Community Advisory Boards (CAB) that meets twice a year. CAB meeting notices were published 10 days in advance of the scheduled meetings. Proper announcements were broadcast in the specific markets of the CAB meetings and notices were placed on the Campesina website as well as on Facebook. However, KUFW/KNAI CABs did not comply with CPB's open meeting requirements to provide on-air announcements on at least three consecutive days describing the station's open meeting policy and how the public could obtain information on the dates, times, and location of upcoming meetings.

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 requirements for "reasonable notice" to the public 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 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.

The Executive Vice President of the Foundation stated that the Foundation did not make the BOD meetings open to the public in the past because the radio operations are only a part of the Chavez Foundation's many programs, that the Foundation BOD often discusses sensitive financial and private information at these meetings that is not public information. However, the Foundation would be open to ideas to make changes to comply with the Communications Act Open Meetings requirements. In the case of the CABs, station management stated that they were not aware of this requirement and immediately drafted a policy to ensure that notices are aired quarterly.

The station's lack of compliance with these requirements deprived the public of the required information envisioned by the Act. This information provides transparency, as well as, informs the public about how the station operates.

### **Recommendation**

We recommend that CPB management take the following actions to require the Foundation to:

8. Fully comply with all requirements of the Communications Act and provide documentation of its compliance with the following provisions over the next fiscal year.
  - a) Provide adequate advance notice of public meetings of the Board of Directors.
  - b) Make on-air announcements for at least three consecutive days once each calendar quarter that explain the station's open meeting policy.
  - c) Establish written operating policies documenting their compliance with CPB's Open Meetings requirements.

### **KUFW Response**

In response to recommendation 8, KUFW officials stated that they amended their policies and operating procedures to ensure proper notice of its open meeting policies about its CAB are broadcast on a quarterly basis to comply with CAB open meeting requirements.

They also stated that the CCF's Radio Campesina operations are a fraction of the business that is discussed by the CCF's Board of Directors, and legitimate privacy, privilege and confidentiality concerns exist regarding many of the issues discussed at the board meetings. However CCF is committed to adjusting its Board of Directors meetings to ensure compliance with CPB standards moving forward.

### **OIG Review and Comment**

Based on KUFW's response, we consider recommendations 8 a-c unresolved pending CPB's management decision. While CCF's response indicates that policies and operating procedures for the CAB have been amended, we defer to CPB to determine whether this policy adequately addresses CAB responsibilities. Further, while CCF stated that the CCF Board of Directors intends to comply with the open meeting requirements when discussing public broadcasting matters, CCF has not implemented a policy to comply with this requirement.

**EXHIBIT A**

**KUFW**  
**Reconciliation of AFR CPB Revenues to CPB Payments**  
**January 1, 2008 – December 31, 2010**

<b>Date</b>	<b>Community Service Grant:</b>	<b>2008 AFR</b>	<b>2009 AFR</b>	<b>2010 AFR</b>	<b>Total</b>
10/15/2008	FY 2009 Radio CSG Unrestricted	\$193,195			\$193,195
10/15/2008	FY 2009 Radio CSG Restricted	\$68,268			\$68,268
7/8/2009	FY 2009 Radio CSG Unrestricted	\$193,195			\$193,195
7/8/2009	FY 2009 Radio CSG Restricted	\$68,268			\$68,268
11/12/2009	FY 2010 Radio CSG Unrestricted		\$172,591		\$172,591
11/12/2009	FY 2010 Radio CSG Restricted		\$61,621		\$61,621
6/30/2010	FY 2010 Radio CSG Unrestricted		\$172,591		\$172,591
6/30/2010	FY 2010 Radio CSG Restricted		\$61,621		\$61,621
11/16/2010	FY 2011 Radio CSG Unrestricted			\$146,633	\$146,633
11/16/2010	FY 2011 Radio CSG Restricted			\$52,057	\$52,057
7/6/2011	FY 2011 Radio CSG Unrestricted			\$146,633	\$146,633
7/6/2011	FY 2011 Radio CSG Restricted			\$52,056	\$52,056
	<b>Sub-Total</b>	<b>\$522,926</b>	<b>\$468,424</b>	<b>\$397,379</b>	<b>\$1,388,729</b>
	<b>Other:</b>				
1/13/2010	Fiscal Stabilization Grant			\$50,903	\$50,903
	<b>Total</b>	<b>\$522,926</b>	<b>\$468,424</b>	<b>\$448,282</b>	<b>\$1,439,632</b>

**Note:** KUFW recognizes CSG grant awards as revenues in the year the grant agreement was executed. Generally this occurred during the fall of each year.

