

CORPORATION FOR PUBLIC BROADCASTING

OFFICE OF INSPECTOR GENERAL

**AUDIT OF COMMUNITY SERVICE GRANTS AT
ARIZONA PUBLIC MEDIA, TUCSON, ARIZONA
FOR THE PERIOD JULY 1, 2014 THROUGH JUNE 30, 2016**

REPORT NO. ASJ1801-1804

March 30, 2018

[This page intentionally left blank]



Report in Brief

Why We Did This Audit

We performed this examination based on our Annual Plan to audit a number of public television and radio stations.

Our objectives were to examine Arizona Public Media's (AZPM) certifications of compliance with Corporation for Public Broadcasting (CPB) grant terms to: a) claim Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFR) in accordance with CPB Financial Reporting Guidelines; b) expend CSG and other grant funds in accordance with grant agreement requirements; and c) comply with the Certification of Eligibility requirements and the statutory provisions of the Communications Act of 1934, as amended. The amount of NFFS a station reports to CPB affects the amount of CPB funding the station receives.

Send all inquiries to our office at (202) 879-9669 or email OIGemail@cpb.org or visit www.cpb.org/oig

[Listing of OIG Reports](#)

Audit of Community Service Grants at Arizona Public Media, Tucson, Arizona for the Period July 1, 2014 through June 30, 2016

What We Found

The station overstated NFFS by \$759,529 on its 2015 and 2016 AFRs because it included:

The NFFS overstatement resulted in CSG overpayments of \$72,472.

- fundraising and membership development costs in the distribution base in calculating indirect administrative support (IAS)
- unallowable and unsupported NFFS related to DVD sales and an unexplained variance between reported underwriting revenues and the general ledger; and
- misclassified TV and radio NFFS

In addition, we found noncompliance with the Equal Employment Opportunity (EEO) requirements of the Communications Act

The station agreed to take corrective actions on our recommendations to ensure future compliance but requested forgiveness on the \$68,988 CSG overpayment related to IAS, because CPB's guidelines did not specifically address such adjustments until FY 2017.

CPB management will make the final determination on our findings and recommendations.

What We Recommend

That CPB:

- recover FY 2017 and FY 2018 CSG payments made to AZPM of \$35,287 and \$37,185, respectively;
- require AZPM identify the corrective actions and controls it will implement to ensure future compliance; and
- verify during the audit resolution process that the station made the 2017 TV and radio Employment Statistical Report available to the public.



Corporation
for Public
Broadcasting

Office of Inspector General

Date: March 30, 2018

To: Jackie J. Livesay, Vice President, Compliance
Ted Krichels, Senior Vice President, System Development and Media Strategy
Kathy Merritt, Senior Vice President, Journalism and Radio

From: Mary Mitchelson, Inspector General 

Subject: Audit of Community Service Grants at Arizona Public Media, Tucson, Arizona
for the Period July 1, 2014 through June 30, 2016, Report No. ASJ1801-1804

Enclosed please find our final report, which contains our findings and recommendations. CPB officials must make a final management decision on the findings and recommendations in accordance with established audit resolution procedures.

Accordingly, we request that you provide us with a draft written response to our findings and recommendations within 90 days of the final report. We will review your proposed actions and provide our feedback before you issue a final management decision to the grantee, which is due within 180 days of the final report. For corrective actions planned but not completed by the response date, please provide specific milestone dates so that we can track the implementation of corrective actions needed to close the audit recommendations.

We will post this report to the Office of Inspector General's website as required by the Inspector General Act of 1978, as amended. Please refer any public inquiries about this report to our website or our office.

Enclosure

cc: Lori Gilbert, Chair, CPB Board of Directors
Bruce M. Ramer, Chair, CPB Audit and Finance Committee
U.S. Senate Committee on Homeland Security and Governmental Affairs
U.S. House of Representatives Committee on Oversight and Government Reform
U.S. Senate Committee on Commerce, Science and Transportation
U.S. House of Representatives Energy and Commerce Committee
U.S. Senate Committee on Appropriations
U.S. Senate Labor-HHS-Education Appropriations Subcommittee
U.S. House of Representatives Committee on Appropriations
U.S. House of Representatives Labor-HHS-Education Appropriations Subcommittee

TABLE OF CONTENTS

Executive Summary	1
Background	2
Results of Audit	2
Findings and Recommendations	3
Overstated NFFS	3
Communications Act Compliance	9
Other Matters	10
<u>Exhibits</u>	
Exhibit A – CPB Payments to AZPM.....	13
Exhibit B – KUAT-TV Annual Financial Reports	14
Exhibit C – KUAZ-FM Annual Financial Reports.....	17
Exhibit D – Summary of NFFS	21
Exhibit E – AZPM Overstated Reported NFFS.....	22
Exhibit F – AZPM Overstated Indirect Administrative Support	23
Exhibit G – Scope and Methodology.....	24
Exhibit H – AZPM Response to Draft Report	25

EXECUTIVE SUMMARY

We have completed an audit of the Corporation for Public Broadcasting (CPB) Community Service Grants (CSG) awarded to Arizona Public Media (AZPM) for the period July 1, 2014 through June 30, 2016. Our objectives were to examine AZPM's certifications of compliance with CPB grant terms to: a) claim Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFR) in accordance with CPB Financial Reporting Guidelines (Guidelines); b) expend CSG and other grant funds in accordance with grant agreement requirements; and c) comply with the Certification of Eligibility (Eligibility) requirements and the statutory provisions of the Communications Act of 1934, as amended (Act).

Based on our audit we found that AZPM:

- overstated NFFS by \$759,529, which resulted in CSG overpayments of \$72,472 (\$35,287 overpaid in fiscal year (FY) 2017 and overpayments of \$37,185 in FY 2018), reported as funds put to better use; and
- did not fully comply with the Equal Employment Opportunity (EEO) requirements of the Communications Act and CPB guidance, because the station did not make CPB's Station Activity Survey (SAS) Employment Statistical Report available to the public.

We recommend that CPB: 1) recover CSG overpayments of \$72,472; 2) identify corrective action and controls it will implement to ensure future compliance, and 3) verify during the audit resolution process that the 2017 CPB SAS Employment Statistical Report is available to the public.

In response to the draft report, AZPM agreed with our findings for overstated NFFS and noncompliance with EEO requirements of the Act. However, the station requested forgiveness for CSG overpayments associated with overstated indirect administrative support (IAS) because CPB's guidelines did not specify this particular adjustment until FY 2017. AZPM's response to the draft report is presented in Exhibit H.

This report presents the conclusions of the Office of Inspector General (OIG) and the findings reported do not necessarily represent CPB's final position on these issues. While we have made recommendations we believe would be appropriate to resolve these findings, CPB officials will make final determinations on our findings and recommendations in accordance with established CPB audit resolution procedures. Based on AZPM's response to the draft report, we consider recommendation one unresolved, and recommendations two and three resolved but open pending CPB's final management decision.

