

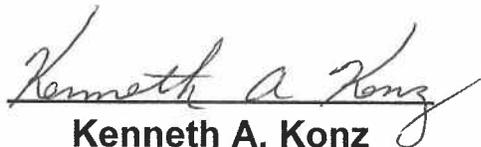
CORPORATION FOR PUBLIC BROADCASTING

OFFICE OF INSPECTOR GENERAL

**EXAMINATION OF KNME-TV CPB GRANTS
FOR THE PERIOD
JULY 1, 2007 – JUNE 30, 2010**

REPORT NO. AST1106-1205

July 24, 2012

A handwritten signature in cursive script that reads "Kenneth A. Konz". The signature is written in black ink and is positioned above the printed name and title.

**Kenneth A. Konz
Inspector General**

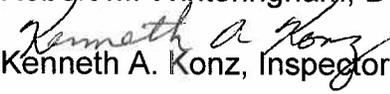


Corporation
for Public
Broadcasting

Office of Inspector General

Date: July 24, 2012

To: Robert M. Winteringham, Deputy General Counsel

From: 
Kenneth A. Konz, Inspector General

Subject: Examination of KNME-TV CPB Grants for the Period
July 1, 2007 – June 30, 2010, Report No. AST1106-1205

We have completed an examination of the Corporation for Public Broadcasting (CPB) Community Service Grants (CSG), Interconnection, Distance Service Grants, Digital Distribution Fund (DDF) and other grants awarded to KNME-TV (KNME) for the above referenced period. The objectives of the examination were to determine whether KNME: a) claimed Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFRs) for FY 2008 – FY 2010 in accordance with CPB Financial Reporting Guidelines; b) complied with the Certification of Eligibility requirements and the statutory provisions of the Communications Act of 1934, as amended (Act); and c) expended CSG, and other grant funds in accordance with CPB grant requirements. We performed this examination in accordance with *Government Auditing Standards* for attestation engagements. Our scope and methodology is discussed in Exhibit J.

Based upon our examination we found:

- over-stated NFFS of \$1,059,026 resulting in excessive CPB CSG grant payments of \$112,810, classified as funds put to better use for reporting purposes;
- questionable CSG grant expenses of \$18,000 for a transaction that did not augment the station's capability to expand the quality of its services to its community in compliance with grant requirements;
- CPB's Fiscal Stabilization grant and other nonprofit revenues were improperly reported on its FY 2010 AFR; and
- noncompliance with statutory provisions of the Communications Act for open meetings and establishing operating procedures.

In response to the draft report, KNME officials did not agree with our findings on overstated NFFS and questionable expenditures. KNME agreed with our finding on the Communications Act and initiated corrective actions. KNME's written response to the draft report is attached in Exhibit K. We did not include a 31 page attachment to KNME's response, which included copies of letters received from donors making in-kind

contributions and documentation of corrective actions under the Communications Act. This additional information is available upon request from our office.

This report presents the conclusions of the OIG. The findings and recommendations contained in this report do not necessarily represent CPB management's final position on these matters. CPB management will make final management decisions on the recommendations in this report in accordance with CPB's audit resolution procedures.

Based on KNME's response to the draft report, we consider recommendations 1-5 and 6c unresolved. Based on KNME's corrective actions, we consider recommendations 6a-b resolved but open pending CPB's management decision accepting KNME's corrective actions.

BACKGROUND

KNME is an unincorporated entity operating under a co-license issued by the Federal Communications Commission to the University of New Mexico (UNM) and Albuquerque Public Schools (APS). The station was created through a joint powers agreement between UNM and APS. The station first went on air in May of 1958. Its mission is to inform, engage, and connect New Mexico's diverse communities, reflecting their interests and needs through quality programming, services, and on-line content that can be accessed anytime, anywhere.

KNME operates two full power television stations each providing two programming streams for a total of four streams. Channel 5.1 is the main KNME programming channel and Channel 5.2 is an all Spanish programming service channel. KNME was the first television station in New Mexico to broadcast digitally on UHF Channel 35 in late 2001. KNME also generates revenue by providing uplink services to the PBS system, as well as to commercial clients.

CSG award amounts are determined by the NFFS reported by a station on its AFR. The CSG calculation process starts with amounts appropriated for the television CSG pool adjusted by the base grant, distance and local service grant amounts. 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 television stations in the system. The IRR is then multiplied by a 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 award amount. To illustrate, CPB used the NFFS claimed on KNME's FY 2008 AFR to determine the amount of its FY 2010 CSG award to KNME.

KNME's annual CSG awards totaled \$3,130,751 (\$1,000,694 in FY 2008, \$994,323 in FY 2009 and \$1,135,734 in FY 2010). Each CSG grant can be spent over a two year period. The FY 2010 CSG can be spent over the period from October 1, 2009 through September 30, 2011. KNME's fiscal year covers the period July 1st through June 30th of each year.

CPB's cash payments to KNME totaled \$3,467,377 for the period July 1, 2007 – June 30, 2010 for all CPB grants, as listed in Exhibit A. KNME recognizes revenues when the funds are spent. Upon receipt CPB cash receipts are recorded as deferred revenues. When they are subsequently spent the deferred revenues are cleared and the funds are recognized as revenues and reported on that fiscal year's AFR. As a result, Exhibit A cash receipts can be recognized as revenues over multiple fiscal years depending upon when the funds are actually expended. KNME's FY 2008 – 2010 AFRs reported total CPB revenues of \$3,189,980.

KNME's AFRs reported total revenues of \$24,618,359 per Exhibits B – D. KNME reported total NFFS of \$21,212,289 as presented in Exhibits E - G.

RESULTS OF REVIEW

We examined KNME management's assertions of compliance with CPB's CSG agreement terms, Financial Reporting Guidelines for reporting NFFS, Certification of Eligibility requirements, and Communications Act requirements for the period July 1, 2007 – June 30, 2010. We examined CSG and other CPB grant revenues and expenses. Management is responsible for KNME's compliance with CPB's 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 of KNME's compliance with those requirements and performing such other procedures as we considered necessary. We believe that our examination provides a reasonable basis for our opinion.

Our examination disclosed the following issues of noncompliance with CPB's CSG grant agreement requirements, NFFS financial reporting requirements, Certification of Eligibility requirements, and Act requirements.

- over-stated NFFS of \$1,059,026 resulting in excessive CPB CSG grant payments of \$112,810, classified as funds put to better use for reporting purposes;
- questionable CSG grant expenses of \$18,000 for a transaction that did not augment the station's capability to expand the quality of its services to its community in compliance with grant requirements;
- CPB's Fiscal Stabilization grant and other nonprofit revenues were improperly reported on its FY 2010 AFR: and
- noncompliance with statutory provisions of the Communications Act for open meetings and establishing operating procedures.

In our opinion, except for the noncompliance items listed above, KNME has complied with CPB's Financial Reporting Guidelines, Certification Requirements for Station Grants Recipients, CSG General Provisions & Eligibility Criteria, and Communications Act for the reporting periods ending June 30, 2008 - 2010.

FINDINGS AND RECOMMENDATIONS

Reporting Non-Federal Financial Support

Our examination found that KNME claimed NFFS revenues on its FYs 2008 – 2010 AFRs that could not be supported or were not eligible to be claimed as NFFS totaling \$1,059,026. As a result of these over-statements, CPB made excessive payments of \$112,810 to KNME during FYs 2010 – 2012, as presented in the following table. We classified the \$112,810 as funds put to better use for reporting purposes, because the funds paid to KNME could have been distributed to other public broadcasting entities.

