CORPORATION FOR PUBLIC BROADCASTING

OFFICE OF INSPECTOR GENERAL

AUDIT OF COMMUNITY SERVICE AND OTHER SELECTED GRANTS AT ROCKY MOUNTAIN PUBLIC BROADCASTING NETWORK, INC., KRMA-TV/KUVO-FM, DENVER, COLORADO FOR THE PERIOD JULY 1, 2013 THROUGH JUNE 30, 2015

REPORT NO. ASJ1601-1605

May 27, 2016

Office of Inspector General
Corporation for Public Broadcasting

Report No. ASJ1601-1605
May 27, 2016

Report in Brief

Why We Did This Audit

We performed this examination based on our Annual Plan.

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 (AFR) in accordance with CPB Financial Reporting Guidelines; b) expend Community Service Grants (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 and other selected Grants at Rocky Mountain Public Broadcasting Network, Inc., KRMA TV/KUVO FM, Denver, Colorado for the Period July 1, 2013 through June 30,2015

What We Found

The station overstated NFFS by $1,456,302 because:

The NFFS overstatement resulted in CSG overpayments of $183,367 in 2016.

- It did not exclude membership premiums.
- It included exchange payment revenues from a business and a public broadcasting entity as NFFS.
- For in-kind trades and underwriting, it included contributions from a public broadcasting entity.

In addition we found questioned grant costs of $11,233 charged to the wrong CPB Local Journalism Center (LJC) grants; noncompliance with CPB certification requirements because the station did not give the public reasonable notice of all of its committee meetings as required by the Communications Act; and AFR reporting errors.

The station agreed with most of our findings, but not the full amount of CSG recovery, and has instituted corrective actions. CPB management will make the final determination on our findings and recommendations.

What We Recommend

That CPB require Rocky Mountain Public Broadcasting Network, Inc. (RMPBN) to:

- submit revised Fiscal Year (FY) 2014 AFRs, eliminating ineligible revenues of $1,456,302 and correcting TV Schedule E, and repay $183,367 in excess CSG payments for FY 2016;
- correct its LJC projects interim financial reports for the questioned costs and obtain budget reallocation approvals; and
- fully comply with open meeting requirements.

Corporation for Public Broadcasting

Office of Inspector General

Date: May 27, 2016

To: Jackie J. Livesay, Vice President, Compliance
Ted Krichels, Senior Vice President, System Development and Media Strategy
Joseph Tovares, Senior Vice President and Chief Content Officer

From: Mary Mitchelson, Inspector General Mary Mitchelson

Subject: Audit of Community Service and other selected grants at Rocky Mountain Public Broadcasting Network, Inc., KRMA-TV/KUVO-FM, Denver, CO for the Period July 1, 2013 through June 30, 2015, Report No. ASJ1601-1605

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

401 Ninth Street, NW
Washington, DC 20004-2129
202.879.9669 202.879.9699 fax
www.cpb.org/oig

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EXECUTIVE SUMMARY

We have completed an examination of the Corporation for Public Broadcasting (CPB) Community Service Grants (CSG) and other selected grants at Rocky Mountain Public Broadcasting Network, Inc., (RMPBN)[1] for the period July 1, 2013 through June 30, 2015.[2] Our objectives were to examine RMPBN'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 examination we found:

- overstated NFFS of $1,456,302, which resulted in CSG overpayments of $183,367 in Fiscal Year (FY) 2016[3], which we have reported as funds put to better use;
- questioned costs of $11,233 for reporting costs against the wrong CPB Energy Local Journalism Center (LJC) grant;
- noncompliance with open meeting statutory requirements and Community Advisory Board (CAB) member independence and;
- inaccurate reporting of CPB fund expenditures on the station's TV AFR Schedule E.

We recommend that CPB require RMPBN to:

- submit revised FY 2014 TV and Radio AFRs, Schedules A and C, eliminating ineligible revenues of $1,456,302 and repay $183,367 in excess CSG payments for FY 2016;
- correct the LJC grants financial reports to properly reflect staff time and related expenses for each CPB LJC grant and obtain budget approvals as required;
- fully comply with open meeting requirements; and
- submit revised FY 2014 TV AFR Schedule E to correctly report CPB expenses by fund source.

In response to the draft report, RMPBN agreed with our findings for overstated NFFS but did not address submitting its corrected AFRs eliminating ineligible revenues for FY 2014 or repayment of the excess CSG payments made to RMPBN in FY 2016. The station identified the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines but did not agree that CPB should recover the full $176,743 in CSG overpayments due for membership premiums based on RMPBN's determination of inconsistent fair market valuation reported on AFRs. RMPBN corrected the LJC grants financial reports and is in the process of obtaining the related budget reallocation approvals. The station agreed with our finding on open meetings and took corrective action and has agreed to revise its FY 2014 AFR Schedule E to properly report CPB expenses. RMPBN reiterated that it was dedicated to compliance as evidenced by the

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[1] CPB awarded CSG grants to both KRMA TV and KUVO FM, licensees of RMPBN.

[2] Our examination includes grants active 7/1/2013 through 6/30/2015 that had terms from 11/1/2013 through 12/31/2016 with CSG expenditure periods from 10/1/2013 through 9/30/2016.

[3] Based on applying CPB's FY 2016 Incentive Rate of Return for TV and Radio, per Exhibit E.

compliance program it created. RMPBN's written response to the draft report is attached 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. This report contains recommendations OIG believes 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 RMPBN's response to the draft report, we consider recommendations 1 and 2 unresolved pending CPB's management decision and 3, 4, and 5 resolved but open pending CPB's management decision resolving our recommendations and tracking RMPBN's corrective actions to implementation.

We performed this examination 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**.**

BACKGROUND

Founded in 1956, RMPBN began operations as an instructional TV station broadcasting on Denver's KRMA 6 and has evolved into a statewide television network. In 2013, the television stations merged with I-News and KUVO to create a news department and offer public radio programming. Its mission is "to enrich the lives of Coloradans through engaging and essential programs, services, and community partnerships that inform, enlighten, and entertain." RMPBN operates five public television stations (KRMA, KRMZ, KRMJ, KTSC, and KRMU) in Denver, Steamboat Springs, Grand Junction, Pueblo, and Durango, and one public radio station (KUVO-FM) in Denver (89.3FM) which serves Vail (88.5FM) and Breckenridge (89.7FM).

RMPBN services include national public broadcast programming; locally produced programs to serve local needs such as "Colorado Experience," "Arts District," and Inside Energy collaborative reporting; technical training and continuing education; and interactive educational service for preschool, K12, and higher education. In addition, its radio station serves the community with jazz, blues, news, and culturally diverse programming. RMPBN content is available on a variety of platforms including on-air, online, and through engagement with the community at such events as Science Nights and Kids Fun Fest.

The station's website (RMPBS.org) highlights its history; identifies its various stations; presents its programming schedule; provides interactive content; and contains information about membership and benefits, station operations, annual community and financial reports, and upcoming events and meetings.

CPB awards annual CSG grants 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 and local 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 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 RMPBN on its FY 2013 AFR to determine the amount of the CSG the station received in FY 2015.

During our audit period RMPBN received $4,091,151 from CPB for various grants as itemized in Exhibit A. RMPBN reported NFFS of $12,640,500 in FY 2014 and $11,030,421 in FY 2015 per Exhibit D. RMPBN's audited financial statements for the two FYs reported revenues of $15,131,833 in FY 2014 and $15,595,734 in FY 2015. RMPBN's FY begins July 1 and ends on June 30.

In addition to providing the CSG funds to RMPBN, during our audit period, CPB made additional payments for other project grants as presented in Exhibit A. Two production grants were awarded for the Energy LJC, a collaboration with six stations to create multimedia, multi-platform coverage of energy issues in the western United States. The LJC Video grant supplemented the original LJC grant and was designed to "increase the capacity of stations to create high quality video news and develop an efficient and innovative video production model" that can be sustained after the two-year grant period. Additionally, CPB awarded a Spectrum Auction Planning grant that had minimal spending in the audit period and RMPBN was not required to file a certification of eligible services expense report until the final Spectrum grant deliverables were due on April 15, 2016.

