CORPORATION FOR PUBLIC BROADCASTING

OFFICE OF INSPECTOR GENERAL

EXAMINATION OF CPB GRANT AWARDED TO PUNDIT PRODUCTIONS, INC.
FOR THE PERIOD
MARCH 1, 2011 – AUGUST 31, 2011

AUDIT REPORT NO: APR1203-1206

August 20, 2012

William J Richardson III

for **KENNETH A. KONZ**
INSPECTOR GENERAL

Corporation for Public Broadcasting

Office of Inspector General

Date: August 20, 2012

To: Robert M. Winteringham, Deputy General Counsel

William J. Richardson III

From: for Kenneth A. Konz, Inspector General

Subject: Audit of CPB Grant Awarded to Pundit Productions, Inc. for the Period March 1, 2011 – August 31, 2011, Audit Report No. APR1203-1206

We have completed an examination of the Corporation for Public Broadcasting (CPB) radio production grant awarded to Pundit Productions, Inc. (Pundit) for the "Capitol News Connection Transition Project," CPB Account No. 13978, for the period March – August 2011. The objective of this examination was to determine whether Pundit complied with grant requirements for spending and financial reporting. We initiated this examination at the request of CPB management.

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

- unallowable questioned costs of \$71,525;
- questioned costs of \$6,878 for exceeding cost category budgetary line item limits; and
- questioned costs of \$2,610 for lack of adequate documentation.

CPB's proportionate share of the total questioned costs of \$81,013 was \$35,322.

Additionally, we found that Pundit reported in-kind professional services of \$40,500 that were not authorized in the approved budget and over-stated reported revenues by \$8,250.

In response to the draft report, Pundit officials did not agree with the reported findings and recommendations. Pundit's response asked that the audit's findings and recommendation be viewed and understood in context of Capitol News Connection's (CNC) innovative and award winning coverage of the U.S. Congress and its achievement of grant deliverables during the crippling recession. Further, they said the 2011 grant was handled consistent with practices accepted by CPB in past grant agreements. Pundit's response was both critical of CPB's request to audit a defunct organization and thankful for CPB's support to bring localized reporting from the

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nation's capital to local stations. They said this enabled stations to remain competitive in their local markets and achieve something greater than what they could on their own. Pundit's written response to the draft report is attached in Exhibit F. We did not include the five appendices attached to Pundit's response which contains 39 pages of documents supporting their response. This additional information is available upon request from our office.

This report presents the conclusions of the Office of Inspector General (OIG). The findings and recommendations contained in this report do not 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 Pundit's response to the draft report, we consider recommendations 1-3 unresolved.

We performed our examination in accordance with *Government Auditing Standards* for attestation engagements. Our scope and methodology is discussed in Exhibit E and includes scope limitation disclosures related to auditing grant agreement compliance.

BACKGROUND

Pundit was initially funded by CPB in June 2003 to provide localized news coverage of Congress for public radio stations. Pundit changed its name to Capitol News Connection (CNC) in December 2004. CNC produces stories and allows public radio stations to subscribe to different packages that allow stations to either broadcast their entire story or only a portion of it. Since its inception Pundit has received $2,304,218 from CPB to deliver its programming.

The "Capitol News Connection Transition Project," CPB Account No. 13978 was executed on April 6, 2011 to continue producing CNC reports from Capitol Hill and distribute content daily to its client stations, while strengthening its ability to provide services by:

i. developing and implementing a new business plan that will outline strategies needed to achieve long-term sustainability;
ii. developing a new pricing model for stations that will fully accommodate grantee's costs for content customization for the stations;
iii. digitizing grantee's content distribution to increase its accessibility and efficiency and providing instructions to stations on the use of the new distribution platform; and
iv. marketing grantee's services to stations and making on-site station visits, to sustain carriage on at least 25 stations.

CPB funded $300,000 of the $688,036 budget (43.6 percent). The grant period was from March 1, 2011 through August 31, 2011. During this audit period CPB paid $270,000 against this grant as itemized in Exhibit A, with a $30,000 balance pending at grant closure on August 31, 2011. A revised Final Financial Report was submitted to CPB on January 22, 2012 reporting total revenues of $671,513 and total expenditures of $686,924, as presented in Exhibit B.

RESULTS OF REVIEW

We examined Pundit management's assertion of compliance with CPB's grant spending and financial reporting requirements under CPB Account No. 13978 for the six-month period ending August 31, 2011. 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 Pundit's compliance with grant 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 Pundit's compliance with specified requirements.

Our examination found the following issues of noncompliance with grant spending and documentation requirements:

- unallowable questioned costs of $71,525;
- questioned costs of $6,878 for exceeding cost category budgetary line item limits; and
- questioned costs of $2,610 for lack of adequate documentation.

CPB's proportionate share of the total questioned costs of $81,013 was $35,322.

Additionally, we found that Pundit reported in-kind professional services of $40,500 that were not authorized in the approved budget and over-stated reported revenues by $8,250.

In our opinion, because of the effect of the material noncompliance described above, Pundit has not complied with CPB grant spending requirements for the six-month period ending August 31, 2011.

FINDINGS AND RECOMMENDATIONS

Questioned Costs

Our examination found questionable grant expenditures of $81,013. These items included unallowable costs of $71,525, costs in excess of budgeted limits of $6,878, and inadequately documented costs of $2,610. CPB's portion of these questionable expenditures totaled $35,322.[1]

Unallowable Costs

Our examination identified $71,525 in unallowable costs. This total included $40,841 in depreciation or amortization expenses, $28,514 in costs incurred outside the grant period term, and $2,170 in costs not directly related to programming. These items are detailed in Exhibit D. The majority of these costs were claimed in support of the overhead charges.

CPB's Grant Agreement (CPB Account No. 13978) Article 4. Term specifies that costs may be incurred pursuant to the Detailed Budget from March 1, 2011 through August 31, 2011. Further, CPB's Terms and Conditions for Television, Radio and Other Media Production Grants, Section 4.F. Authorized Uses of CPB Funds states that, "No Grantee may apply amounts received under a Grant to any purpose other than actual costs incurred in performance of the Grant Project in accordance with its Budget."

Amortization and Depreciation

Our review of the amortization and depreciation charges used to support Overhead claims of $40,841 found that the web development and computer equipment being amortized or depreciated were reported as direct grant expenses on previous CPB grants. These included $35,508 in amortized web development costs and $5,333 in depreciated computer equipment.

Our review of the Web Amortization schedule identified items purchased in 2010 that were previously reported to CPB as direct Web Developments costs at their purchase price ($81,082) under the CPB grant "Capitol News Connection 2010" (CPB Account Number 13359) for the period March 1, 2010 – February 28, 2011. A total of $18,249 was amortized for these items under the grant we audited. The balance of the amortized items totaling $17,259 was for items purchased prior to 2010.

Similar to the Web Amortization costs, our review of Facility Depreciation identified the purchase of computer and broadcasting equipment in 2010 that was reported to CPB as direct Office Expenses or Broadcast & Web Equipment at their purchase price ($10,158) under CPB grant (Account Number 13359). A total of $2,347 was reported

[1] CPB's grant terms agreed to fund 43.6 percent of the grant expenditures based on budgeted revenues ($300,000 CPB revenues/$688,036 total revenues).

as depreciation for these items under the grant we audited. The balance of the depreciated items claimed totaling $2,986 was for other items purchased prior to 2010.

Claiming amortization and depreciation for items previously reported as direct costs is a duplicate reporting of expenditures. As a result, we have questioned all amortized Web Development costs of $35,508 and all Facility Depreciation of $5,333 for total questioned costs of $40,841.

Pundit officials disputed that the capitalized equipment in question was ever reported as direct costs under a prior CPB grant and said that CPB funds were not used to pay for any of this equipment. They went on to say that Pundit and CNC received grants and unrestricted income from many sources over the years to fund equipment and website development. Further, CPB refused to fund any capitalized equipment purchases for Pundit as of 2005. They said that depreciation and amortization is a legitimate and CPB-approved overhead charge. They said their depreciation schedule was set by its auditors and included in Pundit's tax returns.

While Pundit claims it did not report capitalized equipment as direct expenses under prior grants, our reconciliation of the FY 2010 Final Financial Report to the general ledger assets accounts verified that Pundit had reported these capitalized expenditures as direct expenses under the prior CPB grant (CPB Account Number 13359). Regarding Pundit's claim that CPB funds were not used to purchase any capital equipment, Pundit's accounting records did not separately account for CPB revenues and expenditures. Revenues and expenditures were commingled in the accounting records and we could not independently verify what funds were actually used to purchase capital equipment or other operating expenses.

