

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

**AUDIT OF COMMUNITY SERVICE GRANTS AWARDED TO
UNC-TV, PUBLIC MEDIA NORTH CAROLINA,
RESEARCH TRIANGLE PARK, NORTH CAROLINA
FOR THE PERIOD JULY 1, 2014 THROUGH JUNE 30, 2016**

REPORT NO. AST1703-1707

July 31, 2017

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Report in Brief

Background

Our objectives were to examine the station's certifications of compliance with Corporation for Public Broadcasting (CPB) grant terms to: a) claim Non-Federal Financial Support (NFFS) on its Annual Financial Reports in accordance with CPB Financial Reporting Guidelines; b) expend Community Service Grant (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 (Act), as amended. The amount of NFFS a station reports to CPB affects the amount of CSG 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 Awarded to UNC-TV, Public Media North Carolina, Research Triangle Park, North Carolina for the Period July 1, 2014 through June 30, 2016

What We Found

Based on our examination, we found that UNC-TV complied with grant and Act requirements, except for overstated NFFS of \$320,201. These funds were received from the federal government and a public broadcasting entity (PBE). The over reporting of NFFS resulted in \$38,276 in excess FY 2017 CSG payments.

UNC-TV disagreed with our finding on federal funds stating the funds were awarded under a task order, making UNC-TV a vendor not a financial assistance sub-recipient. UNC-TV also said the identity of the funder as a PBE was ambiguous, but understood and agreed that PBE funds were excluded from NFFS. We did not change our findings and recommendations based upon UNC-TV's response.

What We Recommend

That CPB take the following actions:

- 1) recover the \$38,276 in excess CSG over payments; and
- 2) require UNC-TV to identify the corrective actions and controls it will implement to ensure future compliance.

This report contains the conclusions of the Office of Inspector General and does not represent CPB's final position on the issues identified. CPB will issue a final determination in accordance with its audit resolution procedures.



Corporation
for Public
Broadcasting

Office of Inspector General

Date: July 31, 2017

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

From: Mary Mitchelson, Inspector General 

Subject: Audit of Community Service Grants Awarded to UNC-TV, Public Media North Carolina, Research Triangle Park, North Carolina for the Period July 1, 2014 through June 30, 2016, Report No. AST1703-1707

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

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EXECUTIVE SUMMARY

We have completed an examination of the Corporation for Public Broadcasting (CPB) Community Service Grants (CSG) for the period July 1, 2014 through June 30, 2016 at UNC-TV licensed to the University of North Carolina. Our objectives were to examine UNC-TV'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 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 (Act).

Based on our examination, we found that UNC-TV complied with grant and Act requirements, except for overstated NFFS of \$320,201. These funds were received from the federal government and a public broadcasting entity (PBE). The over reporting of NFFS resulted in \$38,276 in excess FY 2017 CSG payments.

We recommend that CPB: 1) recover the \$38,276 in excess CSG over payments; and 2) require UNC-TV to identify the corrective actions and controls it will implement to ensure future compliance.

In response to the draft report, UNC-TV management disagreed with our finding that the funds it received from the state Department of Public Instruction were federal funds. UNC-TV stated that it received the funds under a contract task order for the procurement of services as a vendor, and not as a financial assistance award sub-recipient. Therefore, it did not consider them to be federal funds, and two university officials both agreed with that interpretation, as well as UNC-TV's independent auditor. Regarding the funds it received from a public broadcasting entity (PBE), UNC-TV said it was somewhat ambiguous that the grantor was exclusively a PBE, and the contract for the grant did not specify the granter as a PBE. UNC-TV's written response to the draft report is presented in Exhibit E.

After considering UNC-TV's response, we did not change our findings or recommendations. With regard to our federal funds finding, the source of funds is federal, no matter the nature of the award to UNC-TV. Further, the PBE funder meets the definition of a PBE and is identified as such on CPB's website.

We performed this examination based on the Office of Inspector General's (OIG) annual plan objective to audit multiple TV and/or radio stations. We conducted our examination in accordance with *Government Auditing Standards* for attestation examination engagements. Our scope and methodology is discussed in Exhibit D.

This report presents the conclusions of the 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 a final determination resolving our findings and recommendations in accordance with established

CPB audit resolution procedures. Based on UNC-TV's response to the draft report, we consider recommendations one unresolved and recommendation two resolved but open pending CPB's final management decision.

BACKGROUND

UNC-TV is an affiliated organization of the University of North Carolina system. Per its website, UNC-TV is North Carolina's only statewide public media network and its 12 stations provide all 100 counties with four full-time, unique broadcast program channels.

Its mission is to: connect North Carolinians with each other, the world, and endless possibility and while accompanying people of all ages on their journey of exploration and discovery; create, share and celebrate their stories of place, progress, and pride; and to provide quality educational content and services of consequence for their audiences.

Its vision is to be: a trusted, attentive and cherished partner to North Carolinians in their shared pursuit of a higher quality of life; a highly relevant, respected and revered media organization; and a community supported resource whose value is shared by many diverse communities, organizations, and individuals across the state.

