

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

**LIMITED SCOPE AUDIT OF INDIRECT ADMINISTRATIVE SUPPORT
REPORTED AS NON-FEDERAL FINANCIAL SUPPORT AT
HOUSTON PUBLIC MEDIA, A DIVISION OF THE UNIVERSITY OF
HOUSTON SYSTEM, HOUSTON, TEXAS
FOR THE PERIOD SEPTEMBER 1, 2015 THROUGH AUGUST 31, 2016**

REPORT NO. ACJ1802-1801

January 23, 2018

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Office of Inspector General
Corporation for Public Broadcasting
Report in Brief

Report No. ACJ1802-1801
January 23, 2018

Background

The objectives of our limited scope audit were to determine whether the station reported Indirect Administrative Support (IAS) as Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFR) in accordance with the Corporation for Public Broadcasting's (CPB) Financial Reporting Guidelines (Guidelines) for Fiscal Year (FY) 2016. Accurate reporting of NFFS is critical to ensure an equitable distribution of CPB funds among stations.

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Limited Scope Audit of Indirect Administrative Support Reported as Non-Federal Financial Support at Houston Public Media, A Division of the University of Houston System, Houston, TX for the Period September 1, 2015 through August 31, 2016

What We Found

Based on our audit, we found that Houston Public Media (HPM) overstated IAS it included as NFFS in FY 2016 by \$2,451,585, resulting in a Community Service Grant (CSG) overpayment of \$202,404 in FY 2018.

In response to our draft report, HPM agreed with our findings on its institutional and physical plant support rate calculations and said it has taken corrective actions. The station did not agree with some of the institutional cost pools OIG questioned that resulted in overstated IAS or that it had not complied with CPB Guidelines. We did not change our findings or recommendations in response to HPM's response.

What We Recommend

That CPB take the following actions:

- 1) recover the CSG overpayment of \$202,404;
- 2) require HPM to identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines; and
- 3) review and clarify the AFR Schedule B guidelines for the Basic Method to help institutional stations with varying and unique organizational structures apply guidance consistently in calculating their IAS NFFS to ensure there is an equitable distribution of CPB funds.

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



Corporation
for Public
Broadcasting

Office of Inspector General

Date: January 23, 2018

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

From: Mary Mitchelson, Inspector General 

Subject: Limited Scope Audit of Indirect Administrative Support Reported as Non-Federal
Financial Support at Houston Public Media, A Division of the University of
Houston System, Houston, Texas for the Period September 1, 2015 through
August 31, 2016, Report No. ACJ1802-1801

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 and provide copies to appropriate oversight congressional committees as required by the Inspector General Act of 1978, as amended. Please refer any public inquiries about this report to our website or our office.

Enclosure

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

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List of Abbreviations and Acronyms

AFR	Annual Financial Report
AFS	Audited Financial Statements
CPB	Corporation for Public Broadcasting
F&A	Facilities and Administrative Costs
Foundation	Houston Public Media Foundation
FY	Fiscal Year
GAS	Government Accounting Standards
Guidelines	CPB Financial Reporting Guidelines
HPM	Houston Public Media (KUHT TV/KUHF Radio)
IAS	Indirect Administrative Support
IRR	Incentive Rate of Return
NFFS	Non-Federal Financial Support
OIG	Office of Inspector General
University	University of Houston System

EXECUTIVE SUMMARY

We have completed a limited scope audit of the Indirect Administrative Support (IAS) reported on its Annual Financial Report (AFR) by Houston Public Media (HPM), a division of and licensed to the Board of Regents of the University of Houston System (University), a state university, for the period September 1, 2015 through August 31, 2016. The objectives of our audit were to determine whether the station reported IAS as Non-Federal Financial Support (NFFS) in accordance with the Corporation for Public Broadcasting's (CPB) Financial Reporting Guidelines (Guidelines) for Fiscal Year (FY) 2016. Accurate reporting of NFFS is critical to ensure an equitable distribution of CPB funds among stations.

