

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

**AUDIT OF UNDERWRITING AND IN-KIND CONTRIBUTIONS**  
**REPORTED AS NON-FEDERAL FINANCIAL SUPPORT**  
**AT SELECTED GRANTEEES**  
**FOR FISCAL YEAR 2013**

**REPORT NO. ACJ1405-1410**

**September 30, 2014**



Corporation  
for Public  
Broadcasting

Office of Inspector General

Date: September 30, 2014

To: Jackie J. Livesay, Vice President, Compliance

cc: Ted Krichels, Senior Vice President, System Development and Media Strategy  
Bruce Theriault, Senior Vice President, Journalism and Radio

From: Mary Mitchelson, Inspector General 

Subject: Audit of Underwriting and In-kind Contributions Reported as Non-Federal Financial Support at Selected Grantees for Fiscal Year 2013, Report No. ACJ1405-1410

We have completed a limited scope audit of the underwriting and in-kind contributions reported as Non-Federal Financial Support (NFFS) for Fiscal Year (FY) 2013 at KCRW-FM, ideastream® (WVIZ-TV and WCPN-FM), KLRU-TV, KPCC-FM, KOCE-TV, and Brigham Young University Broadcasting (KBYU-TV and KBYU-FM). The objectives of our audit were to determine whether the stations reported underwriting and in-kind contributions as NFFS in accordance with Corporation for Public Broadcasting's (CPB) Financial Reporting Guidelines (Guidelines) for their respective FY 2013 reporting periods. Accurate reporting of NFFS is critical to ensure an equitable distribution of CPB funds among stations.

Our audit found:

- a general lack of compliance with CPB's Guidelines resulting in stations over-stating NFFS by \$671,046 (\$413,569 for in-kind contributions and \$257,477 in underwriting) which will result in estimated CSG overpayments of \$46,167 (\$29,510 for in-kind contributions and \$16,657 in underwriting) in 2015<sup>1</sup> classified as funds put to better use for reporting purposes;
- CPB's Financial Reporting Guidelines need to clarify current guidance regarding:
  - documenting in-kind contributions and valuing goods and services at time of donation;
  - valuing exclusive sponsorships when usual and customary fees were not established;

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<sup>1</sup> Estimated overpayments calculated based on applying CPB's FY 2014 Incentive Rates of Return for TV and Radio, per Exhibits B and C, because the FY 2015 rates had not been finalized as of the report date.

- requirements that goods and services need to be purchased if not donated;
  - receipt of contributions by third parties for the benefit of public broadcasters when stations do not take constructive receipt of the full donation; and
  - excluding presenting fees as NFFS; and
- CPB should evaluate the practicality of continuing to allow stations to claim in-kind trades as NFFS given the historical and continuing challenges in valuing trades and documenting that trades were received by the stations.

We recommend CPB management take the following actions:

- Require stations to submit revised FY 2013 AFRs adjusting overstated NFFS per Exhibits B and C.
- Reduce FY 2015 CSG payments based on receipt of revised FY 2013 AFRs and redistribute estimated overpayments of \$46,167.
- Clarify the current Guidelines to address:
  - documenting receipt and value of in-kind trades;
  - claiming exclusive event sponsorships;
  - goods and services purchased if they were not donated;
  - receipt of contributions by third parties for the benefit of public broadcasters when stations do not take constructive receipt of the full donation; and
  - excluding presenting fees as NFFS.
- Evaluate the practicality of continuing to allow stations to claim in-kind trades as NFFS given the historical and continuing challenges in valuing trades and documenting that trades were received by the stations.

In response to the draft report, some stations' expressed disagreement on items questioned for in-kind trades and how third party recipient receipts should be handled, but there was general agreement that CPB's Guidelines need to be clarified as we recommended. The grantee's responses to the draft report are presented in Exhibits D-I. Additionally, we continued to accept documentation of in-kind trades up until finalization of the report. Our finding on Questionable In-kind Contributions includes all additional information received.

We initiated this audit based on our Annual Plan. We performed our audit in accordance with *Government Auditing Standards* for performance audits. Our scope and methodology is discussed in Exhibit A.

Recommendations 1-7 were directed to CPB management and are unresolved, pending CPB's final management decision resolving the report's recommendations. The findings and recommendations contained in this report do not necessarily represent CPB management's final position on these matters. CPB management will make a final management decision on the recommendations in accordance with CPB's audit resolution procedures.

## BACKGROUND

Our past audits of Community Service Grants (CSGs) awarded to stations have often found overstated NFFS related to reporting ineligible underwriting and in-kind contributions, as well as undocumented in-kind trades. The accurate reporting of NFFS is critical for the equitable distribution of the CSG funds to public broadcasters. Each year stations are required to submit and certify an Annual Financial Report (AFR) to CPB prepared following CPB’s guidelines, which identifies eligible NFFS received by the station during the fiscal year. The station’s independent public accountant (IPA) also conducts an annual financial statement audit and a separate attestation examination of the AFR using the American Institute of Certified Public Accountants standards for attestation examinations. Based on the IPA’s audit and attestation examination, the IPA certifies directly to CPB that the AFR and reported NFFS are compliant with the Guidelines.

Since OIG audits of individual stations are time consuming to perform, to maximize our limited resources we undertook this audit to look at a greater number of stations but limited our focus to only audit underwriting and in-kind contributions reported as NFFS. We analyzed CPB’s records of NFFS reporting to identify stations that reported large amounts of underwriting and in-kind contributions. We further narrowed our scope to focus on underwriting received from foundations, non-profits, business, and industry at stations that had not been recently audited by the OIG. We judgmentally selected the following six stations to conduct a limited scope audit of NFFS reported for underwriting and in-kind contributions.

### *FY 2013 NFFS Reporting*

Stations	Fiscal Year Ending Date	AFR Schedule A - Underwriting			AFR Schedule C, In-kind Line 4
		Foundations / Non-profits Line 8.1.A	Business & Industry Line 9.1.A	Total Lines 8.1.A & 9.1.A	
KCRW-FM	6/30/2013	\$1,442,259	\$3,801,640	\$5,243,899	\$3,237,672
<i>ideastream@:</i>	9/30/2013				
WVIZ-TV		1,201,714	651,774	1,853,488	401,041
WCPN-FM		317,490	2,630,055	2,947,545	137,211
KLRU-TV	9/30/2013	227,436	1,248,799	1,476,235	606,912
KPCC-FM	6/30/2013	\$1,210,313	2,501,115	3,711,428	1,341,724
KOCE-TV	6/30/2013	0	1,149,569	1,149,569	1,084,037
<i>Brigham Young University:</i>	12/31/2013				
KBYU-TV		13,370,319	1,104,932	14,475,251	281,267
KBYU-FM		256,393	70,670	327,063	8,374
<b>Total</b>		<b>\$18,025,924</b>	<b>\$13,158,554</b>	<b>\$31,184,478</b>	<b>\$7,098,238</b>
NFFS Claimed by All Stations in FY 2013		\$119,019,994	\$231,339,210	\$350,358,244	\$55,491,244
<i>% Universe Tested</i>		<i>15.1%</i>	<i>5.7%</i>	<i>8.9%</i>	<i>12.8%</i>

Our sample included two joint television and radio stations, two radio stations, and two television stations. Additionally, two of these stations are institutional stations and four are community stations.

