

CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF INSPECTOR GENERAL

Report of Evaluation – Complaint Against KVNF-FM

AUDIT REPORT NO. ESR1207-1207

September 10, 2012


for Kenneth A. Konz
Inspector General



Corporation
for Public
Broadcasting

Office of Inspector General

Date: September 10, 2012
To: Robert Winteringham, Deputy General Counsel
From: *William Richardson III*
for Kenneth A. Konz, Inspector General
Subject: Report of Evaluation – Complaint Against KVNF-FM,
Report No. ESR1207-1207

On March 27, 2012 our office was advised by the Radio Department that they had received a complaint against North Fork Valley Public Radio, Inc., licensee of KVNF-FM (KVNF). The complaint alleged that the Station Manager continued to receive her taxpayer-subsidized paycheck while on a leave of absence to run the political campaign of a candidate running for state office. The complaint further alleged that the station had received a \$200,000 check from the Corporation for Public Broadcasting (CPB) to spend on reporting on “global warming” and the station consistently refused to allow a conservative viewpoint to be broadcast. Finally, the complaint alleged that during the political campaign, the Station Manager was still in charge of the station, including the news coverage of her candidate.

Based upon this complaint, we initialed a limited scope evaluation of KVNF’s financial records to verify whether the Station Manager was paid from CPB funds during her leave of absence and KVNF’s role in the CPB funded “global warming” project. Our evaluation included reviews of CPB records, KVNF financial records, and other KVNF documents related to the complaint, as explained further in our Objectives, Scope and Methodology section, Exhibit C. We did not audit the Annual Financial Reports submitted to CPB for Fiscal Years 2010 and 2011 or the station’s compliance with the Communications Act requirements.

Our limited scope evaluation found:

- KVNF did not discretely account for CPB expenditures and as a result we could not independently substantiate in the accounting records what funds were used to pay the salary of the Station Manager during her leave of absence. KVNF officials provided us with a listing of programming costs they identified as their CPB expenditures. These costs did not include the salary of the Station Manager.
- KVNF did not receive a \$200,000 check from CPB to report on “global warming.” Rather it entered into a three party agreement with the

Association of Independents in Radio and an independent producer to produce programming on “global warming.” Under this agreement KVNF was required to make in-kind contributions of \$23,568 to support this project, KVNF received no CPB funds for this project. The three party agreement did not address how KVNF needed to account for its in-kind contributions.

- Under the Public Broadcasting Act we do not have authority to review local programming decisions, so we did not address the complaint regarding the news coverage of the political campaign.

This report presents the conclusions of the OIG, and the findings reported do not necessarily represent CPB’s final position on these issues. Accordingly, the report contains recommendations the OIG believes would be appropriate to resolve these findings. Final determinations on the reported findings will be made by CPB officials in accordance with established CPB audit resolution procedures.

Based on KVNF’s response to the draft report (Exhibit D), we consider recommendation 1 resolved but open pending CPB’s acceptance of KVNF’s corrective actions. Recommendation 2 remains unresolved because it was directed to CPB and requires a management decision.

Results of Evaluation

Payment of Station Manager

Our evaluation of KVNF records did not enable us to independently substantiate the allegation that the Station Manager received her taxpayer funded pay check (CPB funds) while on a leave of absence because KVNF did not maintain discrete accounting records of CPB expenditures. CPB’s Radio Community Service Grant General Provisions and Eligibility Criteria require recipients to discretely account for its CSG funds. While accounting records were not maintained to enable us to match expenditures to revenue sources, KVNF officials asserted that CPB funds were expended on programming costs, as presented in Exhibit A. We traced these expenditures into the general ledger and verified they did not include the salary of the Station Manager.

CPB’s General Provisions and Eligibility Criteria for TV and Radio CSGs, Section 10.B. Record Keeping and Audit Requirements, require stations to provide discrete accounting and proper documentation to support all CSG revenues and expenditures. Further, CPB’s website, for Stations and Producers, Station Guidelines further explains that, “discrete accounting requires a unique code that identifies CSG revenues and expenses, restricted and unrestricted, so that both the grantor and the auditor can discretely track those funds within the accounting system. There is no requirement to segregate CSG funds in separate bank

accounts. Co-mingling funds is allowable as long as the accounting system can easily identify transactions associated with a major activity (i.e., department, grant, contract or other project).

While KVNF identified programming costs as CPB expenditures, per Exhibit A, we could not independently verify the source of the funds used to pay these expenditures based on how the accounting records were maintained. The revenues used to pay all expenditures were commingled in its accounting records. We were able to verify that the CPB expenses KVNF presented to us in response to this inquiry did not include any of the \$5,760 in part-time wages paid to the Station Manager during her leave of absence from May 21, 2010 – November 5, 2010. Our comparison of the CPB revenues and expenditures presented to us by KVNF to the general ledger accounts is presented in Exhibit B.