Calculation of Overpaid CSG Funds

NFFS Categories	FY 2008	FY 2009	FY 2010	Total
Total NFFS Claimed	\$7,153,068	\$7,205,261	\$6,853,960	\$21,212,289
Revenue Categories				
Indirect Administrative Support	\$215,862	\$228,508	\$247,701	\$692,071
Trade Underwriting	17,483	94,980	83,274	195,737
State Revenues	45,519	123,348	2,351	171,218
Total Ineligible Revenue	\$278,864	\$446,836	\$333,326	\$1,059,026
Incentive Rate of Return	0.094188	0.108000	0.114860	
CSG Overpayment	\$26,266	\$48,258	\$38,286	\$112,810

Further, details concerning the unsupported and unallowable NFFS revenues are discussed below.

Over-stated Indirect Administrative Support

KNME claimed \$4,852,740 of indirect support as NFFS on its AFR's for FYs 2008 - 2010. The indirect support was based on using the federally approved indirect rate adjusted by KNME to 24.04%. Our review of KNME's direct cost base used to calculate the indirect costs claimed included PBS dues of \$2,953,833. Both CPB's guidelines and KNME's federally approved indirect cost rate call for adjustments to a grantee's costs to establish an equitable base to calculate indirect costs. For example, the federal approved indirect rate, established by the Federal Department of Health and Human Services, recognized the need to adjust the direct cost base for sub-contractor expenses over \$25,000 a year. While CPB's guidelines did not specifically address adjustments for large payments made to third parties for something like PBS dues, such payments are similar to subgrantee payments. Including PBS dues in the base used to calculate indirect costs resulted in over-stated NFFS of \$692,071.

CPB's AFR, Schedule B instructions specified adjustments to a station's total expenses as presented in Exhibits B - D. These adjustments included capital outlays, depreciation, amortization, etc. as presented on Schedule B, Lines 1b.1-1b.7. KNME's

approved federal indirect cost plan specified that total direct costs shall exclude equipment, rental expenditures, charges for patient care, tuition remission, rental cost of off-site facilities, scholarships, and fellowships, as well as, the portion of each subgrant and subcontract in excess of \$25,000.

The intent of these adjustments is to ensure that the direct cost base used to calculate indirect costs only reflects the grantee's direct costs that received benefits from the university's facilities and administrative services (e.g., accounting, legal, information technology, facilities, etc). Payments for PBS dues, like payments to subgrantees, do not receive the same level of services from the university's various overhead activities to apply the full indirect cost rate to these costs. The only university services involved in paying PBS dues would be invoice processing, bill payment, and related accounting activities.

Applying the federally approved rate adjustment for subgrantee expenses in excess of \$25,000 to the PBS dues, we calculated that NFFS was over-stated by \$692,071 as presented in the following table.

Over-Stated NFFS

Description	FY 2008	FY 2009	FY 2010	Total
PBS Dues	\$922,927	\$975,534	\$1,055,372	\$2,953,833
Adjustments	25,000	25,000	25,000	75,000
Adjusted Dues	\$897,927	\$950,534	\$1,030,372	\$2,878,833
Federal Rate	24.04%	24.04%	24.04%	
Over-stated NFFS	\$215,862	\$228,508	\$247,701	\$692,071

Allowing KNME to include an annual amount of \$25,000 for PBS dues in its direct cost base still allows KNME to claim \$6,010 per year for indirect support to process PBS dues. This is consistent with federal practices even though KNME only made four payments a year to PBS.

Inadequately Documented Trade Underwriting Revenue

Our review of claimed in-kind contributions found a lack of documentation to support the total amount claimed of \$195,737 on Schedule C of the AFRs. CPB guidelines require that adequate documentation be obtained from donors of the value of the contribution and evidence that the donations were received. Based on the lack of documentation, NFFS was over-stated by \$195,737 for in-kind contributions.

Section 5.6 of CPB's FY 2009 Financial Reporting Guidelines provides three specific criteria that an in-kind contribution must satisfy to be eligible as NFFS: 1) it must meet CPB's valuation requirements; 2) it must meet CPB documentation requirements; and 3) the station would typically need to purchase the contributed good or service had it not been donated.

More specifically, the guidelines require the following:

- In-kind contribution must be recorded at fair value at time of donation based on donor’s usual and customary fees charged to a paying customer for equivalent good or services.
- Documentation of an in-kind contribution must be obtained from the donor, e.g., an invoice or letter from the donor which independently documents the contribution, includes a description, and date(s) of donation. This document should also specify the fair value, the method of valuation, and the donor’s intent to contribute. Further, such documentation should be on official business stationary and be signed by the donor.
- The items donated must be for items that are normally incurred by the station in carrying out its public broadcasting activities. In other words, the station must normally purchase the goods and services donated to claim it as NFFS.

Section 2.5.4 of CPB’s 2010 Financial Reporting Guidelines further clarified that, “trade underwriting agreements or contracts do not satisfy CPB’s documentation for all in-kind contributions claimed as NFFS. A trade underwriting agreement is a promise to give that confirms only the intent to trade an in-kind contribution; it does not demonstrate that an in-kind contribution was actually received by the station. Instead, Grantees need to secure and retain documentation from the donor that is tantamount to a receipt for the goods or services it received and claimed as NFFS.”

Our examination of the in-kind contributions claimed on Schedule C, itemized in Exhibit H, found a lack of adequate documentation to support these contributions. We could not verify that CPB’s three-fold criteria were met based on the documentation provided. Although KNME subsequently obtained letters from the donors, dated in 2012, to support the values claimed, we can only accept documentation that meets the intent of Section 2.5.4 to obtain documentation from the donor when the services were received. We have summarized the documentation deficiencies in the following table.

Documentation Deficiencies

Description of Deficiency	Number	Amount
Trade agreement without signature	14	\$86,226
Trade agreement signed without description of services provided	9	45,966
No documentation	2	22,780
Trade agreement signed but no evidence items were received	4	22,565
Advertisement promoting fundraising (<i>not allowable revenue</i>)	2	10,000
In-kind contribution supported by e-mail without donor signature	3	6,200
No trade agreement; hotel receipt without explanation	1	2,000
Total In-Kind Contributions Tested	35	\$195,737

Without adequate supporting documentation at the time the goods and services were received, we could not attest to the accuracy and eligibility of the in-kind contributions claimed.

Unsupported State and College Revenues

Our examination of state and college revenues reported on Schedule A, Lines 4 through 6 of the AFRs, found 7 of 62 transactions tested did not meet CPB's Financial Reporting Guidelines for reporting NFFS totaling \$171,218, as detailed in Exhibit I. The initial documentation provided to support an additional 22 transactions tested was inadequate, however, after performing additional procedures we were able to verify the eligibility of the amounts claimed.

CPB's FY 2008 Financial Reporting Guidelines for Preparing the Annual Financial Report (AFR), Section 5.2: Completing AFR Schedule A, Direct Revenue, states that all revenue must meet the appropriate source, form, purpose and recipient criteria to be included as NFFS. Section 3: NFFS – Minimums for CSG Eligibility, Statutory Definition and Reporting Criteria, states that a public broadcasting entity must meet the following criteria for the payment revenue to be included as NFFS:

Source – Must be a state, any agency of political subdivision of a state, an educational institution or organization (college, university, school or other academic institution) or a nonprofit entity.

Form – Must take the form of appropriations and-or contract payments in exchange for specific public broadcasting services or materials.

Purpose – Must be for services or materials related to any activity of the public broadcast station.

Recipient – Must be a public broadcasting entity on behalf of a public broadcast station or stations.

The criteria for qualified sources and purposes were updated in the FYs 2009 and 2010 Financial Reporting Guidelines. The new criteria limited the qualifying source to a state, any agency or political subdivision of a state, or an education institution (college, university, school or other academic institution). The new criteria eliminated nonprofit organizations as a qualifying source. The new criteria also limited eligible purposes to payments for services or materials with respect to the provision of educational or instructional television or radio programs. This change eliminated payments for “any activity” of a public broadcasting station.