CPB's annual awards of CSG grants to public television and radio stations are based on the amount of NFFS claimed by all stations on their AFRs. The CSG calculation process starts with separate amounts appropriated for the television and radio CSG pools, adjusted by the amount of the base grant. The TV CSG pool is also adjusted by distance and local service grants and the Radio CSG pool is adjusted by rural support grants. The funds that remain are called the Incentive Grant Pools, one is for television and the other is for radio. The Incentive Rate of Return (IRR) is calculated by dividing the Incentive Grant Pools by the total weighted amount of NFFS claimed by all television/radio stations eligible to receive incentive grants. The IRR is then multiplied by the station's reported NFFS to calculate the incentive award amount of the station's total CSG. There is a two-year lag between the reported NFFS and CPB's calculation of the FY's CSG amount. For example, CPB will use the NFFS reported on FY 2013 AFRs to determine the amount of the CSG the stations will receive in FY 2015.

## **RESULTS OF REVIEW**

Based on our limited scope audit of selected underwriting categories and in-kind contributions reported as NFFS, we identified a high rate of non-compliance with CPB financial reporting requirements for in-kind contributions. Additionally, we found ineligible in-kind contributions and underwriting. We attribute these conditions to stations not fully understanding CPB's requirements for underwriting and in-kind trades. Further, CPB's Guidelines could more clearly explain requirements to facilitate improved compliance.

Specifically, our audit found:

- a general lack of compliance with CPB's Guidelines resulting in stations over-stating NFFS by \$671,046 (\$413,569 for in-kind contributions and \$257,477 in underwriting) which will result in estimated CSG overpayments of \$46,167 (\$29,510 for in-kind contributions and \$16,657 in underwriting) in 2015<sup>2</sup> classified as funds put to better use for reporting purposes;
- CPB's Financial Reporting Guidelines need to clarify current guidance regarding:
  - documenting in-kind contributions and valuing goods and services at time of donation;
  - valuing exclusive sponsorships when usual and customary fees were not established;
  - requirements that goods and services need to be purchased if not donated;
  - receipt of contributions by third parties for the benefit of public broadcasters when stations do not take constructive receipt of the full donation; and
  - excluding presenting fees as NFFS; and

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<sup>2</sup> See footnote 1.

- CPB should evaluate the practicality of continuing to allow stations to claim in-kind trades as NFFS given the historical and continuing challenges in valuing trades and documenting that trades were received by the stations.

**FINDINGS AND RECOMMENDATIONS**

**Questionable In-kind Contributions**

*Summary*

Our audit of in-kind contributions found a general lack of compliance with CPB’s Guidelines and a misunderstanding of CPB’s requirements for documenting in-kind revenues as NFFS in five of six stations tested. Initially, our testing identified a total of 46 of 78 transactions (58.9 percent) that did not comply with CPB Guidelines for NFFS reporting. These noncompliant in-kind transactions were valued at \$2,499,826 or 43 percent of the \$5,826,421 reported for the 78 transactions tested. This is a significant non-compliance rate.

We reduced the 46 non-compliant transactions to 12, because three stations requested and obtained additional documentation from their donors on trades provided during FY 2013. As a result, 12 of the 78 in-kind trades (15 percent) valued at \$413,569 remain questionable. For six of these transactions stations did not adequately document contributions received from donors for in-kind trades/sponsorships and six additional transactions did not qualify for NFFS for policy reasons, including two exchange transactions. These 12 questionable in-kind trades will result in estimated FY 2015 CSG overpayments of \$29,510 as calculated in Exhibit B and presented below.

*In-Kind Transactions*

Category	Number Transactions	Questionable NFFS	Potential CSG Overpayments
Lack of documentation evidencing valuation and receipt of goods and services	6	\$49,991	\$3,907
Excluded by policy --- promotional items	4	322,078	21,172
Excluded by policy --- exchange transactions	2	41,500	4,431
<b>Total</b>	<b>12</b>	<b>\$413,569</b>	<b>\$29,510</b>

While the final questionable NFFS was reduced during our fieldwork, the 15 percent non-compliance rate for the 12 transactions questioned is still high and warrants CPB’s attention to clarify expectations and ensure compliance with its Guidelines going forward.

Based on our testing, station officials and their IPAs, that attested to the accuracy of the station’s AFRs, did not clearly understand what was allowable to be claimed as NFFS and how it needed to be documented to meet CPB’s Guidelines. More specifically, how they needed to document in-kind trades to address GAAP requirements to value trades at the time of donation and CPB’s documentation requirements to evidence that donors have subsequently provided the goods and services identified in the trade agreements.

### *Insufficient Documentation of In-kind Trades*

While we questioned \$49,991 because the documentation provided by three stations for 6 of the 78 in-kind trades tested (8 percent) did not comply with CPB's Guidelines, our initial fieldwork identified \$2,136,248 in questionable NFFS for 40 of 78 transactions (51 percent) because of inadequate documentation of in-kind trades received. Specifically, the stations did not have a letter or an invoice from the donors documenting delivery of the trade items, as well as the value for the goods and services received, as required by CPB Guidelines Section 2.6.4. Subsequently the stations provided documentation to evidence 34 of the 40 trades, reducing the number of trades not documented as required by the Guidelines to six.

While stations did not initially obtain the documentation required by CPB Guidelines, for many of the trades tested the stations provided only "PDF computer images" and other similar documentation demonstrating that selected goods and services agreed to in the signed trade agreement were delivered. These images evidenced event signage, Internet recognition, posters, photos of the events, banners, theatre programs, playbills, copies of magazines, and newspaper ads. These images also identified the stations as event sponsors or provided information about the stations' programming. However, this documentation did not meet CPB's specific documentation requirements, which provide:

Generally accepting accounting principles (GAAP) require that grantees record all significant contributed support at fair value *at the time of donation*, provided there is a clearly measurable and objective basis for determining the value.

CPB Guidelines, Section 2.6.3, Valuation Criteria for In-kind Contributions [emphasis added].

Trade underwriting agreements or contracts do not satisfy CPB's documentation requirements for in-kind contributions claimed as NFFS. A trade underwriting agreement is a promise to give that confirms only the intent to trade an in-kind contribution; it does not demonstrate that an in-kind contribution was actually received by the station. Instead, Grantees need to secure and retain documentation from the underwriter that is tantamount to a receipt for the goods or services it received and claimed as NFFS. In order to satisfy CPB's documentation requirement the documentation must originate from the donor and it must contain the following elements:

- Documentation must be on formal business stationery or an invoice that prominently displays donor's name, address and other identifying characteristics (e.g., business logo, etc.).
- Documentation must contain:
  - description of the goods and services donated;
  - the date(s) of donation;
  - the value of the donated goods or services and the method of valuation (e.g., lawyer's hourly rate x hours worked);
  - explicit statement of the donors intent to donate or trade the goods or services; and
  - signature, name, and title of the donor or donor's representative.

Guidelines, Section 2.6.4, Documentation Criteria for In-kind Contributions.

After explaining the CPB requirements to station officials, three stations contacted their donors and obtained alternative documentation to evidence 34 of the 40 trades that were not initially documented as required by the Guidelines. This alternative documentation included invoices or letters from the donors dated in 2014, while the trades occurred in 2012 and 2013. Based on the alternative documentation, we subsequently accepted 34 trades because the stations had ultimately received donor evidence that they had satisfied their trade agreements. As a result, we questioned \$49,991 in reported NFFS for these transactions that will result in \$3,907 in estimated CSG overpayments, as summarized in Exhibit B.

