

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

**AUDIT OF COMMUNITY SERVICE GRANTS AT WXPB-FM LICENSED  
TO THE TRUSTEES OF THE UNIVERSITY OF PENNSYLVANIA  
PHILADELPHIA, PENNSYLVANIA  
FOR THE PERIOD JULY 1, 2013 THROUGH JUNE 30, 2015**

**REPORT NO. ASR1606-1703**

**February 28, 2017**

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## Report in Brief

### Background

We performed this audit based on our annual audit 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 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, as amended. The amount of NFFS a station reports to CPB affects the amount of CSG funding the station receives.

This report contains the views of the OIG. CPB will make the final decision on our findings and recommendations.

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

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### *Audit of Community Service Grants at WXPN-FM Licensed to the Trustees of the University of Pennsylvania, Philadelphia, Pennsylvania for the Period July 1, 2013 through June 30, 2015*

#### What We Found

WXPN overstated NFFS on its 2014 and 2015 AFRs by \$1,026,558 because it:

**Overstated NFFS resulted in excess CSG payments of \$31,845 in FY 2016 and \$26,858 in FY 2017.**

- did not exclude premiums provided to donors, bad debt expense, federal work study funds, and a small amount of special fundraising expenses; and,
- incorrectly calculated indirect administrative support.

The station agreed with our findings regarding NFFS with one small modification, but disagreed with our calculation of administrative support. Nonetheless, WXPN has initiated corrective actions in response to both recommendations. CPB management will make the final determination on our findings and recommendations.

#### What We Recommend

That CPB take the following actions:

- recover potential CSG overpayment of \$58,703; and,
- require WXPN to identify the corrective actions and controls it will implement to ensure future compliance.




Corporation  
for Public  
Broadcasting

Office of Inspector General

Date: February 28, 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 at WXPB-FM Radio Licensed to the Trustees at the University of Pennsylvania, Philadelphia, Pennsylvania for the period July 1, 2013 through June 30, 2015, Report No. ASR1606-1703

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

We request that you provide us with a draft written response to our finding 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, Board of Directors  
Bruce M. Ramer, Chair, 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

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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, 2013 through June 30, 2015 at the WXPB-FM radio station licensed to the Trustees at the University of Pennsylvania. Our objectives were to examine WXPB's certifications of compliance with CPB grant terms to: a) claim Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFRs) 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 WXPB complied with grant and Act requirements except for overstated NFFS of \$1,026,558 (\$551,978 in fiscal year (FY) 2014 and \$474,580 in FY 2015). This overstated NFFS resulted in potential CSG overpayments of \$58,703 (\$31,845 in FY 2016 and \$26,858 in FY 2017). We have reported the overpayments as funds put to better use.

We recommend that CPB: 1) recover potential CSG overpayment of \$58,703; and 2) require WXPB to identify the corrective actions and controls it will implement to ensure future compliance.

In response to the draft report, WXPB management agreed with the majority of the questioned NFFS with one minor modification on our calculation of the fair market value of some premiums. While station management did not agree with our calculation of AFR, Schedule B, Indirect Administrative Support, they did indicate that corrective actions were taken. WXPB's written response to the draft report is presented in Exhibit G.

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

This report presents the conclusions of the OIG and the findings do not necessarily represent CPB's final position on the issues. While we have made recommendations we believe would be appropriate to resolve the findings, CPB officials will make final determinations on our findings and recommendations in accordance with established CPB audit resolution procedures. Based on WXPB's response to the draft report, we consider both recommendations resolved but open pending CPB's final management decision accepting WXPB's corrective actions and recovering CSG overpayments.

## **BACKGROUND**

WXPB is owned and operated by the Trustees of the University of Pennsylvania, and, as a department of the University, it is exempt from federal income tax under Internal Revenue Code Section 501(c)(3). WXPB began operations in 1945 as a small AM station at the University of Pennsylvania. In 1957, WXPB was granted a license to move its classical format to the FM

band. The station's major sources of support and revenue are membership, business support, contributions from individual corporations and private foundations, as well as direct and indirect support from the University of Pennsylvania. WXPN-FM also receives grant funding from CPB. WXPN began receiving these annual grants from CPB in 1986.

According to its website, WXPN is the non-commercial, member supported radio service of the University of Pennsylvania. WXPN's website also explains the station is the nationally recognized leader in Triple A radio and the premier guide for discovering new and significant artists in rock, blues, roots, and folk. WXPN provides service beyond the local region by distributing programming through traditional station networks and digital media. Its present broadcast area includes the Philadelphia metropolitan area encompassing Southern New Jersey; Wilmington, Delaware; Harrisburg, Lancaster, and York, Pennsylvania; and Baltimore, Maryland, as well as worldwide via its Media Player.

As part of its mission, WXPN explains it will: connect artists and audiences with a particular emphasis on new and significant artists and music; play a national leadership role in public radio and digital media; and expand the capacity, reach, and value of its services to an increasingly diverse community. WXPN's mission also includes providing significant opportunities for students throughout the station enabling them to evaluate potential careers in media, the music industry, and other related occupations, and enhancing their prospects for success in these fields.

#### *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 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 WXPN on its FY 2014 AFR to determine the amount of the CSG the station received in FY 2016.

During our audit period, the University of Pennsylvania received \$1,011,694 from CPB for FYs 2014 and 2015 CSGs, as shown in Exhibit A. The station reported NFFS of \$7,500,624 in FY 2014 and \$8,605,532 in FY 2015 for a total of \$16,106,156, as presented in Exhibit C. WXPN's audited financial statements for the two FYs we audited reported operating revenues of \$8,727,209 in FY 2014 and \$10,512,615 in FY 2015. WXPN's fiscal year begins July 1 and ends on June 30.

### **RESULTS OF AUDIT**

In our opinion, except for the noncompliance issues described below, WXPN has complied with the requirements in the following paragraph for the FYs 2014 and 2015 CSGs we examined.

We reviewed WXPN 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 WXPN’s compliance with AFR/NFFS reporting in accordance with CPB’s Guidelines; Act requirements for open meetings, open financial records, Community Advisory Board (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 audit was conducted in accordance with the *Government Auditing Standards* for attestation examination engagements and, accordingly, included examining, on a test basis, evidence about WXPN’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 WXPN’s compliance with specified requirements.

Our audit disclosed that WXPN reported overstated NFFS of \$1,026,558 that resulted in potential CSG overpayments of \$58,703 (\$31,845 in FY 2016, and \$26,858 in FY 2017). We reported these potential overpayments as funds put to better use.

## **FINDINGS AND RECOMMENDATIONS**

### **OVERSTATED NFFS**

Our audit found \$1,026,558 in overstated NFFS (\$551,978 in FY 2014 and \$474,580 in FY 2015) reported on WXPN’s AFRs as presented in the following table. As a result, CPB made CSG overpayments of \$31,845 to WXPN in FY 2016 and overpayments of \$26,858 in FY 2017, for total overpayments of \$58,703. We classified the overpayments as funds put to better use for reporting purposes, because the funds overpaid to WXPN could have been distributed to other public broadcasting entities.