Costs Incurred Outside the Grant Period

Our examination of reported costs identified that $28,514 were for costs incurred outside the six-month CPB grant period from March 1, 2011 – August 31, 2011. These costs included office rent and real estate taxes, salaries, network support, and contract employee services to highlight of few of the cost items. A more complete listing of these costs is presented in Exhibit D.

To illustrate, the general ledger rent account identified $53,230 in rent expenses ($45,006 in rent, $8,183 in real estate taxes & $41 in arrears). While these costs were paid during our grant period, these payments were for 8 months rent at $5,626 per month, 10 months of real estate taxes at $818 per month, and $41 in arrears. A total of $46,785 was reported as rent expense and the balance of $6,639 was claimed as Overhead Rent expenses for a total of $53,424. We questioned all costs claimed in excess of six month's rent, six month's real estate taxes, and the arrears. This resulted in questioned cost of $14,719.

Additionally, we found that one employee received thirteen salary payments during the six-month CPB grant period. CNC employees were paid twice a month and would be entitled to twelve salary payments during the grant period. Pundit officials explained that because of cash flow problems this employee was only paid once during February and March. The employee received four salary payments during April making up for the two pay periods missed in the previous months. Twelve of the salary payments were reported as salary expenses and the thirteenth payment was claimed as Overhead expenses in the final report to CPB. We questioned the thirteenth salary payment of $6,250 claimed as Overhead, because it was incurred prior to the start of this grant period.

The balance of the items identified under this category on Exhibit D, totaling $7,545, were incurred prior to March 1, 2011, the beginning of the grant period. A total of $1,450 of this amount was also reported as a direct expense under the prior CPB grant (CPB Account Number 13359), which represents a duplicate charge. The balance of $6,095 was not claimed under the prior grant or incurred during the current grant period. In summary, we questioned a total of $28,514 under the 2011 CPB grant (CPB Account Number 13978) for costs incurred outside the grant period.

Regarding the questioned $14,719 in rent and real estate taxes, Pundit officials said that they did not receive the real estate tax ruling from the landlord until after March 1, 2011. The District of Columbia unexpectedly ruled that non-profits had to pay property tax, including back taxes. Pundit said there was no way they could have included those costs in the appropriate grant cycle or budget. Further, Pundit showed these overages in the interim financial report projections and they were approved. Pundit asked if an amendment was needed and were told it was not necessary. Finally, they said the CPB-approved Overhead Methodology included a portion of rent for all grant periods. Without documentation of CPB's authorization to incur costs outside the six-month grant period, we cannot accept any of these costs as being allowable.

Regarding the questioned Overhead salary costs of $6,250, Pundit officials said this item was also part of the CPB-approved Overhead Methodology. Further, they said one salary payment during March was not paid until April because of cash flow problems and one of the payments erroneously referenced February instead of the correct pay period. Finally, Pundit said that all the reported salary costs were incurred during the grant period, including the $6,250 claimed as Overhead. Our review of the salary account found that 13 salary payments were made during the 6 month grant period. The approved budget only authorized six-months of salary costs that would equal 12 payments for this position, not the 13 payments that were made.

Regarding the balance of the questioned costs totaling $7,545, Pundit's explanations for for some of the items are identified in Exhibit D. Pundit contends that two of the items should have been booked as prepaid expenses, but this was not done. A third item was erroneously entered into their records twice, but the transaction never cleared the bank. However, Pundit reported this item as a grant expense. The remaining items appear to have been charged to the prior grant based on the information Pundit provided to us.

Costs not Directly Related to Programming

Our examination found $2,170 in costs reported as Overhead and Travel that were not directly related to either programming or grant deliverables. These items included $1,885 in bank interest payments for Pundit's line of credit and $285 for parking tickets. Since finance charges and fines or penalties are not normal operating expenses authorized in CPB grant budgets, we have questioned these costs.

Regarding the bank interest payments, Pundit officials said they had no choice but to fund the CPB grant with a credit line. Pundit cited two excessively late CPB payments and the requirement to spend 10 percent of the grant before CPB would make a payment necessitated obtaining a line of credit to honor its obligations under the grant to achieve deliverables. Further, they said that credit interest had been allowed in prior grants and it is a CPB-approved overhead expenditure. Lastly, they said CPB's terms and conditions did not identify "bank interest" or "credit interest" as an unallowable activity. Without CPB's authorization to incur financing charges under the grant agreement, we cannot accept any of these costs as being allowable.

Regarding the parking tickets, Pundit officials said the tickets were incurred by reporters on the job obtaining valuable news content for public radio stations. The reporters were doing what it took to "get the story" and Pundit subsequently paid the parking tickets. Without CPB's authorization to incur fines and penalty charges under the grant agreement, we cannot accept any of these costs as being allowable.

Costs Claimed Exceed Line Item Budgetary Limit

Our review identified that two budgetary line items reported costs in excess of budgetary limits totaling $6,878 per Exhibit C. The Office Expense & Insurance line item exceeded the "above the line" cost category budget by $6,667. The Communications & Web Hosting line item exceeded the $5,000 or 25 percent budgetary threshold limit by $211.

CPB's Grant Agreement (CPB Account No. 13978) was made pursuant to CPB's Terms and Conditions for Television, Radio and Other Media Production Grants (November, 2002), which requires under Section 4. <u>Budget and Financial Reporting</u> that "Grantee may make reallocations among Budget line items or categories (except those covering "above the line" salaries, equipment, and general administrative/overhead expenses) without CPB's approval so long as no such reallocation involves an increase or decrease in any single Budget category in excess of the greater of 25% of such category or $5,000."

While we saw no written evidence that Pundit had formally requested CPB's authorization to exceed approved budgetary limits, Pundit officials said that they asked CPB officials on several occasions whether a budget amendment was required and were told "no." Further, they referenced the two percent Contingency line item in the approved budget, which they said was provided to cover unanticipated items and overages.

Inadequately Documented Costs

Our review identified $2,610 in costs claimed that were not supported by vendor invoices or we could not trace the transaction into the accounting records. These items are presented in Exhibit D and included three transactions totaling $1,559 that were not supported with vendor invoices and five transactions totaling $1,051 that could not be traced into the accounting expenditure records.

CPB's Terms and Conditions for Television, Radio and Other Media Production Grants, Section 4.K. Form of Financial Reports states that the financial reports must be reconcilable with the Grantee's general ledger accounts.

Further, CPB's Terms and Conditions for Television, Radio and Other Media Production Grants under Section 4.G., also requires a Grantee to keep books, records, and accounts sufficient to:

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

Lack of Vendor Invoices

Three transaction tested in our sample were not supported with vendor invoices. These items are listed on Exhibit D with Pundit's explanation of the costs incurred. We questioned $1,559 for lack of supporting documentation.

Pundit officials said they kept detailed records of all invoices, statements, and accounts over the years as affirmed by its annual audits. However, on closure Pundit moved out of its offices in one day, with nine years of records. They said that not being able to locate three invoices was not unreasonable and they were able to provide bank records for one of the payments and an explanation for another (setting up a credit line and interest charges).

Transactions not Traceable to Accounting Records

Our reconciliation of the accounting records (general ledger accounts) to the Final Financial Report identified a $1,051 difference as reported on Exhibit D. Pundit officials acknowledged they could not find the $83 Payroll Tax Filing, $48 Office Expenses, and $20 Financial Services fees in its accounting records. We found a $700 credit in the Station Travel account that was not adjusted in reporting these costs. Additionally, we identified the Petty Cash asset account with $202 in it at the end of August 2011, but no related petty cash expense account to support the $200 Overhead cost claim.

*   *   *   *   *   *

Our review identified that the majority of the questioned costs, $62,243 of $81,013, were related to Overhead charges. We attribute this to the lack of grant requirements to document overhead charges that were traceable to the accounting records for the period of the grant. The approved grant budget only specified that 10 percent could be charged for Overhead. Pundit officials stated that their Overhead allocation method was agreed to by CPB in 2007. They said it included depreciation, bank interest, insurance, audit, legal fees, executive salary, rent, stock office supplies, and other items. However, we could not find any evidence that this agreement was formally documented and agreed to by both CPB and Pundit in 2007.

Similarly, according to Pundit officials Studio In-Kind revenues and expenses were also negotiated between Pundit and CPB in 2007. They said CPB agreed that Pundit would provide use of its studios as 'in-kind' and charge a nominal amount to the grant for upkeep, usage, and depreciation. However, we could not find any evidence that this agreement was formally documented and agreed to by both CPB and Pundit in 2007.