Based on our audit, we found that HPM overstated the IAS it claimed as NFFS in FY 2016 by \$2,451,585, resulting in Community Service Grant (CSG) overpayments of \$202,404 in FY 2018. Our audit identified errors in: 1) calculating the institutional support allocation rate by understating the licensee's direct costs; 2) applying the institutional support rate to institutional administrative costs pools not benefiting the station; and 3) using an incorrect square footage to calculate the physical plant support rate. We have classified the \$202,404 as funds put to better use for reporting purposes under the Inspector General Act of 1978, as amended.

We recommend CPB management take the following actions:

1. recover the CSG overpayments of \$202,404;
2. require HPM to identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines; and
3. review and clarify the AFR Schedule B guidelines for the Basic Method to help institutional stations with varying and unique organizational structures apply guidance consistently in calculating their IAS NFFS to ensure there is an equitable distribution of CPB funds.

In response to the draft report, HPM agreed with our findings that it had incorrectly calculated the institutional and physical plant support rates and stated it has taken corrective actions. Station management disagreed with \$2,257,143 of our finding of \$2,451,585 in overstated IAS NFFS, arguing that the station benefited from some of the indirect support that OIG questioned. The station also did not agree that it was noncompliant with CPB Guidelines Schedule B Worksheet II Basic Method instructions for reporting cost groups that benefit the stations. HPM did not specifically address the remaining \$194,442 in overstated NFFS. We have attached HPM's written response to the draft report as Exhibit F.

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

This report presents the conclusions of OIG and the findings do not necessarily represent CPB's final position on these issues. While we have made recommendations that 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 HPM's response to the draft report, we consider recommendations one and two unresolved pending CPB's final management decision. Recommendation three was directed to CPB and is open pending CPB's final management decision.

BACKGROUND

HPM

According to HPM's website, it is focused on delivering high quality, local, regional and national content, which includes providing informative, thought-provoking, and entertaining news and information, arts and culture, and education content. HPM (KUHT-TV and KUHF-FM radio) uses its multi-media platform that includes TV 8 PBS, News 88.7, and Classical to reach an audience of more than 1.5 million. HPM prides itself on being the nation's first educational public television station signing on the air in 1953. HPM's stated vision is to be the most valued catalyst for an informed and engaged community.

HPM receives funding for operations from membership, sponsors, and underwriters through the Houston Public Media Foundation (Foundation) a non-profit 501(c)(3).¹ In addition, HPM receives indirect administrative support from the University.

Community Service Grants

CPB awards annual CSGs to public TV 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 TV and radio CSG pools adjusted by base grants and supplemental grants. The funds that remain are called the Incentive Grant Pools; one is for TV and the other is for radio.

CPB calculates the Incentive Rate of Return (IRR) by dividing the Incentive Grant Pools by the total adjusted NFFS claimed by all TV/radio stations. CPB then multiplies the IRR by the station's total amount of adjusted NFFS to calculate the incentive award amount for the station's total CSG. There is a two-year lag between the reported NFFS and CPB's calculation of the FY CSG amount. For example, CPB used the NFFS claimed by HPM on its FY 2015 AFR to determine the amount of the CSG the station received in FY 2017.

Indirect Administrative Support

Our past audits of institutional stations claiming IAS NFFS have found overstated NFFS related

¹ The station's audited financial statements state that the Foundation, formerly known as the Association for Community Broadcasting (ACB) and as the Association for Community Television (ACT), was organized in 1969 as a Texas non-profit corporation primarily for the purpose of providing financial and other support to KUHT TV. In 2005 the University agreed that the same services would be provided to KUHF Radio and officially changed the Foundation's name in 2014. There is an ongoing agreement between the University and the Foundation for the Foundation to assist HPM with fundraising efforts. All funds are deposited with or made available to the University for the exclusive use of the station. The Foundation is reported as a component unit of HPM and does not have separate financial statements.

to stations' calculations of IAS. The accurate reporting of IAS NFFS is critical for the equitable distribution of the CSG funds to public broadcasters.

We analyzed CPB's records of NFFS reporting to identify stations that reported over \$1 million of IAS in FY 2015, and we narrowed our scope to focus on stations that applied CPB's Basic Method for calculating their NFFS and that had not been recently audited by OIG. We judgmentally selected two stations to conduct a limited scope audit of NFFS reported as IAS in FY 2016. We plan to report separately on each station we audited and issue a summary report to CPB focusing on recommendations for systemic improvements to achieve more consistent reporting of IAS under the Basic Method. To read our report on the first station, go to <https://www.cpb.org/files/oig/reports/KPBS.pdf>.