Community Service Grants

CPB awards annual CSGs to public television and radio stations 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 distance service grants and the amount of the base 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 reported NFFS to calculate the incentive award amount for the station. There is a two-year lag between the reported NFFS and CPB's calculation of the Fiscal Year (FY) CSG amount. For example, CPB used the NFFS claimed by UNC-TV on its FY 2015 AFR to determine the amount of the CSG the station received in FY 2017.

During our audit period, UNC-TV received \$7,291,800 from CPB for CSG, interconnection and distance service grants, as itemized in Exhibit A. The station reported NFFS of \$21,727,261 in FY 2015 and \$20,623,298 in FY 2016 per Exhibit C. UNC-TV's audited financial statements reported total revenues of \$27,126,480 in FY 2015 and \$24,425,857 in FY 2016. UNC-TV's FY begins July 1 and ends on June 30.

RESULTS OF AUDIT

In our opinion, except for the noncompliance issue described below, UNC-TV has complied with the requirements in the following paragraph for the FYs 2015 and 2016 CSGs that we examined.

We examined UNC-TV 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 UNC-TV’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 examination engagements and, accordingly, included examining, on a test basis, evidence about UNC-TV’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. However, it does not provide a legal determination on UNC-TV’s compliance with specified requirements.

Our examination disclosed that UNC-TV reported overstated NFFS of \$320,201 that resulted in CSG overpayments of \$38,276 in FY 2017.

FINDINGS AND RECOMMENDATIONS

Overstated NFFS

Our audit found \$320,201 in overstated NFFS reported on UNC-TV’s FY 2015 AFR as presented in the following table. Specifically, UNC-TV reported federal funds and funds received from a PBE as NFFS. CPB’s Guidelines prohibit reporting revenues from these sources as NFFS. As a result, CPB made CSG overpayments totaling \$38,276 in FY 2017.

Ineligible NFFS

Fiscal Year	Ineligible Source	Overstated NFFS	2017 CSG Overpayments¹
FY 2015	Federal Funds	\$310,201	\$37,081
FY 2015	Public Broadcasting Entity	\$10,000	\$1,195
Total		\$320,201	\$38,276

Federal Funds

Our testing of funds received from State boards and the State Department of Education included \$310,201 in federal funds received under the American Recovery and Reinvestment Act (ARRA) from the State Department of Education, Department of Public Instruction. This contract was funded with federal ARRA funds, and it contained a Catalog

¹ Based on applying CPB’s FY 2017 TV Incentive Rate of Return (0.119537648).

of Federal Domestic Assistance (CFDA) number identifying the source of the award as federal funds.

CPB's Guidelines specifically state that ARRA funds are excluded from NFFS.

By definition, the Act excludes all federal funds from being included as Non-Federal Financial Support (NFFS)....

All ARRA funds distributed by state governments (primary recipients) to CSG grantees (sub-recipients) are considered Federal and are thereby ineligible for inclusion as NFFS....

When reporting ARRA funds on an Annual Financial Report (AFR), these funds should be reported on Schedule A, Line 1F with the description "ARRA", or FSR Part 1, Line 1.

CPB's Guidelines, Section 2.3.3

In response to this finding, UNC-TV officials stated that it was a vendor paid for services, not a subrecipient, under its agreement with the Department of Public Instruction. Because they identified the agreement as a contract for services, they coded the revenue as from the State. It interpreted the CPB Guidelines' prohibition against including federal funds as NFFS to apply only to funds received as subrecipients of grants, not to vendors providing services as UNC-TV was.

This interpretation was first made by the Director of Finance of the North Carolina Department of Public Instruction, confirmed by University of North Carolina General Administration's Director of Contracts & Grants, and reviewed by UNC-TV's independent auditor as part of its attestation of UNC-TV's AFR. UNC-TV further stated that neither the Act or CPB's Guidelines provide instructions that deviate from the standard process of determining federal status, which includes the specific technical definition of "sub-recipient." Therefore, based on federal criteria, UNC-TV recorded the funds a nonfederal.

As we explain more fully below, we do not agree that the status of UNC-TV as a subrecipient or a vendor can change the source of the funds. They remain ARRA funds that were originally awarded to the State and passed down to UNC-TV. As a result, we conclude that the FY 2017 CSG award calculation overpaid UNC-TV by \$37,081.

Public Broadcasting Entity

Our analytical procedures identified that UNC-TV reported \$10,000 in revenue that it received from a PBE, the National Black Programming Consortium (NBPC). UNC-TV reported these funds under Foundations and nonprofit associations, line 8.1B on UNC-TV's AFR. CPB's guidelines require that funds received from PBEs be reported on line 2.F of the AFR.

The sources of NFFS qualifying contributions and payments are addressed in CPB's Guidelines, Section 2.3.2 Interpretations. This sections states that contributions qualify from any source except the federal government or a PBE. For payments to qualify they must be from a state or local government or agency thereof, or an educational institution. The section also provides examples of PBEs and describes PBEs as ... "Any nonprofit institution engaged primarily in the production, acquisition, distribution or dissemination of educational and cultural television and radio programs." This also is the definition of the term "public broadcasting entity" in the Act, as amended, Section 397(11).