While we did not question any of the Pundit Studio In-Kind costs, we could not independently verify the reasonableness of the $14,167 monthly usage expense in the accounting records (e.g., expenses to operate the studio or capitalization records to build-out the studio and expense it over its useful life). Alternatively, we accepted the hourly rental rates Pundit charged to other public broadcasting customers when they rented out its studio. We used this information coupled with Pundit's estimates of the hours the studio was used for grant activities to accept these charges.

The lack of specificity and agreement on recordkeeping and documentation requirements between CPB program office officials and grantees may have led to some misunderstandings of what was permitted and could be substantiated during the independent audit process. A mutual understanding of agreement requirements for documentation and recordkeeping is essential to give grantees confidence they are incurring allowable costs and give CPB officials assurance that funds are being effectively used for allowable purposes. Further, this understanding ensures documentation and records are available to facilitate an effective audit.

Recommendation

1) We recommend that CPB management recover $35,322 in questionable CPB expenditures.

Management Response

In response to this finding Pundit officials said that it “followed to the letter what it understood to be correct reporting requirements and allowable Overhead expenses as determined and advised by CPB Radio Management.” They said they were always fully transparent and repeatedly asked for guidance. They did not have any indication from CPB management they were not following correct procedure or that they were reporting “unallowable” expenditures.

Pundit’s specific comments on the various categories of unallowable costs are discussed below.

Regarding the questioned $40,841 depreciation and amortization costs, Pundit said that this was a legitimate CPB-approved Overhead charge based on the methodology approved by CPB in 2007. Further, they said the depreciation and amortization charges were not previously reported to CPB as direct costs under prior grants. They referenced the 2010 grant Web Development general ledger asset accounts totaling $113,425 and asserted that CNC only reported $81,082 in web expenses under the 2010 CPB grant, a difference of $32,343. Pundit argued that “At a bare minimum, at least $32,343 should be applied to Overhead and Depreciation.” Their response further explained that CNC maintained a strict “by class” accounting methodology that did, in fact, separate CPB-funded line items from those web/equipment costs funded by other restricted grants. They also stated that the $22,367 charged to depreciation for the iPhone app was funded by the Ethics & Excellence in Journalism Foundation and the app was core to Pundit/CNC’s operations and its attempts to find alternative sources of revenue. They said this was a key deliverable and objective of the CPB grant. However, the auditor did not request a ‘by class’ accounting.

Regarding costs incurred outside the grant period Pundit provided explanations for the rent and real estate taxes ($8,080), Overhead rent and real estate taxes ($6,639) Overhead salary ($6,250), and some of the other expenses ($4,581). For the real estate taxes Pundit said that it did not receive the tax ruling until after March 1, 2011 the date when the new grant period began and they were not aware that they would owe back taxes from the prior grant period. Further, they said they supplied interim financial reports to CPB showing these overages, which were approved by CPB and were told by CPB that a budget amendment was “unnecessary.” Overhead rent was included in the CPB-approved Overhead Methodology and had been included for almost five years in previous CPB grants. Finally, they said if the intent of the CPB grant was to help sustain CNC while it put together a sustainable business model paying the back taxes from the current grant was justifiable.

Regarding the $6,250 questioned Overhead salary costs, Pundit disputed that these costs were incurred in February prior to the start of the grant. They said that the CPB-approved Overhead Methodology had always included a portion of the executive’s salary because CNC was not Pundit’s sole activity. Pundit said these costs were not earned during February and that because of cash flow challenges the executive went without pay in March and the Overhead payment was made in April, within the grant period.

Regarding some of the other Overhead charges questioned outside the grant period totaling ($4,581), Pundit said these were “prepaid” expenses relating to the new grant, e.g., pre-stocked office supplies, postage, and tech consultant services to ready the studio and computer systems. The fact that these items were not recorded as prepaid expenses in the accounting records was an oversight by CNC’s part-time accountant.

Regarding costs questioned not directly related to programming Pundit disputed the $1,885 credit line interest costs and $285 parking tickets. Pundit said CNC would not have been able to fulfill grant requirements without the use of a credit line because of late CPB payments and the need to finance accounts receivables. Further credit line and bank interest have been allowable costs under previous CPB grants and was in the CPB-approved Overhead Methodology. Regarding the parking tickets Pundit said they were incurred by reporters on the job doing what it takes to “get the story.”

Regarding costs claimed in excess of the budget of $6,878, Pundit’s response acknowledged that two line items exceeded the budgetary thresholds. However, CNC informed CPB of the budget changes and sought approval. Pundit said it provided interim financial reports to CPB. The overages were included and noted in those reports. The reports were accepted and payments were made by CPB. Finally, Pundit said they were told by CPB officials that an amendment was not necessary. Pundit’s response also questioned why the $5,000 budget over run was not given for Office Expense & Insurance, which would have reduced the over run to $3,384. The two percent Contingency budget ($12,264) could then be applied to the remaining overage to eliminate the questioned costs.

Regarding inadequately documented costs Pundit said that on closure CNC moved out of its offices in one day with nine years of records the support for three transactions totaling $1,559 were misplaced. Pundit said they provided bank records to substantiate the payments. Pundit acknowledged they could not find $151 in office expenses in its accounting records. Regarding the $700 credit to the station travel account, Pundit said they could not identify what this amount referred to. Finally, Pundit said the $200 Petty Cash account was used for reimbursing small expenditures, e.g., taxi cabs or supplies.

OIG Review and Comment

Based on Pundit’s response we consider recommendation 1 unresolved pending CPB’s management decision. Pundit’s response generally reiterated the comments it provided to us during our fieldwork. We included Pundit’s disagreements with our finding conclusions in the draft report. Our evaluation of Pundit’s written response to the draft report’s findings is presented below.

Regarding the questioned $40,841 in depreciation and amortization costs, we acknowledge that we did not request an accounting of web asset purchases "by class" to verify purchases made by non-CPB funding sources. However, based on the accounting information provided to us during our audit fieldwork we were able to substantiate that $81,082 of $113,425 was directly charged to the 2010 CPB grant. We could not determine the allowability of $32,343 difference because we did not reconcile the 2010 general ledger to the final financial report submitted to CPB to ensure that any of these capital purchases were claimed as direct costs under another line item. Further, we did not test any of the FY 2008-2009 web purchases to determine whether those amortized costs had also been charged directly to those CPB grants. As a result, our questioned depreciation and amortization costs remain unchanged.

Regarding the questioned costs of $20,969 for rent, real estate taxes, and Overhead salary claimed in excess of the six-month grant period, the appropriateness of such charges will have to be addressed by CPB management during the audit resolution process. Regarding the remaining questions costs (e.g., pre-paid expenses, credit line interest charges, costs exceeding budgetary limits, or inadequate documentation) totaling $19,203, no new information was presented in response to the draft report that warranted accepting any of these questioned costs. The allowability of these items will also have to be addressed by CPB management during the audit resolution process.

In-Kind Revenues & Expenditures for Professional Services not Authorized in Budget

Pundit's Final Financial Report to CPB included $40,500 in professional in-kind services reported as revenues and expenditures. This increased both reported revenues and expenditures under the grant. As a result, four budgeted expense categories exceeded budgetary limits without CPB authorization. Additionally, it allowed Pundit to claim a higher level of reimbursement from CPB because total revenues were increased by $40,500. CPB's proportionate share of revenues in the approved budget was 43.6 percent of the total revenues received. Reporting in-kind professional services revenues enabled Pundit to claim an additional $17,658 from CPB.

CPB's Grant Agreement (CPB Account No. 13978) Article 4. Term specifies that costs may be incurred pursuant to the Detailed Budget from March 1, 2011 through August 31, 2011. Further, CPB's Terms and Conditions for Television, Radio and Other Media Production Grants, Section 4.B Other Funding Sources states that, "To the extent other sources have committed funds to an applicant or Grantee for the development of a Grant Project at the time the applicant submits a Grant Application, those sources and the total funds committed by them must be disclosed to CPB as part of the Grant Application. If other sources offer to commit funds before a Grant Agreement is signed, the applicant must disclose those funding offers to CPB prior to accepting them."

While we saw no formal request by Pundit to add additional in-kind services to the approved budget categories, Pundit officials advised us they discussed it with CPB officials and were told that the six-month grant term made a formal budget request impractical and not necessary. Further, they said they had included in-kind professional services and revenues in previous grants without incident or challenge.

We reviewed the interim financial report submitted under this grant and the projected spending report. We found no references to claiming in-kind professional services under the FY 2011 grant. Our review of the FY 2010 Final Financial Report identified that in-kind professional services were referenced in the footnotes to the final report, but the amount of in-kind revenues and expenses included in the final report were not specified. While CPB may have accepted the FY 2010 Final Financial Report, we cannot assume CPB will do that for the FY 2011 grant.