As we have done in other audits, in such instances we have accepted management's assertions on how they spent its CPB funds and have not questioned any of those expenditures. In those instances, we have cited the grantee for non-compliance with CPB CSG recordkeeping requirements and recommended the grantee set-up accounts in its accounting system to discretely account for CPB funds in the future.

Reporting on Global Warming

We determined that the alleged \$200,000 check from CPB to spend on reporting on "global warming" was not a grant given directly to KVNF by CPB. Rather, the complaint refers to a larger grant CPB awarded to the Association of Independents in Radio (AIR), titled "Maker's Quest 2.0 Local Partnership for Digital Storytelling," in the amount of \$1,250,000¹ to serve as Executive Producer on a project to pair ten multimedia producers with public radio and television stations to produce community-generated stories for distribution on multiple platforms.

Under the CPB agreement, AIR recruited an independent producer to work with KVNF on a project titled *iSeeChange*, which is a crowd-sourced reporting project that will draw from participants' everyday observations about shifts in the weather. AIR, KVNF, and the independent producer entered into a three party Localore Collaboration Agreement in March 2012 to produce this programming. The total project cost was budgeted at \$126,319, with \$102,751 being funded by AIR. The amount of CPB funds included in the \$102,751 was not specified in the agreement, the agreement only identified the \$102,751 as AIR revenues. Under the agreement KVNF is required to provide in-kind support totaling \$23,568 to

¹ The total project budget was \$1,904,103 with CPB funding of \$1,250,000 and AIR guaranteeing the balance of \$654,103.

exercise its editorial oversight over the project's content and integrate the project into the administration and operation of the station. Additionally, under the agreement KVNF was required to pay AIR a \$2,000 administrative fee. KVNF will receive no reimbursement under this agreement from either AIR or CPB.

While KVNF did not receive any CPB funding under its agreement with AIR, the joint Localore Collaboration Agreement did not specify how KVNF needed to account for its indirect costs (e.g., accounting services, legal services, office space, studio rental, etc.) to be claimed as in-kind support under its agreement. The agreement provided a form to report KVNF's in-kind support to AIR. AIR has to include all project costs, which would include in-kind support, in its financial reporting to CPB.

Finally, we noted that CPB's overall project grant agreement with AIR did not include in-kind support in its approved budget of \$1,904,103. The budget only specified CPB revenues of \$1,250,000 and a Grantee Guarantee of \$654,103. Generally we find that when in-kind support is agreed to in negotiating the overall production agreement costs, in-kind revenues and expenses are specified in the approved budget document.

Supervision of News Broadcasts

Our evaluation did not include a review of the station's news coverage of the 2010 election. Under the Public Broadcasting Act, CPB is prohibited from producing programming and making editorial decisions over programming content. This is a local decision made by station officials. We do not have authority to review local programming decisions.

However, we learned from the station's response to inquiries made by the CPB Ombudsman that during the Station Manager's leave of absence (May – December of 2010) the Station Manager's duties were assigned to the Program Director. The Program Director said he was responsible for supervising the news department.

Recommendations

We recommend that CPB:

- 1) Require KVNF to set-up appropriate accounts in its accounting system to discretely account for future CPB CSG revenues and expenditures, as required by CPB's Radio Community Service Grant General Provisions and Eligibility Criteria and provide CPB with evidence of its corrective actions.
- 2) Amend the CPB agreement with AIR to:
 - a) identify in-kind support included in the Grantee Guarantee of \$654,103;
 - b) require AIR to amend subrecipient agreements to:

- i) identify the amount of CPB funds included in the budgets given to independent producers;
- ii) specify financial recordkeeping requirements to:
 - (1) discretely account for CPB revenues and expenditures, and
 - (2) document indirect costs and in-kind support; and
- iii) require separate reporting of CPB expenditures, non-CPB expenditures, and in-kind support incurred under the project.

Management Response

In response to the lack of discrete accounting records for CPB expenditures, KVNF officials stated that they have remedied that problem by adding sub categories in its “Quickbooks” chart of accounts that specify CPB restricted and unrestricted funds. Further, from this time forward they will be using those sub categories to track every CPB expense. They also provided a “pdf” of the new account structure to separately account for CPB revenues and expenditures.

Regarding the CPB agreement terms with AIR, and accounting for in-kind contributions, KVNF officials said they will comply with whatever procedures are put in place to document their in-kind services for that project.