In FY 2015 the station outsourced its accounting functions, including preparation of its CPB AFR reports, to The National Educational Telecommunications Association (NETA).

RESULTS OF AUDIT

In our opinion, except for the noncompliance issues described below, RMPBN has complied with the requirements in the following paragraph for the FY 2014 and 2015 TV and Radio CSGs (Exhibits B, C, and D) and LJC projects. (Exhibits F-1 and F-2).

We examined RMPBN management's assertions of compliance with CPB grant requirements: a) CSG Certification of Eligibility; b) CSG Legal Agreement; c) AFR Signature Page; and the Interim Financial Reports for the LJC projects. The CSG Certification of Eligibility includes RMPBN's compliance with AFR/NFFS reporting in accordance with CPB's Guidelines; Communication Act requirements for open meetings, open financial records, CAB, 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 RMPBN'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 RMPBN's compliance with specified requirements.

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

- overstated NFFS of $1,456,302 which resulted in CSG overpayments of $183,367 in 2016) reported as funds put to better use;
- questioned production costs of $11,233 for noncompliance with budget and financial reporting requirements under the Energy Local Journalism grants;
- noncompliance with open meetings statutory requirements; and
- inaccurate reporting of CPB expenses on the station's TV AFR.

FINDINGS AND RECOMMENDATIONS

OVERSTATED NFFS

Our examination found $1,456,302 in overstated NFFS on RMPBN's FY 2014 TV and Radio AFRs as presented in the following table and detailed in Exhibit E. As a result, CPB made CSG overpayments of $183,367 to RMPBN in FY 2016. We classified this amount as funds put to better use for reporting purposes, because the funds overpaid to RMPBN could have been distributed to other public broadcasting entities.

Overstated NFFS

Conditions	FY 2014 NFFS	CSG Overpayment
Membership Premium Exclusions	$1,404,912	$176,743
Ineligible Payment Sources	39,110	5,170
Ineligible In-kind Trade	10,000	1,322
Ineligible Contribution Source	2,280	132
Total	**$1,456,302**	**$183,367**

This overstatement of NFFS occurred because RMPBN management did not exclude required premiums from its membership revenues on its TV and FM AFRs. In addition the station included exchange payment revenues from a business and a public broadcasting entity (PBE) as eligible sources for NFFS. Finally, for the ineligible in-kind trade and contribution sources, RMPBN included a trade and underwriting contribution from PBEs.

The station merged with KUVO FM July 1, 2013, which required merging two accounting systems and consolidating accounting practices. In addition, staff turnover and prior errors created demands on the new financial management team. Management acknowledged that the change in accounting and finance personnel may have left some gaps in understanding CPB reporting guidelines. To fill this knowledge gap and the station's accounting needs, RMPBN contracted with NETA to perform its accounting and reporting functions including preparing the AFR reports.

In FY 2014 the station prepared the AFRs and requested NETA to review them prior to submission. In FY 2015 NETA prepared the AFRs and the station financial manager reviewed them. RMPBN obtained an extension to file its FY 2015 AFRs and was able to address our related audit findings[4] prior to submitting its FY 2015 AFRs.

Further discussion on our findings is presented below.

Membership Premium Exclusions

RMPBN did not exclude all required membership premiums on its TV and Radio AFRs in FY 2014 overstating NFFS by $1,404,912[5].

CPB Guidelines require stations to exclude from NFFS the Fair Market Value (FMV) of high-end premiums that are not of insubstantial value. The Guidelines state:

> Grantees frequently provide “thank you gifts” (a.k.a. “premiums”) in exchange for membership contributions. The Internal Revenue Service describes a quid pro quo contribution as a payment a donor makes to a charity partly as a contribution and partly for goods and services (i.e., premiums. . .) . The IRS issues guidance … in instances where the premium is not of insubstantial value. . . . For CPB’s purposes the portion of the payment that is not considered a contribution by the IRS may not be included as NFFS.

Guidelines AFR line 10.1 NFFS Exclusion.

The station agreed it had erroneously included the full amount of membership contributions without excluding the FMV of the premiums. NETA incorrectly assumed that the premiums were de minimis and therefore did not meet IRS guidelines for reporting FMV to the donor, and were not required to be excluded from membership contributions on the AFR. Finally, the station’s Independent Public Accounts (IPA) did not identify that the premiums were not excluded from NFFS during its AFR attestation procedures.

Since the station found the omissions prior to submitting its FY 2015 AFRs it was able to exclude $1,472,975 in FMV of premiums from its membership contributions on its 2015 AFRs. Station management said that a third party vendor determined the premium FMV provided to the donors and said since the station’s financial management did not fully audit those valuations it now had concerns that they might be overvalued. However, for CPB reporting purposes the station excluded the FMV that was provided to the donors per CPB Guidelines from its FY 2015 AFRs. Station management commented that its IPA’s tax department thought that the FMV of

[4] RMPBN provided us with its draft FY 2015 AFRs and we found similar findings in FY 2015 totaling $1,599,204 that would have also overstated NFFS. The station corrected these findings from its draft AFRs prior to certifying its final AFRs and submitting to CPB.

[5] We also found that the premiums had not been excluded by the prior financial manager in FYs 2012 and 2013.

premiums provided to the donors were overstated and as a result donors may not have received acknowledgement of the full value of their contributions.

Based on our audit, we questioned NFFS of $1,404,912 for membership, resulting in overpayments of $176,743 in FY 2016 CSG payments. See Exhibit E.

Ineligible Payment Sources

RMPBN reported payments of $39,110 in FY 2014 that did not meet the source criteria for NFFS (received from state/local government or educational institution). The station reported $34,110 in presenting station fees from an independent corporate producer as NFFS. CPB classifies presenting station fees as payments for NFFS purposes.[6] In addition, RMPBN included $5,000 in production fees from a PBE as NFFS.

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.

> Revenues, eligible as NFFS take the form of either a contribution or a payment. With the exception of the recipient criteria (see Sec. 2.3), the criteria for contributions are not the same as the criteria for payments … A **payment,** on the other hand, is a reciprocal transfer (i.e., an exchange transaction) of cash or other assets in which each party receives and sacrifices approximately equal value.
>
> 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.

Guidelines, Section 2.2 – Contributions vs. Payments, Section 2.3.2 Interpretations NFFS Criteria.[7]

Because the revenues from fees were for services, i.e., an exchange transaction, they are payments for NFFS purposes, and to qualify as NFFS the source must be a state, local government, or educational institution. These payments were not from qualifying sources and were not eligible as NFFS.

RMPBN officials said that prior accounting staff had misinterpreted CPB guidelines for exchange transactions and didn't identify the ineligible sources in FY 2014. The station re-evaluated the presenting station contract in FY 2015 and properly excluded the fees on its FY 2015 TV AFR. The prior financial manager was not aware that the production contract was with a PBE and therefore did not exclude it in FY 2014, but the source has now been properly

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

[7] CPB updated its FY 2015 Guidelines Section 2.3.2 Interpretations to specify "Presenting Station" fees as exchange transactions.

identified for exclusion on future AFRs. We also identified $45,259 in PBS National Satellite Feed fees in FY 2015 and RMPBN eliminated these ineligible fees on its AFR.

Ineligible payments totaled $39,110 resulting in a CSG overpayment of $5,170 in FY 2016. See calculations in Exhibit E.

Ineligible In-kind Trades

Our review of $227,300 in in-kind trades initially found that none of the trades were adequately documented as required by CPB Guidelines. During our fieldwork station officials obtained additional donor information to better document the trades tested. Our review of this documentation found $10,000 in an unallowable trade from a PBE source in FY 2014. Additionally we identified $10,000 in a trade with the same PBE in FY 2015 and the station eliminated it from NFFS prior to submitting its FY 2015 TV AFR. We accepted the balance of the trade documentation totaling $207,300 provided by the donors after the fact.

> Generally accepted accounting principles (GAAP) require that grantees record all significant contributed support at fair value at the time of donation, ….