Recommendation

2) We recommend that CPB management determine the appropriateness of claiming an additional $40,500 for in-kind professional services over and above the $85,000 of in-kind studio costs already authorized in the approved budget.

Management Response

In response to this finding Pundit officials said that at no time in CNC's nine year history did CPB ever require them to report the specific sources of the funds contributing to that line item at the time of grant application. The grants and gifts line item always included monies from a range of foundations and individual donations (cash and in-kind). Further, their response reiterated that when it became apparent that CNC would require in-kind professional support it informed CPB and asked whether an amendment was necessary and CPB informed them that a grant amendment was not needed. Pundit also indicated that they have included in-kind professional services in previous grants with CPB's approval. Finally, their response indicated that CPB had requested them to amend its final financial report to separate in-kind professional services two months after the end of the grant.

OIG Review and Comment

Based on Pundit's response we consider recommendation 2 unresolved pending CPB's management decision. Pundit's response generally reiterated the comments we received during our fieldwork. The allowability of claiming additional in-kind professional services will have to be addressed by CPB management during the audit resolution process.

<u>Reporting Revenues Not Received</u>

Pundit's revised final financial report submitted to CPB in January 2012 did not adjust revenues reported to account for $8,250 not received from a client. Initially, $15,000 in revenues was booked in July 2011 for annual services. However, when CNC went out of business at the end of August, it negotiated with the client on services rendered and the fee was settled at $6,750. These funds were remitted to Pundit in December 2011. As a result, Pundit revenues were over-stated by $8,250 which enabled Pundit to claim an additional $3,597 from CPB.

CPB's Terms and Conditions for Television, Radio and Other Media Production Grants, Section 4.K. Form of Financial Reports states that the financial reports must be reconcilable with the Grantee's general ledger accounts.

We were provided a copy of an annual service agreement for $15,000 that was signed by Pundit but not executed by the client. The lack of an executed agreement did not provide us an adequate basis to recognize the full $15,000 in revenues. As a result, we can only accept the actual funds received of $6,750 and not the balance of $8,250.

In response to this finding, Pundit officials indicated that the client did not sign the contract, they signed up for their services via email. Further, Pundit indicated that the client used more than half of the annual package in just two months. They negotiated a settlement for $6,750 and Pundit received payment in December 2011.

Recommendation

3) We recommend that CPB management use the audited adjusted revenue total to calculate CPB's appropriate share of total revenues eligible for reimbursement under the grant agreement terms.

Management Response

In response to this finding Pundit said it operated on an accrual basis and the $15,000 was the payable for a year's service. However, the client was late in paying and had received 2/3rds worth of services valued at $9,900. When CNC ceased operating it was not possible to fully recover for the services rendered. The amount owed should have been accounted for as a bad debt. This would have reduced revenues but increased overhead costs.

OIG Review and Comment

Based on Pundit's response we consider recommendation 3 unresolved pending CPB's management decision. Pundit's response generally reiterated the comments we received during our fieldwork. The claiming of revenues not received will have to be addressed by CPB management during the audit resolution process.

Exhibit A

CPB Payments to Pundit
March 1, 2011 – August 31, 2011

Payment Date	Contract No.	Amount	Description
3/22/2011	13359	$22,707	Final FY 2010 grant payment
4/5/2011	13978	$150,000	Initial FY 2011 grant payment
6/10/2011	13978	$120,000	Interim FY 2011 grant payment
Total Paid During Audit Period		**$292,707**	

Exhibit B

Final Financial Report*
March 1, 2011 – August 31, 2011

Budget Categories	Budget	Final Report	Under/(Over)
INCOME:			
Station Revenue	$120,000	$140,200	($20,200)
Content Sales	$40,000	$18,000	$22,000
Grants & Major Giving	$72,500	$75,000	($2,500)
In-Kind Professional Services		$40,500	($40,500)
CPB	$300,000	$300,000	$0
Sponsorship/Underwriting	$70,536	$12,813	$57,723
Pundit Studio In-Kind	$85,000	$85,000	$0
TOTAL INCOME	***$688,036***	***$671,513***	***$16,523***
EXPENDITURES:			
Staffing:			
Salaries & Wages	$208,291	$196,537	$11,754
Taxes/Benefits	$20,829	$24,927	($4,098)
In-Kind Assignment		$16,000	($16,000)
Total Staffing	***$229,120***	***$237,464***	***($8,344)***
Contractors:	***$72,000***	***$43,312***	***$28,688***
Web Development:			
Digital Delivery Platform	$66,500	$64,811	$1,689
CNC/AYL website	$6,400	$6,911	($511)
Sub-Total	***$72,900***	***$71,722***	***$1,178***
Travel & Marketing:			
Station Travel	$19,717	$12,802	$6,915
Conferences	$6,600	$2,366	$4,234
Sub-Total	***$26,317***	***$15,168***	***$11,149***
Broadcast & Web Equipment:			
Rental	$90,000	$90,000	$0
Audio & IT Maintenance	$11,000	$9,529	$1,471
Sub-Total	***$101,000***	***$99,529***	**$1,471**

** Pundit submitted a revised final report to CPB on January 22, 2012.*

Exhibit B (continued)

Final Financial Report*
March 1, 2011 – August 31, 2011

Budget Categories	Budget	Final Report	Under/(Over)
Office Expenses & Insurance:			
Insurance	$5,400	$7,215	($1,815)
Rent	$33,900	$46,785	($12,885)
Production & Office Supplies	$4,000	$5,654	($1,654)
Sub-Total	**$43,300**	**$59,654**	**($16,354)**
Communications & Web Hosting	**$25,175**	**$31,680**	**($6,505)**
Outreach:			
Paid	$5,000	$2,265	$2,735
In-Kind		$4,500	($4,500)
Sub-Total	**$5,000**	**$6,765**	**($1,765)**
Marketing, Sales & Distribution:			
Paid	$29,409	$23,605	$5,804
In-Kind		$12,000	($12,000)
Sub-Total	**$29,409**	**$35,605**	**($6,196)**
Financial Services:			
Paid	$9,000	$8,728	$272
In-Kind		$8,000	($8,000)
Sub-Total	**$9,000**	**$16,728**	**($7,728)**
Total Expenses	**$613,221**	**$617,626**	**($4,405)**
Contingency	$12,264		$12,264
Overhead	$62,549	$69,298	($6,749)
TOTAL EXPENDITURES	**$688,034**	**$686,924**	**$1,110**

** Pundit submitted a revised final report to CPB on January 22, 2012.*

Exhibit C

Budget Line Item Analysis
Adjusted for Questioned Costs

Budget Categories	Budget	Final Report	Under/(Over)	Exceed Budget Limit
INCOME:				
Station Revenue	$120,000	$140,200	($20,200)	
Content Sales	$40,000	$18,000	$22,000	
Grants & Major Giving	$72,500	$75,000	($2,500)	
In-Kind Professional Services		$40,500	($40,500)	
CPB	$300,000	$300,000	$0	
Sponsorship/Underwriting	$70,536	$12,813	$57,723	
Pundit Studio In-Kind	$85,000	$85,000	$0	
TOTAL INCOME	**$688,036**	***$671,513***	***$16,523***	
Questioned In-kind Prof Services		*($40,500)*	$40,500	
Adjusted for Revenues Not Received		*($8,250)*	$8,250	
Adjusted Total Income	***$688,036***	***$622,763***	***$65,273***	
EXPENDITURES:				
Staffing:				
Salaries & Wages	$208,291	$196,537	$11,754	
Taxes/Benefits	$20,829	$24,927	($4,098)	
In-Kind Assignment		$16,000	($16,000)	
Total Staffing	***$229,120***	***$237,464***	***($8,344)***	
Questioned In-kind Assignment		*($16,000)*	$16,000	
Adjusted Sub-Total	***$229,120***	***$221,464***	**$7,656**	
Contractors:	***$72,000***	***$43,312***	***$28,688***	
Adjusted Questioned Costs		*($1,200)*	$1,200	
Adjusted Sub-Total	***$72,000***	***$42,112***	***$29,888***	
Web Development:				
Digital Delivery Platform	$66,500	$64,811	$1,689	
PUNDIT/AYL website	$6,400	$6,911	($511)	
Sub-Total	***$72,900***	***$71,722***	***$1,178***	
Travel & Marketing:				
Station Travel	$19,717	$12,802	$6,915	
Conferences	$6,600	$2,366	$4,234	
Sub-Total	***$26,317***	***$15,168***	***$11,149***	
Adjusted Questioned Costs		*($985)*	$985	
Adjusted Sub-Total	***$26,317***	***$14,183***	***$12,134***	