While we ultimately questioned only six of these transactions, the high level of non-compliance we found initially, 51 percent (40 of 78 transactions), is significant. This rate of noncompliance highlights the challenges stations experience interpreting and complying with CPB's requirements for in-kind trades and the need to revisit CPB's procedures for in-kind trades.

#### ***In-Kind Contributions Excluded from NFFS for Policy Reasons – Promotional Items***

Our audit also found 4 of the 78 transactions tested, valued at \$322,078, were ineligible for NFFS for policy reasons per CPB's Guidelines. These trades did not qualify as NFFS because the stations received promotional items excluded by CPB's Guidelines.

For one transaction, a hotel provided 50 percent off tickets to its exhibit and 10 percent off dining and tours for station members for one year. The hotel also hosted a screening of Downton Abbey. At the screening the hotel provided 250 tickets to its exhibit, food, beverages, and complimentary parking for the attendees invited by the station, as well as a VIP luncheon for 80 of the station's guests.

In another trade, the station received the use of a local theatre for a VIP preview of segments of a documentary to be aired at a later date. Station personnel explained that it invited its members to this screening. The theatre provided use of its theatre and supplied the staff needed to conduct the preview. This event, that included hors d'oeuvres, wine, coffee, and a behind-the-scenes discussion by the filmmaker, was a promotional event and not eligible as NFFS.

In a third trade, the station received tickets and parking to an amphitheater valued at \$197,786. Station management told us that similar in-kind contributions were received from a number of underwriters and often included tickets and parking to local area events. These tickets were given to members through radio call in contests.

For the last trade, the station received hoodies, and t-shirts, valued at \$100,000, for membership fundraising purposes. Station officials told us that the clothing was given to new members as appreciation gifts for becoming members and making donations. All four stations did not believe these trades were for promotional purposes.

However, CPB excludes all of these items from NFFS and states:

Promotional Items – Donated promotional items such as tickets to performances, t-shirts, mugs, mouse pads, dinners or other events, given to listeners or the general public as incentives to listen longer or more often to the station or to increase station audience awareness are not eligible as NFFS.

CPB Guidelines, Section 2.4.2 – In-Kind Contributions Excluded from NFFS for Policy Reasons.

Based on CPB’s policy restrictions we questioned \$322,078 claimed as NFFS for four trades involving promotional items that will result in \$21,172 in estimated CSG overpayments as summarized in Exhibit B by station.

***In-Kind Contributions Excluded from NFFS for Policy Reasons - Exchange Transactions***

Our testing identified two transactions, valued at \$41,500, for contributions in quid pro quo transactions (exchanges) that CPB has excluded from NFFS reporting for policy reasons. These trades did not qualify as NFFS because the station exchanged something of value other than underwriting for in-kind contributions. CPB’s Guidelines prohibit reporting these types of transactions as NFFS.

Contributions in quid pro quo transactions – If the station exchanges something of value other than underwriting for an in-kind contribution, then the fair value of what the station gives the contributor must be deducted from the fair value of the contribution received to determine the NFFS value of the transaction. There is only NFFS value in the transaction if the fair value of the contribution received by the station is greater than the fair value of any goods or services the station gives in return to the donor.

CPB Guidelines, Section 2.4.2 – In-Kind Contributions Excluded from NFFS for Policy Reasons.

For example, in one transaction the station received a lump sum payment, monthly payments, and credits on products and services from a wireless company in exchange for its purchase of excess spectrum capacity from the station. Moreover, we found no explicit statement in the agreement with the station that the wireless company intended to donate its payments and monthly credits of goods and services to the station.

In another quid pro quo transaction the station provided office space to a local business and received 500 hours of labor for various services (e.g., data archiving, digitalization, grant writing) in exchange for the office space. Further, we found no documentation that the donor actually provided the 500 hours of volunteer services identified in the agreement.

In accordance with CPB policy, we questioned \$41,500 for these two quid pro quo transactions (exchanges) claimed as NFFS that will result in \$4,431 in estimated CSG overpayments as summarized in Exhibit B by station.

### *Challenges Documenting In-Kind Trades per Policy*

CPB's Guidelines recognize the historical difficulty associated with documenting in-kind trades. CPB's 1996 Simplification Project resulted in the elimination of many in-kind services. These services were difficult to value or presented burdensome documentation requirements that were disproportionate to the benefits received by many stations. The objective of the project was to simplify NFFS reporting and to establish equity in the distribution of grant funds.

While CPB's past simplification efforts are laudable it appears more needs to be accomplished in this area. In addition to the previous findings, our audit identified other problems in interpreting and complying with CPB requirements for documenting in-kind contributions; specifically, verifying donor valuations of in-kind donations and whether the station would have purchased the donated goods and services if they were not donated.

#### Verifying Donor Valuations

Our audit identified eight trades at two stations valued at \$579,150 for which we could not independently verify the donor's valuations. More specifically, we could not confirm that the valuations were the usual and customary fee charged by the donor to a paying customer. While the trades were associated with the donor's promotional business practices, these trades were either for exclusive or other sponsorships for entertainment events for which the donor established the value of the trade. One station in our sample did its own valuation of the in-kind trades when the donor had not established a fee structure for its sponsorship. That station valued the trade based on its own experience in sponsoring events, which was often less and never more than the donor's valuation. None of this station's trades were included in the eight trades referenced above.

CPB requires:

. . . the donor's usual and customary fee charged to a paying customer for equivalent services must serve as the basis for determining fair value. If the donor is not actively engaged in selling the same or similar goods or services to entities other than the station a value may not be assigned to their contributions for NFFS purposes. . . .

CPB's Guidelines Section 2.6.3

Section 2.6.6 of the Guidelines explains that the grantee should record the fair value of the in-kind contribution based on the donor's/sponsor's valuation. We did not question these transactions, because the trade values were based on the donors' certifications of the values. However, exclusive sponsorships by their very nature are not available to other organizations and CPB should consider whether this type of sponsorships should be specifically excluded as NFFS when not supported by a publicized sponsorship structure.

## Validating Whether In-Kind Transactions Would Have Been Purchased

Our audit found one in-kind trade of \$693,600 NFFS for advertising provided by a metropolitan transportation service. This one transaction represented 21.4 percent of the total in-kind trades of \$3.2 million claimed by the station. Because of the large trade, we asked station personnel if the station would have purchased the advertising if it were not donated. They initially indicated to us that they could not afford the advertising if it were not donated. However, they subsequently told us that the station definitely could have and would have purchased the advertising if not donated. They provided evidence where they purchased \$50,000 in advertising from a well-known entertainment advertising agency to support its claim that the station would have purchased the advertising.

CPB requires that the station would have paid for the trade:

To be eligible as NFFS an in-kind contribution must meet the appropriate source, form, purpose, and recipient criteria. Additionally, a contributed good or service must be provided for normal, standard activities of the grantee. If services are provided for activities that are normal and standard, but the grantee would not pay for them, do not include them. This criterion is modeled on *SFAS 116, paragraph 9*, which requires that donated services not only would have been purchased, but would “need to be purchased,” if they were not donated.