We performed this audit based on the OIG's annual plan. We conducted our examination in accordance with *Government Auditing Standards* for attestation engagements. Our scope and methodology is discussed in Exhibit G.

Finally, under Other Matters we discuss the incorrect reporting of CPB expenditures on AFR, Schedule E and proper categorization of eligible NFFS on Schedule A. We did not consider these matters to be significant reporting issues.

BACKGROUND

AZPM is an editorially independent, nonprofit service of the University of Arizona that receives two CSG grants (KUAT-TV, KUAZ-FM). The station's funds are held by the University and by the University of Arizona Foundation (Foundation). Per the station's Local Content and Service Report, the station's goals are to motivate and engage "audiences and the community via the development of high-quality, journalistically sound, distinctive and locally-relevant content in five pivotal areas: (1) News and Public Affairs; (2) Science, Health and Technology; (3) Nature and the Environment; (4) Arts and Culture; and (5) Education and Civics." AZPM is focused on producing high quality local programming including Arizona 360, Arizona Illustrated, Arizona Week, Arizona Spotlight, and Arizona Science.

The station's website (azpm.org) highlights its mission; presents its programming schedule; and contains information about membership and benefits, station operations, annual community and financial reports, and upcoming events and Community Advisory Board (CAB) and Arizona Board of Regents meetings.

CPB awards annual CSG grants to public television and radio stations based in part 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 base and supplemental 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 amount of NFFS claimed by all television/radio stations. The IRR is then multiplied by the station's total amount of adjusted 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 used the NFFS claimed by AZPM on its FY 2014 AFR to determine the amount of the CSG the station received in FY 2016.

During our audit period AZPM received \$3,066,444 from CPB for community service grants as itemized in Exhibit A. AZPM reported NFFS of \$10,730,412 in FY 2015 and \$10,208,667 in FY 2016 per Exhibit D. AZPM's audited financial statements for the two FYs reported revenues of \$13,261,059 in FY 2015 and \$12,790,350 in FY 2016. AZPM's FY begins July 1 and ends on June 30.

RESULTS OF AUDIT

In our opinion, except for the noncompliance issues described below, AZPM has complied with the requirements in the following paragraph for the FY 2015 and 2016 Television and Radio CSGs (Exhibits B, C, and D).

We examined AZPM management's assertions of compliance with CPB grant requirements: a) CSG Certification of Eligibility; b) CSG Legal Agreement; and c) AFR Signature Page. The CSG Certification of Eligibility includes AZPM's compliance with AFR/NFFS reporting in accordance with CPB's Guidelines; Act requirements for open meetings, open financial records, Equal Employment Opportunity (EEO) reporting, and donor lists; and discrete accounting

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 AZPM’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on AZPM’s compliance with specified requirements.

Our examination found the following issues of noncompliance with NFFS financial reporting requirements, CPB grant agreement requirements, and Act and Eligibility requirements:

- overstated NFFS by \$759,529, which resulted in CSG overpayments of \$72,472 (\$35,287 overpaid in 2017 and \$37,185 in FY 2018), reported as funds put to better use; and
- noncompliance with the Equal Employment Opportunity (EEO) requirements of the Communications Act by making CPB’s Station Activity Survey (SAS) Employment Statistical Report available to the public.

Other Matters

Our audit also identified the incorrect:

- reporting of CPB expenditures on Schedule E; and
- categorization of \$447,377 in eligible NFFS on Schedule A.

These were not considered to be significant reporting issues.

FINDINGS AND RECOMMENDATIONS

OVERSTATED NFFS

Our audit found \$759,529 in overstated NFFS as presented in the following table and detailed in Exhibit E. As a result, CPB made CSG overpayments to AZPM of \$35,287 in FY 2017 and \$37,185 in FY 2018. We classified these amounts as funds put to better use for reporting purposes, because the funds paid to AZPM could have been distributed to other public broadcasting entities.

Overstated NFFS

Conditions	FY 2015			FY 2016			Combined Total	CSG Overpayment
	FM	TV	Total	FM	TV	Total		
Overstated Indirect Administrative Support	\$152,737	\$214,395	\$367,132	\$173,033	\$215,464	\$388,497	\$755,629	\$68,988
Unallowable or Unsupported NFFS	\$444	\$3,456	\$3,900	\$0	\$0	\$0	\$3,900	\$438
Misclassified NFFS Revenues	(\$9,160)	\$9,160	\$0	(\$37,600)	\$37,600	\$0	\$0	\$3,046
Total	\$144,021	\$227,011	\$371,032	\$135,433	\$253,064	\$388,497	\$759,529	\$72,472

The station cited multiple reasons for overstated NFFS such as input errors and not reviewing the classification of gifts processed by the Foundation. Further discussion on our findings are presented below.

Overstated Indirect Administrative Support

We found that AZPM's calculation of IAS did not fully comply with CPB guidance for reporting IAS under the federal option for Other Sponsored Activities (OSA) Facilities and Administrative rate (F&A). AZPM overstated net direct expenses by including fundraising and membership development costs in its distribution base in calculating its IAS. These costs should have been removed from the base when the station applied the OSA rate to calculate its IAS. By not making this adjustment, the station in effect claimed indirect costs on unallowable direct costs – fundraising and membership development type costs. The impact was \$755,629 in overstated NFFS (TV was overstated by \$429,859 and radio was overstated by \$325,770). Refer to Exhibits E and F for further details.

CPB allows stations to use the federally approved OSA F&A Modified Total Direct Cost Base method to calculate IAS. The Guidelines define the Modified Total Direct Cost Base method as follows:

In the **Modified Total Direct Cost Base** method, the modified OSA rate is multiplied by the station's net direct expenses (net of noncash support and capital outlays) to determine the value of indirect administrative support provided to the station by the licensee.

Although CPB Guidelines (FYs 2015-2016) did not explicitly require adjusting the station distribution base for unallowable federal costs on Schedule B, line 1b.7, the Guidelines did provide instructions to exclude non-direct expenses. This exclusion is achieved by completing line 1b.7 on Schedule B as follows:

Line 1b.7 - Other

Enter the value of any other non-direct expenses reported in the grantee's financial statements for the reporting year. Do not deduct the expenses paid by CPB funds. These expenses are direct expenses and should be included in the station's total net direct expenses. In addition, enter here the amount of adjustments to pension expenses relating to changes in Net Pension Liability as a result of implementing GASB No. 68- Accounting and Financial Reporting for Pensions

Guidelines, Section 6, Completing AFR Schedule B, (2015 and 2016).

CPB added language to its 2017 Guidelines that specifically identified fundraising and membership development costs as an example of costs that should be excluded.

Although CPB's guidance in FYs 2015 and 2016 was less explicit, the applicable federal guidance was clear and available to AZPM. Specifically, federal regulations state that costs should be classified as direct or indirect in calculating indirect costs. They provide specific

guidance in describing direct and indirect costs and for how direct costs must be treated when determining indirect cost rates and state that fundraising costs are unallowable in this context.