Guidelines, Section 2.6.3 – Valuation Criteria for In-kind Contributions.

> GAAP also requires that documentation of contributed goods and services must support the determination of fair value … In order to satisfy CPB's documentation requirement the documentation must originate from the donor and it must contain the following elements:
>
> - Documentation must be on formal business stationary or an invoice that prominently displays the donor's name, address and other identifying characteristics (e.g. business logo, etc.).
> - Documentation must contain:
>   - A description of the goods or services donated
>   - The date(s) of the donation
>   - The value of the donated goods or services and the method of valuation (e.g. lawyer's hourly rate x hours worked)
>   - Explicit statement of the donors intent to donate or trade the goods or services
>   - Signature, name and title of the donor or donor's representative

Guidelines, Section 2.6.4 – Documentation Criteria for In-Kind Contributions.

RMPBN had in-kind trade agreements with its donors, but it did not have documentation that confirmed the trades were actually delivered with the donors' valuation of the trades. More specifically, the station did not have a letter or an invoice from the donors documenting the delivery of the trade, the services provided, and the value of the goods, as required by CPB Guidelines Section 2.6.4. This documentation should have been received at the time the actual trade was made. However, since we received the information during our fieldwork and it met the other documentation criteria in CPB's Guidelines, we accepted this documentation after the fact to support the claimed trades.

The station also included in-kind trades from a PBE as NFFS, because the station had not identified the donor radio station as a PBE. Although the station was able to correct its FY 2015 AFR, station officials said that due to the demands of the audit, which coincided with its AFR preparation and the station's annual compliance review process, it may have rushed its review process leading to some of the FY 2015 findings identified during our audit. They said the station had not fully implemented its procedures to address the additional donor fulfilment documentation requirements for trades.

Based on our audit we questioned $10,000 in in-kind trades claimed as NFFS, resulting in an overpayment of $1,322 in FY 2016 CSG payments. See Exhibit E.

Ineligible Contribution Source

In FY 2014 the station reported $2,280 in an underwriting contribution from a PBE. We also found $70,970 in federal funds for underwriting in FY 2015. During our fieldwork RMPBN corrected its FY 2015 AFR to exclude the federal funds prior to submitting it to CPB. PBEs and the federal government are not eligible contribution sources for NFFS. Guidelines Section 2.3.2.

Discussions with station officials found that underwriting contribution sources were not properly identified during the underwriting process; therefore they were not properly coded in the sales force database and general ledger accounts. The station did not identify the federal funds because the donor had used two advertising agencies[8] to place the underwriting. Station underwriting staff identified the first agency as a corporate entity and coded it as such. In addition a station financial official said the station also did business with this agency as a vendor and it assumed the agency was the underwriter. As a result, the contribution was reported as corporate underwriting, when the actual source was a federal entity.

The station also misclassified other underwriting received from advertising agencies on behalf of donors as corporate underwriting and reported the contributions on AFR line 9.1A when the actual sources were either state or local governments, universities, or foundations. However, since these donor sources were eligible sources, there was no effect on NFFS.

The station held a training session with its underwriting department in January 2016 to address the additional source code review process to ensure that donor sources will be properly identified in the accounting system and properly reported on the AFR.

Based on our audit we questioned $2,280 for an ineligible contribution claimed as NFFS, resulting in an overpayment of $132 in FY 2016 CSG payments. See Exhibit E.

[8] The federal agency contracted with one advertising agency that contracted with another agency that placed the underwriting with the station.

Recommendations

We recommend CPB management take the following actions:

1) require RMPBN to submit revised AFRs eliminating ineligible revenues for FY 2014 and identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines; and

2) recover $183,367 in excess CSG payments made to RMPBN in FY 2016 based on the FY 2014 reported NFFS.

RMPBN Response

In response to our draft recommendations, RMPBN acknowledged that it did not correctly report some amount in premium exclusions, $34,110 in presenting station fees, and $17,280 from ineligible PBEs ($5,000 in production service payments, $10,000 in an in-kind trade, and $2,280 in an underwriting contribution). The station did not agree that CPB should recover the full $176,743 in CSG overpayment due to the membership premium exclusion omission because it felt that the fair market valuation used to determine the premium amount was based on vendor valuations that RMPBN had not fully evaluated. Further, RMPBN surveyed other PBEs regarding membership premiums fair market valuation and found several inconsistencies in valuation for AFR reporting throughout the system. The station believes CPB should offer additional guidance on the amount reported on AFRs for membership premiums to address the disparities across the system. The station stated that due to its merger with KUVO in 2013 significant changes were required in its operations and RMPBN management took measured steps in 2014 and 2015 to implement new accounting procedures and controls to ensure compliance with CPB requirements. Additionally, the station states that if it were to repay CPB for the NFFS overstatement it should also receive an adjustment for the amount it paid to PBS for dues based on the NFFS reported on its AFR.

OIG Review and Comment

Based on RMPBN's response, we consider recommendations 1 and 2 unresolved pending CPB's management decision. RMPBN's response did not address submitting revised AFRs in recommendation 1 but did state it had implemented corrective processes to ensure future compliance. Without agreement to submit revised AFRs, recommendation 1 remains unresolved.

Regarding recommendation 2, RMPBN acknowledged that $51,390 of $1,456,302 of our findings for overstated NFFS was due to ineligible payment, contribution, and trade sources and agreed that it had not excluded premiums from its membership contributions. However, station management did not agree to the $1,404,912 premium amount as it believes the fair market valuation provided by its vendors had not been fully evaluated and that there is an inconsistency in reporting fair market value of premiums on AFRs across the public broadcasting system. As previously noted above, the premium amounts questioned were based on the fair market value provided to the donors, and CPB guidance states that the value should be excluded from membership contributions on the station's AFRs. As a result, we have not changed our finding on the membership premium overstatement and recommendation 2 remains unresolved.

QUESTIONED COSTS

We identified $11,233 in questionable production grant costs on the CPB Energy LJC Grants, $9,285 on LJC grant #14870 and $1,948 on LJC Video grant #15384, because of misallocations of time and expenses between the two CPB LJC grants. Each grant had separate deliverable and budget requirements.

CPB Energy LJC Grants Questioned Costs

Financial Report Type	CPB Grant Number	Grant Name	Total Grant Budget	CPB Grant Budget	Actual Costs	CPB Payments	Questioned Costs
Interim 6/30/15	14870	The Energy LJC*	$2,095,035	$1,394,800[9]	$951,519	$420,000	$9,285
Interim 8/31/15**	15384	LJC-Video Production – Inside Energy	349,890	349,890	74,507	105,000	1,948
Total			**$2,444,925**	**$1,744,690**	**$1,026,026**	**$525,000**	**$11,233**[10]

* includes partner in-kind expenses

**questioned costs through 6/30/15 audit scope

The interim financial reports with budget line item questioned costs are presented in Exhibits F-1 and F-2.

> F. Authorized Uses of CPB Funds. No Grantee may apply amounts received under a Grant to any purpose other than actual costs incurred in the performance of the Grant Project in accordance with its Budget.

CPB's Terms and Conditions for Television, Radio and Other Media Production Grants, Section 4. Budget and Financial Reporting

The station reported grant project costs for staff time and expenses to the wrong CPB grant project, and therefore was not in accordance with the grant project budget. RMPBN's LJC project management considered both grants one project – Inside Energy – and considered the second LJC video production grant as a supplement to the first LJC grant. The staff that was hired for the first LJC grant charged 100 percent of their time to that grant even though some were also working on deliverables for the LJC video grant. The LJC staff considered all their time CPB LJC grants project time, and didn't differentiate between the two CPB grants for timekeeping and expense reporting. Additionally, the video producer hired for the LJC video grant was also spending some time on the first LJC grant.

[9] CPB grant awarded for up to $1,400,000 of project direct costs.

[10] The station identified an additional $25,880 in costs that were misallocated between the grants for the period July 1, 2015 – January 31, 2016, subsequent to our audit period, that resulted in an $11,540 net overstatement on LJC grant #14870 and a $10,300 understatement on LJC Video grant #15384.