Ineligible Sources	Overstated NFFS		CSG Overpayments	
	FY 2014	FY 2015	FY 2016*	FY 2017**
<i>Schedule A: Direct Revenues</i>				
Premiums	\$51,903	\$234,902	\$2,994	\$13,294
Bad Debt Expense	295,813	0	17,066	0
Federal Work Study	34,903	26,679	2,014	1,510
Special Fund Raising Expenses	20,434	0	1,179	0
<i>Schedule B: Indirect Support</i>				
Indirect Administrative Support	148,925	212,999	8,592	12,054
<b>Totals</b>	<b>\$551,978</b>	<b>\$474,580</b>	<b>\$31,845</b>	<b>\$26,858</b>

\*Based on the FY 2016 IRR of .057691639.

\*\*Based on the FY 2017 IRR of .056593001.

The overstatement of NFFS occurred because WXPN management did not exclude high-end premiums provided to donors, bad debt expenses, and a small amount of special fundraising



expenses from the NFFS reported to CPB. In addition the station mistakenly reported federal work study funds as NFFS, and incorrectly calculated the amount of indirect administrative support it received from the University of Pennsylvania. In total, WXPB reported more than \$16.1 million of NFFS revenue on its 2014 and 2015 AFRs. Based on our discussions with station officials it appears that the overstated NFFS was caused by the station misunderstanding and misapplying CPB's Guidelines and inadvertent errors. We discuss our findings below.

### ***Premiums***

WXPB reported NFFS for FYs 2014 and 2015 that did not exclude \$286,805 of membership high-end premiums provided to donors as required by CPB Guidelines. WXPB records indicated that during FYs 2014 and 2015, the station provided donors "thank you gifts" (premiums) valued at \$826,467. Of this amount, \$432,910 was for low-end premiums (i.e., tee-shirts, single CDs, and other logo items) and \$393,557 was for high-end premiums (e.g., tickets to performances, and high dollar value CD sets and lithographs). Further analysis of the high-end premiums found that WXPB's records mistakenly overstated the high-end premiums it provided to donors by \$62,320. From the remaining \$331,237 (\$393,557 – \$62,320) of high-end premiums, \$47,637 was appropriately deducted from NFFS. This left a balance of \$283,600 to be deducted. Additionally, we found \$3,205 in high-end premiums recorded as low-end premiums for a total of \$286,805 that the station should have deducted from NFFS. We explain in more detail below.

CPB Guidelines require stations to exclude from NFFS the fair market value 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 or services (i.e., premiums). Thank-you gifts may be anything of value from low-end premiums (e.g., coffee mugs and tee-shirts bearing the stations call letters, name and/or brand) to high-end premiums (e.g. boxed set CDs or DVDs, coffee-table books, travel and lodging, and tickets to performances, dinners or other events).

The IRS issues guidance<sup>1</sup> on the required disclosure statement that must be provided to donors in instances where the premium is not of insubstantial value. The contribution portion that is deductible for federal income tax purposes is limited to the excess of the payment over the fair market value of the premium(s) provided by the charitable organization.

**For CPB's purposes the portion of the payment that is not considered a contribution by the IRS may not be included as NFFS.** CPB expects that all grantees are compliant with IRS rules and regulations on these matters. However, CPB does not provides guidance beyond that provided by the IRS.

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<sup>1</sup> IRS Guidance on Charitable Contributions - Quid Pro Quo Contributions: <http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Charitable-Contributions-Quid-Pro-Quo-Contributions>

Questions about compliance with these provisions should be addressed to your IPA or other tax practitioner or directly to the IRS....

**What do you need to do for AFR purposes?**...if the financial statements present membership revenues at their gross value (i.e. unadjusted for the non-contribution portion), you must enter the non-contribution amount on Line Guidelines 10.1 NFFS Exclusion – Fare market value of the premiums that are not of insubstantial value.

Guidelines Line 10 – Membership and Subscriptions (net of write-offs).

### *High-End Premiums*

Our review of the remaining high-end premiums totaling \$283,600 (\$331,237 - \$47,637), disclosed this amount was also for discounted tickets to performances (high-end premiums) that WXPB should have deducted from NFFS. However, WXPB did not deduct the fair market value of ticket premiums provided to donors when the tickets were for the events the station hosted and produced. These events included among others, WXPB's XpoNential Festival. More specifically, WXPB reported the gross value of contributions as NFFS for the events it produced and hosted i.e., unadjusted for the non-contribution portion (premiums). WXPB records and discussions with WXPB personnel disclosed the fair market value of the tickets premiums for events the station produced and hosted ranged from \$40 to \$100 per ticket. WXPB personnel explained they considered the cost of these thank-you gifts (premiums) to be zero because the ticket premiums were not purchased but were for events produced by the station. As a result, WXPB considered the entire donation a contribution and eligible NFFS.

For example, exclusive of the Big Day Out premiums recorded in WXPB's records, during FY 2014 WXPB provided almost 600 donors discounted tickets to station hosted events as thank-you gifts (high-end premiums) for their contributions to the station. WXPB records indicated that the fair market value of these premiums was \$51,265. Similarly WXPB records indicate that in FY 2015, the station provided almost 1,900 donors premiums to events it hosted as thank-you gifts. According to WXPB records, the fair market value of these ticket premiums totaled \$232,335. As a result during both FYs, WXPB provided donors premiums with fair market values totaling \$283,600 (\$51,265+\$232,335) that should have been deducted from the NFFS claimed in FY 2014 and FY 2015.

### *High-End Premiums Recorded as Low-End Premiums*

Our review also disclosed another \$3,205 (\$638 in FY 2014 and \$2,567 in FY 2015) was for event tickets (high-end premiums) not hosted by WXPB that were not deducted from NFFS. This occurred because WXPB mistakenly included these premiums in its records as low-end premiums.<sup>2</sup> Recognizing that WXPB provided almost 48,000 thank-you gifts during our review period, not deducting the \$3,205 for about 100 tickets appears to be an inadvertent error.

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<sup>2</sup> One of these premiums was a CD set valued at \$60 that should have been considered a high-end premium similar to tickets.

In total, we determined that WXPN over claimed NFFS of \$286,805 attributable to high-end premiums (\$51,265+\$638 in FY 2014 and \$232,335+\$2,567 in FY 2015). This resulted in a \$2,994 CSG overpayment in FY 2016 and a \$13,294 CSG overpayment in FY 2017.

### ***Bad Debt Expense***

WXPN did not exclude bad debt expense from NFFS as required by CPB Guidelines. WXPN recognizes the amount pledged by donors as revenue at the time of the pledge. The station then bills the donor several times until the pledge is fulfilled. Generally, if the donor does not pay the pledge within 6 months it is written off and charged to bad debt expense.

WXPN incurred \$295,813 of bad debt expense for uncollectible membership pledges in FY 2014. However, the station did not net uncollected pledges against revenue on its financial statements or deduct this expense from the membership revenue claimed as NFFS by entering it on Line 10.2 of its AFR, as required by CPB Guidelines. In FY 2014, preparation of the AFR transitioned to another WXPN employee. It appears a miscommunication during this transition caused this error. The bad debt expense incurred in FY 2015 was appropriately deducted from that year's NFFS. Not deducting the \$295,813 of bad debt expense for uncollectible membership pledges from the NFFS resulted in a \$17,066 CSG overpayment in FY 2016.