Exhibit C (continued)

Budget Line Item Analysis
Adjusted for Questioned Costs

Budget Categories	Budget	Final Report	Under/(Over)	Exceed Budget Limit
Broadcast & Web Equipment:				
Rental	$90,000	$90,000	$0	
Audio & IT Maintenance	$11,000	$9,529	$1,471	
Sub-Total	***$101,000***	***$99,529***	***$1,471***	
Office Expenses & Insurance:				
Insurance	$5,400	$7,215	($1,815)	
Rent	$33,900	$46,785	($12,885)	
Production & Office Supplies	$4,000	$5,654	($1,654)	
Sub-Total	***$43,300***	***$59,654***	***($16,354)***	
Adjusted Questioned Costs		*($9,687)*	$9,687	
Adjusted Sub-Total	***$43,300***	***$49,967***	***($6,667)***	$6,667 for "above line" item
Communications & Web Hosting:	***$25,175***	***$31,680***	***($6,505)***	$211 over 25% ($6,294) limit
Outreach:				
Paid	$5,000	$2,265	$2,735	
In-Kind		$4,500	($4,500)	
Sub-Total	***$5,000***	***$6,765***	***($1,765)***	
Questioned In-kind Outreach		*($4,500)*	$4,500	
Adjusted Sub-Total	***$5,000***	***$2,265***	**$2,735**	
Marketing, Sales & Distribution:				
Paid	$29,409	$23,605	$5,804	
In-Kind		$12,000	($12,000)	
Sub-Total	***$29,409***	***$35,605***	***($6,196)***	
Questioned In-kind Marketing		*($12,000)*	$12,000	
Adjusted Sub-Total	***$29,409***	***$23,605***	**$5,804**	
Financial Services:				
Paid	$9,000	$8,728	($272)	
In-Kind		$8,000	($8,000)	
Sub-Total	***$9,000***	***$16,728***	**($7,728)**	
Questioned In-kind Financial Services		*($8,000)*	$8,000	
Adjusted Questioned Costs		*($20)*	$20	
Adjusted Sub-Total	***$9,000***	***$8,708***	**$292**	

Exhibit C (continued)

Budget Line Item Analysis
Adjusted for Questioned Costs

Budget Categories	Budget	Final Report	Under/(Over)	Exceed Budget Limit
Total Expenses	***$613,221***	***$565,235***	***$47,986***	
Contingency	$12,264		$12,264	
Overhead	$62,549	$69,298	($6,749)	
Adjusted Questioned Costs		*($62,243)*	$62,243	
ADJUSTED TOTAL EXPENDITURES	**$688,034**	**$572,290**	**$115,744**	

Exhibit D

Unallowable and Inadequately Documented Costs

Cost Category / Vendor	Amount	Explanation
Unallowable Costs:		
Overhead-Web Amortization	$35,508	Charged as direct Web development cost prior period
Overhead-Facility Depreciation	$5,333	Charged as direct cost prior period
Amortization & Depreciation Sub-Total	**$40,841**	
Rent & Real Estate Taxes	$8,080	Rent & RE taxes paid for more than 6 months
Overhead - Rent & Real Estate Taxes	$6,639	Rent & RE taxes paid for more than 6 months
Overhead - CEO Salary	$6,250	CEO's salary payment exceeded pay periods in grant period
Overhead - Office Supplies	$2,331	Prior grant period costs (Pundit claimed should be prepaid expense)
Overhead - Tech Consultation	$2,000	Prior grant period costs (Pundit: claimed should be prepaid expense)
Overhead - Credit Line Interest	$1,764	Recorded G/L 2010 - $1,450 expensed to prior grant
Contract Reporter	$1,200	Services rendered in prior grant period (Pundit: check never cashed)
Overhead - Mail	$250	Recorded G/L 2010
Outside Grant Period Sub-Total	**$28,514**	
Overhead - Bank Interest	$1,885	Interest/finance charges
DC Treasurer	$285	Reporter parking tickets
Not Program Related Sub-Total	**$2,170**	
Unallowable Total	***$71,525***	
Costs Exceed Budget w/o Authorization:		
Office Expense & Insurance	$6,667	"above the line" budget line item
Communications & Web Hosting	$211	In excess of 25% ($6,294) budget line item limit
Costs Exceed Budget Limits	***$6,878***	
Inadequately Documented Costs:		
BB&T (4/30/11)	$670	No vendor invoice (Pundit: credit line interest)
Apple Store (8/14/11)	$456	No vendor invoice (Pundit: equipment)
Hoovers (5/5/11)	$433	No vendor invoice (Pundit: research to identify new clients)
No Vendor Invoice Sub-Total	**$1,559**	
Travel & Marketing	$700	Difference between Final Report and general ledger account
Overhead - Petty Cash	$200	Difference between Final Report and general ledger account
Overhead - Payroll Tax Filing	$83	Difference between Final Report and general ledger account
Office Expenses & Insurance	$48	Difference between Final Report and general ledger account
Financial Services	$20	Difference between Final Report and general ledger account
Not Recorded G/L Sub-Total	**$1,051**	
Inadequately Documented Total	***$2,610***	
Total Questioned	***$81,013***	
CPB % of Funding	43.6%	
CPB Questioned Costs	**$35,322**	

Exhibit E

Scope and Methodology

We performed an examination of Pundit's compliance with grant spending and financial reporting requirements as specified in the budget contained in Attachment B to the grant agreement. The scope of the examination included reviews and tests of the reported revenues and expenditures for the period March 1, 2011 – August 31, 2011.

We judgmentally selected samples of revenues and expenditures reported on the Final Financial Report submitted to CPB, dated January 22, 2012. We tested revenues totaling $130,250 of $671,513 reported (19.4 percent). We tested expenditures of $360,235 of $686,925 reported (52.4 percent). We traced revenues to underlying agreements and expenditures to underlying supporting documents (e.g., pay stubs, vendor invoices, lease agreement, etc). We also reconciled the Final Financial Report to the general ledger and compared reported expenditures against budget categories for compliance with grant requirements for exceeding budgetary limits.

CPB's grant agreement requirements did not: 1) require discrete accounting for CPB funds (revenues & expenditures); 2) require employee time records to support actual time spent on CPB grant activities versus non-CPB activities; 3) define how in-kind services had to be documented to support reported revenues and expenditures; and 4) define what could be claimed as indirect costs and how such costs had to be equitably distributed across all activities of the organization (CPB funded and non-CPB funded activities). The lack of grant agreement requirements addressing these four issues created a scope limitation and did not facilitate an effective audit of the use of CPB funds. As a result, we had to develop criteria to evaluate in-kind studio costs and calculate questionable CPB costs based on auditing the costs incurred from all funding sources.

We did not gain an understanding of internal controls because Pundit is no longer operating. Pundit ceased operations in September 2011. While gaining an understanding of internal controls is required under the attestation standards, we did not believe it had an adverse effect on our audit conclusions. We assessed risks as high and did not limit our substantive testing of expenditures to verify compliance with grant spending and reporting requirements to conclude on our examination objectives.

Our fieldwork was performed from January 11, 2012 through May 14, 2012. Our examination was performed in accordance with the *Government Auditing Standards, July 2007 Revision*, for attestation examinations.

Pundit Response to Inspector-General of the CPB

As submitted by CNC on July 9th, 2012

Capitol News Connection ceased operations in September 2011 after nine years of providing millions of local public radio listeners with unique, innovative and award-winning coverage of the U.S. Congress. In that time CNC's very small team produced 32,594 news reports and 7,094 sound-rich investigative features, bested major TV networks to win prestigious national awards such as the Joan S. Barone Award for Public Policy Journalism and multiple Edward R. Murrow Awards, won kudos from lawmakers on both sides of the aisle for fairness and objectivity (a tremendous feat in this day and age of partisanship) and brought mission-driven monetary value stations could not replicate.

CNC succeeded in achieving all of its deliverables for Grant 13978 against tremendous odds. Hit hard by a crippling recession the already woefully under-capitalized CNC was succeeding at turning itself around on a very short six-month timeline. It required further CPB funding to complete the turnaround and despite swift progress on implementing a new business model and finding alternative funding or a buyer, CNC's runway was too short given severe cash flow challenges and it was forced to close abruptly when CPB denied further short-term support.