In response to this finding, UNC-TV officials stated that there was no clear indication from the grant that NBPC was a PBE or the source of the funds under the agreement. Further, they said that the AFR Guidelines were not clear or define what constitutes a PBE. Finally, they said a review of NBPC's and CPB's website did not confirm that NBPC was a PBE.

We believe CPB's Guidelines adequately describes and defines a PBE. NBPC is one of five minority consortium members who receive annual CPB grants to produce content for the public media system. Further, CPB's website identifies NBPC under Public Media Organizations <http://www.cpb.org/stations/pborganizations>. As a result, we conclude that the FY 2017 CSG award calculation will over pay UNC-TV \$1,195.

Recommendations

We recommend CPB management take the following actions:

- 1) recover \$38,276 of excess CSG payments made to UNC-TV in FY 2017 based on the reported FY 2015 NFFS; and
- 2) require UNC-TV to identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines.

UNC-TV's Response

In response to our draft report's finding on federal funds, UNC-TV basically reiterated the response provided to us during audit fieldwork, clarifying that that the draft report's characterization that UNC-TV's "interpretation" of federal funds was solely made by UNC-TV was inaccurate. UNC-TV said this interpretation was first made by the Director of Finance of the North Carolina Department of Public Instruction, confirmed by University of North Carolina General Administration's Director of Contracts & Grants, and reviewed by UNC-TV's independent auditor as part of their attestation of CPB's Annual Financial Report.

UNC-TV stated it reported the ARRA funds as NFFS because the state agency provided them to UNC-TV "with a contract specified as a task order for the procurement of services (vendor), not as a financial assistance award (sub-recipient)." Thus, under CPB Guidelines and confirmed by the grantor, these funds no longer carried their federal character. UNC-TV understood that ARRA funds distributed by state governments to CSG grantees (sub-recipients) are considered federal. However, UNC-TV here was not a sub-recipient operating a program but a vendor providing a service.

In response to the finding on public broadcasting entity funds, UNC-TV said that it understood and agreed that PBE funds were excluded from NFFS, however the classification of NBPC as a PBE was somewhat ambiguous, stating its website identified multiple funders and its grant with UNC-TV did not identify NBPC as a PBE.

OIG Review and Comment

Based on UNC-TV's response we consider both recommendations unresolved pending CPB final management decision resolving our recommendations. Further, based on UNC-TV's response to the finding on federal funds, we clarified in the body of the finding that officials at the North Carolina Department of Public Instruction, the University of North Carolina's General Administration's Director of Contracts & Grants, and UNC-TV's independent auditor agreed that this grant was not a financial assistance award. While we clarified UNC-TV's position in the body of the finding, we still consider the funds received from the North Carolina Department of Public Instruction to be federal funds for NFFS reporting purposes.

Regardless of UNC-TV's status as a vendor or a subrecipient, the source of the ARRA funds was federal, and they are excluded from reporting as NFFS. While the distinction between a subrecipient and a vendor may be pertinent to some analyses, it is not relevant to determining whether ARRA funds are federal.

ARRA, enacted in 2009 as a federal stimulus package, imposed numerous requirements on recipients. The statute defined "recipient" as any entity that receives ARRA funds directly from the federal government, including a State. See Section 1512. It further imposed reporting requirements about the use of the funds upon recipients, including both subcontractors and subrecipients of grants, without distinguishing between the nature of the subawards. Thus, Congress determined that the obligations that flowed with the ARRA funds applied to every award, no matter its nature as a grant or a contract.

While UNC-TV is correct that CPB's Guidelines use the example of a subrecipients of federal funds and do not specifically include the phrase subcontractor or vendor, the pertinent section states initially that "[b]y definition, the Act excludes all federal funds from being included as NFFS." (Guidelines, Section 2.3.3.) We do not believe that CPB's use of "subrecipient" as a parenthetical subsequently in the Guidelines means the exclusion of ARRA funds from NFFS should not apply to subrecipients of contracts as well as to subrecipients of grants.

UNC-TV's reliance on other federal guidelines regarding subrecipients is misplaced. The subrecipient requirement under federal guidelines places additional compliance requirements on fund recipients as to how federal funds are to be used and accounted for. That designation does not change the source of the funds as federal, and CPB's governing statute, the Communications Act, specifically excludes federal funds from NFFS. 47 U.S.C. §§ 396(k)(2)(A), 397(9).

For these reasons, we have not changed our conclusion that the ARRA funds UNC-TV received from the State Department of Public Instruction were federal and should not have been reported as NFFS.

We also did not change our findings regarding NBPC's status as a PBE. NBPC is one of five minority consortium members who receive annual CPB grants to produce content for the public media system. It is also identified as a PBE on CPB's website.