CPB Guidelines Section 5 Completing AFR Schedule A-Direct Revenue instructions for Line 10.2—NFFS Exclusion - Membership bad debt expense provides that grantees must deduct any amounts taken as write-offs for uncollected pledges. If the write-offs are not netted against revenues in the financial statements but instead charged against an allowance for uncollectible accounts, the bad debt expense must be recorded on Line 10.2 to exclude the write-offs from NFFS.

Based on our audit, we questioned WXPN's failure to deduct \$295,813 of bad debt expense from the NFFS it claimed, resulting in an overpayment of \$17,066 in FY 2016 CSG funds.

### ***Federal Work Study***

WXPN claimed ineligible wages paid to students as NFFS. Each year WXPN employs several students to work at the station. These students received wages totaling \$34,903 during FY 2014 and \$26,679 in FY 2015 for their work at the station. The University paid 20 to 50 percent of the students' wages with Federal Work Study funds and the remainder of the students' wages were paid with WXPN's funds. WXPN personnel mistakenly believed the students' wages were direct support received from the University, and therefore eligible NFFS.

CPB Guidelines notes that the Act excludes all federal funds from being included as NFFS. These same Guidelines also provide that:

Because each institution distributes Federal Work Study funds formulaically based on the need and application, the element of discretion is diminished. As a result, the institution does not have the necessary discretion over the funds to warrant the funds losing their federal identity when they are transferred to the public broadcasting station. Instead, the funds remain federal and should be reported on Schedule A, line 1B, which automatically excludes them from NFFS based on their federal source.

### CPB Guidelines Section 2.3.3 Federal Funds.

In accordance with CPB Guidelines Instructions for AFR line 1, the portion of the students' salaries paid for with Federal Work Study Funds was ineligible NFFS. Additionally, because the remainder of the students' salaries was not revenue but an expense, we determined it also was ineligible as NFFS revenue. In total, we determined that \$34,903 claimed as NFFS in FY 2014 and \$26,679 claimed in FY 2015 was ineligible. This resulted in a \$2,014 CSG overpayment in FY 2016 and a CSG overpayment of \$1,510 in FY 2017.

### ***Special Fundraising***

WXPN over claimed special fundraising revenue on its FY 2014 AFR. WXPN claimed the gross revenue received from the Icelandic trip it sponsored during FY 2014 on Line 14A. However, it did not enter expenses totaling \$20,434 for this trip on AFR line 14B as required by CPB Guidelines. This resulted in NFFS being overstated by \$20,434. It appears that the omission on Line 14 was an error.

CPB Guidelines provide that Line 14A should be used to report gross special fundraising revenues, and Line 14B should be used to report total direct special fundraising expenses for producing the event. CPB Guidelines instructions for AFR Line 14 also state that;

This line represents the net revenue earned from special fundraising activities. It is determined...by subtracting Line 14B from Line 14A. Only net special fundraising revenues (the gross special fundraising revenues less all direct, third-party expenses for the event) are eligible as NFFS....

CPB Guidelines Section 5 Completing AFR Schedule A-Direct Revenue instructions for Line 14-Special Fundraising activities (net)

Not entering special fundraising expenses of \$20,434 on Line 14B of its FY 2014 NFFS resulted in a \$1,179 CSG overpayment to WXPN in FY 2016.

### ***Indirect Administrative Support***

WXPN incorrectly calculated the \$1,300,745 (\$597,312 + \$703,433 respectively) of indirect administrative support it claimed as NFFS on its FYs 2014 and 2015 AFRs. This condition occurred because WXPN overstated its net direct activities, and the University's financial statements did not provide WXPN enough information to accurately segregate the University's direct and non-direct expenses. As a result, we questioned \$148,925 and \$212,999 of indirect administrative support included in the NFFS that WXPN reported on its FYs 2014 and 2015 AFRs. Based on these results, WXPN received \$8,592 of excess CSG payments in FY 2016, and \$12,054 of excess CSG payments in FY 2017, for total overpayments of \$20,646.

CPB Guidelines, Section 6 Completing AFR Schedule B, provide that as a department of the University, WXPN can include indirect administrative support received from its licensee as

NFFS.<sup>3</sup> These same CPB Guidelines provide several methods that institutional stations such as WXPB can use to calculate indirect administrative support received from its licensee. These methods include an *Other Sponsored Activities (OSA) Facilities & Administrative Rate (F&A)* that uses the University's federally approved OSA F&A rate in conjunction with either total direct costs or salaries and wages in the calculation. The Guidelines also provide a *Basic Method* which can be based on either the station's net direct expenses or total salaries and wages. The third method allowed by the Guidelines is a *Grantee-Developed Method* that requires pre-approval from CPB.

WXPB used the *Basic Method* to calculate the FYs 2014 and 2015 indirect administrative support it claimed as NFFS based on the station's net direct expenses. Using this method CPB Guidelines, Section 6 Completing AFR Schedule B, requires WXPB to calculate an Institutional Support Rate that should be multiplied by the University's institutional support costs (e.g., budget, financial analysis, human resources) that benefit the station. This rate can be calculated by either: 1) determining the station's net direct expenses as a percentage of the University's net direct expenses; or 2) using salaries of both the station and the University to calculate a similar percentage. WXPB used direct expenses on Schedule B to calculate the indirect administrative support it claimed on its FYs 2014 and 2015 AFRs. Details of WXPB's AFR Schedule B calculations are shown on Exhibit B attached to this report.

#### *Calculating Station Net Direct Expenses*

One of the contributing factors to WXPB incorrectly claiming indirect administrative support was that the station overstated its net direct expenses. WXPB reported \$8,633,211 as net direct expenses (line 1.c) on its FY 2015 AFR, however this total incorrectly included \$3,796,588 of station support costs<sup>4</sup>. These costs were shown as support services in WXPB's FY 2015 annual financial statements, and included \$1,189,572 of station general and administration (G&A) expenses and \$2,899,752 of fundraising expenses net of the \$292,736 in University's indirect costs, amortization and depreciation costs for these cost categories<sup>5</sup>. CPB Guidelines, Schedule B, Instructions for line 1b.7, provide that non-direct costs need to be deducted to calculate the station's net direct expense. WXPB did not deduct any expenses for G&A and fundraising on this line.

Properly deducting G&A and all other support costs as required by CPB's Guidelines Schedule B Instructions Worksheet II: Basic Method would have reduced WXPB's net direct expenses to \$4,736,514 or by about 45 percent. Using this reduced net direct expense amount and the

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<sup>3</sup> CPB Guidelines provide that Indirect Administrative Support is the portion of the University of Pennsylvania's general and administrative costs (Institutional Support) and facilities costs (Operation and Maintenance) given in support of WXPB operations.

<sup>4</sup> Similarly FY 2014 net direct expenses included \$3,656,406 of support costs (\$3,914,021 less \$257,615 of university's indirect cost and amortization and depreciation costs allocated to membership and G&A) in WXPB's calculation of indirect administrative support. The costs were also identified in the station's FY 2014 financial statements.