Exhibit I details the basis for questioning reported state NFFS revenues. Chief among the reasons was the revenues were not from qualifying sources. As referenced above, qualifying sources for payments changed in FY 2009. Nonprofit organizations no longer qualified as a payment source, only state agencies, political subdivisions of state, and colleges and universities were qualified sources. Additionally, as described further in Exhibit I two transactions appear to be fees for services and the services provided were not for educational or instructional programming. Generally, the documentation

provided in support of these transactions was incomplete and not adequate to evaluate the eligibility of these transactions.

Finally, as previously mentioned we found 22 other transactions in our sample that were not adequately documented to initially evaluate the eligibility of the transactions. To illustrate, four transactions tested were from qualifying state and university sources, but we could not determine the nature of the payment as described in the following table.

State Revenues Supported with Inadequate Documentation

Transaction Description	Amount	Documentation Provided
UNM College of Fine Arts: J.D. Robb Documentary	\$35,000	Journal entry and program schedule
UNM College of Fine Arts: J.D. Robb Documentary	25,000	Journal entry and program schedule
New Mexico History Museum (link to PBS website)	30,900	Invoice referencing documentaries completed and PBS URL link
NM Tourism Dept.: Balloon Fiesta Documentary	15,000	Copy of state check and program schedule
Total	\$105,900	

Based on the limited documentation provided, it appeared that these payments were for underwriting; however, station officials could not adequately explain the nature of the payments. There were no underlying written agreements between the station and university department or state agencies to document the nature of these payments. The journal entries and invoice provided had cryptic descriptions. One transaction provided a website link to PBS typed on a plain piece of paper and program schedules were similarly presented.

Further, the station did not have procedures in place to verify that federal funds were not included in any of these revenues received from the state and university sources. CPB guidance states that for NFFS purposes federal funds do not lose their federal identity when passing through an intermediary organization to a public broadcasting station. While we could not assure ourselves that federal funds were not involved, we allowed these transactions because they were linked to programs aired on the station and at least one transaction had web links to PBS. However, more descriptive documentation is needed to explain the nature and sources of the funding, as well as, information identifying the amount of any federal funds included in the payment to permit future verification of the eligibility of the state revenues claimed.

Recommendations

- 1) We recommend that CPB management require KNME to:
 - a) reimburse \$112,810 in excess CSG payments made to KNME based on the FYs 2008 – 2010 reported NFFS; and
 - b) submit revised AFRs for FYs 2008 – 2010 eliminating the undocumented and unallowable contributions claimed as NFFS.

- 2) We recommend that CPB management require KNME to:
 - a) document corrective actions taken and controls instituted to ensure future compliance with CPB reporting guidelines;
 - b) institute documentation requirements to support all state and nonprofit revenues received (e.g., contract/grant agreements) to address qualifying sources and qualifying purposes, including whether revenues are for underwriting or payments for services related to educational and instructional programming; and
 - c) institute procedures to obtain from state agencies and educational institutions the amount of any federal funds included in the payment.

- 3) We recommend that CPB management revise its indirect cost guidance to ensure that PBS dues in excess of \$25,000 annually are not included in the direct cost base used to calculate indirect costs claimed as NFFS on the AFR, Schedule B.

Management Response

KNME officials' strongly disputed this finding and contended that KNME did not overstate NFFS. Specifically, they disagreed with the findings on over-stated indirect administrative support, inadequately documented trade underwriting revenues, and unsupported state and college revenues, as follows.

Regarding over-stated indirect administrative support, KNME said the OIG opinion in effect proposes an adjustment to the federally negotiated indirect cost rate. They referenced the report which states, "While CPB's guidelines did not specifically address adjustment for large payments to third parties for something like PBS dues, such payments are similar to subgrantee payments." The university has included PBS dues in a cost pool along with many other similar costs. There is no basis for the OIG to isolate PBS dues and treat them differently than any other dues. The OIG's opinion is that \$692,071 is "over-stated indirect administrative support." KNME-TV contends that these funds have been properly included in the administrative support costs calculation using the University of New Mexico's federally negotiated indirect costs rate. The OIG did not audit the university or its processes and is issuing an opinion when it states that, payments for PBS dues, like payments to sub-grantees, do not receive the same level of service from the university's various overhead rates.

Regarding inadequately documented trade underwriting, KNME disagreed with the finding that trade revenues were over-stated by \$195,737 because of inadequate documentation. KNME stated that the CPB guidelines for underwriting do not state when the documentation should be secured, yet the OIG opinion stated that the documentation is to be supplied when the goods or services are received. KNME states that they have secured and retained the documentation as required in the guidelines.

Regarding the unsupported state and college revenues, KNME stated that it only disagreed with the portion of the findings dealing with the University of New Mexico F&A Return (Facilities and Administrative Return – sometimes referred to as indirect cost – NFFS amount of \$44,869.) The university receives funding from many sources, including recovered F&A costs from grants and contracts, which are unrestricted revenues to the university when received. It is the university's decision, not the granting agency, of how to and to whom funds will be allocated. For the period under audit, the university chose to allocate \$44,869 from all of the funds available to KNME for use in supporting its mission. Because KNME is a department of the university, funds are transferred by journal entries rather than issuing checks internally. The auditors requested and received a copy of the journal entry and the backup to the journal entry, which merely indicated how the university determined the amount of the allocation. KNME contends that the NFFS of \$44,869 has been properly reported as state and college revenues and is properly documented.

KNME's response disagreed with the findings and did not specifically address recommendations 1 and 2.

OIG Review and Comment

Based on KNME's response we consider recommendations 1 and 2 unresolved pending CPB's management decision. Our evaluation of KNME's response by finding type is presented below. Recommendation 3 was directed to CPB management and is unresolved pending CPB's management decision.

Regarding the disputed over-stated indirect administrative support finding, we do not agree with KNME's response because the federally approved indirect rate, established by the Department of Health and Human Services, recognized the need to adjust the direct base for sub-contractor expenses that exceed \$25,000 a year. Our finding did not adjust the federally negotiated indirect cost rate as KNME contends. We applied the provision in the approved rate that required the university to exclude sub-contractor expenses that exceed \$25,000 in its direct base. We see little distinction between payments to sub-contractors and payments to PBS, which both increase the direct base used to claim indirect administrative support. As a result our finding on over-stated NFFS of \$692,071 remains unchanged.

Regarding the inadequately documented trade underwriting finding, we do not agree with KNME's interpretation of the CPB NFFS guidelines. We believe that NFFS guidelines clearly require donors to document in-kind contributions provided, the date(s) of donation, and the method of valuation. The documentation presented during our

audit fieldwork and KNME's response to the draft report did not fully satisfy these requirements. Further, we believe the NFFS guideline requires grantees to obtain contemporaneous documentation from donors to document that the in-kind contributions have been received. Specifically, the guidelines require grantees to secure and retain documentation from the donor that is tantamount to a receipt for the goods and services received. As a result, our finding on over-stated NFFS of \$195,737 remains unchanged.

Regarding the unsupported state and college revenues finding, we do not agree with KNME's position relative to the allowability of the \$44,869 claimed as unrestricted funds received from the university and referenced as Facilities and Administrative (F&A) Return. As explained in Exhibit I, we questioned the \$44,869 because the sources of these funds were public broadcasting organizations. These funds were recouped from public broadcasting sources for indirect costs claimed by the university from these grantors during calendar years 2005 – 2006. As a result, our finding on over-stated NFFS of \$171,218 remains unchanged.