... it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards....

- (e) The costs of certain activities are not allowable as charges to Federal awards. However, even though these costs are unallowable for purposes of computing charges to Federal awards, they nonetheless must be treated as direct costs for purposes of determining indirect (F&A) cost rates and be allocated their equitable share of the non-Federal entity's indirect costs if they represent activities which:
 - 1. Include the salaries of personnel,
 - 2. Occupy space, and
 - 3. Benefit from the non-Federal entity's indirect (F&A) costs.

2 CFR § 200.412 – Classification of Costs, § 200.413(e) – Direct Costs.

The regulation goes on to provide that fundraising costs are unallowable. As a result, any associated indirect costs would not be allowed to be claimed on Federal awards.

- (a) Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable....

2 CFR § 200.442 – Fund raising and investment management costs.

Federal regulations also describe the modified total direct cost method for distributing indirect costs.

Indirect (F&A) costs must be distributed to applicable Federal awards and other benefiting activities within each major function on the basis of modified total direct costs (MTDC), ... For this purpose, an indirect (F&A) cost rate should be determined for each of the separate indirect (F&A) cost pools... The rate in each case should be stated as the percentage which the amount of the particular indirect (F&A) cost pool is of the modified total direct costs identified with such pool.

Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards, Part III, 2 CFR Appendix III to Part 200 – Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs), C. Determination and Application of Indirect (F&A) Cost Rate or Rates, 2. The Distribution Basis.

In response to this finding, station officials said that they have consistently calculated and reported IAS in the same manner and have not received feedback from CPB that they were incorrectly calculating the station's net direct expenses. Nonetheless, station officials took action in December 2017 to address this issue. They worked with University of Arizona staff to

identify direct costs that should be excluded from the distribution base to calculate allowable IAS. In the calculation of IAS in the FY 2017 AFRs, the station properly excluded those costs.

The station's incorrect calculation of IAS resulted in an overstatement of NFFS totaling \$755,628 and CSG overpayment of \$68,988. See Exhibits E and F.

Unallowable or Unsupported NFFS

Our audit found that AZPM reported unallowable or unsupported NFFS totaling \$3,900 on the FY 2015 AFRs. These included a:

- \$3,316 payment for DVD sales; and
- \$584 unexplained variance between reported underwriting revenues and the general ledger transaction details.

The forms of revenues eligible as NFFS are defined in CPB's Guidelines as either a payment or contribution:

In terms of the **purpose criterion**, to be eligible as NFFS a **contribution** must be specifically intended for the construction or general operations of a public broadcasting station, which includes producing, acquiring and disseminating educational programming.

However, for a **payment** in an exchange transaction to be eligible as NFFS the payment must be in exchange for educational or instructional television or radio programs. In other words, a qualifying source must pay the grantee to provide a service directly related to producing, developing, or delivering educational or instructional programming. Payments for non-broadcast activities that are not paid by a qualifying source and not in exchange for services directly related to producing, developing, or delivering educational or instructional programming are not eligible as NFFS.

Guidelines, Part I – NFFS Guiding Principles and Policy, Section 2.3.2 Interpretations, Purpose (2015 and 2016).

CPB Guidelines differentiate the criteria for each revenue form (contribution or a payment) and its eligibility as NFFS and define the eligible source criteria for each.

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 sources for payments in exchange transactions is relatively small: only eligible sources are state and local governments and educational institutions. Educational institutions are defined as degree-granting institutions.

Guidelines, Part I – NFFS Guiding Principles and Policy, Section 2.3.2 Interpretations, Source (2015 and 2016).

Based on discussion with station management, the station reported unallowable or unsupported NFFS totaling \$3,900 because of the following:

- a keying error to include \$3,316 in DVD sales when uploading revenue into the CPB ISIS system; and
- an unexplained \$584 variance identified between the AFR and underwriting transaction details in the general ledger.

AZPM overstated NFFS by \$3,900 in the FY 2015 AFRs which resulted in a CSG overpayment of \$438.

Misclassified NFFS Revenues

We identified misclassified TV and radio NFFS totaling \$46,760 on the FY 2015 and FY 2016 AFRs. The station:

- classified contributions as TV or radio related when the donor's intent was for the contribution to be allocated between TV and radio;
- classified contributions as radio related when the contribution was intended for TV; and
- allocated a contribution between TV and radio when the contribution was intended for radio.

CPB Guidelines provide insight on allocating revenues for joint licensees as follows:

Allocating Memberships for Joint Licensees

Grantees that have both radio and TV operations but for which the donor has not specified a beneficiary for their gift, must establish a methodology to allocate the unrestricted membership revenues among the different station grantees. The allocation method should have a reasonable basis and be consistently applied each year. At the same time, the allocation methodology should be analyzed periodically to evaluate its reasonableness and appropriateness considering the most recent membership data.

Guidelines, Section 2.3.2 – Interpretations NFFS Criteria, Section 5 – Completing AFR Schedule A – Direct Revenue, Line Item Instructions, Line 10 – Memberships and subscriptions (net of write-offs) (2015 and 2016).

The station noted that the misclassified contributions were received and improperly identified as TV or radio by the Foundation. The station did not review the classifications of gifts received from the Foundation.

As a result, AZPM overstated its NFFS by \$46,760 in the FY 2015 and FY 2016 TV AFRs. Correspondingly, it understated its FY 2015 and FY 2016 radio AFRs by \$46,760. The impact was a TV CSG overpayment of \$3,046. Regarding the understated radio NFFS, CPB Guidelines note that underreported NFFS will not be returned to grantees:

...CPB will compare the revenue reported in the audited financial statements to the revenue and NFFS reported in the prior year's AFR/FSR. If the comparison finds that the prior year's NFFS was overstated and, consequently, the grantee was overpaid in CSG funds, CPB will require the grantee to revise its prior year AFR/FSR and return the overpaid grant funds. But, in instances where the comparison finds that the grantee underreported its prior year NFFS, CPB has no obligation to adjust a grantee's CSG to an amount greater than was previously calculated.

Guidelines, Part II – Preparing Financial Reports for CPB, Section 3.5 Biennial Filing, (2015 and 2016).

Further, no CSG funds are available to reimburse AZPM for its understated radio revenues. CPB fully distributes its radio CSG funds annually to qualified radio grantees and carries forward any surplus funds for distribution in the new FY. Thus, no radio CSG funds remain from FYs 2015 and 2016.

In summary, AZPM claimed \$759,529 in ineligible NFFS, resulting in an overpayment of \$35,287 in CSG payments in FY 2017 and \$37,185 in FY 2018. We report this amount as funds put to better use in our report. See Exhibit E.

Recommendations

We recommend CPB management:

- 1) recover CSG overpayments of \$72,472; and
- 2) require AZPM to identify the corrective action and controls it will implement to ensure future compliance.