RMPBN project management said that there was some miscommunication between CPB and the project management team regarding reporting for the separate grant deliverables and financial reporting. Station financial management was not aware that the LJC staff members were working on both grants and therefore had reported project time based on LJC staff timecards that identified only one CPB grant project account code.

Upon discovery of this issue, LJC project management and CPB held discussions to clarify project deliverables and reporting. RMPBN developed a methodology to report on the separate deliverables, correct the prior reporting, and report future costs against the correct deliverables and CPB project. We reviewed LJC project management's allocation corrections to identify our questioned costs.

RMPBN provided CPB with the proposed allocation method for the two CPB grants. CPB management said while they have had discussions with RMPBN about possible changes to the budgets for the LJC grants and is supportive of these changes; they have not seen the proposed budgets and cannot assess the impact the proposed changes might have on the project. CPB further stated that any such change would be subject to official CPB approval.

Although we questioned the $11,233 misallocated time for each project by budget category, the net effect of these misallocations of project time and expenses resulted in LJC grant expenditures being overstated by $7,337[11] for LJC grant #14870 and understated $6,297 for LJC grant #15384. In addition the related budget reallocations may require CPB approvals.

Recommendations

We recommend CPB management require RMPBN to

3) correct the LJC grants financial reports to properly reflect staff time and related expenses for each CPB LJC grant and request budget reallocation approvals from CPB if required.

RMPBN Response

In response to this finding, RMPBN stated that it believes this was a mistake in grant administration due to lack of training and the complex nature of operating two grants simultaneously. The station has corrected the situation and created a methodology with staff training to ensure that all expenses are reported under the correct grant agreement. In addition, it has corrected its financial reports and is in the process of obtaining budget reallocation approvals from CPB. RMPBN further recommended that CPB consider amending grants rather than awarding a separate grant when project deliverables are interrelated.

[11] $1,040 of the misallocated costs were from a partner station's in-kind investment and non-chargeable to the LJC video grant.

OIG Review and Comment

Based on RMPBN's response, we consider recommendation 3 resolved but open pending CPB's approval and completion of RMPBN's corrective actions.

ACT COMPLIANCE

Our examination found that RMPBN did not fully comply with the statutory provisions of the Act or the CPB Certification Requirements for Station Grant Recipients (CPB Act requirements) for open meetings and CAB requirements.

Open Meetings

RMPBN did not fully comply with open meetings requirements of the Act because it did not provide reasonable notice to the public for open meetings it held for all committees of the board of directors, did not make available to the public the reasons for closed meetings, and it radio licensee station did not broadcast the quarterly on air open meeting policy announcements. The Act requires that RMPBN's governing board, committees of the board, and the CAB hold open meetings open to the public. The Act and CPB also require that stations give the public reasonable notice of such meetings, make quarterly on-air announcements of the station's open meeting policies, and make the reasons for closing a meeting or part of a meeting available to the public.

The term "meeting" is defined in Section 397 of the Act as "the deliberations of at least the number of members of a governing or advisory body or any committee thereof, required to take action on behalf of such body or committee where such deliberations determine or result in the joint conduct or disposition of the governing or advisory body's business, or the committee's business, as the case may be, but only to the extent that such deliberations relate to public broadcasting."[12]

> Funds may not be distributed pursuant to this subsection … to the licensee or permittee of any public broadcast station, unless the governing body of any such organization, any committee of such governing body, or any advisory body of any such organization, holds open meetings preceded by reasonable notice to the public.
>
> All persons shall be permitted to attend any meeting of the board, or any such committee or body, and no person shall be required, as a condition to attendance at any such meeting, to register such person's name or to provide any other information … If any such meeting is closed pursuant to the provisions of this paragraph, the organization involved shall thereafter (within a reasonable period of time) make available to the public a written statement containing an explanation of the reasons for closing the meeting.

The Act, Sec. 396(k)4 – Open Meetings.

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[12] CPB's current Act certification requirements, issued in May 2015, notes that deliberations do not require any formal action to make it a meeting, only that discussion of public broadcasting issues that could influence members of the board makes it a meeting.

Further, CPB prior Act certification requirements issued in 2004 and in effect through April 2015 define the minimum specific actions to meet this compliance as follows:

1) the public must be notified at least seven days prior to an open meeting as to the meeting, time and place; 2) the station must broadcast an announcement on air for three consecutive days each quarter regarding the station's open meeting policy to include information about how the public can obtain information regarding specific dates, times and locations; and 3) the station must make available to the public a written statement containing the reasons for closing a meeting in accordance with statutory reasons for closing a meeting

The station held committees meetings for its standing committees of the board and its investment committee that were not open to the public. The station felt that these committees were advisory in nature and only made recommendations to the Executive Committee and the full board, which were open to the public and therefore did not give notice to the public for these committee meetings. During our audit fieldwork station management started making available the reasons for closing the committee meetings that were within statutory reasons for closing a meeting. In addition, it now posts on its website open meeting notices for all committees of the board and reasons for closing a meeting or portion of a meeting. The station in its quarterly announcements stated its open meeting policy includes all committees of the board.

During our audit period, RMPBN's KUVO FM station informed management that it was broadcasting the quarterly on air announcements as required. However, during management's recent compliance review, it requested broadcast logs of these announcements and found that KUVO was not properly broadcasting the quarterly open meeting announcements. KUVO corrected its practice and the radio station is now compliant with open meeting policy notices.

Although station management was not fully compliant with all Act requirements due to their interpretations of the Act and issues with its merger with KUVO, the station has developed a compliance checklist program to review CPB requirements annually to ensure proper compliance and make changes as requirements change. We consider this a best practice for compliance accountability.

Community Advisory Committee

Our audit found that the chairman of the CAB was not independent of the RMPBN Board. Since the CAB board member was a voting member on both the CAB and RMPBN boards the CAB composition did not reflect a completely independent role as required by CPB's 2004 guidance.

Section 396(k)(8) of the Act provides that the station establish a Community Advisory Board to review the programming goals and significant policy decisions provided by the station and advise the governing body whether the station's programming and policies meet the specialized educational and cultural needs of the community served by the station. CPB Act requirements provides interpretations for the composition of the CAB and states, "the composition of the CAB must reflect its independent role, and may not include members of the station or governing body in anything other than an ex officio or administrative capacity."[13]

Station management stated that it believes it is promoting best practices by having a CAB member on the RMPBN board to inform the board and hear the voice of the community.

To summarize, the station was not fully compliant with the Act requirements and the public was not made aware of open meetings of committees of the board or reasons why meetings or sessions of a meeting were closed. In addition its radio station did not notify the public of its open meeting policy or how to obtain information about dates, times, and places of its open meetings. Further, the CAB was not independent of the board if the CAB board member was also an official board member with voting rights on the CAB and the full board, but this requirement has been eliminated with CPB's May 2015 revisions to the Act certification requirements.

Recommendations

4) We recommend CPB require RMPBN to provide reasonable notice to the public for all board, committees, and CAB open meetings.

RMPBN Response

The station agreed with our finding to provide reasonable notice to the public for all open and closed meetings. RMPBN has corrected prior errors in airing required notices and agrees transparency is a key tenet of the public media system. It did, however, reiterate that its prior legal interpretation of various committees was that they were advisory and therefore not subject to the open meeting notice requirements. RMPBN's response to recommendation 4 addressed how the station is now applying open meeting requirements to all its advisory and active committees of the board.

OIG Review and Comment

Based on RMPBN's response, we consider recommendation 4 resolved but open pending CPB's acceptance and completion of RMPBN's corrective actions.

AFR EXPENDITURE REPORTING

Our audit found the station did not identify and properly report $177,712 of LJC expenses in other CPB grant expenditures on its TV AFR Schedule E as CPB funds in FY 2014.

CPB Guidelines require stations report and identify all CPB funds expended on AFR Schedule E.

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

[13] CPB's current Act certification requirements (May 2015) are silent on CAB independence and state only that the composition of the CAB reasonably represent the diverse needs and interests of the communities it serves.