CPB allowed IAS as NFFS starting in 1975, and for the first 20 years all stations used the grantee developed method. In 1996 CPB developed the Basic Method and also allowed the use of a federal Other Sponsored Activities rate as additional options. Thus, CPB believes it provides latitude to a station in determining its IAS NFFS based on the reasonableness of distributed licensee's resources to the actual benefit the station receives. Further, the IAS NFFS must be computed by trained accountants and be independently audited.

HPM calculated its IAS using CPB's Basic Method net direct option, which includes five detailed steps summarized below:

1. Line 1 - Determine station's direct expenses and deductions to calculate its net station direct expenses – derived from AFR Schedule E, Expenses and station's audited financial statements.
2. Line 2 - Institutional support rate calculation:

$$\frac{\text{station net direct expenses}}{\text{licensee net direct expenses}} = \text{institutional support rate} \times \frac{\text{licensee cost pools}}{\text{benefiting station}}$$

- a. Determining the licensee's net direct activities – per licensee's audited financial statement (total cost of instruction, research and public service net of capital outlays – these are the institution's mission costs).
- b. Calculating the institutional support rate to be applied to institutional cost pools benefiting the station. Station net direct expense divided by licensee net direct activities.
- c. Identifying licensee's institutional support costs pools that provided essential and continuous support to the station's operations and multiplying the institutional support rate times the cost pool to determine the amount of IAS to report as NFFS.²

² CPB AFR Schedule B Line 2.c.3 guidance calls for deductions from the institutional costs reported on the licensee's financial statement for costs that do not benefit the station. CPB's Guidance states: "For instance, no services are provided to the station; services provided are not an essential part of station operations; and the station

3. Line 3 - Physical plant support rate calculation:

$$\frac{\text{station net assignable square footage}}{\text{licensee net assignable square footage}} = \text{physical plant rate} \quad \times \quad \begin{array}{l} \text{licensee cost pools} \\ \text{benefiting station} \end{array}$$

- a. Determining the physical plant support rate, station square footage divided by licensee square footage.
 - b. Identifying licensee's physical plant operations support costs pools that provided essential and continuous support to the station's operations.
 - c. Multiplying the physical plant support rate times the benefiting plant support cost pools to determine the amount of IAS to report as NFFS.
4. Line 4 - Total costs benefiting stations operations (institutional and physical plant support).
5. Occupancy Value – the value of station's pro-rata annual depreciation of a licensee owned building or land associated with tower facilities that is fully or partially occupied by the station, less any rents paid or received for others for use of the property.

See CPB Guidelines, section 6. In FY 2016, HPM claimed IAS for institutional support, physical plant operations, and occupancy support.

During our audit period, HPM received payments of \$2,338,322 from CPB for CSG and interconnection grants (Exhibit A) and reported total NFFS of \$19,721,159 (Exhibit B), which included \$6,609,853 in IAS that it reported on AFRs Schedule B (Exhibit C). HPM's audited financial statements reported total operating revenues and support of \$23,564,590 in FY 2016. HPM's FY begins September 1 and ends on August 31.

RESULTS OF AUDIT

Based on our audit we concluded that HPM generally complied with CPB IAS Basic Method requirements except for overstated IAS NFFS of \$2,451,585, resulting in CSG overpayments of \$202,404 in FY 2018.

We reviewed HPM management's compliance with CPB reporting requirements for its IAS claimed as NFFS. Our responsibility is to conclude on our objectives about management's compliance based on our review.

Our limited scope audit was conducted in accordance with the *Government Auditing Standards* for performance audit engagements and, accordingly, included examining, on a test basis,

or station's employees are required to pay for the services provided. Cost groups that do not benefit the operations of the station generally include the alumni office, commencement, contract administration, development office, faculty recruitment, medical careers improvement, office of the registrar, publication services, purchasing, bad debts, capital outlays, contingencies, and prior period adjustments....”

evidence about HPM’s compliance with CPB reporting requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our review provides a reasonable basis for our conclusions.