OIG Review and Comment

Based on KVNF’s response we consider recommendation 1 resolved but open pending acceptance of KVNF’s corrective actions. Recommendation 2 remains unresolved because it was directed towards CPB and requires a management decision.

Exhibit A

KVNF Use of CPB Funds for Programming in FYs 2010-11

CPB Income and Expenses	FY 2010	FY 2011
CPB Income:	\$133,552	\$124,729
Total CPB Revenue	\$133,552	\$124,729
Direct Production Expenses using CPB Funds:		
Production Employee A	\$34,696	\$32,885
Production Employee B	\$31,500	\$32,639
Production Employee C	\$31,750	\$5,290
Production Employee D	\$10,525	\$25,835
Production Employee E	\$0	\$4,174
Program Acquisition Fees:	\$22,541	\$33,767
Satellite Interconnection Fee:	\$7,100	\$7,494
Total CPB Expenses	\$138,112	\$142,084

Source: KVNF prepared schedule of CPB CSG revenues and expenditures.

Exhibit B

Comparison of CPB Income and Expenses to General Ledger

Expense Categories	FY 2010			FY 2011		
	Schedule	G/L	Difference	Schedule	G/L	Difference
CPB Income:						
CSG Unrestricted	\$64,605			\$66,266		
CSG Restricted	\$23,066			\$23,526		
Fiscal Stabilization	\$11,756			\$0		
RLAIF	\$34,125			\$34,937		
Total CPB Income	\$133,552	\$133,552	\$0	\$124,729	\$124,729	\$0
Direct Production Expenses:						
Production Employees Salaries	\$108,471	\$109,671	(\$1,200)	\$100,823	\$108,754	(\$7,931)
Program Acquisition Fees:	\$22,541			\$33,767		
Local Programming		\$900			\$3,776	
National Public Radio		\$17,920			\$26,617 ²	
Pacifica Foundation		\$1,200			\$1,200	
Program Acquisition – Other		\$2,521			\$2,174	
Program Fees Sub-total	\$22,541	\$22,541	\$0	\$33,767	\$33,767	\$0
Satellite Interconnect Fee:	\$7,100	\$7,100	\$0	\$7,494	\$7,494	\$0
Total CPB Expenses	\$138,112	\$138,130	(\$1,200)	\$142,084	\$150,014	(\$7,931)

Auditor Note: Scheduled CPB expenses exceed CPB grant award amounts for CSG, Fiscal Stabilization, and RLAIF funds. Expenses reported under the National Public Radio, Pacifica Foundation, Program Acquisition – Other, and Satellite Interconnect Fee line items would qualify as national programming. Expenses recorded in these accounts exceed the CSG restricted funds award amount.

² Includes prepaid NPR expenses of \$16,906 paid in September 2011 for FY 2012 NPR dues.

Objectives, Scope and Methodology

The objectives of the evaluation were to determine whether KVNF:

- paid the station manager’s salary from CPB funds during the period of her leave of absence from May 2010 through October 2010; and
- properly accounted for the receipt and expenditure of CPB grant funds.

We reviewed selected information from CPB’s Integrated Station Information System (ISIS) on Community Service Grant (CSG) recipients, including the CPB Annual Financial Report for KVNF for Fiscal Years 2010 and 2011. We also reviewed CPB payments made to KVNF from October 1, 2009 – March 28, 2012. Additionally, we reviewed the CPB grant agreement with AIR, dated August 11, 2011 to produce community-generated stories for distribution on multiple platforms.

We reviewed KVNF records, including:

- the audited financial statements for the periods ending September 30, 2010 and 2011;
- trial balances for periods ending September 30, 2010 and 2011;
- schedules of income and expenses for the periods ending September 30, 2010 and 2011;
- Quickbooks Transaction Detail by Account expense category reports for the periods ending September 30, 2010 and 2011:
 - Payroll Salaries;
 - Payroll taxes;
 - Workers Compensation Insurance;
 - Production Mileage;
 - Mileage – Other;
 - U/W Sales (mileage);
 - Local Programming (mileage);
 - Local Programming;
 - National Public Radio;
 - Pacifica Foundation;
 - Program Acquisition – Other; and
 - Satellite Interconnect Fee.
- KVNF prepared schedules of CPB CSG expenses for FYs 2010 and 2011, as well as, a schedule of the station manager’s part-time hours worked during her leave of absence; and

- the Localore Collaboration Agreement between AIR, KVNF, and the independent producer dated March 1, 2012.

We traced the KVNF prepared schedule of CPB CSG expenditures to the expense account Transaction Detail by Account reports by fiscal year. We compared national programming expense accounts (NPR, Pacifica, and Program Acquisition – Other) to restricted CSG funds awarded to KVNF by fiscal year to ensure expense totals met or exceeded restricted funds provided. We also reviewed the statement KVNF officials' gave to the CPB's Ombudsman regarding this complaint. The CPB Ombudsman conducted his own independent evaluation of the complaint.