AZPM Response

In response to the draft report, AZPM agreed that NFFS was overstated by \$759,529 but noted that most of the overstated NFFS was the result of the calculation of IAS, which was not clarified by CPB until FY 2017. The station reviewed CPB's guidelines and did not find clear guidance regarding the exclusion of fundraising and membership development costs from the calculation. In the FY 2017 guidelines, CPB stated more clearly the exclusion of fundraising and development costs from direct expenses prior to the calculation of IAS. CPB further communicated that the new guidelines will be effective in FY 2017. AZPM worked with its independent auditors and the University of Arizona to ensure that the costs included in the University's federal negotiated indirect cost rate agreement were mirrored in the calculation of IAS in the FY 2017 AFRs. The station requests forgiveness for the FY 2015 and FY 2016 CSG overpayments, because of the lack of clear guidance from CPB.

AZPM said it implemented procedures to ensure that gifts are properly classified and unallowable amounts are reviewed prior to submission of the AFR.

OIG Review and Comment

Regarding AZPM's request to have the \$68,988 IAS overpayment forgiven, as our finding discussed, when you use the federal indirect cost methodology the federal requirement applies. Fundraising and development are not allowable federal costs and cannot be used in the base to calculate IAS as NFFS. Therefore, CPB's 2017 clarification of its guidance should not merit forgiveness of the CSG overpayment. Our recommendation remains unchanged.

Based on AZPM's response, we consider recommendation one unresolved and recommendation two resolved but open pending CPB's acceptance of AZPM's corrective actions in its management decision.

COMMUNICATIONS ACT COMPLIANCE

Our examination found that AZPM did not fully comply with the Equal Employment Opportunity (EEO) requirements of the Communications Act. The station did not make CPB's SAS Employment Statistical Report available to the public.

The Act and CPB require that stations make the Employment Statistical Report available to the public. The Communications Act provides for the following:

A licensee or permittee of any public broadcast station with more than five full-time employees is required to file annually with the Corporation a statistical report, consistent with reports requirements by Commission regulation, identifying by race and sex the number of employees in each of the following full-time and part-time job categories:

- (i) Officials and managers.
- (ii) Professionals.
- (iii) Technicians.
- (iv) Semiskilled operatives.
- (v) Skilled craft persons.
- (vi) Clerical and office personnel.
- (vii) Unskilled operatives.
- (viii) Service workers.

[...] The statistical report shall be available to the public at the central office and at every location where more than five full-time employees are regularly assigned to work.

Act, Subpart D – Corporation for Public Broadcasting, Sec. 396, (k) Financing Restrictions, (11) (B), (C), 47 U.S.C. § 396; and CPB Communications Act Compliance, V. CPB Employment Statistical Report, A. EEO Legislation (June 2016).

CPB's Communications Act Compliance requirements state that all stations [are] to provide this information annually in their Employment Statistical Report for review by the general public at their central offices. A footnote in the compliance guidance clarifies that this is the Employment (Section 1) of the Station Activity Survey (SAS).

CPB's Communications Act Compliance requirements, V. CPB Employment Statistical Report, A. EEO Legislation and C. Access to the Employment Statistical Report. (June 2016).

Station officials indicated to us that they did not realize that the station was required to include CPB's SAS Employment Statistical Report in the public file, because that action is not required by the Federal Communications Commission. To clarify, CPB does not require the Employment Statistical Report to be in the public file, only that it be available to the public. AZPM's report was not. As a result, the public did not have access to the CPB's SAS Employment Statistical Report that provides information on the race and sex of employees according to full-time and part-time job categories.

Station officials took action in December 2017 to comply. The station's public file now includes copies of the TV and radio Employment Statistical Report.

Recommendation

We recommend CPB management take the following action:

- 3) verify during the audit resolution process that the station made the 2017 Employment Statistical Report available to the public.

AZPM Response

In response to this finding, AZPM officials stated that the station complied by adding the Employment Statistical Report to the public file. They mentioned that the report was always available with other public file documents on the station's website but has since been added to the physical public file.

OIG Review and Comment

After receiving AZPM's response, we confirmed that, contrary to the station's representation, the Employment Statistical report was not included in the EEO information posted on the station's website. As we reported in the finding, AZPM took action during our fieldwork in December 2017 to place CPB's 2016 Employment Statistical Report in the public file. As a result, our recommendation remains unchanged for CPB to verify that the 2017 Employment Statistical Report is available to the public.

Based on AZPM's response, we consider recommendation three resolved but open pending CPB's management decision.

Other Matters

During our audit, we also found that AZPM did not correctly report CPB expenditures on its AFR, Schedule E and did not correctly categorize eligible NFFS on Schedule A. Neither condition was considered to be a significant reporting issue.

Reporting CPB Expenditures on Schedule E

We found that the station only reported its CPB expenditures to the level that matched the CSG revenues received for the fiscal year rather than reporting its actual spending. In FY 2015, radio expenditures were over-reported by \$46,934 and TV expenditures were under-reported by \$265,351. In FY 2016, radio expenditures were under-reported by \$85,256 and TV expenditures were over-reported by \$5,004. In some instances, this occurred because the station did not expend all its CSG funds within the first year of the grant.

CPB's Financial Reporting Guidelines describe reporting CPB funds on Schedule E as follows:

Reporting Expenses by Functional Classification

Report expenses exactly as they are reported in the audited financial statements....

Reporting CPB Grant Expenditures

For each functional expense category on Lines 1 through 7, grantees must indicate the CPB and non-CPB funds used under the following categories.

For Radio Grantees:

- A. Restricted Radio CSG
- B. Unrestricted Radio CSG
- C. Other CPB Funds
- D. All non-CPB Funds

... It is important that the total for Lines 8A, 8B and 8C do not exceed the total CPB revenues reported on Schedule A, Line 2A and 2B.

Guidelines, Part III – AFR and FSR Line Item Instructions, 9 Schedule E – Expenses (2015 and 2016).

CPB's Guidelines specify that CPB expenditures not exceed CPB revenues. The station interpreted CPB's Guidelines that they had to report CPB expenditures that matched the revenues received.

Classifying NFFS Revenues on Schedule A

We also found that AZPM did not correctly classify eligible NFFS on Schedule A by the source of the contribution totaling \$447,377 (\$199,387 in FY 2015 and \$247,990 in FY 2016). This occurred because the station classified:

- underwriting by the agent who transmitted the contribution (business and industry for an ad agency or state college and university) rather than the actual underwriters;
- foundation grants as major donors; and
- business and industry contributions as a state college and university.

CPB's Guidelines define source criteria as:

Source Criteria – 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 sources for payments in exchange transactions is relatively small: only eligible sources are state and local governments and educational institutions. Educational institutions are defined as degree-granting institutions.

The Guidelines provide further guidance on source by categorizing eligible contributions by the following categories: ...

Line 5 - State colleges and universities

Use Lines 5.1 and 5.2 to report all contributions, grants, payments, appropriations and other revenues received from state colleges and universities...

Line 8 - Foundations and nonprofit associations

Use Lines 8.1 and 8.2 to report all contributions, grants, payments and other revenues received from national, regional, or local foundations or nonprofit associations...