FINDINGS AND RECOMMENDATIONS

Overstated Indirect Administrative Support NFFS

Our audit identified errors in: 1) calculating the institutional support allocation rate by understating the licensee’s direct costs; 2) applying the institutional support rate to \$47,761,861 in institutional administrative costs pools that did not provide an essential or continuous benefit to the station; and 3) using the gross square University footage for FY 2011 instead of the net assignable square footage for FY 2016 to calculate the physical plant support rate. The effect of these findings on the IAS calculation resulted in a \$2,451,585 NFFS overstatement. See Exhibit D where we contrast what HPM reported on its AFRs and the results of our audit. This overstatement will result in CSG overpayments of \$202,404 in FY 2018, as shown in the table below.

Overstated IAS Claimed as NFFS

Schedule B – HPM University of Houston	Overstated NFFS – FY 2016		
	TV	Radio	Total
Basic Method			
Institutional support allocation rate error	\$3,925	\$4,726	\$8,651
Institutional costs not benefiting the station	\$1,119,497	\$1,348,221	\$2,467,718
Sub-Total	\$1,123,422	\$1,352,947	\$2,476,369
Under-reported physical plant support costs	(17,650)	(7,134)	(24,784)
Total Overstated NFFS	\$1,105,772	\$1,345,813	\$2,451,585
2018 IRR	11.86051635%	5.29448764%	
FY 2018 CSG overpayments	\$131,150	\$71,254	\$202,404

1) Incorrect institutional support allocation rate excluded certain licensee costs

HPM made an error in calculating its institutional allocation rate because it understated its licensee’s direct expenses when it applied the Basic Method Line 2 instructions for determining licensee net direct activities, as discussed in the Background section of this report. The station incorrectly omitted \$890,882 of direct expenses related to its KUHA operations, a transmitter it sold in July 2016. By omitting these costs from the licensee’s net direct activities, HPM overstated the institutional support allocation rate that it applied to allowable costs pools to calculate its IAS. The transmitter costs were included in the station’s net direct expenses (numerator) and should also have been included in the licensee’s costs (denominator) to calculate an equitable percentage allocation rate as illustrated below:

HPM reported institutional support rate calculation

$$\frac{\text{net station direct expenses}}{\text{licensee's net direct expenses}} = \frac{\$19,435,341}{\$376,164,683} = 5.167\%$$

OIG revised institutional support rate calculation

$$\frac{\text{net station direct expenses}}{\text{licensee's net direct expenses}} = \frac{\$19,435,341}{\$377,055,565} = 5.155\%$$

HPM's omission resulted in a rate of 5.167 percent versus the correct rate of 5.155 percent, a .012 percentage variance. OIG applied the corrected rate (Exhibit D) to the revised allowable administrative cost pools (\$70,876,405), which reduced IAS NFFS by \$8,651. This will result in a \$716 CSG overpayment. We did not apply the corrected rate to the questioned cost pools discussed in the following section because we eliminated those cost pools from the calculation of IAS.

2) Institutional administrative cost pools included costs not benefiting the station

When HPM applied its institutional support rate to its institutional administrative support cost pools to calculate its IAS, it did not fully deduct non-benefiting cost pools, as required by CPB's Basic Method Line 2 instructions. We questioned \$47,761,871 of the University's institutional support cost pools, out of the \$118,638,276 reported, as not providing an essential and/or continuous benefit to station operations, resulting in overstated NFFS for indirect support of \$2,467,718, as shown in the table below.

**Overstated IAS NFFS FY 2016
Institutional Costs Not Benefiting the Station**

University-Departments Questioned	OIG Questioned Benefit Cost Pools	Overstated at HPM 5.167% IAS NFFS *
Costs allocated to non-mission functions	\$12,260,180	\$633,448
Costs did not provide essential benefit to station	22,081,224	1,140,873
Self-supporting auxiliary services	12,202,850	630,486
Costs supporting alumni relations	1,217,617	62,911
Total Questioned IAS	\$47,761,871	\$2,467,718

**Before OIG adjustment for revised institutional support allocation rate of 5.155 percent applied to total allowable benefits. See Exhibit D.*

The licensee's institutional support cost pools incorrectly included \$12,260,180 for departmental support costs allocated to the specific non-mission functions of academic support, student services, and scholarships. These same departments' costs were also allocated to some CPB-defined mission functions and to the general and administrative support in the institutional support function. Additionally, the institutional support cost pool incorrectly included

\$22,081,224 in costs that did not provide an essential benefit to the station and had been allocated to mission and non-mission functions, \$12,202,850 in self-supporting auxiliary function costs, and \$1,217,617 in alumni relations support.