Our evaluation did not include steps to verify expenditures to detailed payroll records, personnel files, vendor invoices, allocations, or journal entries. We did not audit the Annual Financial Report, the reporting of Non-Federal Financial Support, or Communications Act compliance with open meeting, open financial reports, Community Advisory Board, EEO, or donor requirements. Finally, we did not address the complaint related to election news coverage because we do not have the authority to review local editorial decisions on programming.

This evaluation was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Inspections and Evaluations* (dated January 2012).



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July 16, 2012

William J. Richardson III
Deputy Inspector General
Office of Inspector General
Corporation for Public Broadcasting

RE: KVNF Response to report of Evaluation
Report # ESR1207-XXXX

Dear Mr. Richardson:

This letter is intended to serve as written response from KVNF-FM to your Report of Evaluation which we received July 9, 2012.

We have carefully reviewed your report and understand that you have found that we did not maintain adequate discrete accounting records of CPB expenditures. We have remedied that problem by adding sub categories in our quick books chart of accounts that specify CPB restricted and unrestricted funds. From here on out we will be using those sub categories to flag every expense that we use CPB monies to pay. A pdf of the new discreet portion of our chart of accounts is included with this mailing as documentation.

As for the finding regarding accounting for In Kind on the Localore project, we will comply with whatever procedures are put in place to document our In Kind on that project.

Furthermore, we have no requests for any material in the report to be amended, redacted, or revised. We find the report clear and thorough.

Sincerely,

A handwritten signature in cursive script that reads "Sally Kane".

Sally Kane, Executive Director
North Fork Valley Public Radio, Inc/ KVNF-FM
PO BOX 1350 Paonia, CO 81428

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07/13/12

Accrual Basis

KVNF
Profit & Loss by Class
October 1, 2011 through July 13, 2012

	CPB - Restricted (Program)	CPB - Unrestricted (Program)
Ordinary Income/Expense		
Income		
Corp of Public Broadcasting	24,166.00	91,014.00
Total Income	<u>24,166.00</u>	<u>91,014.00</u>
Gross Profit	24,166.00	91,014.00
Expense		
Payroll Expenses		
Bonus	0.00	1,400.00
Payroll - Salaries	0.00	81,254.90
Payroll Taxes	0.00	8,397.80
Total Payroll Expenses	0.00	91,052.70
Program Acquisition		
Local Programming		
Program Mileage	0.00	986.80
Local Programming - Other	0.00	2,920.00
Total Local Programming	0.00	3,906.80
National Public Radio	21,756.00	0.00
Pacifica Foundation	0.00	1,200.00
Program Acquisition - Other	0.00	1,251.16
Satellite Interconnect Fee	7,906.00	0.00
Total Program Acquisition	<u>29,662.00</u>	<u>6,357.96</u>
Total Expense	<u>29,662.00</u>	<u>97,410.66</u>
Net Ordinary Income	<u>-5,496.00</u>	<u>-6,396.66</u>
Net Income	<u><u>-5,496.00</u></u>	<u><u>-6,396.66</u></u>

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07/13/12

Accrual Basis

KVNF
Profit & Loss by Class
October 1, 2011 through July 13, 2012

	<u>Total Program</u>	<u>TOTAL</u>
Ordinary Income/Expense		
Income		
Corp of Public Broadcasting	115,180.00	115,180.00
Total Income	<u>115,180.00</u>	<u>115,180.00</u>
Gross Profit	115,180.00	115,180.00
Expense		
Payroll Expenses		
Bonus	1,400.00	1,400.00
Payroll - Salaries	81,254.90	81,254.90
Payroll Taxes	8,397.80	8,397.80
Total Payroll Expenses	<u>91,052.70</u>	<u>91,052.70</u>
Program Acquisition		
Local Programming		
Program Mileage	986.80	986.80
Local Programming - Other	2,920.00	2,920.00
Total Local Programming	<u>3,906.80</u>	<u>3,906.80</u>
National Public Radio	21,756.00	21,756.00
Pacifica Foundation	1,200.00	1,200.00
Program Acquisition - Other	1,251.16	1,251.16
Satellite Interconnect Fee	7,906.00	7,906.00
Total Program Acquisition	<u>36,019.96</u>	<u>36,019.96</u>
Total Expense	<u>127,072.66</u>	<u>127,072.66</u>
Net Ordinary Income	<u>-11,892.66</u>	<u>-11,892.66</u>
Net Income	<u><u>-11,892.66</u></u>	<u><u>-11,892.66</u></u>