Line 9 - Business and Industry

Use this line to report all contributions, grants, payments, and other direct revenues received from all for profit sources, including commercial stations, networks, and cable companies. Include underwriting revenue and payments for products and services...

Line 19 - Gifts and Bequests from Major Individual Donors

Use this line to report gifts and bequests from major individual donors, including estates, trusts, etc.

Guidelines, Section 2.3.2 – Interpretations NFFS Criteria, Section 5 – Completing AFR Schedule A – Direct Revenue, Line Item Instructions (2015 and 2016)

During our fieldwork the station took corrective action to address both reporting issues.

**CPB Payments to AZPM
July 1, 2014 – June 30, 2016**

CPB Grants	FY 2015	FY 2016	Total
KUAT-TV			
Community Service Grant	\$1,222,331	\$1,235,956	\$2,458,287
Interconnection	22,113	22,666	44,779
Total KUAT-TV	1,244,444	1,258,622	2,503,066
KUAZ-FM			
Unrestricted Community Service Grant	215,954	200,048	416,002
Restricted Community Service Grant	77,343	70,033	147,376
Total KUAZ-FM	293,297	270,081	563,378
Total	\$1,537,741	\$1,528,703	\$3,066,444

**KUAT-TV Annual Financial Reports
Years Ending June 30, 2015 and 2016**

Line	Description	FY 2015	FY 2016
	Schedule A		
	Source of Income		
1	Amounts provided directly by federal government agencies	0	0
2	Amounts provided by Public Broadcasting Entities	1,287,505	1,272,446
	A. CPB - Community Service Grants	1,244,444	1,258,622
	B. CPB - all other funds from CPB	0	0
	C. PBS - all payments except copyright royalties and other pass through payments.	0	3,773
	D. NPR - all payments except pass-through payments	0	0
	E. Public broadcasting stations - all payments	41,825	0
	F. Other PBE funds	1,236	10,051
3	Local boards and departments of education or other local government or agency sources	2,199	74
3.1	NFFS Eligible	2,199	74
	A. Program and production underwriting	2,199	74
3.2	NFFS Ineligible	0	0
4	State boards and departments of education or other state government or agency sources	0	0
5	State colleges and universities	1,695,128	1,296,580
5.1	NFFS Eligible	1,630,498	1,236,064
	A. Program and production underwriting	7,756	25,754
	C. Appropriations from the licensee	1,622,742	1,210,310
5.2	NFFS Ineligible	64,630	60,516
	B. Fees for services	64,630	60,516
6	Other state-supported colleges and universities	0	0
7	Private colleges and universities	237	-732
7.1	NFFS Eligible	237	-732
	A. Program and production underwriting	237	-732
7.2	NFFS Ineligible	0	0
8	Foundations and nonprofit associations	89,550	112,272
8.1	NFFS Eligible	88,278	109,554
	A. Program and production underwriting	88,278	109,554
8.2	NFFS Ineligible	1,272	2,718
	B. Fees for services	1,272	2,718
9	Business and Industry	427,356	342,857
9.1	NFFS Eligible	181,146	118,716
	A. Program and production underwriting	181,146	118,716
9.2	NFFS Ineligible	246,210	224,141
	A. Rental income	208,000	176,000
	B. Fees for services	38,210	48,141
10	Memberships and subscriptions (net of membership bad debt expense)	2,361,809	2,464,862
10.1	NFFS Exclusion – Fair market value of premiums that are not of insubstantial value	655,813	543,436
	Form of Revenue		
13	Auction Revenue	0	0
14	Special fundraising activities -net	0	0
15	Passive Income	40,328	43,257
	A. Interest and dividends (other than on endowment funds)	40,328	43,257
16	Gains and losses on investments, charitable trusts and gift annuities and sale of other assets (other than endowment funds)	0	0
17	Endowment revenue	810,775	3,370
	A. Contributions to endowment principal	841,520	118,182
	B. Interest and dividends on endowment funds	18,768	35,857
	D. Unrealized net investment gains and losses on endowment funds	-49,513	-150,669

Exhibit B (continued)

**KUAT-TV Annual Financial Reports
Years Ending June 30, 2015 and 2016**

Line	Description	FY 2015	FY 2016
18	Capital fund contributions from individuals	32,790	349,137
	A. Facilities and equipment (except funds received from federal or public broadcasting sources)	32,790	349,137
19	Gifts and bequests from major individual donors	864,293	1,182,752
20	Other Direct Revenue (Dubbing 990T)	3,316	2,802
21	Total Revenue	7,615,286	7,069,677
	Adjustments to Revenue		
22	Federal revenue from line 1.	0	0
23	Public broadcasting revenue from line 2.	1,287,505	1,272,446
24	Capital funds exclusion - TV (3.2D, 4.2D, 5.2D, 6.2D, 7.2D, 8.2D, 9.2D, 18A)	32,790	349,137
25	Revenue on line 20 not meeting the source, form, purpose, or recipient criteria	0	2,802
26	Other automatic subtractions from total revenue	918,412	680,142
	F. Realized and unrealized net investment gains/losses on endowment funds – line 17c, line 17d	-49,513	-150,669
	G. Rental income (3.2A, 4.2A, 5.2A, 6.2A, 7.2A, 8.2A, 9.2A)	208,000	176,000
	H. Fees for services (3.2C, 4.2C, 5.2C, 6.2C, 7.2C, 8.2C, 9.2C)	104,112	111,375
	K. FMV of high-end premiums (Line 10.1)	655,813	543,436
27	Total Direct Non-Federal Financial Support	5,376,579	4,765,150
	Schedule B		
	1 Determine station net direct expenses		
	1a. Total station operating expenses and capital outlays (Schedule E line 10)	7,509,337	7,349,082
	1b.1. Capital outlays (from Schedule E, Line 9 total)	52,863	300,294
	1b.2. Depreciation	315,341	363,211
	1b.5. Indirect administrative support (see Guidelines for instructions)	1,190,189	1,114,263
	1b.8. Total deductions	1,558,393	1,777,768
	1c. Station net direct expenses	5,950,944	5,571,314
	2. Modify licensee negotiated cost rate		
	If the station's direct expenses are not included in the cost base, do not continue with this worksheet		
	2a. Licensee's negotiated indirect cost rate	47%	47%
	Less: rate components that do not benefit station operations:		
	2b.1. Departmental administration	22%	22%
	2b.2. Sponsored projects administration	1%	1%
	2b.3. Library support	4%	4%
	2b.5. Total deductions (sum of 2b.1 through 2b.4)	27%	27%
	2c. Modified cost rate	20%	20%
	3. Apply modified rate to station net direct expenses		
	3a. Station net direct expenses from line 1c	5,950,944	5,571,314
	3b. Modified cost rate from line 2c	20%	20%
	4. Total indirect support (forwards to line 1 of Schedule B Tab 3)	1,190,188	1,114,262
	Occupancy List		
	1. Total support activity benefiting station	1,190,188	1,114,262
	5. Total Indirect Administrative Support (Forwards to Line 2 of the Summary of Nonfederal Financial Support)	1,190,188	1,114,262