**CPB Grant Payments to UNC-TV
July 1, 2014 – June 30, 2016**

CPB Grants	FY 2015	FY 2016	Total
Community Service Grants	\$3,350,677	\$3,042,338	\$6,393,015
Interconnection	60,617	55,794	116,411
Distance Service	391,600	390,774	782,374
Total Payment FY15 and FY16	\$3,802,894	\$3,488,906	\$7,291,800

**UNC-TV Annual Financial Report
July 1, 2014 – June 30, 2016**

Line	Description	2015 Data	2016 Data
	Schedule A		
	Source of Income		
1	Amounts provided directly by federal government agencies	\$0	\$0
	F. Other Federal Funds (specify)	\$0	\$0
2	Amounts provided by Public Broadcasting Entities	\$3,931,038	\$3,573,294
	A.CPB - Community Service Grants	\$3,350,677	\$3,042,338
	B. CPB - all other funds from CPB (e.g. DDF, RTL, Programming Grants)	\$452,217	\$446,568
	C.PBS - all payments except copyright royalties and other pass-through payments.	\$11,116	\$408
	E. Public broadcasting stations - all payments	\$117,028	\$83,980
3	Local boards and departments of education or other local government or agency sources	\$0	\$11,605
3.1	NFFS Eligible	\$0	\$10,000
	A. Program and production underwriting	\$0	\$10,000
3.2	NFFS Ineligible	\$0	\$1,605
	B. Fees for services	\$0	\$1,605
4	State boards and departments of education or other state government or agency sources	\$9,407,271	\$9,993,127
4.1	NFFS Eligible	\$9,292,165	\$9,823,189
	A. Program and production underwriting	\$483,314	\$486,551
	F. Other income eligible as NFFS (specify - State Government Appropriations)	\$8,808,851	\$9,336,638
4.2	NFFS Ineligible	\$115,106	\$169,938
	A. Rental income	\$100,000	\$100,000
	B. Fees for services	\$15,106	\$69,938
5	State colleges and universities	\$91,661	\$125,989
5.1	NFFS Eligible	\$85,614	\$86,149
	A. Program and production underwriting	\$85,614	\$86,149
5.2	NFFS Ineligible	\$6,047	\$39,840
	B. Fees for services	\$6,047	\$39,840
6	Other state-supported colleges and universities	\$0	\$0
7	Private colleges and universities	\$63,659	\$84,929

Exhibit B (continued)

**UNC-TV Annual Financial Report
July 1, 2014 – June 30, 2016**

Line	Description	2015 Data	2016 Data
7.1	NFFS Eligible	\$63,334	\$84,879
	A. Program and production underwriting	\$63,334	\$84,879
7.2	NFFS Ineligible	\$325	\$50
	B. Fees for services	\$325	\$50
8	Foundations and nonprofit associations	\$412,246	\$665,546
8.1	NFFS Eligible	\$411,305	\$655,614
	A. Program and production underwriting	\$301,093	\$482,419
	B. Grants and contributions other than underwriting	\$110,212	\$173,195
8.2	NFFS Ineligible	\$941	\$9,932
	B. Fees for services	\$941	\$9,932
9	Business and Industry	\$783,077	\$821,401
9.1	NFFS Eligible	\$686,818	\$740,603
	A. Program and production underwriting	\$657,107	\$730,905
	B. Grants and contributions other than underwriting	\$29,711	\$9,698
9.2	NFFS Ineligible	\$96,259	\$80,798
	A. Rental income	\$37,500	\$37,500
	B. Fees for services	\$58,759	\$33,805
	E. Other income ineligible for NFFS inclusion	\$0	\$9,493
10	Memberships and subscriptions (net of membership bad debt expense)	\$8,305,725	\$7,921,311
10.1	NFFS Exclusion - Fair market value of premiums that are not of insubstantial value	\$761,999	\$713,746
11	Revenue from Friends groups less any revenue included on line 10	\$0	\$0
12	Subsidiaries and other activities unrelated to public broadcasting	\$0	\$0
	Form of Revenue		
13	Auction revenue	\$0	\$0
14	Special fundraising activities	\$242,623	\$290,788
	A. Gross special fundraising revenues	\$242,623	\$290,788
	B. Direct special fundraising expenses	\$0	\$0
15	Passive income	\$87,884	\$79,800
	A. Interest and dividends (other than on endowment funds)	\$63,598	\$40,374
	B. Royalties	\$2,323	\$20,950
	PBS or NPR pass-through copyright royalties	\$21,963	\$18,476

Exhibit B (continued)