Further, HPM did not identify station benefiting cost pool categories on the AFR Schedule B worksheet, per CPB instructions for Line 2c.1. This information would have facilitated our verification of what was included in the station's IAS.

3) Physical plant support rate used understated licensee square footage

Finally, in calculating its physical plant support IAS, HPM used an outdated and incorrect licensee square footage figure to calculate its physical plant rate. See CPB's Basic Method Line 3 instructions. The station used gross licensee square footage from FY 2011 (10,441,909) but should have used FY 2016 net assignable square footage, as it did for the station. Per the University facility inventory website, its net assignable square footage for 2016 was 9,000,367. Using the FY 2016 figure would result in a slightly higher allocation rate and increased IAS for physical plant operations support. The total physical plant rate for TV and Radio would have increased .069 percent resulting in a \$24,784 IAS understatement. See Exhibit D.

Additionally, we found that the station did not "choose" applicable cost groups that benefit the station by checking the boxes on the AFR Schedule B line 3.d.1, as required.

In sum, by 1) understating the licensee's direct costs in calculating the institutional support allocation rate, 2) applying the institutional support rate to institutional administrative costs pools not benefiting the station, and 3) using an incorrect square footage to calculate the physical plant support rate, HPM overstated its FY 2016 IAS NFFS by a net amount of \$2,451,585.

CPB Guidelines

CPB Guidelines permit institutional stations to include certain revenues from their licensees as NFFS.

- Direct Revenues, including appropriations from the licensee and expenses incurred or absorbed by the licensee specifically for the station; and
- Indirect administrative support.

Guidelines, Section 2.7.1 Indirect Administrative Support Overview.

CPB's Guidelines and instructions for claiming IAS also define what types of institutional costs the station may claim as a benefit from its licensee and are described as:

Facilities and Administrative Costs (F&A) are costs that are incurred for common or joint objectives and, therefore, cannot be identified readily or specifically with a particular sponsored project, an instructional activity or any other institutional activity and cannot be directly charged. F&A costs are also referred to as indirect costs.

Facilities costs (operations and maintenance of plant) are those that have been incurred for the administration, supervision, operation and maintenance, preservation and protection of the institution's physical plant....

General administration expenses are those that have been incurred for general executive and administrative office of educational institutions and other expenses of a general character which do not relate solely to any major function of the institution (e.g., instruction, research, other sponsored activities and other institutional activities)....

Guidelines 2.7.2 Types of Indirect Administrative Support that May be Claimed as NFFS.

Further, the Guidelines state:

The Basic Method is a CPB developed method in which the grantee calculates indirect administrative support by determining an institutional support component and a physical plant support component. When using the Basic Method the grantee may also include occupancy support for the value of station occupied space of licensee-owned building and or licensee-owned land associated with tower facilities.

The institutional support component of the indirect administrative support is calculated by first determining an institutional support rate. The rate may be calculated by either 1) determining the station's net direct expenses (net of noncash support and capital outlays) as a percentage share of the licensee's net direct expenses or; 2) determining the station's total salaries and wages as a percentage share of the licensee's total salaries and wages for direct activities. The institutional support rate is then multiplied by the licensee's total institutional support costs (e.g., budget analysis, financial operations, human resources, etc.) that benefit the station operations.

In addition to calculating an institutional support rate, in the Basic Method the grantee calculates a physical plant support rate by determining the net square footage occupied by the station as a percentage share of the licensee's total net assignable square footage. The rate is then multiplied by the licensee's physical plant support costs (e.g., building maintenance, refuse disposal, custodial services, etc.) that benefit station operations.

Guidelines, Section 2.7.3 Calculating Indirect Administrative Support.