Exhibit B (continued)

KUAT-TV Annual Financial Reports
Years Ending June 30, 2015 and 2016

Line	Description	FY 2015	FY 2016
TV	Schedule E - EXPENSES		
	PROGRAM SERVICES		
1	Programming and production	4,108,105	3,637,964
	A. TV CSG	1,244,444	1,235,956
	B. TV Interconnection	21,113	22,666
	C. Other CPB Funds	-	-
	D. All non-CPB Funds	2,842,548	2,379,342
2	Broadcasting and engineering	1,166,755	1,127,196
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	1,166,755	1,127,196
3	Program information and promotion	343,560	394,401
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	343,560	394,401
	SUPPORT SERVICES		
4	Management and general	551,684	596,444
	A. TV CSG	0	0
	B. TV Interconnection	0	-
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	551,684	596,444
5	Fund raising and membership development	1,286,370	1,292,783
	A. TV CSG	0	0
	B. TV Interconnection	0	-
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	1,286,370	1,292,783
6	Underwriting and grant solicitation	0	0
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	-	-
7	Depreciation and Amortization if not allocated	0	0
8	Total Expenses (sum of lines 1 to 7) must agree with audited financial statements	7,456,474	7,048,788
	A. Total TV CSG (sum of lines 1.A, 2.A, 3.A, 4.A, 5.A, 6.A, 7.A)	1,244,444	1,235,956
	B. Total TV Interconnection (sum of lines 1.B, 2.B, 3.B, 4.B, 5.B, 6.B, 7.B)	21,113	22,666
	C. Total Other CPB Funds (sum of lines 1.C, 2.C, 3.C, 4.C, 5.C, 6.C, 7.C)	-	-
	D. Total All non-CPB Funds (sum of lines 1.D, 2.D, 3.D, 4.D, 5.D, 6.D, 7.D)	6,190,917	5,790,166
	INVESTMENT IN CAPITAL ASSETS		
9	Total capital assets purchased or donated	52,863	300,294
	b. Equipment	52,863	300,294
10	Total expenses and investment in capital assets (sum of lines 8 and 9)	7,509,337	7,349,082

**KUAZ-FM Annual Financial Reports
Years Ending June 30, 2015 and 2016**

Line	Description	FY 2015	FY 2016
	Schedule A		
	Source of Income		
1	Amounts provided directly by federal government agencies	0	0
2	Amounts provided by Public Broadcasting Entities	304,679	309,590
	A. CPB - Community Service Grants	293,297	270,081
	B. CPB - all other funds from CPB	0	0
	C. PBS - all payments except copyright royalties and other pass-through payments.	0	0
	D. NPR - all payments except pass-through payments	800	825
	E. Public broadcasting stations - all payments	8,082	38,014
	F. Other PBE funds	2,500	670
3	Local boards and departments of education or other local government or agency sources	6,113	23,495
3.1	NFFS Eligible	6,113	23,495
	A. Program and production underwriting	6,113	23,495
3.2	NFFS Ineligible	0	0
4	State boards and departments of education or other state government or agency sources	13,677	0
4.1	NFFS Eligible	13,677	0
	A. Program and production underwriting	13,677	0
4.2	NFFS Ineligible	0	0
5	State colleges and universities	919,316	746,622
5.1	NFFS Eligible	919,316	745,512
	A. Program and production underwriting	44,372	41,477
	C. Appropriations from the licensee	874,944	704,035
5.2	NFFS Ineligible	0	1,110
	B. Fees for services	0	1,110
6	Other state-supported colleges and universities	0	2,170
6.1	NFFS Eligible	0	2,170
	A. Program and production underwriting	0	2,170
6.2	NFFS Ineligible	0	0
7	Private colleges and universities	4,233	9,588
7.1	NFFS Eligible	4,233	9,588
	A. Program and production underwriting	4,233	9,588
7.2	NFFS Ineligible	0	0
8	Foundations and nonprofit associations	244,678	202,034
8.1	NFFS Eligible	239,728	186,655
	A. Program and production underwriting	239,728	186,655
8.2	NFFS Ineligible	4,950	15,379
	B. Fees for services	4,950	15,379

Exhibit C (continued)

KUAZ-FM Annual Financial Reports
Years Ending June 30, 2015 and 2016

Line	Description	FY 2015	FY 2016
9	Business and Industry	654,001	812,604
9.1	NFFS Eligible	649,340	799,293
	A. Program and production underwriting	649,340	799,293
9.2	NFFS Ineligible	4,661	13,311
	B. Fees for services	4,661	13,311
10	Memberships and subscriptions	1,311,162	1,276,236
10.1	NFFS Exclusion – Fair market value of premiums that are not of insubstantial value	14,608	18,781
	Form of Revenue		
13	Auction Revenue	0	0
14	Special fundraising activities -net	0	0
15	Passive Income	20,008	21,187
	A. Interest and dividends (other than on endowment funds)	20,008	21,187
16	Gains and losses on investments, charitable trusts and gift annuities and sale of other assets (other than endowment funds)	0	0
17	Endowment revenue	35,690	81,151
	A. Contributions to endowment principal	54,426	141,079
	B. Interest and dividends on endowment funds	18,224	21,103
	D. Unrealized net investment gains and losses on endowment funds	-36,960	-81,031
18	Capital fund contributions from individuals	0	31,290
	A. Facilities and equipment	0	31,290
19	Gifts and bequests from major individual donors	366,407	457,187
20	Other Direct Revenue	0	15
21	Total Revenue	3,879,964	3,973,169
	Adjustments to Revenue		
22	Federal revenue from line 1.	0	0
23	Public broadcasting revenue from line 2.	304,679	309,590
25	Revenue on line 20 not meeting the source, form, purpose, or recipient criteria to be included as NFFS	0	15
26	Other automatic subtractions from total revenue	-12,741	-32,450
	F. Realized and unrealized net investment gains/losses on endowment funds - line 17c, line 17d	-36,960	-81,031
	H. Fees for services (3.2B, 4.2B, 5.2B, 6.2B, 7.2B, 8.2B, 9.2B)	9,611	29,800
	K. FMV of high-end premiums (Line 10.1)	14,608	18,781
27.	Total Direct Non-Federal Financial Support	3,588,026	3,696,014
	Schedule B		
	1 Determine station net direct expenses		
	1a. Total station operating expenses and capital outlays (Schedule E line 10)	3,552,340	3,955,020
	1b.1. Capital outlays (from Schedule E, Line 9 total)	29,930	81,446
	1b.2. Depreciation	68,693	74,127
	1b.5. Indirect administrative support (see Guidelines for instructions)	575,620	633,242
	1b.8. Total deductions	674,243	788,815
	1c. Station net direct expenses	2,878,097	3,166,205

Exhibit C (continued)