<sup>5</sup> WXPB FY 2015 financial statements reported \$4,089,324 of total support costs (\$1,189,572 and \$2,899,752). This amount included \$292,736 of indirect administrative support, amortization, and depreciation expenses that WXPB allocated to G&A and membership expenses. For this reason we reduced the station support costs to \$3,796,588 (\$4,089,324-\$292,736), because these expenses were included in the amounts deducted on line 1b.2, 1b.3, and 1b.5.

University's net direct expenses shown on WXPN's AFR would have significantly reduced the amount of NFFS the station should have claimed in FY 2015. A similar reduction would have been necessary for FY 2014.

*Calculating University Net Direct Expenses and Administrative Costs Supporting Station Operations*

In addition to incorrectly calculating net direct expenses, there were other contributing factors to WXPN's incorrectly claiming indirect administrative support. For example, the station did not correctly identify the University's net direct expenses, correctly calculate the licensee's institutional support on lines 2c.2, or identify the institutional cost groups that did not benefit station operations on line 2c.3.

The station used the University's functional classification of expenses to calculate the University's net direct expenses. WXPN reported licensee net direct activities of \$2,685,613,000 (line 2a.2), however, this amount included \$273,648,000 in management and general expenses (non-direct activities) resulting in an overstatement of the university's net direct activities by a corresponding amount.

Further, WXPN did not accurately calculate the University's institutional support on its FY 2014 and FY 2015 AFRs. For example, on line 2c.2 of its FY 2015 AFR, WXPN reported total University expenditures of \$6,723,115,000 (direct and non-direct) from the University's schedule of functional expenditures instead of institutional support costs. The \$273,648,000 in management and general costs in the schedule of functional expenses may have been a more appropriate amount to report on line 2c.2. However, we subsequently learned from the University's Assistant Controller that this figure could not be broken down to identify university costs that did not benefit the station to report under the *Basic Method*.

Additionally, WXPN did not identify the cost groups that benefited the station (line 2c.1), as required by CPB's instructions or accurately report the cost groups that did not benefit the public broadcasting station (line 2c.3). As a result, we could not verify the reported indirect costs benefitting the station of \$703,433 (line 4) on the FY 2015 AFR. WXPN calculated indirect administrative support on its FY 2014 AFR in a similar manner. Consequently, we also could not verify the \$597,312 of indirect administrative support claimed on this AFR.

Our discussions with WXPN personnel and the University's Assistant Comptroller disclosed the University's functional classification of expenditures did not contain the detail needed to calculate the *Basic Method* prescribed by CPB Guidelines. Because this information was not adequate for CPB purposes, we were referred to the University's Research Office responsible for preparing the federally approved indirect cost rate for the university, to identify university cost groups that supported station operations. Based on this information, we recalculated the station's indirect administrative support using the University's federally approved OSA F&A rate.

Recalculating WXPN's AFR Schedule B for FY 2014 and FY 2015 using the OSA F&A rate, we determined that WXPN could have claimed \$490,434 and \$448,387 of indirect administrative support in FY 2015 and FY 2014, respectively. Based on these recalculated amounts, as shown in Exhibits D and E, WXPN received \$8,592 of excess CSG payments in FY 2016 and \$12,054 of excess CSG payments in FY 2017.

### ***Recommendations***

We recommend CPB management take the following actions:

- 1) recover potential CSG overpayment of \$58,703; and
- 2) require WXPB to identify the corrective actions and controls it will implement to ensure future compliance.

### ***WXPB Response***

In response to the draft report, WXPB agreed with our findings regarding premiums except for one minor modification, i.e., correcting the OIG's calculation of the fair market value for Big Day Out premiums. More specifically, WXPB explained there was a date entry mistake in their membership database regarding the fair market value of the Big Day Out tickets.

WXPB management also explained that omitting bad debt expense and special fundraising expenses on the FY 2014 AFR were date entry mistakes. WXPB personnel also explained they misunderstood the source of the University matching funds for the work study program and did not realize these funds were federal funds. They also noted that corrective action was in effect.

WXPB also questioned two aspects of the audit report regarding the calculation of indirect administrative support. First, because CPB Guidelines for AFR Schedule A, Lines 10.2 and 26.L, require membership bad debt expense to be a reduction to eligible NFFS revenue, they questioned whether bad debt should also be included in the calculation of indirect administrative support on Schedule B, Line 1b.7. WXPB contends that not deducting bad debt expense from the support services expenses shown on Line 1b.7 results in a duplicate deduction for bad debt expense.

Second, WXPB believes the indirect administrative support amount on the FY 2015 Schedule B should be \$703,433 instead of the \$748,142 shown in the draft audit report. WXPB explained that \$703,433 is the amount calculated by CPB during its review of WXPB's FY 2015 AFR.

WXPB also explained that the "OIG has determined that WXPB should use the OSA Rates (Other Sponsored Activities–MTDC base) method to calculate indirect administrative support." Although, WXPB contends the Basic Method it used provided sufficient breakdown levels for the institutional support (management and general) expense, it has compromised and established the OSA Rate as the methodology to be used.

WXPB management also noted that, it is important to highlight that the University's methodology used for the calculation of the Management and General expense is based on the NACUBO Financial Accounting and Reporting Manual (FARM) for Higher Education, which is the standard guidance and primary criteria used throughout the higher education industry.

WXPB response also noted corrective actions addressing premiums and provided written guidelines.

### *OIG Review and Comment*

Regarding recommendation one, we evaluated WXPN's proposed modification to its calculation of premiums for Big Day Out tickets and noted that WXPN claimed the event Big Day Out on its FYs 2014 and 2015 as Special Fundraising, i.e., claimed ticket sales as special fundraising revenue while deducting expenses to calculate the NFFS revenue claimed on its AFRs. Since attendees paid and WXPN claimed the full fair market value of ticket sales for this event as special fundraising revenue there were no premiums that needed to be deducted from membership revenue. As a result, we reduced the amount of overstated NFFS in our draft report for Big Day Out premiums and reduced the corresponding amount of CSG payments to be recovered.

We do not agree that adjusting bad debt expense on both Schedules A and B results in a duplicative deduction. The two schedules serve different purposes. The purpose of Schedule A is to calculate net allowable revenue. Bad debt expense needs to be deducted on AFR Schedule A, Line 10.2 because WXPN claims NFFS in anticipation of receiving amounts pledged from its members. Since some WXPN members did not fulfil their pledges, WXPN did not receive all of the NFFS it claimed. Recording bad debt expense on Schedule A Line 10.2 eliminates the over claimed NFFS that resulted from the unfilled membership pledges.

The purpose of Schedule B, on the other hand, is to calculate the net direct expense base to which WXPN should apply its indirect cost rate. Bad debt is included in the total support services expenses reported on the station's audited financial statements. Therefore, as a support expense, it should be excluded from the net direct expense base. The Schedule A adjustment corrects revenues and the Schedule B adjustment correctly reports net direct expenses. These adjustments do not constitute a duplicate adjustment for bad debt.