For TV Grantees:

A. TV CSG
B. TV Interconnection
C. Other CPB funds
D. All non-CPB funds

CPB Guidelines Part 9 Completing AFR Schedule E – Expenses, Reporting CPB Grant Expenditures.

While both station management and NETA were not aware that the expenses for other CPB production grants needed to be reported on the AFR Schedule E under lines 1-7C or total amount in 8C as Other CPB funds, the expenses were included in lines 1-7D and in total in 8D All non-CPB funds. During the audit, RMPBN corrected the FY 2015 AFR to report its CPB expenditures in the proper categories which included $576,112 in other CPB grant funds.

Because RMPBN did not report all CPB expenditures in its FY 2014 TV AFR in the proper category it was not in compliance with CPB reporting guidelines and CPB expenses were not correctly identified.

Recommendations

5) We recommend CPB require RMPBN to submit its corrected FY 2014 TV AFR schedule E showing all CPB funded expenditures.

RMPBN Response

The station agreed with our finding and will make the adjustments on its 2014 AFR as CPB may require. RMPBN restated that it continues to review rules and regulations and are continually modifying systems and controls to insure compliance.

OIG Review and Comment

Based on RMPBN's response, we consider recommendation 5 resolved but open pending CPB's acceptance and completion of RMPBN's corrective actions.

Exhibit A

CPB Payments to RMPBN
July 1, 2013 – June 30, 2015

CPB Grants	FY 2014	FY 2015	Total
TV			
Community Service Grant	$1,290,987	$1,697,945	$2,988,932
Interconnection	24,673	30,717	55,390
Distance Service	146,850	146,850	293,700
Total TV	**1,462,510**	**1,875,512**	**3,338,022**
Radio			
Unrestricted Community Service Grant	91,477	69,710	161,187
Restricted Community Service Grant	32,175	24,967	57,142
Total Radio	**123,652**	**94,677**	**218,329**
Other			
Energy LJC – Grant #14870	210,000	210,000	420,000
LJC Video Production – Grant #15384	0	105,000	105,000
Spectrum Auction Planning – Grant #15443	0	9,800	9,800
Total Other	**210,000**	**324,800**	**534,800**
Total TV, Radio and Other Grants	**$1,796,162**	**$2,294,989**	**$4,091,151**

Exhibit B

TV Annual Financial Reports
Years Ending June 30, 2014 and 2015

Line	Description	FY 2014	FY 2015
	Schedule A,		
	Source of Income		
1	Amounts provided directly by federal government agencies	$31,069	$71,548
1.F	Other Federal Funds: USDA, SE2 DOE	31,069	71,548
2	Amounts Provided by Public Broadcasting Entities	1,838,259	2,663,839
2.A	CPB - Community Service Grants	1,290,987	1,875,512
2.B	CPB - all other funds from CPB	349,235	609,186
2.C	PBS - all payments except copyright royalties and other pass-through payments	28,500	55,044
2.D	NPR - all payments except pass-through payments	0	0
2.E	Public broadcasting stations - all payments	154,360	88,097
2.F	Other PBE funds (Pacific Mountain Network and Vision Maker Media)	15,177	36,000
3	Local boards and departments of education or other local government or agency sources	32,733	124,234
3.1	NFFS Eligible - Local government	21,108	119,944
3.2	NFFS Ineligible - Local government	11,625	4,290
4	State boards and departments of education or other state government or agency sources	28,054	75,835
4.1	NFFS Eligible - State government	15,035	51,647
4.2	NFFS Ineligible - State government	13,019	24,188
5	State colleges and universities	74,460	177,370
5.1	NFFS Eligible - State colleges and universities	71,660	177,070
5.2	NFFS Ineligible - State colleges and universities	2,800	300
6	Other state-supported colleges and universities	0	0
7	Private colleges and universities	0	0
8	Foundations and nonprofit associations	743,615	1,431,050
8.1	NFFS Eligible - Foundations and nonprofits	675,648	1,365,228
8.2	NFFS Ineligible - Foundations and nonprofits	67,967	65,822
9	Business and Industry	1,350,496	962,090
9.1	NFFS Eligible - Business and Industry	1,201,237	756,624
9.2	NFFS Ineligible - Business and Industry	149,259	205,466
10	Membership and subscriptions	6,130,844	6,141,640
10.1	NFFS Exclusion - Fair market value of premiums that are not of insubstantial value	0	1,317,036
	Form of Revenue		
14	Special fundraising activities (Net)	202,095	259,025
14.A	Gross special fundraising activities revenues	237,473	260,532
14.B	Special fundraising activities expenses	35,378	1,507
15	Passive income	195,014	260,915
16	Gains and losses on investments, charitable trusts and gift annuities and sale of other assets (other than endowment funds)	828,659	(236,108)
17	Endowment revenue	39,281	(7,478)
18	Capital fund contributions	0	0
19	Gifts and bequests from major individual donors	2,646,723	1,938,681
20	Other direct revenue	62,824	63,363
21	**Total Revenue**	**14,239,504**	**13,927,511**

Exhibit B (continued)

TV Annual Financial Reports
Years Ending June 30, 2014 and 2015

Line	Description	FY 2014	FY 2015
	Adjustments to Revenue		
22	Federal revenue from line 1.	31,069	71,548
23	Public broadcasting revenue from line 2.	1,838,259	2,663,839
24	Capital funds exclusion	0	0
25	Revenue on line 20 not meeting the source, form, purpose, or recipient criteria to be included as NFFS	14,524	63,363
26	Other automatic subtractions from total revenue	1,143,824	1,365,659
27	**Total Direct Non-Federal Financial Support**	**11,211,828**	**9,763,102**
	Schedule C		
1	PROFESSIONAL SERVICES (must be eligible as NFFS)	171,474	182,305
2	GENERAL OPERATIONAL SERVICES (must be eligible as NFFS)	107,680	95,468
3	OTHER SERVICES (must be eligible as NFFS)	20,500	0
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 Non-federal Financial Support	**299,654**	**277,773**
5	IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	107,561	45,278
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.	**407,215**	**323,051**
	Schedule D		
1	Land	0	0
2	Building	0	0
3	Equipment	0	0
4	Vehicle(s)	0	0
5	Other	0	0
6	**Total in-kind contributions** - property and equipment eligible as NFFS	0	0
7	IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	90,000	0
	a) Exchange transactions	0	0
	b) Federal or public broadcasting sources	0	0
	c) TV only - property and equipment that includes new facilities (land and structures), expansion of existing facilities and acquisition of new equipment	90,000	0
	d) Other	0	0
8	**Total in-kind contributions** - property and equipment (line 6 plus line 7), forwards to Schedule F, line 1d. Must agree with in-kind contributions recognized as revenue in the AFS.	90,000	0
TV	**Schedule E - EXPENSES**		
	PROGRAM SERVICES		
1	Programming and production	4,207,782	5,291,234
	A. TV CSG	1,844,795	1,480,987
	B. TV Interconnection	32,000	0
	C. Other CPB Funds	0	573,921
	D. All non-CPB Funds	2,330,987	3,236,326
2	Broadcasting and engineering	4,138,401	3,369,766

Exhibit B (continued)

TV Annual Financial Reports
Years Ending June 30, 2014 and 2015

Line	Description	FY 2014	FY 2015
2	A. TV CSG	0	0
	B. TV Interconnection	0	30,717
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	4,138,401	3,339,049
3	Program information and promotion	371,982	407,796
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	371,982	407,796
	SUPPORT SERVICES		
4	Management and general	1,580,321	1,558,929
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	2,191
	D. All non-CPB Funds	1,580,321	1,556,738
5	Fund raising and membership development	3,541,882	3,607,285
	A.TV CSG	0	363,808
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	3,541,882	3,243,477
6	Underwriting and grant solicitation	672,218	701,051
	A.TV CSG	0	0
	B.TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	672,218	701,051
7	Depreciation and Amortization (if not allocated)	0	0
8	**Total Expenses (sum of lines 1 to 7) must agree with audited financial statements**	**14,512,586**	**14,936,061**
	A. Total TV CSG	1,844,795	1,844,795
	B. Total TV Interconnection	32,000	30,717
	C. Total Other CPB Funds[14]	0	576,112
	D. Total All non-CPB Funds	12,635,791	12,484,437
9	INVESTMENT IN CAPITAL ASSETS	229,367	142,121
10	**Total Expenses and investment in capital assets**	**$14,741,953**	**$15,078,182**

[14] RMPBN did not report $177,712 of LJC expenses in FY 2014 as “Other CPB Funds” on its AFR Schedule E.