KUAZ-FM Annual Financial Reports
Years Ending June 30, 2015 and 2016

Line	Description	FY 2015	FY 2016
	2. Modify licensee negotiated cost rate		
1	If the station's direct expenses are not included in the cost base, do not continue with this worksheet		
	2a. Licensee's negotiated indirect cost rate	47%	47%
2	Less: rate components that do not benefit station operations:		
	2b.1. Departmental administration	22%	22%
3	2b.2. Sponsored projects administration	1%	1%
	2b.3. Library support	4%	4%
4	2b.5. Total deductions (sum of 2b.1 through 2b.4)	27%	27%
5	2c. Modified cost rate	20%	20%
	3. Apply modified rate to station net direct expenses		
	3a. Station net direct expenses from line 1c	2,878,097	3,166,205
	3b. Modified cost rate from line 2c	20%	20%
	4. Total indirect support (forwards to line 1 of Schedule B Tab 3)	575,619	633,241
	Occupancy List		
	1. Total support activity benefiting station	575,619	633,241
	5. Total Indirect Administrative Support (Forwards to Line 2 of the Summary of Nonfederal Financial Support)	575,619	633,241
Radio	Schedule E - EXPENSES		
	PROGRAM SERVICES		
1	Programming and production	1,835,394	2,079,505
	A. Restricted Radio CSG	77,343	70,033
	B. Unrestricted Radio CSG	215,954	200,048
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	1,542,097	1,809,424
2	Broadcasting and engineering	171,356	225,687
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	171,356	225,687
3	Program information and promotion	173,191	141,872
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	173,191	141,872
	SUPPORT SERVICES		
4	Management and general	426,048	388,315
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	426,048	388,315

Exhibit C (continued)

**KUAZ-FM Annual Financial Reports
Years Ending June 30, 2015 and 2016**

Line	Description	FY 2015	FY 2016
5	Fund raising and membership development	916,421	1,038,195
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	-
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	916,421	1,038,195
6	Underwriting and grant solicitation	0	0
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	0	0
7	Depreciation and Amortization if not allocated	0	0
8	Total Expenses (sum of lines 1 to 7) must agree with audited financial statements	3,522,410	3,873,574
	A. Total Restricted Radio CSG (sum of lines 1.A, 2.A, 3.A, 4.A, 5.A, 6.A, 7.A)	77,343	70,033
	B. Total Unrestricted Radio CSG (sum of lines 1.B, 2.B, 3.B, 4.B, 5.B, 6.B, 7.B)	215,954	200,048
	D. Total All non-CPB Funds (sum of lines 1.D, 2.D, 3.D, 4.D, 5.D, 6.D, 7.D)	3,229,113	3,603,493
	INVESTMENT IN CAPITAL ASSETS		
9	Total capital assets purchased or donated	29,930	81,446
	b. Equipment	29,930	81,446
10	Total expenses and investment in capital assets (sum of lines 8 and 9)	3,552,340	3,955,020

Exhibit D

**Summary of Non-Federal Financial Support
For the periods ending June 30, 2015 and 2016
Certified by Head of Grantee and Independent Accountant's Report**

Line	Description	KUAT TV FY 2015	KUAZ-FM FY 2015	Total FY 2015
	<i>Summary of Non-Federal Financial Support:</i>			
1	Direct Revenue (Schedule A)	\$5,376,579	\$3,588,026	\$8,964,605
2	Indirect Administrative (Schedule B)	1,190,188	575,619	1,765,807
3	In-Kind Contributions (Schedule C)	0	0	0
4	Total Non-Federal Financial Support	\$6,566,767	\$4,163,645	\$10,730,412

Line	Description	KUAT TV FY 2016	KUAZ-FM FY 2016	Total FY 2016
	<i>Summary of Non-Federal Financial Support:</i>			
1	Direct Revenue (Schedule A)	\$4,765,150	\$3,696,014	\$8,461,164
2	Indirect Administrative (Schedule B)	1,114,262	633,241	1,747,503
3	In-Kind Contributions (Schedule C)	0	0	0
4	Total Non-Federal Financial Support	\$5,879,412	\$4,329,255	\$10,208,667

Summary of Overstated NFFS

Non-compliant NFFS Reporting	FM			TV			Total FM & TV
	FY 2015	FY 2016	Total	FY 2015	FY 2016	Total	
<i>Schedule A: Direct Revenues</i>							
Unallowable or Unsupported NFFS	\$ 444	\$ -	\$ 444	\$ 3,456	\$ -	\$ 3,456	
Misclassified NFFS Revenues*	\$ (9,160)	\$ (37,600)	\$ (46,760)	\$ 9,160	\$ 37,600	\$ 46,760	
Total	\$ (8,716)	\$ (37,600)	\$ (46,316)	\$ 12,616	\$ 37,600	\$ 50,216	
CPB's FY 2017 and 2018 Incentive Rate of Return	5.66%	5.29%		11.95%	11.86%		
CSG overpayment	\$ (493)	\$ (1,991)	\$ (2,484)	\$ 1,508	\$ 4,460	\$ 5,968	
<i>Schedule B: Indirect Administrative Support</i>							
Ineligible Indirect Administrative Support	\$ 152,737	\$ 173,033	\$ 325,770	\$ 214,395	\$ 215,464	\$ 429,859	
CPB's FY 2017 and 2018 Incentive Rate of Return	5.66%	5.29%		11.95%	11.86%		
CSG overpayment	\$ 8,644	\$ 9,161	\$ 17,805	\$ 25,628	\$ 25,555	\$ 51,183	
Total overstated NFFS	\$ 144,021	\$ 135,433	\$ 279,454	\$ 227,011	\$ 253,064	\$ 480,075	\$ 759,529
CPB's FY 2017 and 2018 Incentive Rate of Return	5.66%	5.29%		11.95%	11.86%		
CSG overpayment/funds put to better use	\$ 8,151	\$ 7,170	\$ 15,321	\$ 27,136	\$ 30,015	\$ 57,151	\$ 72,472

*Reported as net

**Arizona Public Media Overstated Indirect Administrative Support
FY 2015 and FY 2016**

TV/FM	Total Expenses	Capital Outlays	Depreciation	Indirect Administrative Support	Fundraising and Membership Development	Station net direct expenses	Reported in AFR Schedule B	Difference	Modified Cost Rate	Overstated Indirect Administrative Support
FY 2015										
KUAT-TV	\$ 7,509,337	\$ 52,863	\$ 315,341	\$ 1,190,189	\$ 1,071,975	\$ 4,878,969	\$ 5,950,944	\$ 1,071,975	20%	\$ 214,395
KUAZ-FM	\$ 3,552,340	\$ 29,930	\$ 68,693	\$ 575,620	\$ 763,684	\$ 2,114,413	\$ 2,878,097	\$ 763,684	20%	\$ 152,737
FY 2015 Total	\$ 11,061,677	\$ 82,793	\$ 384,034	\$ 1,765,809	\$ 1,835,659	\$ 6,993,382	\$ 8,829,041	\$ 1,835,659		\$ 367,132
FY 2016										
KUAT-TV	\$ 7,349,082	\$ 300,294	\$ 363,211	\$ 1,114,263	\$ 1,077,319	\$ 4,493,995	\$ 5,571,314	\$ 1,077,319	20%	\$ 215,464
KUAZ-FM	\$ 3,955,020	\$ 81,446	\$ 74,127	\$ 633,242	\$ 865,164	\$ 2,301,041	\$ 3,166,205	\$ 865,164	20%	\$ 173,033
FY 2016 Total	\$ 11,304,102	\$ 381,740	\$ 437,338	\$ 1,747,505	\$ 1,942,483	\$ 6,795,036	\$ 8,737,519	\$ 1,942,483		\$ 388,497
Combined Total	\$ 22,365,779	\$ 464,533	\$ 821,372	\$ 3,513,314	\$ 3,778,142	\$ 13,788,418	\$ 17,566,560	\$ 3,778,142		\$ 755,628