**UNC-TV Annual Financial Report
July 1, 2014 – June 30, 2016**

Line	Description	2015 Data	2016 Data
16	Gains and losses on investments, charitable trusts and gift annuities and sale of other assets (other than endowment funds)	\$0	(\$174,700)
	C. Unrealized gains/losses on investments and actuarial gains/losses on charitable trusts and gift annuities (other than endowment funds)		(\$174,700)
17	Endowment revenue	\$2,648,200	(\$43,020)
	A. Contributions to endowment principal	\$1,819,559	\$123,499
	D. Unrealized net investment gains and losses on endowment funds	\$828,641	(\$166,544)
18	Capital fund contributions from individuals (see instructions	\$0	\$0
19	Gifts and bequests from major individual donors	\$835,732	\$877,466
20	Other Direct Revenue	\$26,973	\$27,724
21	Total Revenue	\$26,836,089	\$24,255,260
	Adjustments to Revenue		
22	Public broadcasting revenue from line 1.	\$0	\$0
23	Public broadcasting revenue from line 2	\$3,931,038	\$3,573,294
24	Capital funds exclusion—TV (3.2D, 4.2D, 5.2D, 6.2D, 7.2D, 8.2D, 9.2D, 18A)	\$0	\$0
25	Revenue on line 20 not meeting the source, form, purpose, or recipient criteria to be included as NFFS	\$26,973	\$27,724
26	Other automatic subtractions from total revenue	\$1,809,318	\$674,665
	E. Unrealized investment and actuarial gains/losses (other than endowment funds) - line 16c	\$0	(\$174,700)
	F. Realized and unrealized net investment gains/losses on endowment funds - line 17d	\$828,641	(\$166,544)
	G. Rental income (3.2A, 4.2A, 5.2A, 6.2A, 7.2A, 8.2A, 9.2A)	\$137,500	\$137,500
	H. Fees for services (3.2B, 4.2B, 5.2B, 6.2B, 7.2B, 8.2B, 9.2B)	\$81,178	\$155,170
	J. Other revenue ineligible as NFFS (3.2E, 4.2E, 5.2E, 6.2E, 7.2E, 8.2E, 9.2E)	\$0	\$9,493
	K. FMV of high-end premiums (Line 10.1)	\$761,999	\$713,746
27	Total Direct Nonfederal Financial Support	\$21,068,760	\$19,979,577

Exhibit B (continued)

**UNC-TV Annual Financial Report
July 1, 2014 – June 30, 2016**

Line	Description	2015 Data	2016 Data
	Schedule B		
1	Total support activity benefiting Station	\$506,227	\$565,990
2	Occupancy value		
3	Deductions: Fees paid to the licensee for overhead, recovery, assessment, etc.		
4	Deductions: Support shown on lines 1 and 2 in excess of revenue reported in financial statements		
5	Total Indirect Administrative Support (Forwards to Line 2 of the Summary of Nonfederal Financial Support)	\$506,227	\$565,990
6	Please enter an institutional type code for your licensee.	SU	SU
	Schedule C		
1	PROFESSIONAL SERVICES (must be eligible as NFFS)	\$0	\$0
2	GENERAL OPERATIONAL SERVICES (must be eligible as NFFS)	\$13,287	\$12,245
	C. Station operating expenses	\$13,287	\$12,245
3	OTHER SERVICES (must be eligible as NFFS)	\$138,987	\$65,486
	C. Local advertising	\$138,987	\$65,486
4	Total in-kind contributions - services and other assets eligible as NFFS (sum of lines 1 through 3), forwards to Line 3a. of the Summary of Nonfederal Financial Support	\$152,274	\$77,731
5	IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	\$138,116	\$161,300
	D. Fundraising related activities	\$111,662	\$102,831
	F. Local production	\$26,454	\$58,469
6	Total in-kind contributions - services and other assets (line 4 plus line 5), forwards to Schedule F, line 1c. Must agree with in-kind contributions recognized as revenue in the AFS.	\$290,390	\$239,031
	Schedule D		
1	Land (must be eligible for NFFS)	\$0	\$0
2	Building (must be eligible for NFFS)	\$0	\$0
3	Equipment (must be eligible for NFFS)	\$0	\$0

Exhibit B (continued)

**UNC-TV Annual Financial Report
July 1, 2014 – June 30, 2016**

Line	Description	2015 Data	2016 Data
4	Vehicle(s) (must be eligible for NFFS)	\$0	\$0
5	Other (must be eligible for NFFS)	\$0	\$0
6	Total in-kind contributions - property and equipment eligible as NFFS (sum of lines 1 through 5), forwards to Line 3b of the Summary of Nonfederal Financial Support	\$0	\$0
7	IN-KIND INELIGIBLE AS NFFS	\$0	\$0
8	Total in-kind contributions - property and equipment eligible as NFFS (lines 6 plus 7), forwards to Schedule F, Line 1d. Must agree with in-kind contributions recognized as revenue in the AFS.	\$0	\$0
	Schedule E		
	PROGRAM SERVICES		
1	Programming and production	\$11,890,381	\$12,261,508
	A. TV CSG	\$3,178,562	\$3,350,677
	B. TV Interconnection	\$60,737	\$60,617
	C. Other CPB Funds	\$391,600	\$391,600
	D. All non-CPB Funds	\$8,259,482	\$8,458,614
2	Broadcasting and engineering	\$8,354,079	\$8,920,175
	A. TV CSG	\$0	\$0
	B. TV Interconnection	\$0	\$0
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$8,354,079	\$8,920,175
3	Program information and promotion	\$0	\$0
	A. TV CSG	\$0	\$0
	B. TV Interconnection	\$0	\$0
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$0	\$0
	SUPPORT SERVICES		
4	Management and general	\$3,767,474	\$4,175,354
	A. TV CSG	\$0	\$0
	B. TV Interconnection	\$0	\$0
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$3,767,474	\$4,175,354