Exhibit C

Radio Annual Financial Reports
Years Ending June 30, 2014 and 2015

Line	Description	FY 2014	FY 2015
	Schedule A		
	Source of Income		
1	Amounts provided directly by federal government agencies	$0	$0
2	Amounts provided by Public Broadcasting Entities	126,512	98,277
2.A	CPB - Community Service Grants	123,652	94,677
2.B	CPB - all other funds	0	0
2.C	PBS - all payments except copyright royalties and other pass through payments	0	0
2.D	NPR - all payments except pass-through payments	690	0
2.E	Public broadcasting stations - all payments	2,170	3,600
2.F	Other PBE funds	0	0
3	Local boards and departments of education or other local government or agency sources	0	3,700
3.1	NFFS Eligible - Local government	0	3,700
3.2	NFFS Ineligible - Local government	0	0
4	State boards and departments of education or other state government or agency sources	0	250
4.1	NFFS Eligible - State government	0	0
4.2	NFFS Ineligible - State government	0	250
5	State colleges and universities	3,220	1,100
6	Other state-supported colleges and universities	0	0
7	Private colleges and universities	0	8,352
8	Foundations and nonprofit associations	74,983	87,578
8.1	NFFS Eligible - Foundations and nonprofits	74,703	87,578
8.2	NFFS Ineligible - Foundations and nonprofits	280	0
9	Business and Industry	95,947	89,389
9.1	NFFS Eligible - Business and Industry	95,647	89,239
9.2	NFFS Ineligible - Business and Industry	300	150
10	Memberships and subscriptions	808,691	747,366
10.1	NFFS Exclusion - Fair market value of premiums that are not of insubstantial value	0	155,939
	Form of Revenue		
13	Auction revenue	0	10,529
14	Special fundraising activities (Net)	66,671	120,884
14.A	Gross special fundraising activities revenues	66,671	124,022
14.B	Special fundraising activities expenses	0	3,138
15	Passive income	56	0
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	0	0
18	Capital fund contributions	0	0
19	Gifts and bequests from major individual donors	80,030	76,737
20	Other direct revenue	55,969	160
21	**Total Revenue**	**1,312,079**	**1,247,460**

Exhibit C (continued)

Radio Annual Financial Reports
Years Ending June 30, 2014 and 2015

Line	Description	FY 2014	FY 2015
	Adjustments to Revenue		
22	Federal revenue from line 1.	0	0
23	Public broadcasting revenue from line 2.	126,512	98,277
25	Revenue on line 20 not meeting the source, form, purpose, or recipient criteria to be included as NFFS	55,969	160
26	Other automatic subtractions from total revenue	580	159,477
27.	**Total Direct Non-Federal Financial Support**	**1,129,018**	**989,546**
	Schedule C		
1	PROFESSIONAL SERVICES	0	0
2	GENERAL OPERATIONAL SERVICES	0	0
3	OTHER SERVICES (must be eligible as NFFS)	0	0
4	**Total In-Kind Services -** services and other assets eligible as NFFS (sum of lines 1 through 3), forwards to Line 3a. of the Summary of Non-federal Financial Support	**0**	**0**
5	IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	135,988	108,489
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.	**135,988**	**108,489**
Radio	**Schedule E - EXPENSES**		
	PROGRAM SERVICES		
1	Programming and production	596,528	557,428
	A. Restricted Radio CSG	32,200	24,967
	B. Unrestricted Radio CSG	69,964	27,039
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	494,364	505,422
2	Broadcasting and engineering	297,524	223,300
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	14,336	42,627
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	283,188	180,673
3	Program information and promotion	16,181	32,977
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	16,181	32,977
	SUPPORT SERVICES		
4	Management and general	119,579	131,964
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	119,579	131,964
5	Fund raising and membership development	442,721	462,181
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	7,380	44
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	435,341	462,137

Exhibit C (continued)

Radio Annual Financial Reports
Years Ending June 30, 2014 and 2015

Line	Description	FY 2014	FY 2015
6	Underwriting and grant solicitation	57,337	90,485
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	57,337	90,485
7	Depreciation and Amortization if not allocated	0	0
8	**Total Expenses (sum of lines 1 to 7) must agree with audited financial statements**	**1,529,870**	**1,498,335**
	A. Restricted Radio CSG	32,200	24,967
	B. Unrestricted Radio CSG	91,680	69,710
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	1,405,990	1,403,657
9	INVESTMENT IN CAPITAL ASSETS	77,732	84,184
10	**Total expenses and investment in capital assets**	**$1,607,602**	**$1,582,519**

Exhibit D

Summary of Non-Federal Financial Support
For the periods ending June 30, 2014 and 2015
Certified by Head of Grantee and Independent Accountant's Report

Line	Description	TV FY 2014	Radio FY 2014	Total FY 2014
	Summary of Non-Federal Financial Support:	**TV**	**Radio**	
1	Direct Revenue (Schedule A)	$11,211,828	$1,129,018	$12,340,846
2	Indirect Administrative (Schedule B)	0	0	0
3	In-Kind Contributions (Schedule C)	299,654	0	299,654
4	**Total Non-Federal Financial Support**	**$11,511,482**	**$1,129,018**	**$12,640,500**

Line	Description	TV FY 2015	Radio FY 2015	Total FY 2015
	Summary of Non-Federal Financial Support:	**TV**	**Radio**	
1	Direct Revenue (Schedule A)	$9,763,102	$989,546	$10,752,648
2	Indirect Administrative (Schedule B)	0	0	0
3	In-Kind Contributions (Schedule C)	277,773	0	277,773
4	**Total Non-Federal Financial Support**	**$10,040,875**	**$989,546**	**$11,030,421**

Exhibit E

RMPBN Overstated Reported NFFS

Overstated NFFS	Radio FY 14	TV FY 14	Combined FY 14
Membership premium exclusions			
Fair Market Value (FMV) of premiums that are not of insubstantial value	$120,481	$1,284,431	$1,404,912
Subtotal membership premium exclusions	**120,481**	**1,284,431**	**1,404,912**
CPB's FY 2016 Incentive Rate of Return	5.769%	13.219%	
CSG overpayment	***6,950***	***169,793***	***176,743***
Ineligible payment sources			
Presenting Station Fees -corporate/business entity	-	34,110	34,110
Production Contract Revenues - PBE Entity	-	5,000	5,000
Subtotal ineligible payments	**-**	**39,110**	**39,110**
CPB's FY 2016 Incentive Rate of Return	5.769%	13.219%	
CSG overpayment	***-***	***5,170***	***5,170***
Ineligible in-kind trade			
In-kind trade - PBE Entity	-	10,000	10,000
Subtotal ineligible in-kind trade	**-**	**10,000**	**10,000**
CPB's FY 2016 Incentive Rate of Return	5.769%	13.219%	
CSG overpayment		***1,322***	***1,322***
Ineligible contribution source			
Underwriting – PBE Entity	2,280	-	2,280
Subtotal ineligible contribution source	**2,280**	**-**	**2,280**
CPB's FY 2016 Incentive Rate of Return	5.769%	13.219%	
CSG overpayment	***132***	***-***	***132***
Total overstated NFFS	**$122,761**	**$1,333,541**	**$1,456,302**
CPB's FY 2016 Incentive Rate of Return	5.769%	13.219%	
CSG overpayment/funds put to better use	***$7,082***	***$176,285***	***$183,367***

EXHIBIT F- 1

CPB Grant #14870
Energy Local Journalism Center
Interim Financial Report and Questioned Costs