Scope and Methodology

We performed an attestation examination to determine AZPM's compliance with CPB Financial Reporting Guidelines, provisions of the Act, grant certification requirements, and other grant provisions. The scope of the examination included reviews and tests of the information reported by the station on its AFR and reconciled to audited financial statements for the years ending June 30, 2015 and June 30, 2016; grant certifications of compliance with Act requirements; and certifications on its financial reports submitted to CPB.

We tested the allowability of NFFS claimed on AZPM's AFRs by performing financial reconciliations and comparisons to underlying accounting records (general ledger) and the audited financial statements. We reviewed underwriting and grant agreements, as well as other documentation supporting revenues reported. Specifically, we reviewed 58 NFFS revenue transactions totaling \$1,338,636 of \$8,964,605 in fiscal years (FY) 2015 and 58 NFFS revenue transactions totaling \$1,220,591 of \$8,461,164 in FY 2016.

We reviewed the allowability of expenses charged to CPB CSGs. To determine that expenditures were incurred in accordance with the grant terms, we reviewed \$2,282,071 of \$3,087,557 expenses (74 percent) reported on the CPB CSG and Interconnection grants in FYs 2015 and FY 2016. We reviewed payroll and time reports, vendor invoices, and other documentation supporting expenditures.

We reviewed corporate policies, records, and documents supporting the station's compliance with the Act requirements to: provide advance notice of public meetings; make financial and equal employment opportunity information available to the public; and provide documents supporting compliance with donor lists and political activities prohibitions. We also reviewed the station's website and policies to determine its compliance with CPB's eligibility transparency requirements. Furthermore, we reviewed the independent public accountant's (IPA) audit planning, internal controls, and attestation working papers. Our procedures included interviewing station officials and its IPA.

We gained an understanding of internal controls over the preparation of AFRs, cash receipts, and cash disbursements. We also gained an understanding of AZPM's policies and procedures for compliance with certification of eligibility requirements, Act, and CPB grant agreement terms for allowable costs. We used this information to assess risks and plan the nature and extent of our testing to conclude on our objectives.

Our fieldwork was conducted from October 2017 through January 2018. Our examination was performed in accordance with the *Government Auditing Standards* for attestation engagements.

March 22, 2018

Exhibit H

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

RE: Audit of Community Service Grants at Arizona Public Media, Tucson, Arizona, for the Period July 1, 2014 through June 30, 2016, Draft Report No. ASJ1807-XXXX

Dear Mr. Richardson:

Thank you for the opportunity to respond to the Office of Inspector General Draft Audit Report for the period indicated above. We appreciate the professionalism of the CPB audit team who worked with us. We have organized our response based on the findings and recommendations as outlined in the Draft Audit Report dated February 21, 2018.

1. Overstated NFFS of \$759,529

a. Overstated Indirect Administrative Support (IAS)

The largest share of the overstatement, 99%, is the result of the calculation of Indirect Administrative Support. This matter was first brought to AZPM's attention when CPB issued a compliance alert for university institutions on April 24, 2017. AZPM staff reviewed CPB's guidelines and did not find clear guidance regarding the exclusion of Fundraising and Membership Development costs from the calculation of IAS. AZPM staff participated in a compliance teleconference on April 26, 2017 that CPB offered to university licensees in response to widespread confusion on this topic. CPB informed university licensees that the guidelines would be revised to state more clearly that Fundraising and Development costs would be required to be deducted from direct expenses prior to the calculation of IAS, effective as of the Fiscal Year 2017 Annual Financial Report. AZPM worked with our independent auditors and the University of Arizona to ensure that the station mirrored the University with respect to the costs included in the University's federal negotiated indirect cost rate agreement for our FY17 and future Annual Financial Reports.

Given that CPB has communicated that the new guidelines will be effective for FY17, AZPM respectfully requests forgiveness of the \$68,988 CSG overpayment. Going forward, AZPM will ensure adherence to the newly clarified guidelines.

b. Unallowable or Unsupported NFFS

The remaining 1% of overpayment was attributable to unallowable or unsupported NFFS and misclassified NFFS revenues. AZPM agrees that, as a result of a keying error, \$3,900 in unallowable NFFS was reported, resulting in an overpayment of CSG in the amount of \$438.

Mr. William J. Richardson III
March 16, 2018
Page 2

AZPM has implemented procedures to ensure that unallowable amounts are reviewed prior to submission of the AFR.

c. Misclassified NFFS Revenues

The remainder of the overstatement is the result of misclassification of funds in the amount of \$46,760, which resulted in an overpayment of CSG funds in the amount of \$3,046. We agree with the recommendations of the Draft Audit Report and have implemented corrective procedures to ensure proper classification of gifts.

2. Communications Act Compliance

AZPM has complied with the requirement that the Employment Statistical Report be part of the Public File. The report was always available with other Public File documents on our website but has since been added to the physical Public File.

3. Other Matters

a. Reporting CPB Expenditures on Schedule E

AZPM has corrected the reporting of CPB Expenditures on Schedule E.

b. Classifying NFFS Revenues on Schedule A

AZPM has corrected the reporting of underwriting revenue from the agency to the actual underwriter.

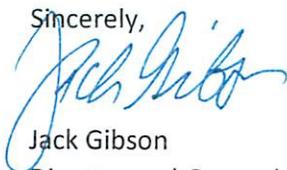
AZPM requested clarification from CPB on foundation grants as major donors and received confirmation via email that donations given by non-profit foundations as a membership donation (via direct mail campaign or on air fundraising campaign) were correctly categorized on Line 19.

AZPM has corrected the reporting of business and industry as a state college and university.

As acknowledged by the draft report's findings, AZPM has generally complied with CSG requirements with the exception of the matters noted above. Because the newly clarified guidelines apply to FY 17 onward, we respectfully request that \$68,988 in CSG overpayments from FY15 and FY16 be forgiven.

Thank you for the opportunity to respond to the Draft Audit Report.

Sincerely,



Jack Gibson
Director and General Manager