Exhibit B (continued)

**UNC-TV Annual Financial Report
July 1, 2014 – June 30, 2016**

Line	Description	2015 Data	2016 Data
5	Fund raising and membership development	\$3,683,549	\$3,915,321
	A. TV CSG	\$0	\$0
	B. TV Interconnection	\$0	\$0
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$3,683,549	\$3,915,321
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	\$0	\$0
7	Depreciation and amortization (if not allocated to functional categories in lines 1 through 6)	\$0	\$0
	A. TV CSG	\$0	\$0
	B. TV Interconnection	\$0	\$0
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$0	\$0
8	Total Expenses (sum of lines 1 to 7) must agree with audited financial statements	\$27,695,483	\$29,272,358
	A. Total TV CSG (sum of Lines 1.A, 2.A, 3.A, 4.A, 5.A, 6.A, 7.A)	\$3,178,562	\$3,350,677
	B. Total TV Interconnection (sum of Lines 1.B, 2.B, 3.B, 4.B, 5.B, 6.B, 7.B)	\$60,737	\$60,617
	C. Total Other CPB Funds (sum of Lines 1.C, 2.C, 3.C, 4.C, 5.C, 6.C, 7.C)	\$391,600	\$391,600
	D. Total All non-CPB Funds (sum of Lines 1.D, 2.D, 3.D, 4.D, 5.D, 6.D, 7.D)	\$24,064,584	\$25,469,464
9	Total capital assets purchased or donated	\$238,031	\$2,447,797
	a. Land and buildings	\$0	\$815,725
	b. Equipment	\$238,031	\$1,626,965
	c. All other	\$0	\$5,107
10	Total expenses and investment in capital assets	\$27,933,514	\$31,720,155

Exhibit B (continued)

**UNC-TV Annual Financial Report
July 1, 2014 – June 30, 2016**

Line	Description	2015 Data	2016 Data
	Additional Information		
11	Total expenses (direct only)	\$27,405,093	\$29,033,327
12	Total expenses (indirect and in-kind)	\$290,390	\$239,031
13	Investment in capital assets (direct only)	\$238,031	\$2,447,797
14	Investment in capital assets (indirect and in-kind)	\$0	\$0
	Schedule F		
1	Data from AFR		
	a. Schedule A, Line 21	\$26,836,089	\$24,255,260
	b. Schedule B, Line 5	\$506,227	\$565,990
	c. Schedule C, Line 6	\$290,390	\$239,031
	d. Schedule D, Line 8	\$3	\$0
	e. Total for AFR	\$27,632,706	\$25,060,281

Exhibit C

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

Line	Description	FY 2016	FY 2015	Total
	<i>Summary of Non-Federal Financial Support:</i>			
1	Direct Revenue (Schedule A)	\$19,979,577	\$21,068,760	\$41,048,337
2	Indirect Administrative Support (Schedule B)	\$565,990	\$506,227	\$1,072,217
3	In-Kind Contributions (Schedule C)	\$77,731	\$152,274	\$230,005
4	Total Non-Federal Financial Support	\$20,623,298	\$21,727,261	\$42,350,559

Scope and Methodology

We performed an attestation examination to determine UNC-TV's compliance with CPB Guidelines, provisions of the Act, grant certification requirements, and other grant provisions. The scope of the audit included reviews and tests of: the information reported on its AFR 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 UNC-TV's AFRs by performing financial reconciliations and comparisons to underlying accounting records (general ledger) and the audited financial statements. Specifically, we judgmentally sampled NFFS revenue transactions totaling \$742,132 of the \$21,727,261 reported in FY 2015 and \$10,207,374 of the \$20,623,298 reported in FY 2016 and performed analytical procedures. Our testing included Schedule A, Direct Revenues, Schedule B, Indirect Administrative Support, and Schedule C, In-Kind Contributions. We reviewed underwriting and grant agreements and other documentation supporting revenues reported.

We reviewed the allowability of expenses charged to the CSGs during FY 2015 (\$3,630,899) and FY 2016 (\$3,802,884), to determine whether expenditures were incurred in accordance with grant terms. We reviewed supporting documentation, including vendor invoices, purchase orders, and other documentation for all transactions.

We reviewed policies, records, and documents supporting the station's compliance with the Act's requirements to provide advance notice of public meetings; make financial and EEO information available to the public; and safeguard donor lists. We also reviewed UNC-TV'S website to determine its compliance with CPB's transparency requirements.

Our procedures included interviewing station officials and its independent public accountant. We gained an understanding of internal controls over the preparation of AFRs, cash receipts, and cash disbursements. We also gained an understanding of UNC-TV's policies and procedures for compliance with certification of eligibility requirements, the 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.

We conducted fieldwork from January 23, 2017 through April 11, 2017. We performed our audit in accordance with the *Government Auditing Standards* for attestation examinations.