**EXHIBIT B**

**KUFW  
Annual Financial Reports  
Years Ending December 31, 2008 to 2010**

Line	Description	FY 2008	FY 2009	FY 2010
	<b>Schedule A, Source of Income:</b>			
2.A.	CPB-CSG	\$522,926	\$468,424	\$448,282
2.C.	CPB-Restricted CSG	\$0	\$0	\$0
2.E.	CPB – All other funds	\$0	\$0	\$0
8	Foundation and nonprofit associations	\$0	\$0	\$28,000
9	Business and Industry	\$3,496,109	\$2,605,970	\$2,447,254
14.A.	Gross special fundraising activities	\$354,856	\$244,239	\$202,622
15	Passive Income	\$3,783	\$8,118	\$0
20	Other Direct Revenue	\$845,469	\$688,894	\$537,164
21	<b>Total Revenue</b>	<b>\$5,223,143</b>	<b>\$4,015,645</b>	<b>\$3,663,322</b>
	<b>Adjustments to Revenue</b>			
23	Public broadcasting revenue	\$522,926	\$468,424	\$448,282
25	Other revenue on line 21 not meeting the source, form, purpose, or recipient criteria to be included as NFFS	\$682,800	\$533,400	\$537,164
27.	<b>Total Direct Nonfederal Financial Support</b>	<b>\$4,017,417</b>	<b>\$3,013,821</b>	<b>\$2,677,876</b>
	<b>Schedule C, In-Kind Contributions</b>			
2	General Operational Services	\$130,459	\$207,420	\$161,040
	<b>Total In-Kind Services</b>	<b>\$130,459</b>	<b>\$207,420</b>	<b>\$161,040</b>
5	IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	\$27,785	\$15,710	\$7,960
6	Total in-kind contributions - services and other assets (line 4 plus line 5),	<b>\$158,244</b>	<b>\$223,130</b>	<b>\$169,000</b>
	<b>Schedule D, In-kind Contributions - Property &amp; Equipment</b>			
4	Vehicle(s) (must be eligible as NFFS)	\$0	\$0	\$36,400
6	Total in-kind contributions	\$0	\$0	\$36,400
7	IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	\$0	\$0	\$0
8	<b>Total in-kind contributions - property and equipment (line 6 plus line 7), forwards to Schedule F, line 1d. Must agree with in-kind contributions recognized as revenue in the AFS.</b>	<b>\$0</b>	<b>\$0</b>	<b>\$36,400</b>

**Note:** KUFW did not report the restricted portion of the CSG on Line 2.C. or a 2010 Fiscal Stabilization grant on Line 2.E., as required

**EXHIBIT C**

**KUFW**  
**Summary of Non-Federal Financial Support 2008-2010**  
**Certified by Head of Grantee and Independent Accountant's Report**

<b>Line</b>	<b>Description</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
	<b><i>Summary of Non-Federal Financial Support:</i></b>			
1	Direct Revenue (Schedule A)	\$5,223,143	\$4,015,645	\$3,663,322
2	Indirect Administrative (Schedule B)	0	0	0
3	In-Kind Contributions (Schedule C)	158,244	223,130	169,000
3a	Services and Other Assets (Schedule C)	0	0	36,400
3b	Property and Equipment (Schedule D)	0	0	0
4	<b>Total Non-Federal Financial Support</b>	<b>\$5,381,387</b>	<b>\$4,238,775</b>	<b>\$3,868,722</b>

**EXHIBIT D****KUFW  
Summary of Monetary Findings**

	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>Funds Put to Better Use</b>	<b>Questioned Costs</b>
Fundraising NFFS Overstated	\$448,427	\$241,115	\$150,980		
In kind Contribution - 2004 Truck			\$24,400		
<b>Total Overstated NFFS</b>	<b>\$448,427</b>	<b>\$241,115</b>	<b>\$175,380</b>		
Radio Incentive Rate of Return	0.062124	0.064888	0.062124		
<b>Total Over Payments</b>	<b>\$27,858</b>	<b>\$15,645</b>	<b>\$10,895</b>	<b>\$54,398</b>	
Restricted Funds not Used for National Programs	\$136,536	\$123,242	\$104,113		<b>\$363,891</b>
<b>Totals</b>	<b>\$164,394</b>	<b>\$138,887</b>	<b>\$115,008</b>	<b>\$54,398</b>	<b>\$363,891</b>

## **SCOPE AND METHODOLOGY**

We performed an examination to determine KUFW's adherence to the requirements of the CPB Financial Reporting Guidelines, Generally Accepted Accounting Principles, Act requirements, and CPB grant provisions and certification requirements. The scope of the examination included reviews and tests of the data reported by the station on the AFRs and audited financial statements for the years ending December 31, 2008, 2009, and 2010. We examined KUFW's compliance with the Act and Certification Requirements for CPB station grant recipients. We examined expenses from the Community Service Grants to determine if expenses incurred were allowable and in accordance with the terms and conditions of the grants.