We accept that the indirect administrative support amount on the FY 2015 Schedule B Line 1b.5 should be \$703,433 instead of the \$748,142 included in the draft report based on instructions the station received from CPB. We have adjusted the schedule and reduced the amount questioned accordingly. As a result, we consider recommendation one resolved but open pending recovery of the overpaid CSG funds.

Regarding recommendation two corrective actions, WXPN's response addressed new operating practices for handling premiums and plans to claim indirect costs using the Other Sponsored Activities – MTDC base methodology for FY 2016. Based on these actions we consider recommendation two resolved but open pending CPB's acceptance of these corrective actions.



**CPB Grant Payments to WXPB-FM  
July 1, 2013 – June 30, 2015**

<b>CSG</b>	<b>Grant Budget</b>	<b>Amount Paid</b>	<b>Balance</b>
FY 2014	\$476,828	\$476,828	0
FY 2015	\$534,866	\$534,866	0
Totals	\$1,011,694	\$1,011,694	0

WXPB-FM Annual Financial Reports  
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AFR Line	Description	FY 2014	FY 2015
	<b>Schedule A,</b>		
	<b>Source of Income</b>		
1	Amounts provided directly by federal government agencies	\$0	\$20,000
1.D	National Endowment for the Arts and Humanities		20,000
2	Amounts provided by Public Broadcasting Entities	485,728	543,716
2.A	CPB - Community Service Grants	476,728	534,866
2.B	CPB - all other funds from CPB	0	
2.C	PBS - all payments except copyright royalties and other pass-through payments	0	
2.D	NPR - all payments except pass-through payments.	8,900	8,850
2.E	Public broadcasting stations - all payments	0	
2.F	Other PBE funds	0	
3	Local boards and departments of education or other local government or agency sources	0	
4	State boards and departments of education or other state government or agency sources	0	
5	State colleges and universities	0	
6	Other state-supported colleges and universities	0	
7	Private colleges and universities	54,010	49,946
7.1	NFFS Eligible	54,010	49,496
7.B	Grants and contributions other than underwriting	54,010	37,179
7.C	Appropriation from the licensee	0	12,767
8	Foundations and non-profit associations	1,277,681	1,845,813
8.1	NFFS Eligible	1,277,681	1,845,813
8.1A	Program and production underwriting	1,247,681	1,287,813
8.1B	Grants and contributions other than underwriting	30,000	558,000
9	Business and Industry	1,106,434	1,452,214
9.1	NFFS Eligible	1,106,434	1,452,214
9.1A	Program and production underwriting	1,106,434	1,452,214
10	Membership and subscriptions	3,525,215	4,121,602
10.1	NFFS Exclusion - Fair Market value of premiums that are not of insubstantial value	26,918	20,719
10.2	NFFS Exclusion - Membership bad debt expense	0	335,530
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
	<b>Form of Revenue</b>		
13	Auction revenue	30,190	43,535
13.A	Gross auction revenue	30,190	43,535
13.B	Direct auction revenue	0	0
14	Special fundraising activities (net)	274,648	239,069
14.A	Gross special fundraising revenues	565,451	612,901
14.B	Direct special fundraising expenses	290,803	373,832
15	Passive income	0	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 from individuals	187,043	1,000
18.A	Facilities and equipment (except funds received from federal or public broadcasting sources)	40,000	0
18.B	Other	147,043	1,000

**Exhibit B (continued)**

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<b>AFR Line</b>	<b>Description</b>	<b>FY 2014</b>	<b>FY 2015</b>
19	Gifts and bequests from major individual donors	475,009	505,169
20	Other Direct Revenue	527,948	468,824
21	<b>Total Revenue</b>	<b>8,234,709</b>	<b>9,664,720</b>
	<b>Adjustments to Revenue</b>		
22	Federal revenue from line 1.	670,303	20,000
23	Public broadcasting revenue from line 2.	485,728	543,716
24	Capital funds exclusion	0	0
25	Revenue on line 20 not meeting the source, form, purpose, or recipient criteria	527,948	468,824
26	Other automatic subtractions from total revenue	317,721	730,081
26.A	Auction expenses - limited to the lesser of 13a or 13b	290,803	373,832
26.B	Special fundraising event expenses - limited to the lesser of 14a or 14b		
26.K	FMV of high-end premiums (Line 10.1)	26,918	207,190
26.L	Membership bad debt expense (Line 10.2)		335,530
27	<b>Total Direct Nonfederal Financial Support</b>	<b>6,903,312</b>	<b>7,902,099</b>
	<b>Schedule B</b>		
	1. Determine Station net direct expenses		
	1.a.Total station operating expenses and capital outlays (forwards from line 10 of Schedule E)	9,739,438	9,934,808
	Deductions (line 1b.1 through 1b.7):		
	1b.1. Capital Outlays (from Schedule E, line 9 total)	473,722	20,710
	1b.2. Depreciation	141,419	140,321
	1b.3. Amortization	336,391	336,390
	1b.4. In-kind contributions (services and other assets)	112,230	100,753
	1b.5. Indirect administrative support (see Guidelines for instructions)	597,312	703,433
	1b.6. Donated property and equipment (if not included in line 1b.1)	0	0
	1b.7. Other	0	0
	1b.8 .Total deductions	1,661,074	1,301,607
	1c. Station net direct expenses	7,832,117	8,633,211
	2. Institutional support rate calculation (Note: Chose one method only-either 2a or 2b)		
	2a. Net direct expense method		
	2a.1. Station net direct expenses (forwards from line 1)	7,832,117	8,633,211
	2a.2 License net direct activities	2,532,500,000	2,685,613,000
	2a.3. Percentage of allocation (2a.1 divided by 2a.2) (forward to line 2c.5 below)	0.309264%	0.321461%
	2b. Salaries and wage method		
	2c. Institutional support calculation		
	2c.1 Choose applicable cost groups that benefit the station		
	2c.2. Costs per licensee financial statements	5,896,431,000	6,723,115,000
	2c.3. LESS: Cost groups that do not benefit the operations of the public broadcast station	5,703,291,077	6,504,291,570
	2c.4. Costs benefiting station operations	193,139,923	218,823,430
	2c.5. Percentage of allocation (from line 2a.3 or 2b.3)	0.309264%	0.321461%
	2c.6. Total institutional costs benefiting station operations	597,312	703,433
	3. Physical plant support rate calculation		
	4. Total costs benefiting station operations (forwards to line1 on tab3)	597,312	703,433