UNC-TV PBS & More
UNC-EX The Explorer Channel
NC CHANNEL Stories with a Local Accent
ROOTLE UNC-TV's Kids Channel
UNCTV.ORG Video on Demand & More

June 14, 2017

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

Re: Audit of Community Service Grants Awarded to UNC-TV – Public Media North Carolina, Research Triangle Park, North Carolina, for the Period July 1, 2014 – through June 30, 2016, Draft Report No. AST1703-XXXX

Dear Mr. Richardson,

Thank you for providing me a copy of the draft audit report of CPB grants awarded to UNC-TV as referenced above. My review of the draft and my response to the findings and recommended corrective action are as follows:

Executive Summary & Background Section

Correction – UNC-TV is licensed to the University of North Carolina. It is an affiliated organization of the University of North Carolina system. It is not a Department of the University.

Findings and Recommendations

Finding No. 1 - Federal Funds

Excerpts from draft audit report:

Page #3

Our testing of funds received from State boards and department of education included \$310,201 in federal funds received under the American Recovery and Reinvestment Act (ARRA) from the State Department of Education, Department of Public Instruction. This grant was funded with federal ARRA funds and the grant identified the Catalog of Federal Domestic Assistance (CFDA) number identifying the source of the award as federal funds.

By definition, the Act excludes all federal funds from being included as Non-Federal Financial Support (NFFS)

All ARRA funds distributed by state government (primary recipients) to CSG grantees (sub-recipients) are considered Federal and are thereby ineligible for inclusion as NFFS.....

BRIAN SICKORA, Executive Director and General Manager

10 TW Alexander Drive · PO Box 14900 · Research Triangle Park, NC 27709-4900 · bsickora@uncelv.org

When reporting ARRA funds on an Annual Financial Report (AFR), these funds should be reported on Schedule A, Line 1F with the description "ARRA", or FSR Part 1, Line 1. CPB's Guidelines, Section 2.3.3

Page 4, paragraph 3

We do not agree with UNC-TV's interpretation, since regardless of whether UNC-TV was a vendor or sub-recipient the source of funds was federal and excluded from reporting as NFFS. The sub-recipient requirements under federal guidelines places additional compliance requirements on funds recipients on how federal funds are to be used and accounted for, but do not change the source of funds as federal.

UNC-TV Response

Extracts from CPB Financial Guidelines, section 2.3.3 Federal Funds:

Funds are federal if they are provided by the federal government or any agency or instrumentality of the federal government to:

- *The station directly,*
- *A non-Federal organization with the stipulation that they retain their federal identity when passed on to other parties.*

Consequently, grantees who receive appropriations or grants from foundations, non-profit organizations, state or local governments, public or private colleges and universities, or their licensee, should confirm with the appropriator or grantor whether the funds in whole or part retain their federal character.

All ARRA funds distributed by state governments (primary recipients) to CSG grantees (sub-recipients) are considered Federal and are thereby ineligible for inclusion as NFFS.

The grantor, North Carolina Department of Public Instruction, provided these funds to UNC-TV with a contract specified as a task order for the procurement of services (vendor), not as a financial assistance award (sub-recipient). Therefore, based on the standard federal criteria for determining federal status UNC-TV was classified as a vendor, not a sub-recipient, and the funds recorded as non-federal.

As per the Financial Guidelines above, UNC-TV confirmed with the grantor that these funds no longer carried their federal character. To imply, in your report, that this "interpretation" was solely made by UNC-TV is inaccurate. This determination was first made by the Grantor's Director of Finance, confirmed by the University of North Carolina General Administration's Director of Contracts & Grants, and reviewed by UNC-TV's independent auditor as part of their attestation of the financial statements and CPB Annual Financial Report. Attached is communication and documentation that provides confirmation with North Carolina Department of Public Instruction and UNC-GA's Director of Sponsored Programs who both confirmed that this was not a financial assistance award.

Neither the Public Broadcasting Act of 1967 or CPB Financial Guidelines provide instructions that deviate from the standard process of determining federal status, which includes the specific technical definition of "sub-recipient".

Corrective Action

If CPB confirms that all flow-thru funds that originated from the ARRA should be designated as federal regardless of any determination made using the standard criteria for federal funds, then in the future UNC-TV will record those funds as federal on the CPB Annual Financial Report even if recorded as non-federal for the station's financial statements.

Finding No. 2 - Public Broadcasting Entity

Page 4

Our analytical procedures identified that \$10,000 in revenue was received from a public broadcasting entity (PBE), the National Black Programming Consortium (NBPC). These funds were reported under Foundations and nonprofit associations, line 8.1B on the AFR. CPB's guidelines require that funds received from PBE be reported on line 2.F of the AFR.

UNC-TV Response

We understand and agree that public broadcast entity (PBE) are excluded from NFFS, however it is somewhat ambiguous that The National Black Programming Consortium is exclusively a PBE. Their website is vague and shows multiple funders to their organization. And the contract for the grant does not specify them as a PBE.

Corrective Action

We will maintain a list of organizations classified by source to use each year allowing more time to research the proper source for organizations that had not previously provided contributions or payments.

Thank you once again for allowing us to comment on your draft audit report of CPB grants.