We judgmentally selected a sample of underwriting transactions for review. We reviewed underwriting transactions valued at \$1,674,855 from a total of \$8,549,333 (20 percent) for the three year period. We also reviewed a judgmental sample of 102 payroll and non-payroll disbursement transactions charged to the three CPB CSG grants for Fiscal Years 2008 – 2010 (grant expenditure periods from October 1, 2007 – September 30, 2011), totaling \$123,759. We reviewed supporting documentation for underwriting agreements, grant agreements, vendor invoices, and other documentation supporting the revenue and expenditure transactions tested.

We also reviewed records and documents supporting the station's compliance with the Act requirements to provide advance notice of public meetings of the Board of Directors and CABs, financial and EEO information made available to the public, and documents supporting compliance with donor lists and political activities prohibitions. Our procedures included interviewing station officials, an accounting consultant, and the station's independent public accountant.

We gained an understanding of internal controls over the preparation of AFRs, cash receipts, and cash disbursements. We also gained an understanding of KUFW's policies and procedures for compliance with certification of eligibility requirements, Communications Act, and CPB grant agreement terms for allowable costs. Our understanding of the internal control environment and specific control techniques were used in assessing risks to plan the nature and extent of our testing to conclude on our objectives. We also tested the effectiveness of controls over payment authorizations.

Our fieldwork at the station was performed at the Foundation, the week of October 17 - 21, 2011 and January 9 - 10, 2012, at KNAI FM November 28 to December 1, 2011 and at KUFW-FM January 11 - 12, 2012. Our examination was performed in accordance with the *Government Auditing Standards, July 2007 Revision*, for attestation examinations.

# CESAR CHAVEZ FOUNDATION

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LA CAMPESINA NETWORK  
1440 E. WASHINGTON ST.  
PHOENIX, AZ 85034

PHONE: 602-269-3121  
FAX: 602-269-3020



March 26, 2012

William J. Richardson III  
Deputy Inspector General  
Office of Inspector General  
401 Ninth Street, NW  
Washington, DC 20004-2129

***Re: KUFW-FM Preliminary Observations***

Dear Mr. Richardson III,

We write in response to the Draft Report of the Examination of Cesar Chavez Foundation, KUFW FM, Fiscal Years 2008-2010, dated February 16, 2012 (Report No. ESR1107-xxxx) ("Report"), that you sent to us. We appreciate the extension of time to file this response granted by the Office of the Inspector General ("IG"). On February 10, 2012, we filed a preliminary response to the draft findings of the IG. This final response enlarges on that response. For convenience, we have supplemented the February 10<sup>th</sup> letter to combine our response in one document. It should be noted that, although various accounting errors have been cited in the Report, no effort was made by the Cesar Chavez Foundation ("CCF") to intentionally obtain a greater grant amount or to defraud the system. CCF has always tried to comply with all requirements of the Corporation for Public Broadcasting ("CPB").

Since the inception of the public radio concept by CCF the mission of its Radio Campesina's operations has been to produce and provide an "interactive format" to service the needs of minority, Hispanic, and other disadvantaged immigrant communities. Aware of the unique educational needs and diverse cultural experiences of this audience, our programming offers a Spanish-language broadcast that includes not only popular music, but news, public affairs, listener call-in opportunities, and access to expert advice and guidance concerning community services, current issues in the news, and cultural events.

Our broadcasts offer information about community issues, healthcare, school and educational opportunities, immigration and citizenship, voter education, workplace safety, and labor issues, and call the community to take action on these same topics and causes. We enhance our listeners' experience with the use of remote broadcasts from community centers, public service agencies, healthcare providers, public malls, schools, and other educational institutions. These outreach activities provide the public with the opportunity to have direct contact with the organizations and agencies that provide local and national program services to improve the lives of our minority and disadvantaged immigrant audience.

Even more remarkable is CCF's ability to reach an audience that does not traditionally consume public radio content through Radio Campesina's unique format and style. This is paramount as CCF does not seek to educate those who are already educated, but rather to provide current, relevant, and incisive information to the communities that need it most. CCF's ability to make a difference in the day-to-day lives of our listeners, and our ability to mobilize a large community around pertinent issues has been recognized on innumerable occasions by other media outlets, news organizations, activists, community members, public broadcasting professionals, and service organizations.

Thus, in the interest of continuing the important work of CCF's Radio Campesina efforts, we would like to specifically address the concerns that were highlighted in the Preliminary Observations as follows:

**Finding 1: Restricted Funds**

From 2008 through 2010, CCF expended restricted funds on the development and distribution of non-commercial programs. The original educational content created by Radio Campesina's Education Department was broadcasted to approximately half a million listeners in these markets on a daily basis, and reached thousands of other daily listeners nationally and internationally via our internet stream. CCF has leveraged new media to serve a much broader community at the national level than other public radio outlets, such as offering online streaming since 2005 and content downloads since 2008.