CPB’s Guidelines, Section 2.6.5 Goods and Services that Would Be Purchased If Not Donated

While this section of the Guidelines is clear, there is no clear method for determining whether the advertising would have been purchased. CPB has to rely on a station’s self-certifications of its compliance with this requirement, which we cannot independently verify. Further, it is difficult to know how a station could reasonably document such decisions. For these reasons we accepted the \$693,600 claimed for advertising.

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As noted, CPB’s 1996 Simplification Project attempted to address concerns over in-kind contributions by eliminating hard to value in-kind contributions. Our results show that 58.9 percent of the transactions tested did not initially comply with CPB’s Guidelines for reporting NFFS. When we add to this figure the additional 9 valuation transactions discussed under the *Challenges Documenting In-kind Trades per Policy* section of this report, and the difficulty determining whether contributions would have been purchased if not donated, we have a total of 55 in-kind transactions, or more than 70 percent of the 78 transactions tested, that were problematic. These issues highlight the challenges experienced dealing with in-kind trades for the stations, its independent auditors, and the OIG in auditing the reporting of in-kind contributions. Personnel at one station said that because of the extensive paperwork and documentation requirements the station was considering eliminating reporting smaller trades.

Our audit found CPB’s in-kind policy and documentation requirements to be extensive and less than clear. CPB should evaluate the practicality of continuing to allow stations to claim in-kind

trades as NFFS given the historical and continuing challenges in valuing trades and documenting that trades were received by the stations.

### **Recommendations**

We recommend CPB officials:

- 1) require stations to submit revised FY 2013 AFRs adjusting overstated NFFS per Exhibits B.
- 2) reduce FY 2015 CSG payments based on receipt of revised FY 2013 AFRs and redistribute estimated overpayments of \$29,510.
- 3) evaluate the current Guidelines to:
  - a) clarify when in-kind donations have to be documented by donors evidencing that they delivered promised goods and services with valuation information;
  - b) determine whether donors' valuations of exclusive event sponsorships claimed as in-kind trades satisfy CPB's requirements to value the sponsorship at the usual and customary fees charged to a paying customer; and
  - c) determine whether CPB should continue to highlight GAAP requirements in its Guidelines that donated services not only would have been purchased, but would "need to be purchased," if they were not donated, when such decisions cannot be independently verified.
- 4) evaluate the practicality of continuing to allow stations to claim in-kind trades as NFFS given the historical and continuing challenges in valuing trades and documenting that trades were received by the stations.

### **Grantee Responses**

In response to the draft report all six grantees either commented on the findings or the recommendations. One station disagreed that its trade for hoodies and T-shirts was unallowable NFFS because the station had the intention of purchasing this clothing. The station further stated that the trade was not used for promotional purposes and that the clothing was not given to the general public but used only for membership purposes.

Three grantees specifically agreed with recommendation 3a to clarify in-kind donations documentation. One grantee suggested expanding the Guidelines to allow additional forms of support to evidence (existence), to include invoices, receiving reports, electronic communications, and similar documentation. One grantee agreed that valuation was difficult and explained that it was a common occurrence for a station and donor to not agree on the valuation. The grantee suggested the Guidelines be changed to permit the station to assign a value they believe best represents the fair value, even when those values differ from the donor. One grantee agreed with recommendation 3c that CPB should re-evaluate the requirement that donated items would "need to be purchased" to claim as NFFS. Finally, the same grantee disagreed with recommendation 4 to evaluate the practicality of continuing to allow stations to claim in-kind trades and said that in-kind trades provide great value to stations and should be included in NFFS.

## OIG Review and Comment

Based on new documentation provided by three grantees for in-kind trades since issuance of the draft report, we reduced questioned NFFS to \$413,569 and the corresponding estimated CSG over-payment to \$29,510 in the body of the report. Additionally, we revised recommendation 2. Since recommendations 1–4 were directed to CPB management, they remain unresolved pending CPB’s management decision.

The responses received provide further examples of the confusion officials have in interpreting and applying CPB’s in-kind guidelines regarding exclusions of promotional items and the adequacy of invoices to document in-kind trades received.

### Questionable Underwriting

#### *Summary*

Our testing of 149 underwriting transactions found 17 questionable transactions (11 percent) that caused stations to report \$257,477 of ineligible NFFS. This will result in overpayments of FY 2015 CSG funds estimated at \$16,657. We attribute the overpayments to a lack of compliance with CPB’s Guidelines for recording and reporting NFFS regarding eligible sources, third party and presenting station fees. Additionally, we found that additional policy clarification is warranted to address underwriting received by third parties for the benefit of public broadcasters. We believe this is potentially a growing issue as more collaborative fundraising initiatives are undertaken by stations, e.g., using National Public Media’s (NPM) services.<sup>3</sup>

#### *Underwriting Contributions*

Category	Number Transactions	Questionable NFFS	Potential CSG Overpayments
Payment by ineligible source	1	\$179,354	\$10,967
Reporting gross ad agency receipts instead of net funds received by the station	15	63,123	3,860
Presenting Fees	1	15,000	1,830
<b>Total</b>	<b>17</b>	<b>\$257,477</b>	<b>\$16,657</b>

#### *Payment by Ineligible Source*

One underwriting transaction was for payments of \$179,354 received from NPR for referring a local insurance company to NPR to become a national underwriter. Under this arrangement, no local underwriting credits were aired for the insurance company by the station. We consider this transaction to be a payment under CPB’s guidelines that does not qualify as NFFS because of the source of the payment. Neither NPR nor the insurance

<sup>3</sup> NPM’s website states, “National Public Media is a subsidiary of National Public Radio (NPR), owned in partnership with PBS and WGBH, the largest producer in public television. We are a corporate sponsorship sales team for all NPR network stations, PBS stations and the digital assets of NPR and PBS.”

company meets the NFFS source criteria for payments (state and local governments and educational institutions).

CPB excluded public broadcasting entities as eligible sources:

Source: The universe of eligible sources for contributions is relatively large: any source except the federal government or another public broadcasting entity, while the universe of eligible payments in exchange transactions is relatively small: only eligible sources are state and local governments and educational institutions.

CPB Financial Reporting Guidelines, Section 2.3.2 NFFS Criteria, Interpretations

Discussion with station and NPR officials indicated that when this program was set-up neither party considered that how this arrangement was designed and implemented would affect the station's reporting of NFFS.

### ***Reporting Third Party Fees as NFFS***

Our testing of underwriting found 15 transactions at one station that claimed contributions of \$63,123<sup>4</sup> as NFFS even though the funds were not remitted to the station. As is standard practice, the ad agencies (third party recipient) retained its fees and remitted the balance of the donors' contributions to the station. In other words, the station did not take constructive receipt of the \$63,123 in fees retained by the ad agencies.

Station officials said it records underwriting support at full value (i.e., gross) and reports this amount as NFFS. They report underwriting commissions (internal and external) separately as fundraising expenses. Thus, it does not reduce the station's NFFS by the amount of the cost of sales. Other stations in our audit who dealt with ad agencies reported their NFFS net of ad agency fees.

Regarding third party recipients CPB requires "constructive receipt" of contributions by a station to claim NFFS.

Generally, contributions or payments received in part or in whole by third parties for the benefit of the public broadcaster but for which the public broadcaster does not take constructive receipt will neither meet financial statement revenue recognition criteria nor NFFS criteria.