Ineligible CSG Expenditures

Our examination of CSG expenditures found \$18,000 in questionable costs for services that did not augment the station's capability to expand the quality and scope of its services. These costs were incurred to pay a penalty to terminate a contract early. Station officials explained that the penalty payment was warranted because it was cost beneficial to terminate the contract.

Per section 3 of the FY 2010 Television Community Service Grant General Provisions and Eligibility Criteria, funds have to be "used to augment the capability of public broadcast stations supported by CPB to expand the quality and scope of their services to the community." Section 5b of the same document states, "CSG funds shall be expended only in accordance with the purposes and restrictions set forth in these general provisions and eligibility criteria and other similar restrictions to be determined by CPB policy decisions from time to time... The amounts of all unauthorized expenditures shall be fully repaid to CPB immediately upon CPB's request."

We found that KNME did not notify a contractor of its intent to cancel a contract they had for subscription index services, at least 120 days prior to the end of the fiscal year. As a result, KNME could not be released from its contract without penalty. The contractor gave the station the option to incur a penalty of \$18,000 – approximately 3 months billing – to be released from the contract or complete the contract and incur another \$35,987 in expenditures. KNME decided to terminate the contract.

Expending CPB funds on contract termination penalties did not augment the capability of public broadcasting stations to expand the quality of its services to its community. As a result, we have questioned the \$18,000 expenditure.

Recommendation

- 4) We recommend that CPB management require KNME to reimburse the \$18,000 expense charged to the CSG grant.

Management Response

KNME's response disagreed with this finding. They contend that the \$18,000 payments were their reduced cost for the service for the last three months of the contract. KNME also said that by saving \$35,987, KNME was able to "augment the station's capability to expand the quality of its services to its community in compliance with grant requirements."

As background KNME officials said that when the economy collapsed in 2008, KNME underwent a rescission of state funds, the cancellation of a large contract with the City of Albuquerque for services, and many other cuts to its revenues. The station took corrective actions to reduce its costs, including cancelling a contract with the Nielsen Company for rating services. The station gave Nielsen a ninety day notice to cancel the contract and made three monthly payments of \$6,000 as required by Nielsen. By cancelling the contract the station realized savings of \$35,987.

OIG Review and Comment

Based on KNME's response we consider recommendation 4 unresolved pending CPB's management decision. We do not agree that using CPB funds to pay a cancellation fee to the contractor was the best use of CPB grant funds to augment the station's capability to expand the quality of its services. Our review of the "Direct Pay Approval Form," referred to the transaction as a "Settlement fee for contract cancellation." The supporting records also contained a letter prepared by the KNME Accounting Manager stating "Because notice was not given at least 120 days (contract requirement) prior to the end of the fiscal year, KNME could not cancel without penalty." As a result, our questioned costs of \$18,000 remain unchanged.

Incorrect Reporting of Revenues

Our review of the FY 2010 AFR found that KNME incorrectly reported the CPB Fiscal Stabilization grant of \$89,232 on its AFR as federal funds. Additionally, other non-profit organizations revenues of \$120,730 were incorrectly reported as state revenues.

The reporting guidelines for the Fiscal Stabilization grant, communicated to the grantees via e-mail, explicitly described grantees' responsibility for AFR reporting. This guidance instructed stations to report this revenue on their FY 2010 AFR, Schedule A, Line 2.E, CPB – all other funds. These funds were reported on Schedule A, Line 1F as Federal – American Recovery and Reinvestment funds (ARRA) funds, as opposed to Line 2E.

Additionally, we identified revenues from three non-profit organizations that were incorrectly reported as state revenues. Two of these transactions were questioned in Exhibit I. The third transaction met NFFS criteria for reporting on Schedule A, Line 8 as revenue from a foundation or nonprofit association.

In response to this finding KNME officials provided us with an e-mail from CPB Grants Administration concerning the reporting of ARRA funds. The e-mail instructed KNME to report ARRA funds on Schedule A, Line 1.F; however, CPB's Fiscal Stabilization funds were not related to ARRA. CPB did not receive or distribute any ARRA funds from the federal government.

For the eligible revenues reporting these funds on the incorrect Schedule A line did not impact the total amount claimed as NFFS, however, it did not accurately report the funding sources on the FY 2010 AFR.

Recommendation

- 5) We recommend that CPB management require KNME to correctly report its FY 2010 Fiscal Stabilization grant and nonprofit revenues on the revised AFRs recommended in recommendation 1b and ensure future NFFS revenue reporting meets CPB requirements as recommended in recommendation 1c.

Management Comments

KNME's response did not dispute this finding and acknowledged that the revenue was inadvertently reported on the wrong line of the AFR. Because the revenues were properly excluded from eligible NFFS, reopening the FY 2010 AFR to make a line change would have no impact on the NFFS for that year, not the resulting CSG, and is not warranted.

OIG Review and Comment

Based on KNME's response we consider recommendation 5 unresolved, pending CPB's management decision. KNME's response did not address corrective actions to ensure future AFRs properly report CPB and other non-profit revenues as required by the NFFS reporting guidelines.

Noncompliance with the Communications Act

Our examination found that KNME was not in full compliance with open meeting requirements of the Act and CPB Certification Requirements for Station Grants Recipients. Further, KNME had not established operating procedures to document how it complied with the various Communications Act requirements. In response to this finding, KNME officials said they were not completely aware of the various statutory requirements of the Act, including the requirement to prepare documentation to inform

the public of what information is available for review and the methods they should use to obtain this information. KNME officials acknowledged the need to comply with these requirements and agreed to develop procedures that comply with the Act's requirements.

Open Meetings

Our examination of compliance with open meeting requirements found that adequate advance notice of Board of Directors meetings was not documented to verify that 7 days advance notice was given to the public. Further, state officials stated that no on-air announcements had been made explaining the station's open public meetings policies.

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.

Station officials informed us that a notice is placed in the lobby area to announce upcoming board meetings. No other methods were used to announce the public meetings. We could not verify that adequate advance notice was given to the public because at the time of our fieldwork a notice had not been posted in the lobby announcing the next board meeting.

The station's lack of compliance with the open meeting requirements deprives the public of the required information envisioned by the Act.

Documenting Compliance with Requirements

Our examination found that KNME had not established written policies and procedures to ensure its compliance with the Acts requirements for public meetings, open financial records, EEO records, and donor information. As previously mentioned, the station did not fully comply with open meeting requirements. The lack of policies contributed to its noncompliance. Further, while the station was able to retrieve the financial and EEO information from its databases for our audit to meet open records requirements, the station did not have documented procedures in place to provide operating guidance for staff to follow to achieve compliance with the various Act requirements.

CPB's Certification Requirements for Station Grant Recipients provide guidance to establish written procedures addressing, open meetings, open financial records, EEO, and donor list and political activities requirements. Each recipient of a CPB station grant shall develop documentation explaining how the station complies with these requirements.

This documentation should address the procedures for conducting open meetings and the methods used to give reasonable notice to the public; the types of financial and EEO information to be made available to the public, including the mechanisms used to give the public access to this information; and political activity restriction requirements. This documentation shall be kept by each station at a reasonable location and made available to CPB, upon request, to determine the fact and extent of compliance with these requirements.

Such procedures should specify how the station actually goes about complying with each of the four sections of the certification requirements. These procedures not only provide operating guidance for station officials, but also provide the public with information about how the station complied with these grant requirements.

Recommendations

- 6) We recommend that CPB require KNME management to fully comply with all requirements of the Act and provide CPB with documentation of its compliance with the following requirements over the next fiscal year:
 - a) Document that 7 days advance notice is given to the public of upcoming 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 and provide information on how the public can obtain information regarding specific dates, times, and locations of public meetings. Maintain documentation of station on-air announcements aired, including the date and time of each announcement.