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<b>AFR Line</b>	<b>Description</b>	<b>FY 2014</b>	<b>FY 20154</b>
	Schedule B Totals		
	1. Total support activity benefiting station	597,312	703,433
	2. Occupancy value	0	0
	3. Deductions: Fees paid to the licensee for overhead recovery, assessment, etc.	0	0
	4. Deductions: Support shown on lines 1 and 2 in excess of revenue reported in financial statements.	0	0
	5. Total Indirect Administrative Support (Forwards to Line 2 of the Summary of Nonfederal Financial Support)	597,312	703,433
	6. Please enter an institutional type code for your licensee.	PU	PU
	<b>Schedule C</b>		
1	PROFESSIONAL SERVICES (must be eligible as NFFS)	0	0
2	GENERAL OPERATIONAL SERVICES (must be eligible as NFFS)	0	0
3	OTHER SERVICES (must be eligible as NFFS)	0	0
4	<b>Total in-kind contributions</b> - services and other assets eligible as NFFS (sum of lines 1 through 3), forwards to Line 3a. of the Summary of Nonfederal Financial Support	<b>0</b>	<b>0</b>
5	IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	112,230	100,753
6	<b>Total in-kind contributions</b> - 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.	<b>112,230</b>	<b>100,753</b>
	<b>Schedule D</b>	<b>0</b>	<b>0</b>
	<b>Schedule E</b>		
	<b>EXPENSES</b>		
	<b>PROGRAM SERVICES</b>		
	1. Programming and production	3,607,757	4,166,360
	A. Restricted Radio CSG	133,050	141,044
	B. Unrestricted Radio CSG	374,775	393,822
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	3,099,932	3,631,494
	2. Broadcasting and engineering	504,721	473,114
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	504,721	473,114
	3. Program information and promotion	1,183,718	1,253,210
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	1,183,718	1,253,210
	<b>SUPPORT SERVICES</b>		
	4. Management and General	1,169,856	1,121,672
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	1,169,856	1,121,672
	5. Fund raising and membership development	1,837,817	1,777,099
	A. Restricted Radio CSG	0	0

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AFR Line	Description	FY 2014	FY 2015
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	1,837,817	1,777,099
	6. Underwriting and grant solicitation	961,847	1,122,653
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	961,847	1,122,653
	7. Depreciation and amortization	0	0
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	0	0
	<b>8. Total Expenses (Sum of lines 1 to 7) must agree with Audited Financial Statements</b>	9,265,716	9,914,108
	A. Total Restricted Radio CSG (sum of Lines 1.A, 2.A, 3.A, 4.A, 5.A, 6.A, 7.A)	133,050	141,044
	B. Total Unrestricted Radio CSG (sum of Lines 1.B, 2.B, 3.B, 4.B, 5.B, 6.B, 7.B)	374,775	393,822
	C. Total Other CPB Funds (sum of Lines 1.C, 2.C, 3.C, 4.C, 5.C, 6.C, 7.C)	0	0
	D. Total All non-CPB Funds (sum of Lines 1.D, 2.D, 3.D, 4.D, 5.D, 6.D, 7.D)	8,785,891	9,379,242
	<b>INVESTMENT IN CAPITAL ASSETS</b>	2014 Data	2015 Data
	9. Total capital assets purchased or donated	473,722	20,710
	9.a Land and buildings	0	0
	9.b Equipment	445,893	20,710
	9.c All other	27,829	0
	10. Total expenses and investment in capital assets (sum of lines 8 and 9)	9,739,438	9,934,818
	Additional Information (Lines 11+12 must equal line 8 and Lines 13+14 must equal line 9)		
	11. Total expenses (direct only)	8,556,174	9,109,922
	12. Total expenses (indirect and in-kind)	709,542	804,186
	13. Investment in capital assets (direct only)	473,722	20,710
	14. Investment in capital assets (indirect and in-kind)	0	0
	<b>Schedule F</b>		
	Data from AFR		
	Schedule A, Line 21	8,234,709	9,664,720
	Schedule B, Line 5	597,312	703,433
	Schedule C, Line 6	112,230	100,753
	Schedule D, Line 8	0	0
	Total from AFR	\$8,944,251	\$10,468,906

**WXPB-FM Summary of Non-Federal Financial Support  
For the Periods Ending June 30, 2014 and 2015  
Certified by Head of Grantee and Independent Account's Report**

AFR Line	Description	FY 2014	FY 2015	Total
	<i>Summary of Non-Federal Financial Support:</i>			
1	Direct Revenue (Schedule A)	\$6,903,312	\$7,902,099	\$14,805,411
2	Indirect Administrative (Schedule B)	597,312	703,433	1,300,745
	3a. In-Kind Contributions (Schedule C)		0	0
	3b. In-Kind Contributions (Schedule D)	0	0	0
4	<b>Total Non-Federal Financial Support</b>	<b>\$7,500,624</b>	<b>\$8,605,532</b>	<b>\$16,106,156</b>

<p><b>2015 AFR Schedule B</b>  <i>OSA Rate (Other Sponsored Activities - MTDC base) - Indirect Administrative Support</i></p>
---

**1. Determine Station net direct expenses**

1a. Total station operating expenses and capital outlays	\$9,934,818
(forward from line 10 of AFR Schedule E)	
1b.1. Capital outlays (from AFR Schedule E, line 9 total)	\$20,710
1b.2. Depreciation	\$140,321
1b.3. Amortization	\$336,390
1b.4. In-kind contributions (services and other assets)	\$100,753
1b.5. Indirect administrative support (see Guidelines for instructions)	\$703,433
1b.6. Donated property and equipment (if not included on line 1b.1)	
1b.7. Other	\$3,796,588

Description

1b.8 Total Deductions	\$5,098,195
1c. Station net direct expenses	\$4,836,623

**2. Modify licensee negotiated cost rate**

2a. Licensee's negotiated indirect cost rate	61.74%
Less: rate components that do not benefit station operations:	
2b.1. Departmental administration	35.77%
2b.2. Sponsored projects administration	
2b.3. Library support	
2b.4. Other	15.83%
2b.5. Total deductions (sum of 2b.1 through 2b.4)	51.60%
2c. Modified cost rate	10.14%

**3. Apply modified rate to station net direct expenses**

3a. Station net direct expenses from line 1c	\$4,836,623
3b. Modified cost rate from line 2c	10.14%
<b>4. Total indirect support (forwards to line 1 of Schedule B Tab 3)</b>	<b>\$490,434</b>

<p><b>2014 AFR Schedule B</b>  <i>OSA Rate (Other Sponsored Activities - MTDC base) - Indirect Administrative Support</i></p>
---

**1. Determine Station net direct expenses**

1a. Total station operating expenses and capital outlays	\$9,739,438
(forward from line 10 of AFR Schedule E)	
1b.1. Capital outlays (from AFR Schedule E, line 9 total)	\$473,722
1b.2. Depreciation	\$141,419
1b.3. Amortization	\$336,391
1b.4. In-kind contributions (services and other assets)	\$112,230
1b.5. Indirect administrative support (see Guidelines for instructions)	\$597,312
1b.6. Donated property and equipment (if not included on line 1b.1)	
1b.7. Other	\$3,656,406

Description

1b.8 Total Deductions	\$5,317,480
1c. Station net direct expenses	\$4,421,958

**2. Modify licensee negotiated cost rate**

2a. Licensee's negotiated indirect cost rate	61.74%
Less: rate components that do not benefit station operations:	
2b.1. Departmental administration	35.77%
2b.2. Sponsored projects administration	
2b.3. Library support	
2b.4. Other	15.83%
2b.5. Total deductions (sum of 2b.1 through 2b.4)	51.60%
2c. Modified cost rate	10.14%

**3. Apply modified rate to station net direct expenses**

3a. Station net direct expenses from line 1c	\$4,421,958
3b. Modified cost rate from line 2c	10.14%
<b>4. Total indirect support (forwards to line 1 of Schedule B Tab 3)</b>	<b>\$448,387</b>



## **Scope and Methodology**

We performed an attestation examination to determine WXPN's compliance with CPB Financial Reporting Guidelines, provisions of the Communications Act, grant certification requirements, and other grant provisions. The scope of the audit 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 WXPN's AFRs by performing financial reconciliations and comparisons to underlying accounting records (general ledger) and the audited financial statements. We reviewed underwriting and grant agreements and other documentation supporting revenues reported. Specifically, we reviewed NFFS revenue transactions totaling \$728,602 of the \$7,500,624 WXPN reported in FY 2014 and \$1,781,092 of the \$8,605,532 reported in FY 2015, including Schedule B Indirect Administrative Support costs claimed.