In addition, CPB Basic Method Guidelines section 6 for AFR lines 2c.1 and 3d.1 require the station to choose the applicable licensee's institutional support and physical plant operations cost groups that benefit the station and demonstrate that the benefit provided:

- include services that are an essential part of station operations;
- are continuous and ongoing in support; and
- the station uses the services or is required to use the services provided.

HPM overstated its IAS in FY 2016 because the station incorrectly completed CPB's Basic Method lines 2 and 3 instructions for calculating its IAS.

Factors Contributing to Overstated IAS - HPM's IAS calculation methodology

As background, HPM has been reporting IAS using the Basic Method for well over ten years, but a university official could not readily recall how the methodology was constructed. The University's financial reporting department provided HPM with guidance for preparing the IAS for its Audited Financial Statement (AFS) and CPB's AFR reporting. The guidance provided background information on the IAS and stated, "This support represents the cost that HPM will have if HPM was operating independently." This guidance explained how to obtain and prepare the financial information and required IAS calculations for the station's AFS and AFR reports.

University financial management officials gave a University-wide benefit matrix to the station that included a space to identify department costs as benefiting or not benefiting the station. The matrix included all the University cost functions (e.g., instruction, research, public service, academic support, student services, auxiliary services) per the financial statements, not just the institutional and physical plant operations cost pools addressed in CPB's guidance. Station officials reviewed the benefit matrix to determine if any changes were necessary and updated the matrix for departments they determined benefited HPM operations. The station reviewed and updated the benefits matrix in FY 2015 without involvement by the licensee.

Instead of following CPB's instructions under the Basic Method limiting the cost pools to the instruction, research, and public service functional areas, HPM developed its own method to determine institutional administrative support cost pools. HPM did apply CPB's instructions for reporting its physical plant operations and occupancy value IAS, except for misreporting the licensee's square footage. HPM's method resulted in an over-allocation of IAS to HPM.

For example, CPB's instructions for AFR Schedule B line 2c.2, costs per licensee financial statements, state "enter the licensee's current year total costs for institutional support (instruction, research, public service)." Then, line 2c.3 requires that stations deduct the cost groups on line 2c.2 that do not benefit the station. (This deduction is necessary to arrive at the allowable costs against which to apply the institutional support rate.) In contrast, HPM's methodology for the amounts it reported on lines 2c.2, 2c.3, and 2c.4 included reporting the total University operating direct and indirect costs (less the physical plant operations cost pools that were separately reported correctly on line 3d.2 and 3d.3), not just the institutional (indirect) costs supporting the CPB-defined mission functions.

HPM's methodology resulted in it reporting licensee net direct expenses of \$376,164,683 (on line 2a.2) for the CPB-defined mission costs and institutional support of \$902,012,780 (on line 2c.2) that included university-wide costs.³ See Exhibit D. Typically, an institution's mission functional expenses are greater than its institutional administrative support functions.

OIG discussed this reporting anomaly with University and HPM financial management officials who reiterated that the methodology used to report the licensee information was based on a

³ This amount was the total licensee costs including both the CPB-defined mission costs and other non-mission support costs net of physical plant operations of \$47,336,701.

formula dating back to the 1990s. They did not know the rationale behind it but believe it was established in the spirit of complying with CPB guidance. University financial management said perhaps this was a good time to review its procedures and update them to make sure they comply with current CPB Guidelines.

HPM's method did not provide for an equitable allocation of its licensee institutional costs to the station, because it incorrectly excluded certain licensee direct costs in calculating its institutional support rate (line 2a.3), and then applied that rate to the administrative cost pools that supported more than the CPB-defined mission functions (lines 2c.2-4).

After correcting for the inequity, we found the growth in HPM's institutional administrative support cost pool to be much more reasonable. During our background review of HPM's prior years' IAS reporting, OIG found that the licensee's institutional support cost pools increased over 78 percent in five years, with 63 percent attributed to the increase in FY 2015. In comparison, the physical plant operating cost pools increased only 12 percent for the five-year period. After we adjusted the station's institutional support cost pool by eliminating \$47,761,871 (those FY 2016 costs we found should have been excluded from the cost pool), the resulting FY 2016 institutional support cost pool of \$70,876,405 was more in line with the FY 2014 reported institutional support of \$64,838,060 (only a 9.3 percent increase).