- c) Establish written implementing policies on the station's practices for all of the Act's requirements, including open meetings; maintaining open financial records; making EEO information available to the public; and maintaining and protecting donor information (pledge donor cards) addressing CPB's minimum compliance requirements.

Managements Response

KNME's response did not dispute this finding. KNME took corrective action at its December 13, 2011, KNME board meeting to adopt an Open Meetings Policy and Open Records Policy as detailed in their written response provided in Exhibit K. Further, they implemented quarterly on-air announcements running at least three consecutive days explaining its open meeting policy and how to obtain information on its next public meeting.

OIG Review and Comments

Based on KNME's response, we consider recommendations 6 a-b resolved but open pending CPB's acceptance of KNME's corrective actions. We consider recommendation 6c unresolved pending development and implementation of written policies addressing EEO information available to the public and maintaining and protecting donor information.

Exhibit A

**Schedule of CPB Payments to KNME-TV
July 1, 2007 - June 30, 2010**

Grant	Grant Amount	Payment	Payment Date
RTLL II Ready to Lead in Literacy	\$40,000.00	\$16,000 \$1,500	6/25/2008 1/22/2009
FY 2008 TV Community Service Grant	\$1,000,694.00	\$508,341 \$492,353	11/16/2007 6/10/2008
FY 2008 TV Interconnection Grant	\$21,155.00	\$10,664 \$10,491	11/16/2007 6/10/2008
FY 2008 TV Distance Service Grant	\$33,000.00	\$33,000	11/15/2007
PAI Pilot Station Program	\$20,000.00	\$10,000 \$10,000	3/6/2008 2/12/2009
FY 2009 TV Community Service Grant FY 2009 TV Interconnection Grant FY 2009 TV Distance Service Grant	\$994,323.00 \$20,420.00 \$33,000.00	\$540,372 \$507,371	1/6/2009 3/9/2009
DDF Round 12b	\$4,500.00	\$2,250 \$2,250	5/15/2009 5/7/2010
DTV Transition Grant	\$25,466.67	\$25,467	5/19/2009
FY 2010 TV Community Service Grant FY 2010 TV Interconnection Grant	\$1,135,734.00 \$22,652.00	\$579,193 \$579,193	11/5/2009 2/24/2010
FY 2010 TV Distance Service Grant	\$46,200.00	\$46,200	11/9/2009
Fiscal Stabilization Grant	\$89,232.38	\$89,232	1/13/2010
My Source Funds	\$500	\$500	4/14/10
2010 Innovation Award	\$3,000	\$3,000	5/13/10
CPB Total Cash Payments		\$3,467,377	

Note: CPB cash receipts are recognized as revenues when they are expended. As a result, Exhibit A cash receipts were not necessarily reported as revenue on the AFR (Exhibits B-D) in the year received.

**KNME-TV Annual Financial Report
Year Ending June 30, 2008**

Schedule A, Source of Income:		FY 2008
1.	Amounts provided directly by federal government agencies	\$7,769
2.A.	CPB - Community Service Grants	856,927
2.D.	CPB - TV Interconnection grants	42,537
2.E.	CPB - all other funds	98,750
2.F.	PBS - all payments except copyright royalties and other pass-through payments	17,149
2.H.	Public broadcasting stations - all payments	77,533
3.	Local boards and departments of education	444,558
4.	State boards and departments of education	1,398,711
5.	State colleges and universities	269,383
6.	Other state-supported colleges and universities	115,744
7.	Private colleges and universities	191
8.	Foundations and nonprofit associations	9,290
9.	Business and industry	1,519,613
10.	Memberships and subscriptions	2,306,041
15.	Passive Income	37,598
17.	Endowment Revenue	78,731
18.	Capital fund contributions	1,769,916
19.	Gifts and bequests from major individual donors	273,657
20.	Other Direct Revenue	12,122
21.	Total Revenue	\$9,336,220
Adjustments to Revenue:		
22.	Federal revenue from Line 1	\$7,769
23.	Public broadcasting revenue from Line 2	1,092,896
24.	Capital funds exclusion (from line 18a) - TV only	1,769,916
25.	Other revenue on Line 21 not meeting criteria to be included as NFFS	965,424
26.	Other automatic subtractions from total revenue	1,859
27.	Total Direct Nonfederal Financial Support	\$5,498,356

Exhibit B (cont.)

KNME-TV Annual Financial Report
Year Ending June 30, 2008

	Schedule B Worksheet	FY 2008
1a.	Total station operating expenses (Sch. E, Line 10)	\$9,699,232
1b.1	Capital outlays (Sch. E, Line 9)	\$16,378
1b.2	Depreciation	\$755,517
1b.3	Amortization	\$39,850
1b.4	In-kind contributions	\$45,006
1b.5	Indirect administrative support	\$1,703,179
1b.6	Donated property and equipment	\$0
1b.7	Other	\$269,383
1b.8	Total deductions	\$2,829,313
1c.	Station net direct expenses	\$6,869,919
2c.	Modified cost rate	24.04%
4.	Total indirect support	\$1,651,528
	Schedule B, Indirect Administrative Support	
1.	Total support activity benefitting station	\$1,651,528
2.	Occupancy value	\$0
3.	Deductions: Fees paid to licensee for overhead	\$14,300
4.	Deductions: Support in excess of revenue	\$0
5.	Total Indirect Administrative Support	\$1,637,228
	Schedule C, In Kind Contributions of Services and Other Assets:	
4.	Total in-kind contributions - eligible as NFFS	17,484
5.	In-kind Contributions Ineligible as NFFS	27,522
6.	Total In-kind Contributions - services and other assets	\$45,006
	Schedule E, Expenses & Investment in Capital:	
	Program Services	
1.	Programming and production	\$2,662,408
2.	Broadcasting and engineering	1,252,834
3.	Program information and promotion	492,517
	Support Services	
4.	Management and general	2,933,856
5.	Fundraising and membership	1,299,838
6.	Underwriting and grant solicitation	285,884
7.	Depreciation and amortization	755,517
8.	Total Expenses	\$9,682,854
9.	Total capital assets purchased or donated	16,378
10.	Total Expenses and Investment in Capital Assets	\$9,699,232

**KNME-TV Annual Financial Report
Year Ending June 30, 2009**

	<i>Schedule A, Source of Income:</i>	FY 2009
1.	Amounts provided directly by federal government agencies	\$4,625
2.A.	CPB - Community Service Grants	942,534
2.D.	CPB - TV Interconnection grants	21,155
2.E.	CPB - all other funds	85,375
2.F.	PBS - all payments except copyright royalties and other pass-through payments	51,812
2.H.	Public broadcasting stations - all payments	89,042
2.I.	Other PBE funds	13,200
3.	Local boards and departments of education	288,934
4.	State boards and departments of education	1,601,653
5.	State colleges and universities	430,076
6.	Other state-supported colleges and universities	35,554
7.	Private colleges and universities	29
8.	Foundations and nonprofit associations	82,683
9.	Business and industry	1,557,235
10.	Memberships and subscriptions	2,152,904
15.	Passive Income	50,502
17.	Endowment Revenue	(218,626)
19.	Gifts and bequests from major individual donors	230,178
20.	Other Direct Revenue	81,562
21.	Total Revenue	\$7,500,427
	<i>Adjustments to Revenue:</i>	
22.	Federal revenue from Line 1	\$4,625
23.	Public broadcasting revenue from Line 2	1,203,118
25.	Other revenue on Line 21 not meeting criteria to be included as NFFS	1,109,784
26.	Other automatic subtractions from total revenue	(233,716)
27.	Total Direct Nonfederal Financial Support	\$5,416,616

Exhibit C (cont.)