Guidelines, Section 2.3.2 Interpretations, Recipient

CPB's policy guidance does not define constructive receipt or specifically address how ad agency fees need to be addressed when reporting NFFS. However, it is our understanding CPB intended to limit NFFS to the funds received by a station. While CPB's Guidelines state that

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<sup>4</sup> The \$63,123 in overstated NFFS was based on the amount sampled. For the fiscal year, the total value of these 15 underwriting agreements overstated NFFS by \$136,039.

only the funds a station takes constructive receipt of can be claimed as NFFS, the Guidelines need to provide further guidance, i.e., what is meant by constructive receipt, to ensure consistency in reporting. Consistent reporting by the stations provides for the equitable distribution of future CSG funds.

CPB does provide guidance on handling auctions and other special events that similarly have third party costs associated with receiving the donor's contribution. CPB requires that the expenses incurred to receive these contributions be deducted from NFFS, no matter how they are treated for financial reporting purposes. In our judgment, ad agency fees should be treated similarly to auctions and special fund raising activities. Thus, the ad agency fees should be deducted from reported NFFS.

Based on CPB's Guidelines we questioned \$63,123 for underwriting claimed as NFFS. Additionally, CPB needs to revise its Guidelines to ensure consistent reporting of funds received from third party recipients.

### ***Presenting Station Fees***

Our testing of underwriting also found one transaction, valued at \$15,000, for presenting fees paid to a station by a producer. CPB's Principles of Accounting explicitly state that presenting fees are an exchange transaction and therefore ineligible as NFFS. However, CPB's Guidelines do not explicitly discuss presenting fees.

CPB's Principles of Accounting state that:

#### **“Presenting Station” Fees for Introducing Programs into Public Broadcasting Distribution: Contribution or Exchange Transactions?**

A public broadcasting entity sometimes charges an independent program producer a fee for introducing a program into distribution among public broadcasters by acting, for example as the “presenting station” in the PBS National Program Service.

Regardless whether such a fee is charged directly to, and paid directly by, the independent program producer, or is simply retained by the public broadcasting entity from assets that the public broadcaster may have solicited or received from third-party underwriters on the program producer's behalf, the fee that is received or retained for introducing the program into public broadcasting distribution represents an exchange transaction, and not a contribution.

CPB's Application of Principles of Accounting and Financial Reporting to Public Telecommunications Entities, May 2005 Edition, Section 3.3 Contributions – Identifying a Contribution/Exchange Transaction.

In this case the exchange transaction was from a producer, who was not a qualifying source (state or local government or educational institution). Discussion with station officials indicated

that they were unaware that presenting fees were ineligible for NFFS. As a result, we have questioned \$15,000 in underwriting.

\* \* \* \* \*

To summarize we questioned \$257,477 reported as NFFS for underwriting for 11 percent of the transactions tested. This amount will result in estimated FY 2015 CSG overpayments of \$16,657. Additionally, CPB needs to clarify its policy for recognizing donations received by third parties for the benefit of public broadcasting stations, as well as its guidance regarding presenting fees.

### **Recommendations**

We recommend CPB officials:

- 5) require stations to submit revised FY 2013 AFRs adjusting overstated NFFS per Exhibits C.
- 6) reduce FY 2015 CSG payments based on receipt of revised FY 2013 AFRs and redistribute estimated overpayments of \$16,657.
- 7) clarify the current Guidelines to:
  - a) better explain how to handle donations received by third parties for the benefit of public broadcasting stations, including constructive receipt; and
  - b) incorporate the exclusion of presenting fees as NFFS consistent with the guidance in CPB's Application of Principles of Accounting and Financial Reporting To Public Telecommunications Entities, May 2005 Edition.

### **Grantee Responses**

In response to the draft report, three grantee's commented on the underwriting finding or recommendations. One grantee acknowledged that documentation describing the Collaborative Underwriting Program with NPR was not available. The station and NPR were drafting a formal legal agreement that will detail the exact nature and substance of the transaction. The structure of the agreement shall be retroactive and cover all payments. NPR was taking the lead on this issue and is seeking clarification from CPB's Grants Administration.

One grantee agreed more specific guidance was needed for third party fees in recommendation 7a. It requested that constructive receipt not be applied to underwriting. It further stated that by not reporting gross underwriting and expensing third party fees understates a station's fundraising expenses. It believes reporting third party fees as an expense provides the most consistent and equitable NFFS treatment for stations. Excluding third party fees from NFFS applies a bias toward stations that choose to cultivate underwriting with an internal fundraising team versus stations that choose to engage external agencies to cultivate underwriting. Additionally, applying the constructive receipt concept to third party fees may also encourage stations to engage agencies with creative payment terms to avoid the constructive receipt treatment and the reduction in NFFS reporting.

Two grantees agreed with recommendation 7b to incorporate the exclusion of presenting fees in CPB's financial reporting guidelines.

### **OIG Review and Comment**

Based on the grantees' responses, we did not change our finding and recommendations on underwriting. Recommendations 5–7 were directed to CPB management and remain unresolved pending CPB's management decision.

With regard to the grantee's response outlining its future plans for the payments it receives from NPR, we note that the station would have to air local underwriting credits for these payments to qualify as NFFS.

Regarding the grantee's request that constructive receipt not be applied to underwriting and argument that not reporting gross underwriting and expensing third party fees understates a station's fundraising expenses, we acknowledge that CPB's Guidelines on third party recipients needs to be clarified. CPB's more specific guidance on auctions and special events require all third party costs associated with the auction or special event be excluded from NFFS, no matter how they are treated in the financial statements. In contrast, the third party recipient guidance under Section 2.3.2 is less specific and has led to varying interpretations by the stations tested. One station reported gross underwriting receipts as NFFS, without deducting the direct costs associated with the fundraising (ad fees). This arrangement does not constitute constructive receipt under Section 2.3.2 nor does it deduct the expense of the fundraising from NFFS, as CPB specifically requires for other fundraising activities. Therefore, we find that ad agency fees should have been excluded from NFFS and have not changed the questionable NFFS finding for third party recipient fees.

**Scope and Methodology**

The objectives of our audit are to determine whether KCRW-FM, ideastream® (WVIZ-TV and WCPN-FM), KLRU-TV, KPCC-FM, KOCE-TV, and Brigham Young University Broadcasting (KBYU-TV and KBYU-FM) reported underwriting and NFFS in-kind contributions as NFFS in accordance with CPB's Guidelines for their respective FY 2013 reporting periods. The scope of the examination included reviews and tests of the financial information reported by the stations on their respective FY 2013 Annual Financial Reports (AFRs), Schedule A, Line 8.1, A, Foundation and Nonprofit Associations, Program and production underwriting, Schedule A, Line 9.1, A, Business and Industry, Program and production underwriting, and Schedule C, Line 4, Total in-kind contributions – services and other assets eligible as NFFS.

Our tests included verifying the information referenced above to the general ledger and audited financial statements. We also reviewed underwriting and in-kind trade agreements, reports of underwriting credit aired for donors, documentation of in-kind goods and services delivered, and records of donor underwriting payments received by the stations. We judgmentally selected 78 in-kind contributions totaling \$5,830,714 of \$7,098,238 reported on the AFRs. We also judgmentally selected 149 underwriting transactions totaling \$3,388,529 of \$31,184,478 reported on the AFRs.