Following, we discuss specifically how using the incorrect allocation rates and institutional administrative support cost pools resulted in our monetary findings.

1) Incorrect institutional support allocation rate excluded certain licensee costs

When HPM calculated its institutional support allocation rate, the station did not reconcile or prepare a crosswalk of its net station direct expenses (the numerator) to the licensee's net direct expenses (the denominator) to ensure there was an adequate relationship between the two numbers. That is, it did not ensure that the station's net direct expenses were included in the licensee's net direct expenses.⁴ While preparing a crosswalk is not a specific CPB requirement, it is a good control technique to ensure the reasonableness of the rate calculation.

As a result, HPM incorrectly deducted \$890,882 that the licensee incurred on behalf of the station from the licensee's net direct costs, which resulted in a slightly higher institutional support allocation rate. We discussed this error with HPM, and the station agreed with our revised allocation rate.

⁴ During our audit fieldwork the station reconciled its general ledger TV and Radio funds to the University's public service functional category, and we identified a \$890,882 reporting error. HPM did not prepare a reconciliation or crosswalk as part of calculating its IAS.

2) Institutional administrative costs pools included costs not benefiting the station

Our review found that \$47,761,861 of HPM’s reported institutional administrative support costs⁵ were either applicable to non-mission functions, did not provide an essential benefit to station operations, were for self-supporting auxiliary enterprises, or supported alumni relations.

Costs applicable to non-mission functions

The institutional cost pool reported on HPM’s FY 2016 AFRs Schedule B included \$35,155,652 in licensee costs for certain departments, which resulted in the station claiming IAS of \$1,816,391. See table below. We accepted a portion of these costs as allowable for NFFS (\$1,182,943) but questioned the benefit of the costs allocated to the specific functional categories of academic support, student services, scholarship, and auxiliary functions, because they did not provide an essential benefit to the station (\$633,448). The following table shows the departments and functional categories OIG questioned.

Questioned Benefits – Institutional Support Costs Applicable to Non-Mission Functions

Function Allocated		All Functions	Non-Mission - Academic Support, Student Services, Scholarship and Auxiliary Services		CPB Defined Mission (Instruction, Research, Public Service) & Institution support	
			OIG Questioned Benefit Cost Pool	Overstated at HPM 5.167% IAS NFFS*	OIG allowed benefit	OIG allowed at HPM rate 5.167% IAS NFFS*
Departments specifically allocated	Dept No.	Total reported in Benefit Cost Pool				
President	H0001	\$628,781	\$25,941	\$1,340	\$602,840	\$31,147
Academic Affairs	H0005	4,306,283	4,257,185	219,956	49,098	2,537
Env. Health & Life Safety	H0173	1,181,844	18,122	936	1,163,722	60,126
University Information	H0196	972,412	175,587	9,072	796,825	41,170
Enterprise Systems	H0199	14,570,365	3,198,029	165,233	11,372,336	587,576
Technology Services	H0201	10,437,528	3,649,180	188,543	6,788,348	350,734
UIT Security	H0204	1,575,520	332,460	17,177	1,243,060	64,225
Staff Council	H0431	106,093	500	26	105,593	5,456
Public Admin	H0514	280,149	40,779	2,107	239,370	12,368
Online Functional Support	H0550	322,582	322,582	16,667		
CTR for Info SCRTY, RES	H0554	585,606	161,412	8,340	424,194	21,917
GCSW Info Tech	H0555	188,489	78,403	4,051	110,086	5,687
Total Allocated	Total	\$35,155,652	\$12,260,180	\$633,448	\$22,895,472	\$1,182,943

*Before OIG adjustment of \$8,651 in NFFS for incorrect institutional support allocation rate of 5.155 percent applied to total allowable benefits. See Exhibit D.

⁵ HPM’s reported institutional support is made up of costs from all the University’s functional cost categories except physical plant operations, which is reported in a separate cost pool for IAS.