We reviewed the allowability of expenses charged to the WXPN CSGs during FY 2014 and 2015. To determine whether expenditures were incurred in accordance with grant terms, we reviewed \$128,348 of the \$977,981 of expenses reported by WXPN during our review period. We also reviewed \$30,359 of the \$293,807 of FY 2015 CSG funds WXPN expended in FY 2016. We reviewed supporting documentation, including the University's records for payroll, and other documentation for judgmentally selected 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 WXPN'S website to determine its compliance with CPB's transparency requirements. Further, we reviewed WXPN's independent public accountant's audit planning, internal control, risk assessment, and attestation working papers. 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 WXPN's policies and procedures for compliance with certification of eligibility requirements, Communication 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 May 23, 2016 through October 31, 2016. We performed our audit in accordance with the *Government Auditing Standards* for attestation examinations.



January 10, 2017

William J. Richardson III  
Deputy Inspector General  
Corporation for Public Broadcasting  
401 Ninth Street, NW  
Washington, DC 2004-2129

Dear Mr. Richardson:

We have received your report on the audit of Community Service Grants at WXPn-FM for the period July 1, 2013 through June 30, 2015 dated December 15, 2016. You have concluded that WXPn has complied with the CPB Grant and Communications Act of 1934 requirements, with the exception of overstated non-federal financial support (NFFS), resulting in a potential CSG overpayment of \$62,527. Your conclusion was that the NFFS overstatement resulted from “station misunderstanding and misapplying CPB’s guidelines and inadvertent errors.”

In your analysis, you cite five areas of concern in the overcalculation of NFFS: four in Schedule A involving Direct Revenues (Premiums; Bad Debt; Federal Work Study; and Special Fund Raising Expenses); and one (Indirect Administrative Support) in Schedule B. As you will see below, we concur with your analysis and the stated causes of the Schedule A overstatements, with one minor modification on your calculation of the Fair Market Value of some premiums.

The bigger concern, and where we differ with your conclusions, is in regard to the calculation of Indirect Administrative Support on Schedule B. We believe we are being “double-charged” in this regard, as you will see in the response report attached.

We look forward to a satisfactory conclusion of this process and, as outlined in the attached document, have taken corrective actions where applicable to help insure that similar errors and misunderstandings are not repeated in future accounting periods.

Please feel free to contact me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads 'Roger LaMay'.

Roger LaMay  
General Manager  
WXPn

cc: Esperanza Flury  
Ted Krichels  
Joseph Tovares  
Jackie J. Livesay

WXPN's RESPONSE TO THE  
CPB DRAFT OF FINDINGS AND RECOMMENDATIONS TO THE AUDIT OF FISCAL  
YEARS 2014 AND 2015

REVISED OVERSTATED NFFS (WXPN Version)

Ineligible Sources	Overstated NFFS		CSG Overpayments	
	FY 2014	FY 2015	FY 2016*	FY 2017**
<i>Schedule A: Direct Revenues</i>				
Premiums	66,863	260,723	\$3,857	\$14,755
Bad Debt Expense	295,813	0	17,066	0
Federal Work Study	34,903	26,679	2,014	1,510
Special Fund Raising Expenses	20,434	0	1,179	0
<i>Schedule B: Indirect Support</i>				
Indirect Administrative Support	121,068	181,819	6,985	10,290
<b>Totals</b>	<b>539,081</b>	<b>469,221</b>	<b>31,101</b>	<b>26,555</b>

\* FY16 IRR 0.057691639

\*\* FY17 IRR 0.056593001

**Schedule A: Direct Revenues**

**PREMIUMS**

- **Big Day Out:** There was a data entry mistake in the membership database MEMSYS regarding the FMV of the Big Day Out tickets. The amount entered was \$100; it should have been \$40. The \$100 is the amount of the donation, not the FMV of the premium. The \$40 FMV calculation of the Big Day Out tickets is based on the price of tickets for similar events at the venue.

**See Exhibit A**

- **High-End Premiums:** WXPN misinterpreted the relevant CPB accounting guideline when accounting for high-end premiums. We recorded the Actual Cost (\$0) for the tickets used as premiums for the events produced and hosted by WXPN. WXPN has established written guidelines, and is working with MEMSYS (WXPN Membership Software) Programmers, to correctly account for and deduct the FMV of these premiums in future accounting periods. We believe this approach will avoid possible future overstatements of NFFS.

**See Exhibit C**

**Bad Debt Expenses**

The omission of the Bad Debt Expense in FY14 was a data entry error that was not caught by any of the review levels, including CPB.

**Work Study**

WXPN misunderstood the source of certain University matching funds paid for the Work Study Program. WXPN believed these funds were from a university pool of non-federal money, and did not realize these were federal funds. Corrective action is in effect.

**Special Fundraising Expenses**

Data entry mistake.

## **Schedule B: Indirect Support**

**INDIRECT ADMINISTRATIVE SUPPORT:** WXPB questions two aspects of the audit report, regarding the calculation of Indirect Administrative Support:

1. On "Schedule A", Sources of Income, AFR Line 10.2 and 26.L, "Membership bad debt expense" is recorded as a reduction to the revenue eligible as NFFS. On "Schedule B", WXPB questions whether the bad debt should be deducted from the total of the Support Services expenses (Line 1b.7.) If it is not deducted, the deduction for bad debt is duplicated.
2. For AFR 2015, on Schedule B, WXPB believes the adjusted bad debt amount should be \$703,433, not \$748,142 (see page 17 of the CPB Audit Draft Report). WXPB believes that Line 1b.5.\$703,433 is the actual final number CPB calculated, after a CPB request for revision during the initial CPB review process for FY15.

**See Exhibit B**

## **Indirect Support Calculation- Schedule B**

Grantees may choose from one of the three methods for calculating indirect administrative support. WXPB used the Basic Method, in prior years through FY15. During the CPB audit process and after discussions among WXPB Staff, personnel from the University's Office of the Comptroller, the Office of Research Services at the University, and the CPB auditor, the Office of the Inspector General made the argument that the Basic Method calculation used by WXPB did not provide sufficient breakdown levels for the Institutional Support (Management and General) expense reported in the University Audited Financial Statements. Therefore, OIG has determined that WXPB should use the OSA Rate (Other Sponsored Activities-MTDC base) method to calculate its Indirect Support.. This recommended change in the Methodology is the reason for the audit finding of a CSG overpayment of \$17,275.