We also reviewed corporate accounting practices for recording and reporting underwriting and in-kind contributions. We interviewed station officials and their independent public accountants (IPA). We reviewed the IPAs work related to financial reporting, as well as testing underwriting and in-kind contributions for the IPAs' financial statement and attestation work.

We gained an understanding of internal controls over the preparation of AFRs, cash receipts, and cash disbursements. We used this information to assist in planning our substantive tests.

Our fieldwork was conducted from March 2014 through August 2014. Our audit was performed in accordance with the *Government Auditing Standards* for performance audits.

**Exhibit B**

**Schedule of Questionable In-kind NFFS and Potential CSG Overpayments**

Stations	Questionable In-Kind						Total Questionable In-kind		IRR*	Potential CSG Over-Payments
	Policy Exclusion		Exchange		No Donor Stmt/Invoice					
	# Sampled	\$ Questioned	# Sampled	\$ Questioned	# Sampled	\$ Questioned	# Sampled	\$ Questioned		
KCRW-FM	2/20	\$297,786					2/20	\$297,786	6.1146%	\$18,209
ideastream (WVIZ-TV)			2/6 <sup>5</sup>	\$31,125			2/6	\$31,125	12.1999%	\$3,797
ideastream (WCPN-FM)				\$10,375				\$10,375	6.1146%	\$634
KLRU-TV					1/9	\$7,570	1/9	\$7,570	12.1999%	\$924
KPPC-FM					3/20	36,021	3/20	\$36,021	6.11469%	\$2,203
KOCE-TV	2/20	\$24,292			2/20	\$6,400	4/20	\$30,692	12.1999%	\$3,744
KBYU (TV & Radio)							0/3	\$0		\$0
<b>Questionable NFFS</b>	<b>4/78</b>	<b>\$322,078</b>	<b>2/78</b>	<b>\$41,500</b>	<b>6/78</b>	<b>\$49,991</b>	<b>12/78</b>	<b>\$413,569</b>		<b>\$29,510</b>
Sampled Transactions								\$5,830,714		
Percentage	<b>5.1%</b>		<b>2.6%</b>		<b>7.7%</b>		<b>15.4%</b>	<b>7.1%</b>		

\*Calculated based on applying CPB's FY 2014 Incentive Rates of Return for TV and Radio per Exhibits B and C

<sup>5</sup> We tested six in-kind transactions, these transactions applied to both radio and TV

**Exhibit C**

**Schedule of Questionable Underwriting NFFS and Potential CSG Overpayments**

Stations	Questionable Underwriting						Total Questionable Underwriting		IRR*	Potential CSG Over-Payments
	Payment		Gross/Net Ad Agency Fees		Presenting Fees		# Sampled	\$ Questioned		
	# Sampled	\$ Questioned	# Sampled	\$ Questioned	# Sampled	\$ Questioned				
KCRW-FM							0/20	\$0	6.1146%	\$0
ideastream (WVIZ-TV)							0/14	\$0	12.1999%	\$0
ideastream (WCPN-FM)	1/15	\$179,354					1/15	\$179,354	6.1146%	\$10,967
KLRU-TV							0/20	\$0	6.1146%	\$0
KPCC-FM			15/20	\$63,123			15/20	\$63,123	6.1146%	\$3,860
KOCE-TV					1/20	\$15,000	1/20	\$15,000	12.19995	\$1,830
KBYU (TV & Radio)							0/40	\$0		\$0
<b>Questionable NFFS</b>	<b>1/149</b>	<b>\$179,354</b>	<b>15/149</b>	<b>\$63,123</b>	<b>1/149</b>	<b>\$15,000</b>	<b>17/149</b>	<b>\$257,477</b>		<b>\$16,657</b>
Sampled Transactions								\$3,388,829		
Percentage	<b>0.7%</b>		<b>10.1%</b>		<b>0.7%</b>		<b>11.4%</b>	<b>7.6%</b>		

\*Calculated based on applying CPB's FY 2014 Incentive Rates of Return for TV and Radio per Exhibits B and C



TEL

Exhibit D

Monday September 22, 2014

Dear Office of Inspector General,

See below answers in regards to your findings of the Fy13 audit.

- Tickets giveaway: We agreed on the findings in regards to this trade of \$167,786. We did not catch the total trade of giveaway tickets/parking passes. We have put additional internal controls in place in order to prevent future errors.
- Hoodies and T-shirts: On this trade, we don't agree with the findings. We maintain that this is a legitimate trade with our vendor as specified in the CPB Financial Reporting Guidelines. KCRW has been provided clothing items to members only. As our clothing items have been increasingly popular among our members, KCRW has worked out a trade agreement with our vendor. Regardless of the trade, KCRW always had the intention of purchasing these clothing items through our current vendor. Based on the SFAS 116, paragraph 9, which requires that donated services not only would have been purchased, but would "need to be purchased" if they were not donated. KCRW purchased clothing items from our vendor in Fy13. Attached please find our vendor invoices and KCRW payments made in Fy13 for your reference.

KCRW stands by its position that these clothing items are not used for promotional purposes to work as "incentives to listen longer or more often to the station or to increase audience awareness" (Section 2.4.2). These gifts are used only for KCRW membership purposes. They are not given away to the general public. They are not used in any way shape or form to increase listenership or incentivize listenership as clearly stated by the CPB guidelines. If the use of this apparel is not for the purposes stated by the CPB guidelines, how can they be ineligible as they do certainly follow the guideline that an eligible trade must be of services or items that the station would've purchased otherwise? It is also worth noting that this is not just the opinion of KCRW but three other public stations being audited as well.

Regards,

A handwritten signature in blue ink, appearing to be "Dan Sy", written over a horizontal line.

Dan Sy  
VP Of Finance

September 17, 2014

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

Re: Response to Draft report No. ACJ1405-XXXX  
Audit of Underwriting and In-Kind Contributions

Dear Mr. Richardson:

In this note we are providing written comments to your findings and recommendations, specifically the Questionable Underwriting finding on the Payment by Ineligible Source of \$179,354. The draft report also questioned two in-kind contributions that were deemed to be exchange transactions.

The payment in question involves the 85/15 Collaborative Underwriting Program established with NPR and the referral of a local insurance company to NPR to become a national underwriter.

At the time that this national underwriting arrangement was developed with the insurance company and NPR through National Public Media, NPR did not consider fully the eligibility implications under the CPB guidelines arising from the source of payments. NPR National, who is taking the lead on this issue, is seeking clarification through CPB's Grants Administration office. In the draft report, this transaction has been deemed a payment and as a result ineligible as NFFS because of the source of the payment.

We acknowledge that documentation adequately describing the Collaborative Underwriting Program was not available for this audit. In order to properly define this transaction and its eligibility as NSSF, ideastream and NPR are drafting a formal legal agreement that will detail the exact nature and substance of this transaction in question. The structure of the agreement shall be retroactive and cover all payments to ideastream for ideastream's referral of this insurance company to NPR as a national underwriter. Additionally, ideastream and NPR have agreed that a new agreement will be executed when, and if, a new referral occurs. Should the CPB Office of Inspector General so desire, NPR executives have agreed to make themselves available to representatives from the CPB Office of the Inspector General to further confirm and discuss the nature of this transaction in question should the CPB Office of Inspector General wish to obtain a representation from NPR about the nature of the transaction.