It is in this context that Management and the Board of the defunct Capitol News Connection rejects the Inspector-General findings of noncompliance, and specifically the following assertions:

- — Unallowable questioned costs of $71,525
- — Exceeding cost category budget items by $6,878
- — Undocumented costs of $2,610
- — Questioning of $40,500 of in-kind professional services

The Inspector-General of the CPB recommends that CPB management recover $35,016 in what it calls "questionable expenditures". Capitol News Connection challenges that recommendation, and before detailing our specific objections to the IG findings and recommendations, we request these be viewed and understood in context.

BACKGROUND

CNC provided tremendous value far beyond its small budgets, limited cash flow and level of CPB funding over the years. Always under-capitalized, CNC never had adequate capacity to make its highly-efficient and revenue-generating business model for quality highly customized local content for public radio scale to sustainability, or to assure the infrastructure and systems taken for granted at the much larger organizations and stations CPB typically funds. It is also clear that CNC could have been sustainable *without* CPB funding long before this grant had CPB invested proportionally more earlier on in revenue-generating positions, web development and other capacity-building. Further, fast-acting flexibility from CPB to allow organizations such as CNC to pivot fast and without penalty to take advantage of opportunities for revenue optimization and diversification as they present would have resulted in a sustainable CNC.

Without adequate cash flow, capital or reserves, the recession hit CNC hard: Paying station customers and foundation funders cut their budgets, and CNC nonetheless identified a path to sustainability and progressed rapidly towards realization of its goals thanks to a short-term grant of $300,000 from the Corporation for Public Broadcasting (CPB). The grant was to help CNC adapt its business model to changing realities while sustaining core service to stations. Specifically, the grant funded a plan to bring pricing and customization into alignment, transition to a digital e-commerce distribution system, and optimizing revenue opportunities by investing in sales and marketing.

Each and every objective and deliverable of the grant was met in the six-month period. However, turnarounds take longer than six months to implement and ultimate success depended on one further short-term support from CPB.

Despite considerable progress and a clear path to viability (including a pipeline of interested buyers, among them a major university and a major newspaper group), CPB support was not forthcoming. CNC's runway was too short given severe cash flow challenges and it was forced to close with more liabilities than assets.

During the six-month grant, the CNC CEO and founder had drawn a $75,000 credit line secured on her home to support operations and meet CPB grant deliverables. This was necessary because the CPB imposes a heavy penalty for under-spending on a grant, and for organizations with limited cash flow, this structure is a heavy and at times insurmountable burden.

Persistent late payment by CPB Management (two critical payments were more than 7 weeks late in each case) also made spending at the rate demanded by the grant exceedingly challenging, particularly given long lead times for other accounts receivable. CPB insistence on withholding 10% of the total grant until after the grant's end – while requiring the spending of that 10% in advance – also presented a major challenge to CNC in this context. Small under-capitalized organizations like CNC struggle with this CPB requirement because they do not have the cash wherewithal to effectively fund such a material percentage of the total grant. For CNC this requirement was especially difficult given its need to conserve cash in order to stay in business. Ultimately it was inadequate cash flow that caused CNC to close –despite a clear path to success.

Rather than thanking CNC for its exemplary service to public radio listeners and our democracy by allowing it a graceful wind-down, CPB Management instead chose to pursue an Inspector-General audit of a defunct organization with no capacity, no staff, no computer system, and no money, launching the audit three months after closure.

While CNC recognizes the CPB is entirely within its rights to pursue an audit, and CNC recognizes the professionalism and courtesy with which the Inspector-General conducted the audit, it also questions the reasons, circumstances and context in which it was pursued.

The audit request came in the immediate aftermath of an op-ed by the CNC Founder in *Current*, the public radio magazine. In it, she outlined, in a constructive way, how the CPB could adapt its structures to better encourage and support entrepreneurial innovation. It became immediately clear to CNC that CPB Radio Management took the article as personal criticism (as clear from verbal exchanges with CNC Management reports to CNC from radio station executives, and inappropriate quotes from the [redacted] for a subsequent article in *Current*). This defensive reaction was surprising to CNC as the op-ed article was meant purely as a constructive 'lessons learned' with respect to fostering true innovation and entrepreneurial success at a critical time for public broadcasting.

CPB Radio Management request for the audit, we believe, was motivated by public embarrassment and defensiveness as a result of station disappointment at CNC's closure. The audit also came following the intervention of a former CNC consultant angered by the closing CNC's inability to pay him for some work, who made libelous and defamatory remarks publicly and to CPB management which were neither true nor borne out by this audit.

The audit itself took five months to complete, in part because it required hundreds of hours of unpaid work by the CEO to gather documentation and answer an ever-expanding list of questions. The CEO, who was not paid by CNC and nor by the start-up which she was organizing, had little available time or resources for an onerous audit process. There were no other resources to help, no funds to pay anyone to help, the CFO had moved to Florida where she had a full-time job, and she and a part-time accountant had already donated significant numbers of hours work *pro bono* / in-kind.

It is important to CNC, its management, Board and the talented people who pulled off miracles every day in service to the public – and public radio – that the audit findings and recommendations be viewed in the above context.

We are grateful to CPB for its support over the years for understanding and acting on the message that original and localized reporting from the nation's centers of political power is a way for stations to remain relevant in fragmented and increasingly competitive local markets, allowing stations to achieve something greater than what they could on their own. With so many newspapers and TV outlets closing their Washington D.C. bureaus, CNC remained alone in a crowd of bloggers and special interest trade papers covering Congress from a truly local perspective. It is a tragedy it could not continue to fulfill its important mission.

Further, we believe it has not been the best interest of taxpayers nor has it been the best use of public money to pursue a tiny, defunct organization that gave so much to public radio, millions of listeners and our democracy over nine years.

AUDIT FINDINGS AND RECOMMENDATIONS

1. Questioned Costs

The Inspector-General rejected a total $71,525 in expenditure as "unallowable costs". This included $40,841 in depreciation and amortization, $28,514 in costs incurred outside grant terms, and $2,170 it asserts were costs not "directly related to programming". The majority of the costs were in respect to Overhead, and the CPB portion of these questioned costs totals $31,113.

CNC followed to the letter what it understood to be correct reporting requirements and allowable Overhead expenses as determined and advised by CPB Radio Management. CNC was always fully transparent with CPB Management, and repeatedly asked for guidance. At no time did CNC have any indication from CPB Management that it was not following correct procedure or reporting any expenditure that could be deemed "unallowable" by the CPB.

Accordingly CNC appreciates the IG's acknowledgement that the "lack of specificity and agreement on recordkeeping and documentation requirements between CPB program office officials and grantees may have led to some misunderstandings of what was permitted".

However, this is an ***internal problem within the CPB and its management for which CNC should not be punished.*** CNC followed the rules as specifically advised and approved by CPB Management.

"Depreciation and Amortization"

Accounting for depreciation and amortization was a legitimate CPB-approved overhead charge, per the CNC Overhead methodology approved by CPB Radio Management in 2007. The methodology was discussed extensively in a series of meetings and emails, and submitted and approved as part of the grant application process. The depreciation schedule was set by independent auditors and included yearly in the tax returns of Pundit Productions, Inc., the 501(c)(3) organization that operated CNC.

We dispute IG findings that *all* depreciation / amortization charges reported for the grant were previously reported to CPB as direct costs under previous grants. Pundit and CNC received grants and unrestricted income from many sources over the years to fund web development and broadcast equipment, very little of which was *directly* funded by the CPB. As the IG writes in an email to CNC, "The general ledger asset accounts totaled $113,425 and CNC reported $81,082 in (web) expenses."

However, the IG states that "*Pundit's accounting records did not separately account for CPB revenues and expenditures. Revenues and expenditures were comingled in the accounting records and we could not independently verify what funds were actually used to purchase capital equipment or other operating expenses*". **This claim is demonstrably incorrect as Pundit / CNC maintained a strict "by class" accounting methodology that did, in fact, separate CPB-funded line items from those web/equipment costs funded by other restricted grants.** For instance, the IG writes in an email to CNC that *"$22,367 in Web (Assets) expenditures was spent on NewsIT iphone apps (not an eligible CPB grant expense)."* This is an incorrect assessment. The $22,367 charged to depreciation was for development of a crowd-sourcing iPhone app for CNC use that was a specific activity of Pundit Productions funded by the Ethics & Excellence in Journalism Foundation (NewsiT Public Media) and would have been used for CNC core nonprofit activities. While not funded by the CPB, the app was core to Pundit/CNC's operations and attempts to find alternative sources of revenue, a key deliverable and objective of CPB support.

At no time during the audit did the IG request a 'by class' accounting.

Further, in previous years CNC had significantly more and diverse sources of funding than it had in its final year of operation. Much of the depreciation did relate to items not directly funded by CPB, and while it would be onerous for a defunct organization with no resources, no office, no working computer systems or staff to go back at this point into every line in the depreciation schedule and every grant, management contends the depreciation/amortization claimed as Overhead was legitimate.