KNME-TV Annual Financial Report
Year Ending June 30, 2009

	Schedule B Worksheet	FY 2009
1a.	Total station operating expenses (Sch. E, Line 10)	\$10,354,109
1b.1	Capital outlays (Sch. E, Line 9)	\$223,680
1b.2	Depreciation	\$757,676
1b.3	Amortization	\$39,850
1b.4	In-kind contributions	\$104,479
1b.5	Indirect administrative support	\$1,693,665
1b.6	Donated property and equipment	\$0
1b.7	Other	\$430,076
1b.8	Total deductions	\$3,249,426
1c.	Station net direct expenses	\$7,104,683
2c.	Modified cost rate	24.04%
4.	Total Indirect Support	\$1,707,965
	Schedule B, Indirect Administrative Support	
1.	Total support activity benefitting station	\$1,707,965
2.	Occupancy value	\$0
3.	Deductions: Fees paid to licensee for overhead	\$14,300
4.	Deductions: Support in excess of revenue	\$0
5.	Total Indirect Administrative Support	\$1,693,665
	Schedule C, In Kind Contributions of Services and Other Assets:	
4.	Total in-kind contributions - eligible as NFFS	94,980
5.	In-kind Contributions Ineligible as NFFS	9,500
6.	Total In-kind Contributions - services and other assets	\$104,480
	Schedule E, Expenses:	
	Program Services	
1.	Programming and production	\$2,827,740
2.	Broadcasting and engineering	1,226,950
3.	Program information and promotion	639,247
	Support Services	
4.	Management and general	3,018,902
5.	Fundraising and membership	1,412,392
6.	Underwriting and grant solicitation	247,522
7.	Depreciation and amortization	757,676
8.	Total Expenses	\$10,130,429
9.	Total capital assets purchased or donated	223,680
10.	Total Expenses and Investment in Capital Assets	\$10,354,109

**KNME-TV Annual Financial Report
Year Ending June 30, 2010**

	Schedule A, Source of Income:	FY 2010
1.A.	PTFP (NTIA) Facilities Grants	\$78,024
1.F.	Other Federal Funds (specify) - ARRA, USAF, Sandia	\$89,986
2.A.	CPB - Community Service Grants	1,056,315
2.D.	CPB - TV Interconnection grants	20,420
2.E.	CPB - all other funds	65,967
2.F.	PBS - all payments except copyright royalties and other pass-through payments	41,227
2.H.	Public broadcasting stations - all payments	119,215
2.I.	Other PBE funds	13,358
3.	Local boards and departments of education	213,959
4.	State boards and departments of education	1,273,991
5.	State colleges and universities	185,283
6.	Other state-supported colleges and universities	39,383
8.	Foundations and nonprofit associations	78,210
9.	Business and industry	1,494,319
10.	Memberships and subscriptions	2,269,200
15.	Passive Income	27,314
17.	Endowment Revenue	111,279
19.	Gifts and bequests from major individual donors	530,087
20.	Other Direct Revenue	74,175
21.	Total Revenue	\$7,781,712
	Adjustments to Revenue:	
22.	Federal revenue from Line 1	\$168,010
23.	Public broadcasting revenue from Line 2	1,316,502
25.	Other revenue on Line 21 not meeting criteria to be included as NFFS	948,729
26.	Other automatic subtractions from total revenue	99,632
27.	Total Direct Nonfederal Financial Support	\$5,248,839

Exhibit D (cont.)

**KNME-TV Annual Financial Report
Year Ending June 30, 2010**

	Schedule B Worksheet	FY 2010
1a.	Total station operating expenses (Sch. E, Line 10)	\$9,347,450
1b.1	Capital outlays (Sch. E, Line 9)	\$336,969
1b.2	Depreciation	\$762,663
1b.3	Amortization	\$39,850
1b.4	In-kind contributions	\$110,874
1b.5	Indirect administrative support	\$1,521,847
1b.6	Donated property and equipment	\$0
1b.7	Other	\$185,283
1b.8	Total deductions	\$2,957,486
1c.	Station net direct expenses	\$6,389,964
2c.	Modified cost rate	24.04%
4.	Total indirect support	\$1,536,147
	Schedule B, Indirect Administrative Support	
1.	Total support activity benefitting station	\$1,536,147
2.	Occupancy value	\$0
3.	Deductions: Fees paid to licensee for overhead	\$14,300
4.	Deductions: Support in excess of revenue	\$0
5.	Total Indirect Administrative Support	\$1,521,847
	Schedule C, In Kind Contributions of Services and Other Assets:	
4.	Total in-kind contributions - eligible as NFFS	83,274
5.	In-kind Contributions Ineligible as NFFS	27,600
6.	Total In-kind Contributions - services and other assets	\$110,874
	Schedule E, Expenses:	
	Program Services	
1.	Programming and production	\$2,479,314
2.	Broadcasting and engineering	1,281,534
3.	Program information and promotion	482,066
	Support Services	
4.	Management and general	2,595,351
5.	Fundraising and membership	1,189,654
6.	Underwriting and grant solicitation	219,899
7.	Depreciation and amortization	762,663
8.	Total Expenses	\$9,010,481
9.	Total capital assets purchased or donated	336,969
10.	Total Expenses and Investment in Capital Assets	\$9,347,450

Exhibit E

KNME-TV Summary of Non-Federal Financial Support FY 2008
Certification by Head of Grantee and Independent Accountant's Report

Line	Description	FY 2008
	<i>Summary of Non-Federal Financial Support:</i>	
1.	Direct Revenue (Schedule A)	\$5,498,356
2.	Indirect Administrative (Schedule B)	1,637,228
3.	In-Kind Contributions (Schedule C)	
3.a	Services and Other Assets (Schedule C)	17,484
3.b	Property and Equipment (Schedule D)	0
4.	Total Non-Federal Financial Support	\$7,153,068

Exhibit F

KNME-TV Summary of Non-Federal Financial Support FY 2009
Certification by Head of Grantee and Independent Accountant's Report

Line	Description	FY 2009
	<i>Summary of Non-Federal Financial Support:</i>	
1.	Direct Revenue (Schedule A)	\$5,416,616
2.	Indirect Administrative (Schedule B)	1,693,665
3.	In-Kind Contributions (Schedule C)	
3.a	Services and Other Assets (Schedule C)	94,980
3.b	Property and Equipment (Schedule D)	0
4.	Total Non-Federal Financial Support	\$7,205,261

Exhibit G

KNME-TV Summary of Non-Federal Financial Support FY 2010
Certification by Head of Grantee and Independent Accountant's Report

Line	Description	FY 2010
	<i>Summary of Non-Federal Financial Support:</i>	
1.	Direct Revenue (Schedule A)	\$5,248,839
2.	Indirect Administrative (Schedule B)	1,521,847
3.	In-Kind Contributions (Schedule C)	
3.a	Services and Other Assets (Schedule C)	83,274
3.b	Property and Equipment (Schedule D)	0
4.	Total Non-Federal Financial Support	\$6,853,960