	As of June 30, 2015			
Budget Category	**Budget**	**Actual**	**$ Variance**	**Questioned Costs**
Personnel				
Staff	$774,900	$377,740	$397,160	$,4665
Benefits @ 30%	226,800	93,572	133,228	1,401
Personnel Total	**1,001,700**	**471,313**	**530,387**	**6,066**
Expenses				
Freelance	102,500	34,480	68,020	
Travel	82,000	76,646	5,354	553
PRX	4,100	0	4,100	
Consultant	20,500	53,513	(33,013)	
Training	10,250	4,365	5,885	
Research/Data Acquisition	4,100	300	3,800	
Engagement materials	71,750	14,047	57,703	
Equipment 7x$2K	28,700	24,777	3,923	
Phones 7X$1500	21,525	6,342	15,183	
Membership/subscription	5,125	3,693	1,432	
Misc.	7,550	1,519	6,031	
Hiring recruitment	35,000	19,030	15,970	
Total Direct Expenses*	**1,394,800**	**710,025**	**684,775**	**6,619**
In-kind expenses				
5-10% of salary & benefits for partner station GMs	117,627	50,949	66,678	
5-10% of salary & benefits for partner station News Directors	51,022	67,958	(16,936)	
5% general administration	398,026	58,443	339,583	
5% production costs	103,000	48,026	54,974	2,666
20% of Wyoming Public Radio energy reporter salary & benefits	30,560	16,119	14,441	
Total in-kind expenses	700,235	241,494	458,741	2,666
Total Direct plus In-kind Expenses	**2,095,035**	**951,519**	**1,143,516**	**$9,285**
Revenue				
CPB	1,394,800	420,000	974,800	
In-Kind Grantee Guarantee **	700,235	241,494	458,741	
Total Revenue	**$2,095,035**	**$661,494**	**$1,433,541**	

* CPB grant awarded for up to $1,400,000 for Direct Expenses.
**Grantee Guarantee will decrease for the $2,666 in questioned in-kind costs and will increase for the $1,948 cost reallocation from CPB Grant #15384.

Exhibit F-2

CPB Grant #15384
Energy Local Journalism Center
Video Production
Interim Financial Report and Questioned Costs

Budget Category	As of August 31, 2015			*
	Budget	Actual	$ Variance	Questioned Costs
Expenses				
Project Management, Editorial and Training	$170,690	$30,064	$140,626	$1,948
Video Production (reporter/producers/freelance)	80,000	400	79,600	
Equipment (camera pkgs, computers, software & support)	44,000	36,939	7,061	
Travel	18,000	7,104	10,896	
Sustainability	37,200	0	37,200	
Total Direct Expenses	**$349,890**	**$74,507**	**$275,383**	**$1,948**

*****Questioned costs through 6/30/15 audit scope. Costs reported as Project Management should have been classified as Video Production.

Exhibit G

Scope and Methodology

We performed an examination to determine RMPBN's compliance with CPB Financial Reporting Guidelines, provisions of the Communications 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, 2014 and June 30, 2015; grant certifications of compliance with Act requirements; and certifications on its financial reports submitted to CPB.

We tested the allowability of NFFS claimed on RMPBN's TV and radio AFRs by performing financial reconciliations and comparisons to underlying accounting records (general ledger) and the audited financial statements. We reviewed underwriting and grant agreements and other documentation supporting revenues reported. Specifically, we reviewed 80 NFFS revenue transactions totaling $1,327,505 of $12,640,500 in FY 2014 and 71 NFFS revenue transactions totaling $2,074,014 of $11,030,421 in FY 2015.

We reviewed the allowability of expenses charged to selected CPB grants (CSG, TV Distance Services, Interconnection, and Energy LJC). To determine that expenditures were incurred in accordance with the grant terms, we reviewed $3,262,595 of $3,556,351 expenses (92 percent) reported on the CPB CSG, TV Distance Learning, and Interconnection grants in FYs 2014 and FY 2015 and $179,351 of $710,025 expenses (25 percent) of direct costs and $92,433 of $241,494 expenses (38 percent) of in-kind costs for LJC grant #14870 reported in FY 2014 and FY 2015. We reviewed payroll and time reports, vendor invoices, and other documentation supporting expenditures tested. We reviewed general ledger detail expenditures and reconciliations for the Energy LJC, LJC Video and Spectrum grants reported in FYs 2014 and 2015. In addition, for the LJC Video grant, we reviewed subsequent general ledger expenditures and grant reconciliation through the 8/31/2015 interim financial reporting period.

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 EEO information available to the public; operate a CAB; 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 new eligibility transparency requirements. Our procedures included interviewing station officials, NETA accountants, 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 RMPBN's policies and procedures for compliance with certification of eligibility requirements, Communications 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 November 2015 through February 2016. Our examination was performed in accordance with the *Government Auditing Standards* for attestation engagements.

ROCKY MOUNTAIN PBS

Exhibit H

April 29, 2016

Mr. William J. Richardson III
Deputy Inspector General
Corporation for Public Broadcasting
Office of the Inspector General
401 9th St., NW
Washington, DC, 20004-2129

Dear Mr. Richardson:

This letter constitutes the written response of Rocky Mountain Public Broadcasting Network, Inc. (RMPBN) to the report titled "Audit of Community Service and Other Selected Grants At Rocky Mountain Public Broadcasting Network, Inc., KRMA-TV/KUVO-FM, Denver, Colorado for the period July 1, 2013 through June 30, 2015, Draft Report No ASJ1601-XXXX" (the Report) dated March 30, 2016. We appreciate the opportunity to respond to the findings and recommendations made therein.

Background

The years under audit were fiscal 2014 and fiscal 2015. As noted in the Report, RMPBN merged with KUVO as of July 1, 2013. This required significant changes in the human resources, accounting, and legal functions in order to transfer KUVO operations. In hindsight, we were not fully staffed or prepared to execute the transition seamlessly. As of November 2013, the impacted functions were fully staffed and immediately began evaluating risks and processes and implementing controls, where needed, to ensure compliance with the Corporation for Public Broadcasting's (CPB) rules and regulations. While this is not an excuse, it provides context for the findings that you reported.

By the end of fiscal 2014, the new processes with appropriate internal controls were implemented. However, we still identified a need for additional expertise in the area of CPB reporting, specifically related to the Annual Financial Report (AFR), the Station Activities Benchmarking Study, and the Station Activity Survey. To fill this need, we contracted with the National Education Telecommunications Association (NETA). While RMPBN's former staff completed the 2014 AFR, it was also reviewed by NETA for accuracy and compliance with the guidelines. During fiscal 2015, RMPBN made the move to outsource the entire accounting function to NETA. While this enhanced our processes and controls, it also involved another extensive transition and steep learning curve. We ultimately have emerged a much stronger and compliant organization with adequate resources and experience available to fully comply with all rules and regulations.

What the audit Report does not show was the significant improvement which was made in 2015. While there were two findings that occurred in each year, the others were corrected as part of the new processing framework. In addition, the timing of the audit was in the middle of our internal compliance review and AFR filing timeframe which interrupted our typical process and procedures.

315 E. Costilla St.
Colorado Springs, CO 80903
P 719-630-8800
F 719-549-2208
rmpbs.org

In all cases where RMPBN overstated non-federal financial support (NFFS), there was no intent to obtain additional compensation in the form of the Community Service Grant (CSG). In fact, we pay more for PBS dues then we receive in CSG funding. Therefore any unintentional overstatement is a detriment to our organization. For instance, the NFFS overstatement for 2014 resulted in questioned costs of approximately $177,000 for TV but also resulted in an overpayment of PBS dues in the amount of approximately $183,000. As such, the public media system as a whole benefited but not RMPBN individually. Perhaps CPB could work with PBS to coordinate adjustments to dues as a result of overstatements of NFFS as a fair and equitable approach.

Overstated Non-Federal Financial Support (NFFS)

Membership Premiums Exclusion
Issue: RMPBN did not exclude all required membership premiums on its TV and Radio AFRs in fiscal 2014, overstating NFFS by $1,404,912.