Regarding the two questioned in-kind contributions that were deemed exchange transactions that should be excluded from NFFS qualification, we have found it difficult to provide additional documentation to challenge the determination presented in the draft report.

We appreciate the opportunity to comment on the draft report prior to the finalization of the report for CPB management.

Sincerely,



John Phillips  
Chief Financial Officer



September 17, 2014

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

Copy: William Gillette, CPA

Dear Mr. Richardson:

Thank you for the opportunity to respond to your report entitled "Audit of Underwriting and In-kind Contributions Reported as Non-Federal Financial Support at Selected Grantees for Fiscal Year 2013." We appreciated the thoroughness of your audit and accompanying communication, and we accept your findings as stated. We will amend our FY 2013 AFR to adjust the overstated NFFS by the amount of \$7,570.

We would like to point out that the transaction questioned in the report was a discount provided by [redacted], our membership database vendor, at the time the system was acquired several years ago. We believe that the transaction qualifies as NFFS, and the proposal provided by the vendor at the time of sale noted the actual price, the discount, and the basis upon which the discount was computed. However, at the time the system was acquired, we failed to obtain a letter on the vendor's letterhead stating it was [redacted] intent to offer a discount as a contribution to the station - -thereby fully complying with CPB documentation requirements. As a result of changing management at the vendor, we were unable to obtain a letter that would meet the CPB requirements.

In this regard, we do concur with your finding that greater clarity in documentation requirements would be advantageous. Under what circumstances is a separate letter required, distinct from a contract or a regular invoice? To the extent that a contract or invoice is on the donor's letterhead, or otherwise clearly attributable to the donor, and states the amount of their in-kind gift, including the basis of valuation -- is this sufficient? In seeking this kind of support, it's important that stations are able to maintain documentation procedures that are simple, yet thorough. A requirement to attain a letter, potentially in addition to a contract and subsequent invoices, has the potential to be burdensome and possibly dissuade a donor's interest in supporting the station.

As a result of this audit, we are initiating new procedures, including expanded training for staff involved in underwriting and in-kind gifts, adoption of template documentation, and expanded internal reviews of compliance.

Let me add, finally, that we appreciated Mr. Gillette's professional approach to this audit and, again, thank you for the opportunity to respond.

Sincerely,

William D. Stotesbery  
CEO and General Manager

p.o. box 7158 // austin, texas // 78713-7158 // phone 512.471.4811 // fax 512.475.9090



September 18, 2014

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

Dear Mr Richardson:

This letter is in response to your draft report dated August 18, 2014 (the "Draft Report") regarding the findings and recommendations resulting from your audit of underwriting and in-kind contributions reported as non-federal financial support at selected grantees, including KPCC-FM (SCPR). Thank you for the opportunity to provide our written comments before you finalize your report and submit your findings and recommendations.

### Summary

We would like to complement you and your team for running a respectful and professional audit. Since your Draft Report was written, we have provided additional documentation we would like you consider before you finalize you findings and issue your report. In addition we have provided and we hope you consider our point of view regarding your recommendations to CPB that we hope you will take into account.

### Additional Documentation

In your transmittal letter dated August 18, you invited SCPR to provide additional documentation and we have done so. We request that you take one last opportunity to review the schedule of KPCC Questionable NFFS, updated based on the additional documentation we have provide, before you concluded on the findings in Exhibit B and finalize the Draft Report.

### Discussion of Findings and Recommendations

On the following pages you will find our comments we hope you will to consider in your recommendations to CPB. Our comments are organized in the categories of the Draft Report. For clarity, we repeat in italics the recommendation made in the draft report, and then discuss the recommendation.

480 Cedar Street  
Saint Paul, MN 55101  
Phone 651.290.1225  
Toll Free 877.276.8400  
Fax 651.222.7795  
americanpublicmedia.org

## QUESTIONABLE DOCUMENTATION OF IN-KIND TRADES

The Office of Inspector General (OIG) in their Draft Report recommends to CPB officials the following regarding documentation of in-kind trades:

1. *require stations to submit revised FY 2013 ARF's adjusting overstated NFFS per Exhibits B;*
2. *reduce FY 2015 CSG payments based on receipt of revised FY 2013 AFRs and retain potential overpayments of \$89,101;*
3. *evaluate the current Guidelines to:*
  - a. *clarify when in-kind donations have to be documented by donors evidencing that they delivered promised goods and services with valuation information;*
  - b. *determine whether donors' valuations of exclusive event sponsorships claimed as in-kind trades satisfy CPB's requirements to value the sponsorship at the usual and customary fees charged to a paying customer; and*
  - c. *determine whether CPB should continue to highlight GAAP requirements in its Guidelines that donated services not only would have been purchased, but would "need to be purchased," if they were not donated, when such decisions cannot be independently verified.*
4. *evaluate the practicality of continuing to allow stations to claim in-kind trades as NFFS given the historical and continuing challenges in valuing trades and documenting that trades were received by the stations.*

### In-kind Recommendations 1 and 2.

We do not have any specific comments regarding recommendations 1 and 2, other than to request the OIG to consider the additional documentation we have provided since the Draft Report was issued, as discussed in the Additional Documentation paragraph above.

### In-kind Recommendation 3a. – Supporting Documentation.

We agree with this recommendation. In addition, we offer our specific suggestions to the Guidelines for the OIG and CPB's consideration.

The Guidelines are very prescriptive regarding what documentation is required to support in-kind contributions allowable as NFFS – a signed letter from the donor. If the objective of the Guidelines is to provide evidence that the gift was provided (existence), please consider expanding the Guidelines to allow additional forms of support that meet the objective including invoices from the donor, receiving reports, electronic communications, and similar documentation.

### In-kind Recommendation 3b. – Use of Donor Valuations.

We generally agree that valuation is a difficult process. It is our experience that donor-provided valuations can be problematic for all types of in-kind contributions, and not just event sponsorships.

Stations need to be responsible for all the values recorded in their financial records; this responsibility cannot be shifted to a donor or any other third-party. The current Guidelines require that the donor provide the value of the gift in its in-kind letter to the station to support NFFS. However it is common for stations and donors to disagree on the value assigned to in-kind contributions, especially for event sponsorships where comparable values are not always available. Disagreements over valuation leave the station with two undesirable choices: try and reconcile the value to be recorded in the in-kind letter with the donor; or record a value (generally lower) in the financial records that is different than that provided by the donor in the CPB in-kind letter. We have chosen the latter, in order confirm with the generally accepted accounting principles application to value in-kind contributions. We note that the effect of our recommended treatment typically reduces value compared to that assigned by the donor, and thereby decreasing NFFS for the station.

We request that OIG and CPB consider changing the Guidelines by explicitly permitting stations to assign a value to in-kind gifts they believe best represents fair value, even when those values may differ from those provided by the donor.

In-kind Recommendations 3c.

We agree with this recommendation.

In-kind Recommendations 4 – Inclusion of In-kind Trades as NFFS.

We do not agree with the premise of this recommendation. It is our point of view in-kind trades provide great value to stations, and these gifts should continue to be recognized as NFFS. We'd prefer to address such administrative matters of documentation and valuation through updated Guidelines, rather than lose some of the value in-kind trades provide to stations through CPB matching grants.