Regards,



Brian Sickora
Executive Director and General Manager

Attachment – DPI and UNC Communication

cc: Ted Krichels, Senior Vice President, System Development & Media Strategy, CPB
Jackie J. Livesay, Vice President, Compliance, CPB
Brooks Skinner, Associate General Manager and General Counsel, UNC-TV
Kathy Crooke, Senior Director of Administration and Finance, IMC-TV

[REDACTED]

From: [REDACTED]@dpi.nc.gov>
Sent: Thursday, February 23, 2017 10:13 AM
To: [REDACTED]
Cc: [REDACTED]; [REDACTED]
Subject: RE: NC10199928, Task Order

Good morning,

[REDACTED], it was nice talking to you this morning. DPI issued task order as a payment for services not as a financial assistance.

Hope I answered your question.

Thanks

[REDACTED]
[REDACTED]
North Carolina Department of Public Instruction
Mail Service Center 6331
Raleigh, NC 27699-6331

From: [REDACTED] [mailto:[REDACTED]@northcarolina.edu]
Sent: Thursday, February 23, 2017 8:57 AM
To: [REDACTED]@dpi.nc.gov>
Cc: [REDACTED]@unctv.org
Subject: NC10199928, Task Order

Dear [REDACTED],

Thanks so much for taking my call this morning. Please see the attached contract. This was issued back in FY15 and also amended in FY15. While this was paid from RTTT funds, I want to confirm that DPI issued this task order as a procurement of goods/services, not as a financial assistance agreement, which carries certain requirements relative to annual financial reports. Because this was identified as an incoming contract for services, I coded the contract as revenue from the state of NC.

Just want to confirm how NC DPI oriented this task order.

Thanks

[REDACTED]
[REDACTED]
UNC General Administration

[REDACTED]
[REDACTED]
[REDACTED]@northcarolina.edu



PUBLIC SCHOOLS OF NORTH CAROLINA

STATE BOARD OF EDUCATION William W. Cobey Jr., Chairman

DEPARTMENT OF PUBLIC INSTRUCTION June St. Clair Atkinson, Ed.D., State Superintendent

WWW.NCPUBLICSCHOOLS.ORG

July 8, 2015

[REDACTED]
UNC General Administration
910 Raleigh Road
Chapel Hill NC 27514

Dear [REDACTED]:

The NC State Board of Education has approved our Task Order/Task Order Amendment with you. I have enclosed your original copy of the executed contract/contract amendment **NC10199928**. We are pleased to be associated with you in this effort.

Sincerely,

[REDACTED]
Purchasing and Contracts

/jb

cc: Accounts Payable
[REDACTED]

Enclosures

21

**DIVISION OF FINANCIAL AND BUSINESS SERVICES
PURCHASING AND CONTRACTS**

6308 Mail Service Center, Raleigh, North Carolina 27699-6308 | (919) 807-3662 | Fax (919) 807-3660

Street Address: 301 N. Wilmington St., Raleigh, NC 27601

AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

TASK ORDER NO. _____
New _____ Modification No. _____

NCSBE CONTRACT ORDER NO. NC10199928
Amendment No. 1

TASK ORDER
Issued Under the North Carolina State Board of Education, University of North Carolina
Master Agreement, Version 001

Project Personnel

UNC Institution

Principal Investigator
University: The University of North Carolina Center for Public Television
Name, Title: _____
Address: _____
City, State, Zip: RTP, NC 27709
Email: _____@unctv.org

NCSBE

Project Coordinator
North Carolina Department of Public Instruction
Name, Title: _____
Address: _____
City, State, Zip: Raleigh, NC 27699-6307
Phone, fax: _____
Email: _____@dpi.nc.gov

Contract Administrator
University: UNC General Administration
Name, Title: _____
Address: _____
City, state, zip: Chapel Hill, NC 27514
Phone/Fax: _____
Email: _____@northcarolina.edu

Contract Administrator
North Carolina Department of Public Instruction
Name, Title: _____
Address: _____
City, State, Zip: Raleigh NC 27699-6308
Phone, fax: _____
Email: _____@dpi.nc.gov

Project Description

Project Title: UNC- TV Contract for PBS LearningMedia Content
Project Contact for University: _____
Project Start/End Dates: March 23, 2015 through June 30, 2016

Incorporation

The Terms and Conditions of the NCSBE/UNC Master Agreement are incorporated by reference. This Task Order also includes any Appendices or addendums attached hereto, including Appendix A "Recipient Scope of Work," Appendix B "the Funding Source Award Notice" (if applicable), Appendix C "Contractor Certifications" (if applicable), Appendix D "Detailed Budget - including allowable Facilities and Administrative Cost recovery," and Appendix E, "Race to the Top Reporting Requirements."

IN WITNESS THEREOF, the parties have caused the Task Order to be executed by their authorized representatives.

ATTEST:

APPROVED BY: _____

6/24/15
Date

FOR THE NORTH CAROLINA STATE BOARD OF EDUCATION:

6/26/15
Date

UNC INSTITUTION:

Authorizing Official Signature

6/24/15
Date