Exhibit H

Schedule of Claimed In-kind Contributions

Trades/Donations	FY 2008	FY 2009	FY 2010	Inadequate Documentation
Donor A	1,141.67			Trade agreement without signature
Donor B		5,200.00		Signed agreement without description of services
Donor C			1,250.00	Signed agreement without description of services
Donor D		1,800.00		Trade agreement without signature
Donor E	1,750.00			No evidence items were received
Donor F			1,300.00	No evidence items were received
Donor G		16,015.00		No evidence items were received
Donor H		4,000.00		Email without donor signature
Donor I			2,534.39	Signed agreement without description of services
Donor J		1,500.00		Email without donor signature
Donor K		2,000.00		Hotel invoice without explanation
Donor L			9,712.50	Trade agreement without signature
Donor M	2,250.00	7,750.00		Trade agreement without signature
Donor M		5,000.00	5,000.00	Trade agreement without signature
Donor N	1,581.25			Trade agreement without signature
Donor N		3,500.00		No evidence items were received
Donor N			3,686.00	Trade agreement without signature
Donor O			2,800.00	Signed agreement without description of services
Donor P	9,040.40			Trade agreement without signature
Donor P		6,198.24	16,581.76	No documentation
Donor P		12,656.60		Trade agreement without signature
Donor Q	1,720.00			Trade agreement without signature
Donor R			2,500.00	Signed agreement without description of services
Donor S		3,700.00	1,300.00	Trade agreement without signature
Donor T		24,960.00		Trade agreement without signature
Donor T			24,266.00	Signed agreement without description of services
Donor U			2,524.95	Signed agreement without description of services
Donor V			4,090.86	Signed agreement without description of services
Donor W			800.00	Signed agreement without description of services
Donor X		700.00		Email without donor signature
Donor Y			4,927.60	Trade agreement without signature
NFFS - AFR sch. C, Line 4:	\$17,483	\$94,980	\$83,274	

Exhibit I

Ineligible and Inadequately Documented State Revenues

Transaction Description	NFFS Amount	Explanation for Questioning Transaction
FY 2008		
No transaction description	\$650	No documentation provided to support claim
The University of New Mexico: F&A Return	44,869	Ineligible Source: Documentation identified public broadcasting sources for the funding, the university redistributed funds received from public broadcasting sources for indirect costs recouped under prior periods
FY 2009		
The University of New Mexico: Project Echo Recruitment Video	7,514	Ineligible Purpose: Documentation incomplete - appears to be fee for services but not for educational or instructional programming
Foundation A: Exhibition Videos	114,434	Ineligible Source: Documentation incomplete - private nonprofit organization is not qualifying state source and appears to be fee for services
The University of New Mexico: Sandia Crest, Media Tech	1,400	Duplicate Claim: Electric utilities for Sandia Crest facility were also claimed on Schedule A, Line 5 of the AFR
FY 2010		
Foundation B	1,229	Ineligible Source: Documentation incomplete - private nonprofit organization is not qualifying state source and appears to be fee for services
The University of New Mexico: Office of Institutional Advancement	1,122	Ineligible Purpose: Documentation incomplete - appears to be fee for services but not for educational or instructional programming (equipment rental)
Total	\$171,218	

SCOPE AND METHODOLOGY

We performed this audit as a compliance attestation examination under the *Government Auditing Standards*. Our objectives were to determine whether KNME reported NFFS in accordance with CPB's Guidelines; complied with Certification of Eligibility requirements and selected provisions of the Communications Act of 1934, as amended; and spent grant funds in accordance with grant terms. We performed our audit field work during the period October 2011 through April 2012.

The scope of the audit included tests of the AFR, Schedules A, B and C, and the data reported on them for the fiscal years ended June 30, 2008, 2009, and 2010 for the period July 1, 2007 through June 30, 2010. We tested \$5,039,453 of the \$21.2 million of NFFS claimed on KNME's AFRs by performing financial reconciliations and comparisons to underlying accounting records and the audited financial statements to verify transactions recorded in the general ledger and reported on the AFRs. We evaluated compliance with CPB Guidelines, in part, by reviewing source documentation for cash receipts, donations, trade underwriting agreements, and state revenue. We judgmentally sampled NFFS revenues selecting large transactions from high risk revenue categories.

We tested \$2,576,532 of \$3,559,791 (72.4 percent) CPB expenditures. The bulk of the grant funds were spent on dues/memberships costs. Our judgmental samples focused on larger transactions, including other operating costs to determine compliance with grant agreement terms.

We reviewed documentation of KNME's compliance with Communications Act requirements. Specifically, we reviewed meeting minutes of the KNME's Board of Directors, public meeting announcements, financial information made available to the public, Equal Employment Opportunity (EEO) reports, and donor list and political activities requirements. Additionally, we interviewed KNME staff to identify station operations relating to Act compliance.

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

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

May 22, 2012

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

Re: Examination of KNME-TV CPB Grants for the Period July 1, 2007 – June 30, 2010, Report No. AST1106-XXX

Dear Mr. Richardson,

We are in receipt of your draft audit report dated May 18, 2012 of CPB grants awarded to KNME-TV for the period July 1, 2007 to June 30, 2010. We appreciate the opportunity to offer the following response.

KNME accepts some of the findings of the report, but disputes other findings. However, prior to our response to the specific audit findings, we present some clarification regarding the background as outlined on page 2 of the draft audit report. KNME New Mexico PBS operates two (2) full power television stations each providing two (2) program streams for a total of four, 24/7 program streams. Additionally, the Westlink uplink service consisted of equipment transferred to KNME many years ago by the Pacific Mountain Network. That equipment has subsequently been replaced over the years. However, KNME does generate revenue by providing uplink services to the PBS system, as well as to commercial clients.



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With regard to the specifics of the audit findings, we will respond to each of the items individually:

CPB-OIG finding: - "over-stated NFFS of \$1,059,026 resulting in excessive CPB CSG grant payments of \$112,810, classified as funds put to better use for reporting purposes"

KNME strongly disputes this finding and contends that it did not overstate NFFS. KNME contends that the IG is stating an opinion in this case as the report states: "While CPB's guidelines did not specifically address adjustments for large payments made to third parties for something like PBS dues, such payments are similar to subgrantee payments." However, the CPB-OIG opinion in effect proposes an adjustment to the federally negotiated indirect cost rate. The University has included PBS dues in a cost pool along with many other similar costs. There is no basis for CPB-OIG to isolate PBS dues and treat them differently than any other dues. The IG's opinion is that \$692,071 is "over-stated indirect administrative support". KNME contends that these funds have been properly included in the administrative support costs calculation using the University of New Mexico's federally negotiated indirect cost rate. The IG did not audit the University or its processes and is issuing an opinion when it states that, "Payments for PBS dues, like payments to subgrantees, do not receive the same level of services from the university's various overhead activities...". The team leader on the audit, [REDACTED] also raised this issue while on site at KNME. He said it was "something to think about" but could not point to CPB guidelines that support this, which also indicates this finding is an opinion rather than noncompliance with a guideline. The IG is advocating an inconsistent application of the federally negotiated indirect cost rate, and KNME vehemently disagrees with this finding. During a conference call on April 16, 2012 with [REDACTED] the OIG's Deputy Inspector General, [REDACTED] KNME GM and CEO and [REDACTED] KNME Director of Finance and Administration, [REDACTED] was asked if KNME was being made a "test case" in order to persuade CPB to change their policy with regard to indirect administrative support guidance. [REDACTED] answered in the affirmative, that indeed KNME was being made a "test case".

Additionally, the CPB-OIG draft report states that of the \$1,059,026 in over-stated NFFS, that \$195,737 was from "inadequately documented trade underwriting revenue". We also disagree with this finding. Upon consultation with the auditors during their on-site visit and with [REDACTED] on the April 16, 2012 conference call, it was stated that KNME could supply the requested documentation. We supplied it to the auditors and we provide it again in this response in Exhibits A-1 and A-2. The CPB-OIG report quotes Section 2.5.4 of CPB's 2010 Financial Reporting Guidelines that state that grantees "need to secure and retain documentation from the donor that is tantamount to a receipt for the goods and services it received and claimed as NFFS." The guidelines do not state when that documentation should be secured, yet the CPB-OIG opinion states that the documentation is to be supplied when the

goods or services are received. KNME has secured and retained the documentation as required in the guidelines, therefore we disagree with the statement that \$195,737 is an overstatement of NFFS as "inadequately documented trade underwriting revenue." Exhibit A-1 attached includes a list of the in-kind contributions (taken from Exhibit H of the CPB-OIG draft report) and details the specific documents obtained in support of the in-kind contributions. Additionally, Exhibit A-2 includes copies of each of the 26 letters of documentation supplied by each underwriter. The exhibits document the entire amount of \$195,737.