## QUESTIONABLE UNDERWRITING

The Office of Inspector General (OIG) in their Draft Report recommends to CPB officials the following regarding underwriting:

5. *require stations to submit revised FY 2013 AFRs adjusting overstated NFFS per Exhibits C;*
6. *reduce FY 2015 CSG payments based on receipt of revised FY 2013 AFRs and retain potential overpayments of \$16,657;*
7. *clarify the current Guidelines to:*

- a. *better explain how to handle donations received by third parties for the benefit of public broadcasting stations, including constructive receipt; and*
- b. *incorporate the exclusion of presenting fees as NFFS consistent with the guidance in CPB's Application of Principles of Accounting and Financial Reporting To Public Telecommunications Entities, May 2005 Edition*

Underwriting Recommendation 5 and 6.

We do not have any specific comments regarding recommendations 5 and 6, other than to request that the OIG consider the additional documentation we have provided since your Draft Report was issued, as discussed in the Additional Documentation paragraph above.

Underwriting Recommendation 7a. – Reporting Third Party Fees as NFFS.

We are in agreement that more specific Guidance is needed to address the consistent treatment of such Third Party Fees (TPF) as NFFS. In addition, we request the OIG and CPB to consider our point of view that TPF are eligible as NFFS in its findings and in any clarification of the Guidelines.

We request that the general Constructive Receipt criteria in Section 2.3.2 of the Guidelines not be applied to underwriting transactions, i.e. allow the gross underwriting contribution to be reported as NFFS; we believe this treatment provides for the best reporting of NFFS and the financial statements as a whole, and the most equitable NFFS treatment for stations:

Financial Reporting. We believe it is best to report TPF as an expense rather than to net TPF against the underwriting contributions. While this 'netting' treatment results in the reduction of the underwriting contribution, it also understates the station's fundraising expenses. When TPF fundraising costs are excluded from expenses (i.e. - reported net, within underwriting support), this has the effect of overstating the 'efficiency ratios' used to evaluate not-for-profit organizations including, Operating Efficiency (operating expense / total expense), and Fundraising Efficiency (fundraising expense / support and revenue). Please consider the effects on NFFS and financial reporting as a whole when reviewing potential changes to the Guidelines.

Equitable and Consistent Treatment of Underwriting NFFS. We believe that the reporting of TPF as an expense provides the most consistent and equitable NFFS treatment for stations. We would also note that, while this particular audit sample indicated some consensus on this treatment, our own analysis and discussions with the auditors both indicated there is more divergence in practice on this across the industry.

All underwriting support is cultivated, sometime internally, sometime externally. Excluding TPF from NFFS applies a bias toward stations that choose to cultivate

underwriting support through an internal fundraising team, because internally cultivated underwriting NFFS would not be reduced by the internal cultivation costs (e.g. staff compensation, staff commissions, etc.), unlike stations that choose to engage external agencies to cultivate underwriting. Treating an underwriting agreement sold by a third party differently than one sourced internally (where commissions are treated as a separate expense) has no practical basis.

Applying constructive receipt criteria to TPF may also encourage stations to engage agencies with creative payment terms (e.g. – prepayment of agency commissions, retainers, etc.) in order receive the entire gross underwriting support payment, and avoid the constructive receipt treatment and a reduction of the NFFS.

Underwriting Recommendation 7b. – Presenting Fees.

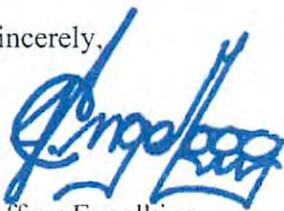
We agree with this recommendation.

**Conclusion**

For the most part, we are in agreement with the OIG observations and do not have any material corrections of fact, apart from the additional documentation provided. We are largely in agreement with the OIG recommendations, however in some cases we differ with the OIG's application of, and recommendation of changes, to the Guidelines, specifically in relation to recommendations 3a, 3b, 4, and 7a as noted above.

Thank you again for this opportunity to provide additional documentation and comment on your Draft Report.

Sincerely,



Jeffrey Engelking  
Assistant Controller, APMG

Cc Bill Davis, President and CEO, Southern California Public Radio  
Morris Goodwin, Jr., Chief Financial Officer, American Public Media Group  
Doug Roderick, Corporate Controller, American Public Media Group



September 16, 2014

Mr. William Richardson III  
Deputy Inspector General  
401 Ninth Street, NW  
Washington, CD 2004-2129

RE: Audit of Underwriting and In-Kind Contributions Reported as Non-Federal Financial Support for Fiscal Year 2013, response

Dear Mr. Richardson III:

The following is our response to the items listed in your report for KOCE dba PBS SoCal related to underwriting and In-Kind contributions.

- Underwriting
  - Presenting station fees in the amount of \$15,000  
We were not clear that these fees were not considered allowable; in the future we will make sure to keep these items out of our NFFS as we plan to have more
- In-Kind Contributions – we have a contract that we prepare with each organization that we do any kind of trade with. This agreement has dollar amounts and performance guidelines for us and the organizations that we do the trade with. We felt these contracts were proof of trade, as some of the partners we deal with are very small.
  - [REDACTED] – we were not able to contact anyone to get proof of the trade
  - [REDACTED] – receive verification that did not tie to contracted amount, cannot explain the difference
  - [REDACTED] – this was a use of a venue for a screening. This was to screen a major release of a PBS series. We would not have done this screening had we not gotten a trade. Since we did not feel it self-promoting we felt the cost was allowable.
  - [REDACTED] – we are still trying to resolve this amount, but vendor is limited in resources
  - [REDACTED] – We used this training as a two-fold event. It included a screening of Downton Abbey, which was free to the public. We also included a higher end experience as a fund-raising event. Since it was used for fundraising we felt the trade would be allowable. The trade included a dinner and a lower price on rooms as well as the venue for the screening.

If you have additional questions, please contact me directly.

Regards,

A handwritten signature in black ink, appearing to read "Dawn Ariza".

Dawn Ariza  
Chief Financial Officer  
KOCE TV-Foundation dba PBS SoCal  
[dariza@pbsocal.org](mailto:dariza@pbsocal.org)

DEREK A. MARQUIS  
MANAGING DIRECTOR  
BYU BROADCASTING



Exhibit I

September 16, 2014

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

Re: Audit of Underwriting and In-Kind Contributions Reported as Non-Federal  
Financial Support at Selected Grantees for Fiscal Year 2013,  
Draft Report No. ACJ1405-XXXX

Dear Mr. Richardson:

As requested, this letter is to provide written comments from BYU Broadcasting related to the findings and recommendations as found in your above-referenced audit report.

BYU Broadcasting strives to abide by the Financial Reporting Guidelines established by Corporation for Public Broadcasting (CPB). While the limited-scope audit did not find any exception at BYU Broadcasting as it relates to our transactions in Fiscal Year 2013, as noted in CPB's audit report, we agree with the stated recommendations, particularly that additional clarity be provided for in-kind trades to assist stations in properly claiming the appropriate values as non-Federal financial support.

Thank you for all of the support you provide our collective efforts.

Sincerely,

A handwritten signature in black ink, appearing to read "Derek Marquis".

Derek Marquis  
Managing Director  
BYU Broadcasting