Further, management was simply following what it believed to be the correct accounting procedures for Overhead as agreed with CPB Radio Management. Any errors as judged by the IG were made unknowingly; we genuinely believed we were following correct procedures.

"Costs Incurred Outside the Grant Period"

The IG states a total of $28,514 in costs were "incurred outside the grant period". Pundit disputes this total as follows.

1. Rent & Real Estate Taxes
   Rent & real estate taxes in excess: $8,080
   Overhead: Rent & real estate: $6,639

   Pundit did not receive the real estate tax ruling from the landlord until after the March 1, 2011 grant had begun. The District of Columbia unexpectedly ruled that non-profits had to pay property tax, including back taxes. There was no way we could have included these costs in the appropriate grant cycle or budget – as CNC had not been aware of them.

   Further, as per above, we supplied interim financial reports to CPB Radio Management and budget projections; these showed the overages, which were approved by CPB. Further, CNC asked CPB Radio Management if a budget amendment was needed in two separate conversations, and was told such an amendment was "unnecessary".

   Separately, the CPB-approved Pundit Overhead Methodology has for almost five years of CPB funding always included a proportion of rental charges in all previous grants. CNC is an activity of Pundit and without Pundit CNC would not have existed.

   The IG makes the case that a portion of the unexpected D.C. tax charges – four months at $818 (a total of $3,272) – were incurred outside the grant period. These charges were not applied to the previous CPB grant. If the purpose and intent of the CPB grant was indeed to help sustain CNC while it put together a sustainable business model, and CNC was forced to find funds to pay these taxes to maintain its base of operations towards the current grant, this portion of taxes is justified and allowable.

2. Overhead Salary
   $6,250

   The IG disputes the $6,250 of the CEO salary accounted for in Overhead, stating that it was "incurred in February prior to the start of the grant". CNC disputes that this sum was "incurred" outside the grant period. The CPB-approved Pundit Overhead Methodology has always included a portion of the Pundit CEO salary. CNC was not Pundit's sole activity, and a portion of the Pundit CEO salary was allocated to the grant. Neither was this sum charged to the previous grant (either directly or as overhead) nor was this sum earned or paid in February. Further because of cash flow challenges the CEO went without pay in March, and the Overhead payment was made in April, within the grant period.

3. Other Items (IG Exhibit D)

Overhead (Mail) $250
Overhead (Office Supplies) $2,331
Overhead (Tech Consultation) $2,000

The IG rejects the above charges to Overhead totaling $4,581 as being outside the grant period. CNC disputes this because they were specifically "pre-paid" overhead expenses relating to the new grant. Pundit operations as of the beginning of the grant period required pre-stocked office supplies and postage and tech consultants to ready the studio and computer systems for the new grant. These items were NOT charged to the previous grant. The IG says the entries "should have been booked as pre-paid expenses but this was not done". This was a simple oversight of CNC's part-time accountant and the intention and use was in fact a pre-paid expense, as the notes to the entries in the books testify

"Costs Incurred Outside the Grant Period"

The IG states a total of $2,170 in costs were "not related to either programming or grant deliverables. CNC disputes this as follows:

1. Overhead Bank Interest
   $1,885

   CNC would not have been able to fulfill grant requirements without use of a credit line utilized as a result of two materially late CPB grant disbursements and the need to finance accounts receivable and deliverables on the grant. Further credit line and bank interest have always been allowable costs approved by CPB Radio Management in previous grants and in the CPB-approved Overhead Methodology. Further, CNC is still incurring interest charges on the remaining $55,000 credit line.

2. DC Treasurer (Parking Tickets)
   $285

   The IG claims these bore no relation to programmatic activities. We respectfully disagree. The parking tickets were incurred by reporters on the job obtaining valuable news content for public radio stations. They were unfortunate, to be sure, but the result of doing what it takes to "get the story", which is the point of CNC. Pundit reimbursed the reporters.

"Costs Claimed Exceed Line Item Budgetary Limit"

The IG review asserts two budgetary line items exceeded "above the line" categories or the $5,000 or 25% threshold totaling $6,878 per its Exhibit C.

While it is true these line items did exceed the limits in sum total, CNC informed CPB management of the changes and sought approval. However, the IG states there was "no evidence that Pundit had formally requested CPB authorization to exceed approved budgetary limits." CNC disputes this, as it did ask Radio Management whether *"a formal budget amendment request"* was necessary. The answer, again, was "no".

Further:

1. Pundit provided interim financial reports to Radio Management. Payments were not released without approval of financial reports. Overages were included and noted in these reports.
2. Radio asked for and received a projection of spending in June 2011 in which Pundit detailed likely 'overages'. These were not questioned or challenged.
3. Pundit updated Radio Management and called for meetings to discuss unexpected changes.
4. Pundit asked Radio on several occasions whether a budget amendment or any formal request was required, and the answer was "no".

Secondly, CPB rules state that ***individual line items*** may not exceed 25% or $5,000. However the IG incorrectly applied this methodology to ***whole budget categories***. By aggregating line items the IG found overages above the limit where, in fact, the overages were within the CPB threshold.

For example, the IG lists the following web costs as exceeding budget without authorization – and arrives at the overage only by aggregating individual line items.

Web Development:	Budget	Report	GL	Pundit Response
Web (Asset Account)			*$50,000*	
Web Production Expenses			*$14,811*	
Digital Delivery Platform	$66,500	$64,811	***$64,811***	***UNDER by $1689***
Web Production Expenses			$6,179	
Broadcast Equip TV/VCRs (Asset Acct)			*$800*	
CNC/AYL website	$6,400	$6,911	***$6,979***	***OVER by $579***
Sub-Total	***$66,500***	***$71,722.00***	***$71,790***	

Further, it appears that the allowance for the $5,000 over run was not given for office expense and insurance "above the line" expenses". Taking the allowance into account, the total over run will be reduced to $3,384. The contingency funding in the budget can then be applied to the remaining overage which will eliminate the questioned costs.

Costs Exceed Budget w/o Authorization:	
Web Development - $5k over-run	$222
Communications & Web Hosting - $5k over-run	$1,505
Office Expense & Insurance - "above the line"	$6,657
Sub-Total	***$8,384***

Lastly, the CNC grant budget included a 2% line for Contingency.

The point of having a line item for contingency – per all our approved CPB grant budgets – was to cover unanticipated items and overages. Further the CPB allows overages up to 25%/$5,000 per *individual line items* - because no business can operate without some flexibility, particularly when it is trying to reorient in a short time period in a fast-changing ecosystem. There are always unanticipated costs – and sometimes savings too. The 2% contingency was applied as has long been accepted CPB practice to those overages.

"Inadequately Documented Costs"

The IG identified $2,610 in costs claimed that CNC could not provide documentation to support or could not be traced to accounting records.

"Lack of Vendor Invoices"
$1,559

Pundit / CNC kept detailed records of all invoices, statements and accounts over the years as affirmed by its annual audits. However, on closure CNC moved out of its offices in *one day* – challenged by having to compile, box and move *nine years of records* and equipment. It was traumatic and very difficult. The move was being conducted by people who had just lost their jobs after years of devoted service. That CNC could not find documentation for just three charges is not unreasonable. Further, Pundit was able to provide bank records for the check to Hoovers of $433 and explanation of the BBT charges (a mix of credit line set up fees and interest).

"Transactions not Traceable to Accounting Records"

Pundit / CNC acknowledged it could not find the following charges in its accounting records:
Office Expenses: $48
Financial Services: $20
Overhead (Payroll tax filing): $83

Pundit/CNC questions the IG findings of a "$700 credit in the station travel account". CNC cannot identify what this amount refers to.

With respect to the $202 Petty Cash account, this was in operation throughout the grant and applied to the credit line after the end of the grant. It was used throughout the grant for reimbursing small cash expenditures from taxis to supplies.

2/ In-Kind Revenues and Expenditures for Professional Services "Not Authorized in Budget"

We reject outright the IG finding that $40,500 in professional in-kind services "exceeded budgetary limits without CPB authorization" – representing a proportionate $17,658 in CPB grant funds.

The IG quotes Section 4.B. 'Other Funding Sources' in the CPB Terms and Conditions for TV, Radio and Other Media Production Grants as saying, "...those sources and the total funds committed by them must be disclosed to CPB as part of the Grant Application".