It is important to highlight the fact that the University methodology used for the calculation of the Management and General expenses is based on NACUBO Financial Accounting and Reporting Manual (FARM) for Higher Education, which is the standard guidance and primary criteria used throughout the higher education industry.

Although WXPB does not agree with the Office of the Inspector General finding that the "level of the expense breakdown" using the Basic Method was insufficient, WXPB has compromised and established the OSA Rate as the methodology to be used. The change is effective with the reporting for FY16 AFR.

## **TOTALS**

If we are required to accept the change in methodology for the calculation of the Indirect Support for FY14 and FY15, and if we factor in our revisions as submitted, WXPB calculates the total overpayment to be \$57,656.



Exhibit A

WXPB FY14 Premiums						
					FMV	
					Original	Re-
					Amount	Calculated
Description					Amount	Amount
Total Big Day Out High-End Premiums					36,500	14,960
Total Other High-End Premiums Per Original Entry					51,265	51,265
Total High-End Premiums as Low-End Per Original Entry					638	638
<b>Grand Total</b>					<b>88,403</b>	<b>66,863</b>
Re-Calculated Amount to Reduce Overstated NFFS Premiums in FY14						21,540
<b>Detail of the calculation is available upon request</b>						

## WXPN Tax Letter Guideline

- **Donations of \$75 or less:** No acknowledgment letter to the donor is required. If one is sent it will thank the donor for the gross amount of the donation.
- **Donation of more than \$75:**  
An acknowledgment letter is required and should specify the fair market value of the premiums given in exchange for the donation, unless the cost of token items given in return for the donation, in the aggregate, is less than \$10.60 per annum. If WXPN did not give any premium, token items, or other goods or services in return for the donation (or if the donor did not accept any), the written disclosure should not include any FMV disclosure. The Aggregate Cost of Gifts under \$10.60 per annum will not be included in the acknowledgment letters.

CDs: Non WXPN CDs will be accounted for as a premium, with FMV as its invoice amount. Non WXPN CDs will be accounted for when calculating whether the FMV received by the donor exceeded \$10.60/year in the aggregate.

Donated concert tickets and other premiums: the cost of the premium will be the same as the fair market value. i.e., the price shown on the ticket.

Deadline for mailing the tax letter is January 31.

## Operations Procedure

- **Membership:**
  - Every January, the director of individual giving at WXPN will contact the tax lawyer at UPENN Office of the General Counsel, to inquire about changes in the IRS thresholds affected by the Inflation Index.
  - WXPN Membership operations manager will make the necessary entries in MEMSYS to reflect the IRS threshold changes.
  - Membership operations manager is responsible for determining the FMV and the input in MEMSYS.
  - Membership operations manager will manage the input of the cost of the premiums in MEMSYS.
  - AT fiscal year end the membership operations manager will produce the premium report for the AFR submission to CPB. This report should contain the FMV of all premiums reported as non- taxable deductions. Report should be forwarded to the financial analyst in the Business Office.
- **Finance:**  
The Business Office will calculate the cost of all premiums for the fiscal year. Calculation will be made on soft costs, only. Reports will be generated twice a year, in early July and early January. The accounts payable manager in the Business Office will forward the report to the Membership Operations Manager.

# AFR Schedule B FY14

## OSA Rate (Other Sponsored Activities - MTDC base)

	WXP Revised	Exhibit D IG Report
<b>1. Determine Station net direct expenses</b>		
1a. Total station operating expenses and capital outlays (forward from line 10 of AFR Schedule E)	\$ 9,739,438	\$9,739,438
1b.1. Capital outlays (from AFR Schedule E, line 9 total)	\$ 473,722	\$ 473,722
1b.2. Depreciation	\$ 141,419	\$ 141,419
1b.3. Amortization	\$ 336,391	\$ 336,391
1b.4. In-kind contributions (services and other assets)	\$ 112,230	\$ 112,230
1b.5. Indirect administrative support (see Guidelines for instructions)	\$ 597,312	\$ 597,312
1b.6. Donated property and equipment (if not included on line 1b.1)		
1b.7. Other	\$ 3,381,680	\$3,656,406
Description		
1b.8 Total Deductions	\$ 5,042,754	\$5,317,480
1c. Station net direct expenses	\$ 4,696,684	\$4,421,958
<b>2. Modify licensee negotiated cost rate</b>		
2a. Licensee's negotiated indirect cost rate	61.74%	61.74%
Less: rate components that do not benefit station operations:		
2b.1. Departmental administration	35.77%	35.77%
2b.2. Sponsored projects administration		
2b.3. Library support		
2b.4. Other	15.83%	15.83%
2b.5. Total deductions (sum of 2b.1 through 2b.4)	51.60%	51.60%
2c. Modified cost rate	10.14%	10.14%
<b>3. Apply modified rate to station net direct expenses</b>		
3a. Station net direct expenses from line 1c	4,696,684	4,421,958
3b. Modified cost rate from line 2c	10.14%	10.14%
<b>4. Total indirect support (forwards to line 1 of Schedule B Tab 3)</b>	\$ 476,244	\$ 448,387

Amount to Reduce Overstated Indirect Administrative Support NFFS in FY14

\$27,857



# AFR Schedule B FY15

## OSA Rate (Other Sponsored Activities - MTDC base)

	WXP Revised	Exhibit D IG Report
<b>1. Determine Station net direct expenses</b>		
1a. Total station operating expenses and capital outlays (forward from line 10 of AFR Schedule E)	\$ 9,934,818	\$ 9,934,818
1b.1. Capital outlays (from AFR Schedule E, line 9 total)	\$ 20,710	\$ 20,710
1b.2. Depreciation	\$ 140,321	\$ 140,321
1b.3. Amortization	\$ 336,390	\$ 336,390
1b.4. In-kind contributions (services and other assets)	\$ 100,753	\$ 100,753
1b.5. Indirect administrative support (see Guidelines for instructions)	\$ 703,433	\$ 748,142
1b.6. Donated property and equipment (if not included on line 1b.1)		
1b.7. Other	\$ 3,489,093	\$ 3,796,588
Description		
1b.8 Total Deductions	\$ 4,790,700	\$ 5,142,904
1c. Station net direct expenses	\$ 5,144,118	\$ 4,791,914
<b>2. Modify licensee negotiated cost rate</b>		
2a. Licensee's negotiated indirect cost rate	61.74%	61.74%
Less: rate components that do not benefit station operations:		
2b.1. Departmental administration	35.77%	35.77%
2b.2. Sponsored projects administration		
2b.3. Library support		
2b.4. Other	15.83%	15.83%
2b.5. Total deductions (sum of 2b.1 through 2b.4)	51.60%	51.60%
2c. Modified cost rate	10.14%	10.14%
<b>3. Apply modified rate to station net direct expenses</b>		
3a. Station net direct expenses from line 1c	5,144,118	4,791,914
3b. Modified cost rate from line 2c	10.14%	10.14%
<b>4. Total indirect support (forwards to line 1 of Schedule B Tab 3)</b>	\$ 521,614	\$ 485,900

Amount to Reduce Overstated Indirect Administrative Support NFFS in FY15

\$35,714