Comment: While we acknowledge that premiums were not excluded and agree that some amount should be deducted from membership contributions, we believe that that there is inconsistent practice across the system regarding the value of the amounts reported. During the audit, we surveyed other public broadcasting entities and noted that entities are currently reporting either no value, the cost value, or the fair market value on the donor receipt. Currently the fair market value is provided by the vendors and varies significantly from the cost the station pays. We are evaluating the fair market value tracked in the donation system and used for donor receipts to ensure that the donors get the maximum benefit for their gift and that the amount is reasonable. However, we believe CPB should offer additional guidance on the amount reported to address the significant and disparate practice across the system. We also do not agree that CPB should recover the full $176,743 based on the inconsistent determination of the fair market value reported on the AFR. We have modified our process to ensure the fair market value is deducted from membership contributions on all future AFRs.

Ineligible Payment Sources
Issue: RMPBN reported $34,110 in presenting station fees from an independent corporate producer and a $5,000 production fee from a Public Broadcasting Entity (PBE) as NFFS in fiscal 2014. RMPBN reported $45,259 in PBS National Satellite Feed fees as NFFS in fiscal 2015.

Comment: We agree that we reported the presenting fee and payment from a PBE as NFFS on the 2014 AFR. However, we have remedied this issue, as evidenced by the similar payments made in fiscal 2015 that were appropriately identified and classified under the processing system. Additionally, production payments from PBEs were appropriately identified and classified in fiscal 2015. In regard to the second finding relating to National Satellite Feed fees, the correct reporting was not easily determined and only deemed incorrect after extensive discussion and review. We believe our processes adequately reviewed the item but ultimately made an incorrect determination. To prevent future errors we have enhanced our processes regarding classification and our reviews. All royalty payments are undergoing a second review to make sure the classification is correct.

Ineligible In-Kind Trades
Issue: In-kind trades were not adequately documented as required by CPB Guidelines. Additionally, one trade is with a PBE and inappropriately reported as NFFS.

Comment: While we acknowledge that we did not initially use the exact form recommended in the Office of Inspector General's "Audit of Underwriting and In-Kind Contribution Reported as Non-Federal Financial Support at Selected Grantees for Fiscal Year 2013", we do believe that we were obtaining adequate documentation regarding valuation of trade in order to be recognized in the financial statements. Admittedly our documentation needed to be improved regarding the occurrence of the trade after the trade was made. Our processes were modified in fiscal 2015 to address the items noted in the OIG's audit and included more rigorous documentation but was not fully compliant in regards to receipt of the trade. Our documentation has now been increased to address both receipt and valuation and is compliant with the current regulations.

In regard to the ineligible trade from a PBE in both 2014 and 2015, we agree this should have been identified and excluded. Our current processes and reviews will prevent this error from recurring.

Ineligible Contribution Source
Issue: RMPBN reported an underwriting contribution from a PBE as NFFS on the fiscal 2014 AFR. RMPBN failed to identify a federal funding source for an underwriting agreement. However, in fiscal 2015, we corrected this item prior to submitting the AFR.

Comment: In fiscal 2014, during the merger transition and with prior staff, there were instances in which ineligible sources were reported as NFFS. However, in comparing to 2015 with the new staff and processes, many items were identified and properly accounted for. The item noted in fiscal 2014 was part of a larger entry to correct the overall accounting and was not identified as a PBE due to lack of experience of the new staff. However, in 2015, no additional issues were noted relating to gifts from PBEs. We believe this was a training and experience issue which has since been corrected.

The fiscal 2015 item noted in the Report related to an underwriter in which federal funding was three parties removed from the transaction with RMPBN. While we have implemented additional changes for the tracking of the agencies and clients in the underwriting system and conducted additional training on identifying the source of the funding, we believe this is a unique and rare circumstance. We have a heightened sense of awareness for both funding from PBEs and federal sources, even when the funding arrives indirectly through third parties.

Energy LJC Grants
Issue: Misallocation of time and expenses between the two Inside Energy LJC grants.

Comment: We believe that this was a mistake in grant administration due to lack of training. As noted in the Report, once the finance team identified the issue, steps were taken to correct the accounting between the two grants (the original LJC grant and the Video LJC grant). We believe the grant management and execution of the two grants was confusing and the grant management was initially focused on overall objectives of the grants. In this instance, RMPBN was the only entity which was operating the two grants simultaneously. The objective, as our project management team understood it, was for the Video LJC grant to support and enhance the video deliverables in the LJC grant. For example, short video pieces shot under the Video LJC grant deliverables were then modified, enhanced and combined to fulfill the LJC deliverable requirements. We failed to provide the staff with sufficient guidance regarding which deliverable they were working on when the second grant started. We have since rectified this situation, creating a methodology and conducting staff training to make sure that all expenses are reported under the correct grant agreement.

Based on our experience, we would recommend that CPB consider the following when approving grants:

1. If there are multiple stations involved, each station should be a grantee in order to engender accountability and engagement proportionately across the partners.
2. If a second grant is created to support the first grant, the second grant should be an amendment with additional deliverables instead of a separate grant and separate deliverables. In this instance, the deliverables were so related and intertwined that very specific rules had to be created to insure that the costs were appropriately accounted for. This would allow the grants to work together to achieve the overall objectives more efficiently.

The Report recommends that the LJC grant reports be corrected and budget reallocations be obtained as needed. We reported the LJC grant corrections in March and the LJC Video grant corrections will be reported in May. We have started the process to obtain the related budget reallocations and CPB approvals.

Act Compliance

Issue: RMPBN did not fully comply with the open meetings requires because it did not provide reasonable notice to the public for open meetings for all of the Committees, did not make available to the public the reasons for closed meetings, and the radio licensee failed to broadcast the quarterly on-air open meetings announcements.

Comment: We have addressed the open meeting and closed meeting requirements by posting board, board committee, and community advisory board meetings online, and by retraining the staff in the requirements and processes. We want to reiterate that our prior legal interpretation was that the committees were advisory in nature and therefore the rules were not applicable to the identified committee meetings. However, we agree with CPB that transparency is a key tenet of the public media system and have since posted all advisory and active committees' meetings online.

In regard to radio failing to air the open meetings announcements, this was an error and only for a limited time period. We have enhanced the compliance program both obtain the scheduled announcements and proof the announcements were made. We believe we are fully compliant at this time.

Community Advisory Committee

Issue: The public was not made aware of the open meetings or why sessions were closed. In addition, the station did not notify the public of its open meeting policy or how to obtain information about the meetings. The CAB was also not independent of the board since a CAB board member is also an official board member with voting rights on the full board.

Comment: In regard to the open meeting issue, we were posting meeting times and locations on our website; however, we have added additional information about the open meetings policy and how to obtain meeting information.

Concerning the CAB member who is also a director, the original intent of this dual placement was to ensure all comments, concerns, and suggestions of the CAB gained additional exposure. However, we recognize CPB's position on the independence of the CAB, so on June 30, 2016, our CAB-member-cum-director's term will be expiring and we will not place another board member on the CAB. At this time, staff continue to collaborate with the leadership of both the radio and television CABs on other means to achieve the same objective, while maintaining the independence of the community advisory boards.

AFR Expenditure Reporting

Issue: CPB Guidelines require that stations identify all CPB funds expended on the AFR Schedule E.

Comment: We agree that the expenses related to the additional CPB grant (LJC grants and spectrum) were not properly reported on the correct lines on the AFR. This was an oversight and was corrected. All grants will be reported appropriately in the future.

The Report recommends that we make the related adjustments to the 2014 AFR. We are willing to do so in a time and manner convenient for CPB.

The Report cites several individual findings, but we would like to reiterate that we are reviewing the rules and regulations and are continually modifying systems and controls to insure compliance. Again, there was significant improvement in fiscal 2015 and we have continued to make strides in 2016. We are dedicated to compliance, as evidenced by the compliance program we created. We believe that the policies and practices in place prior to the start of this audit should continue to prevent errors from recurring.

Again, we thank you for the opportunity to respond to the draft findings and appreciate the efforts that have gone into the Report. If you have any questions, please feel free to contact me.

Sincerely,

Douglas M. Price
CEO/President