The CPB-OIG report states that of the \$1,059,026 in over-stated NFFS, that \$171,218 is "unsupported State and College Revenues". We do not dispute the items listed except for one: The University of New Mexico F&A Return (Facilities and Administrative Return – sometimes referred to as indirect cost - NFFS amount of \$44,869). The University receives funding from many sources, including recovered F&A costs from grants and contracts, which are unrestricted revenues to the University when received. It is the University's decision, not the granting agency, of how and to whom funds will be allocated. For the period under audit, the University chose to allocate \$44,869 from all of the funds available to it to KNME for use in supporting its mission. Because KNME is a department of the University, funds are transferred by journal entries rather than issuing checks internally. The auditors requested and received a copy of the journal entry and the backup to the journal entry, which merely indicated how the University determined the amount of the allocation. KNME contends that the NFFS of \$44,869 has been properly reported as state and college revenues and is properly documented.

CPB-OIG finding: • "questionable CSG grant expenses of \$18,000 for a transaction that did not augment the station's capability to expand the quality of its services to its community in compliance with grant requirements"

This was discussed at length with the on-site auditors as well as with [REDACTED]. KNME was asked for and provided a written explanation for the Nielsen payment. The written response is attached as Exhibit B. When the American economy collapsed in the fall of 2008, KNME underwent a rescission of state funds, cancellation of a large contract with the City of Albuquerque for services and many other cuts to our revenue. We immediately took corrective action in many ways, one of which was to cancel our contract with the Nielsen Company for ratings services. We gave the ninety day notice required by Nielsen and paid \$6,000 per month for the three month period. By cancelling the contract, the station realized savings of \$35,987. CPB-OIG contends that the \$18,000 was a cancellation fee. As outlined in Exhibit B, KNME contends that the \$18,000 was our reduced cost for the service for the last three months of our contract. By saving \$35,987, KNME was able to "augment the station's capability to expand the quality of its services to its community in compliance with grant requirements." On-site auditors agreed that if KNME had not cancelled the contract, the entire contract amount, \$53,987, would have been an acceptable CSG grant expense, but the shortened contract term and related payment of \$18,000 is "questionable CSG grant expense".

CPB-OIG finding: • "CPB's Fiscal Stabilization grant and other nonprofit revenues were improperly reported on its FY 2010 AFR"

KNME does not dispute this finding and acknowledges that the revenue was inadvertently reported on the wrong line of the AFR. Because the revenues were properly excluded from eligible NFFS, reopening the FY2010 AFR to make a line item change would have no impact on the NFFS for that year, nor the resulting CSG, and is not warranted.

CPB-OIG finding: • "noncompliance with statutory provisions of the Communications Act for open meetings and establishing operating procedures."

KNME does not dispute this finding, but offers the following as corrective actions that have been implemented:

On December 13, 2011, at the next regularly scheduled KNME board meeting after the on-site CPB-OIG audit, the KNME board unanimously adopted the following two policies:

KNME New Mexico PBS Open Meetings Policy

KNME New Mexico PBS maintains an open meetings policy to the public with regards to meetings of its governing body and any committee of its governing body; as such, KNME New Mexico PBS will 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 of an open meeting; will allow all persons to attend any open meeting of the board or board committee without requiring, as a condition of attendance, that the person register or provide such person's name or any other information, except as would be reasonably required to maintain a safe meeting environment; and if a meeting is closed pursuant to the exceptions recognized by the law, make available to the public, within a reasonable period of time after the closed meeting, a written statement containing an explanation of the reason(s) for closing the meeting.

Closed sessions can be conducted to consider matters relating to individual employees, proprietary information, litigation, and other matters requiring the confidential advice of counsel, commercial or financial information obtained from a person on a privileged or confidential basis, or the purchase of property or services whenever the premature exposure of such purchase would compromise the business interests of any such organization.

"Reasonable notice" will be given by providing an announcement that is accessible on the station's Web page; and by letter, e-mail, fax, phone, or in person to any individuals who have specifically requested to be notified; and the station will make on-air announcements on at least three consecutive days once during each calendar quarter that explains the station's open meeting policy and provide information about how the public can obtain information regarding specific dates, times, and locations.

KNME New Mexico PBS Open Records Policy

KNME New Mexico PBS allows public examination of any annual financial reports filed with the Corporations for Public Broadcasting (CPB), any audit reports or financial statements on the financial condition of the station performed in compliance with Section 396 (I)(3)(B) (which requires at least a biennial audit or, under certain circumstances, a financial statement), and any other information regarding finances that CPB may request of an entity under Section 396 (I)(3)(B). KNME New Mexico PBS will include publicly available financial records in the same location as the FCC public file. Members of the public may request reproduction of the documents by contacting KNME New Mexico PBS either in person, by phone at 505-277-2121 or by email at viewercomments@knme.org during regular business hours, Monday through Friday 8:00 a.m. to 5:00 p.m. and by giving 48 hours notice of such request. Reproduction of documents in excess of ten (10) pages may require compensation to KNME for copying charges.

These policies have been made available to all staff including staff responsible for interaction with the general public. Management also provided written implementation policies for the requirements of the Act. The KNME viewer services personnel maintain logs of all phone calls, emails and personal visits to the station that include inquiries about open meetings and KNME board meetings. The executive assistant to the General Manager and the General Manager are made aware of all such inquiries.

In addition, KNME has implemented quarterly on-air announcements running at least three consecutive days. The voice-over and on-screen copy are as follows:

***“New Mexico PBS maintains an open meetings policy to the public with regards to meetings of its governing body and any committee of its governing body; as such, New Mexico PBS will 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 of an open meeting; will allow all persons to attend any open meeting of the board or board committee without requiring, as a condition of attendance, that the person register or provide such person's name or any other information, except as would be reasonably required to maintain a safe meeting environment; and if a meeting is closed pursuant to the exceptions recognized by the law, make available to the public, within a reasonable period of time after the closed meeting, a written statement containing an explanation of the reason(s) for closing the meeting.*”**

For more information on our next public meeting, please visit NEW MEXICO PBS DOT ORG FORWARD SLASH POLICIES DASH REPORTS OR CALL 505 277-TWENTY ONE TWENTY ONE.”

Exhibit C is an affidavit of the times and dates the spot has aired during the first and second quarters of 2012.

The policy was placed on our web site in December, 2011 and is accessible from the following link: <http://www.newmexicopbs.org/wp-content/uploads/2012/03/NewMexicoPBSOpenMeetingsPolicy.pdf>

KNME objects to the language on page 12 of the draft report outlining a conversation with an employee. The on-site auditors spoke with a newly-hired administrative coordinator when asking about open meetings compliance. The newly-hired administrative coordinator was not cognizant of the statutory requirements and spoke in error when she stated that the only person who had dealt with open meetings requirements had retired. Management had moved responsibility to another administrative coordinator; however we agree with the auditor that we were not fully in compliance at that time. The above referenced actions put us now fully in compliance.

Again, thank you for the opportunity to provide this response. If you need additional information, please contact us.

Sincerely,



Polly Anderson
General Manager and CEO



Karen Mann
Director, Finance and Administration

cc: Karen Mann, Director of Finance and Administration, KNME New Mexico PBS
Robert Winteringham, Deputy General Counsel, CPB
Mark Erstling, Senior Vice President, System Development & Media Strategy, CPB

**AUDIT REPORT
NO. AST1106-1205**

**Exhibits A-1, A-2, B, and C referenced in the response
from KNME-TV are available upon request.**

Contact our office at:

202.879.9669

or

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