CNC reported In-Kind Professional Services under the existing "Grants and Gifts" line of the contract. At no time in CNC's nine year history did CPB Radio Management ever require CNC to report specific sources contributing to that line item at the time of the Grant Application. The Grants & Gifts line has always included monies from a range of foundations and individual donations (cash and in-kind). Further, CNC was never in a position to know, let alone, disclose the specific sources and amounts per source at the time of a grant application submission.

Further, the IG quotes Section 4.B. as saying, "If other sources offer to commit funds before a Grant Agreement is signed the applicant must disclose those funding offers to CPB prior to accepting them". Again, CNC had no means of knowing at the time of the grant application the sources of support would be emanating to fulfill its revenue commitment under the Grants & Gifts line.

When it became apparent CNC would require in-kind professional support to meet its grant obligations, it immediately informed CPB Radio Management and asked whether an amendment to the grant was necessary. CNC was explicitly told there was **no need for grant amendment** particularly given the short length of the six-month grant and the normally long lead times for grant amendment processes and approvals.

Further CNC has included in-kind professional services in previous CPB grants with CPB Management approval. The IG notes that CNC's FY 2010 Report does reference in-kind support in footnotes to the final report but that the specific amounts were not specified. They were not specified because accounting of the specific amounts were neither requested nor required by CPB Management, which approved that final report.

At no time did CPB Management indicate or inform CNC of any change in policy with respect to in-kind services and there was, as such, no reason for CNC to believe CPB Management would view CNC's final FY11 Financial Report any differently than it did the FY10 Financial Report.

Further, it was CPB Management that requested CNC amend its final financial report by separating the In-Kind Professional Services from the Grants & Gifts line. This request came two months after the end of the grant period and was a break with previous approved and understood procedure. We provided this following response to the IG directly:

1. *Pundit has included in-kind professional services and revenues in previous grants without incident or challenge: In-kind professional services have always been applied to existing line items and not separated. At no time did Radio Management tell us we needed to separate them.*
2. *Radio approved inclusion of in-kind services within line items in the previous grant ending Feb 28, 2011.*
3. *Pundit provided interim financial reports to Radio Management. Payments were not released without approval of financial reports. In-kind services were included in these reports.*
4. *Radio asked for and received a projection of spending in June 2011. Pundit noted and discussed with Radio Management in-kind services as well as projected / unexpected 'overages'. These were not questioned or challenged.*
5. *Pundit asked Radio on several occasions whether a budget amendment or any formal request was required, and the answer was "no". It was told the six-month term made a formal budget amendment request impractical and not necessary.*

6. *Further, upon delivery of its final financial report, Pundit provided detailed documentation specifying how the 'in-kind' work enabled CNC to meet key deliverables. There can be no question of the value of this work from highly acclaimed professionals donating services far below their regular market rates to ensure our success. We simply would not have been able to meet deliverables without donated services; these were of tremendous value to Pundit, far over and above the $40,500 stated value.*
7. *Pundit (CNC) does not understand how CPB can reduce a cash grant payment to Pundit based on non-cash expenditure.*
8. *CPB rules and regulations do not disallow in-kind professional services.*

Further to the discussion of In-Kind Professional Services, CNC attaches to this response documentation on In-Kind Professional Services requested by CPB Management some two months after the completion of the grant, when Management also requested changes to the formatting of the final report to include In-Kind as a separate line item. Again, this request was made two months after the completion of the grant and submission of all final reporting.

3/ "Reporting Revenues Not Received"

The IG states that Pundit's revised final report did not adjust revenues reported for $8,250 not received by a client. Pundit operated on an accrual basis and $15,000 was the payable for a year of service to a client station. The client was late in paying, and received more than 2/3rds worth of service, valued at $9,900. It proved impossible to recover all funds owed once CNC had ceased operations. The settlement with WYPR does not reflect the true value of services rendered. The amount owing should have been accounted for as a bad debt expense. This would have the effect of decreasing revenue but increase overhead cost. Pundit informed the IG it was amenable to amending its final report to CPB accordingly – and received no guidance.

<u>CONCLUSION</u>
Capitol News Connection challenges the Inspector-General recommendation that CPB management recover $35,016 in what it calls "questionable expenditures", specifically relating to the following costs which CNC has shown in this response to be legitimate expenditures for the grant:

— Questioned Costs: The Inspector-General rejected a total $71,525 in expenditure as "unallowable," mostly related to Overhead and the CPB portion of these costs total $31,113. This included $40,841 in depreciation and amortization, $28,514 in costs incurred outside grant terms, and $2,170 it asserts were costs not "directly related to programming".

— *$40,841 Depreciation & Amortization **($17,806.68** CPB portion)*

CNC was following, in good faith, what it understood to be approved procedure. In previous years Pundit had multiple activities, some part of CPB grants, many others not. CNC's auditor-approved Depreciation Schedule was applied to Overhead every year as agreed with CPB. However, during this final six-month grant, CNC had one core activity. The IG argument that it could not verify what funds were used to purchase what equipment is incorrect: CNC maintained strict 'by class' accounting that would have made that analysis possible had it been requested by the IG. The IG acknowledges Pundit assets totaled $113,425 but CNC reported only $81,082 in the previous CPB grant, a difference of $32,343. This sum was and is eligible to be accounted for as Depreciation under the current grant. Further, the IG statement that web development and equipment purchased by Pundit in previous years, in particular $22,367 for iPhone app development, was "not an eligible CPB grant expense" is simply incorrect: It was an activity of Pundit that directly benefitted CNC and while not funded by CPB was critical to sustaining CNC, and as such eligible for Overhead and Depreciation. At a bare minimum, at least $32,343 should be applied to Overhead and Depreciation.

CNC rejects outright that the *entire amount* of depreciation and amortization applied to Overhead is unallowable, and requests CPB Management accept at least $32,343 in assets not directly expensed to CPB in the FY10 grant – and other assets from all years not directly expensed to CPB – as payable under the grant to CNC. *$28,515 Costs "outside" grant terms (**$12,432.54** CPB portion)*

CNC rejects outright that all but a small proportion of rent were outside the grant. It accepts that $4,808 in rent was incorrectly charged to the grant but that the $6,639 charged to Overhead and the $3,272 in real estate back taxes should be allowed, along with all other items questioned in this category by the IG. *$2,170 Costs "not directly related to programming" (**$946** CPB Portion)*

CNC rejects outright that these costs were outside the grant and requests CPB Management honor the $946 payable under the grant to CNC.

— Exceeding Cost Categories: The IG stated CNC exceeded cost category allocations by $6,878. CNC rejects this notion, per the analysis above, and requests CPB Management honor the full $6,878 towards the final 10% or $30,000 grant payment.

— Undocumented Costs: CNC requests CPB Management honor the full $2,610 towards the final 10% or $30,000 grant payment.

The IG questioned reported costs totaling $81,013, and CPB's share of total questioned costs was $35,322.

CNC further rejects the IG finding that revenues were overstated by $8,250 and that CNC reported in-kind professional services of $40,500 that were not authorized in the budget. The in-kind professional services were included as part of the 'grants and gifts' line as per established and previously approved procedure and were critical to the success in CNC meeting its deliverables for the grant. We request that CPB Management honors the full $40,500 of in-kind services (CPB share $17,658).

At this time, CNC has been defunct for almost 11 months. It closed with more liabilities than assets, in large part due to the withholding of the final 10% payment on the CPB grant. A credit line of $55,000 remains outstanding, secured on the home of a founder of a nonprofit who had no ownership stake. Because of the audit, Pundit has been unable to wind down and it has incurred thousands of dollars of expenses, including credit line interest, in the past 11 months. Its founder, unpaid since August 2011, and its former CFO, have put in hundreds of hours to answer IG questions and provide documentation, despite the severe limitations posed by no longer having an office, networked computer systems, and other necessary support. Despite everything CNC has cooperated cheerfully with the process and now respectfully requests that the matter be settled quickly, graciously and with some thanks for all the hard work and sacrifice put in by the team over the past nine years to deliver unparalleled, valued and still unduplicated public service at a critical time for our democracy.

CNC fulfilled all the terms of the grant and more. It followed to the letter all requirements and approved procedures as communicated to it directly over the years by CPB Management. It achieved a tremendous amount with so little in the way of resourcing. Given all the context and circumstances CPB Management should release to CNC the full $30,000 final payment.

Appendix

1. In Kind Narrative (Provided At CPB Request on Nov. 14, 2011)
2. Final Narrative Report, October 7, 2011
3. Final Financial Report, October 7, 2011
4. Amended Financial Report, January 16, 2012
5. Response to IG, April 6, 2012

AUDIT REPORT
NO. APR1203-1206

Appendixes 1 - 5 referenced in the response from Pundit Productions, Inc. are available upon request.

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