Other nonprofit and for-profit radio stations have had access to Radio Campesina's programs and content through its website, and an ability to inquire about airing these programs on their airwaves. Further, CCF has attended and presented its programs at conferences held by the National Federation of Community Broadcasters and Public Radio Program Directors where hundreds of public station representatives were informed about the availability of Radio Campesina's original programming.

The Report recommends that CCF return funds because the programming that was created was not placed in the "national marketplace of public radio programming." In the CPB guidelines the national marketplace of public radio programming is defined only by reference to various existing distribution facilities. CCF's educational programming is distributed by satellite, and carried in full, to nine radio markets and surrounding communities in California, Arizona, and Washington through CCF's network of radio stations. Further, CCF's satellite stream can be made available to any other station in the U.S.

We specifically request that the IG finding be reversed and that no forfeiture of funds be enacted. CCF uses CPB grant money to produce high-quality programming that is distributed to stations in multiple states within the national marketplace. Also, CCF should not be penalized because it utilized, in part, the internet to make programming available to radio stations and the public directly.

**Finding 2: Fundraising Expenses**

To the best of CCF's ability, fundraising revenues were reported consistently on the AFR since the inception of CPB's grant to CCF. After the initiation of the grant, there was a change in the AFR - reporting format that changed the fundraising expenses from the expense line item to an offsetting revenue item, which effectively changed the net revenues. This change in reporting will be corrected in future reporting.

The fundraising activities were also reported on a consistent basis in the Public Broadcasting Operations audited financial statements for all reporting periods. There was not any change in the net operations.

**Finding 3: Trade and In-Kind Contributions**

KUFW/KNAI entered into a trade agreement for a 2004 Chevrolet truck which was valued at \$36,400 as reported on Schedule D of the FY 2010 AFR. This value was provided to us in exchange for the value of the underwriting which was recorded as revenue. The trade was based upon an agreed amount with the customer and relied on as the fair market value of the asset in which the donor did provide a copy of the invoice to support the contribution as valued. This practice is fully consistent with industry practice, and although we agreed to change our practice to conform to CPB requirements, we should not be penalized for following industry practice.

**Finding 4: Discrete Accounting**

CCF uses fund accounting as its basic accounting format. Since the public broadcasting operations of CCF operates as a division within the organization, it's operations are reported in separate funds to provide segregation of assets, liabilities, revenues, expenses and net assets. These funds are labeled with unique account coding that identifies only the accounts of the public broadcasting operations where the funds of the CSG are recorded. All transactions related to the revenues and expenditures of public broadcasting funds are recorded and tracked within these funds. The education fund within this account coding is considered to be the primary fund where the receipt of the CSG funds is recorded. Expenditures related to the CSG funds are recorded in the education fund as well as in other funds within the public broadcasting operations. Allocating CSG funds among other public broadcasting funds allows for the optimum use of CSG funds in accordance with the purpose and restrictions set forth in the general provisions and eligibility criteria as determined by CPB policy.

CCF was initially approved for CPB funding in 2003, CCF's then-CFO established the accounting system to be in compliance with CPB guidelines. Although our former CFO left CCF in 2005, our belief was that our accounting methods were in compliance with CPB requirements by the fact that each year since receiving the CPB grant, our independent auditor prepared a special audit for submission to CPB and we received no objections from CPB. We submit that CPB funds were put to good use in the production of our programming.

**Finding 5: Compliance with the Communications Act Open Meeting Requirements**

As noted in your findings, CCF has amended its policies and operating procedures to ensure that proper notice of its open meeting policies and meeting information about its Community Advisory Boards are broadcast on a quarterly basis instead of a semi-annual basis.

As additionally noted in your findings, CCF provides a wide array of nonprofit services in addition to educational radio programming, such as providing affordable housing and social services to over 16,000 low-income residents; delivering free after-school tutoring services to thousands of students in under-performing schools; and offering exhibits, documentary films, tours, service projects, and conference and retreat facilities for the thousands of visitors who come to the National Chavez Center each year. Thus, CCF's Radio Campesina operations are a fraction of the business that is discussed by the CCF's Board of Directors, and legitimate privacy, privilege and confidentiality concerns do exist regarding many of the issues discussed at the Board meetings. However, CCF is

committed to adjusting its Board of Directors meetings to ensure compliance with CPB standards moving forward.

CCF values the support that CPB provides for its vital Radio Campesina programs, and has made every effort to comply with the general provisions and eligibility criteria as outlined in the grant award. We are certainly open to any suggestions that would allow us to improve our compliance functions and will enable CPB to feel secure in its partnership with CCF.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Nowakowski". The signature is written in a cursive, flowing style.

Michael Nowakowski  
Executive Vice President