In FY 2016, HPM received an allocated portion of costs from various departments as part of the institutional support and mission functions costs totaling \$22,895,472 (resulting in \$1,182,943 in IAS claimed as NFFS). We do not question these costs. However, these same departments also allocated an additional \$12,260,180 in costs to academic support, student services, scholarships, and auxiliary services, none of which provided an essential benefit to the station (or CPB-defined mission and institutional support functions). Including these additional costs in the cost pool used to calculate HPM’s IAS resulted in an inequitable allocation of costs to the station and overstated IAS by \$633,448.

CPB Guidelines permit institutional support for instruction, research, and public service (less any costs that do not provide an essential benefit to the station) to be included in the cost pools to which the institutional support rate was applied to calculate the station’s IAS. (The institutional support rate allocation formula is illustrated in the Background section of this report.) The rate allocation shows how it is derived from a relationship between the station’s net direct expenses and those of the licensee’s net direct expense for only the CPB-defined mission functions. CPB’s formula does not include direct costs for other licensee support functions (academic support, student services, and auxiliary). Therefore, by applying CPB’s allocation rate formula to an institutional cost pool that included indirect costs benefiting other non-mission functions, HPM caused an inequitable allocation of indirect support costs to the station.

Mission/support function costs that did not provide essential benefit to station

Additionally, the station included \$22,081,224 in costs that did not provide essential or continuous benefit to the station, resulting in overstated IAS claimed as NFFS of \$1,140,873, as presented in the following chart.

Questioned Benefits – Mission/Support Functions

Department listed as Benefit	Dept No.	Instruction	Research	Academic Support	Student Services	Total Reported and Questioned Benefit by Department	Overstated at HPM 5.167% IAS NFFS *
Scholarship & Financial Aid	H0212			\$497,694	\$1,879,670	\$2,377,364	\$122,832
Office of Intellectual Property	H0238		\$18,312,646			18,312,646	946,161
Construction Management	H0559	\$847,717	142,609	173,569		1,163,895	60,135
Provost Institutional	H0607			227,319		227,319	11,745
Total questioned benefit by function		\$847,717	\$18,455,255	\$898,582	\$1,879,670	\$22,081,224	\$1,140,873

*Before OIG adjustment for revised institutional support allocation rate of 5.155 percent applied to total allowable benefits. See Exhibit D.

OIG did not find that these costs -- scholarships and financial aid services,⁶ royalties for non-station related research intellectual property, provost, and a construction management certificate program – benefited the station.

Self-supporting auxiliary enterprises

HPM also included \$12,202,850 for auxiliary services as a cost pool benefiting the station resulting in overstated IAS NFFS of \$630,486, as follows.

Questioned Benefits - Auxiliary Services Function

Dept listed as Benefit	Dept. No.	Reported in Auxiliary Function	Total Benefit Questioned	Overstated HPM 5.167% IAS NFFS*
Auxiliary Services Operations	H0171	\$3,239,004	\$3,239,004	\$167,350
Parking and Transportation Services	H0178	5,686,768	5,686,768	293,819
University Property Service Operations.	H0518	3,277,078	3,277,078	169,317
Total Auxiliary Services by Function		\$12,202,850	\$12,202,850	\$630,486

**Before OIG adjustment for revised institutional support allocation rate of 5.155 percent applied to total allowable benefits. See Exhibit D*

The station included the University auxiliary services function⁷ costs for auxiliary services operations, parking and transportation, and property service operations in its institutional support cost pools. These auxiliary services are intended to be self-supporting enterprises and are funded through customers paying directly for the services provided. --, i.e., food service, parking, bookstore -- or through university cost allocation charges directly to departments or the station. University financial officials said these auxiliary services -- parking, printing, postal, copy center, Cougar ID card, and food services -- benefited the station. These auxiliary services are directly provided to the employee or to the station, as discussed below.

OIG research on the University’s website shows parking requires permits that are paid for directly by faculty, staff, students, and visitors. The same holds true for food services and

⁶ Included in these costs were those associated with students’ federal work-study program. Per CPB Guidelines, federal work-study is ineligible for NFFS whether support is direct or indirect. In addition to work-study, station officials said some HPM employees benefit from tuition assistance through grants and loans managed through these departments, because they are also students in undergraduate and graduate programs. We questioned the total department H0212 costs, because HPM did not establish an equitable methodology to exclude federal work-study related expenses from employee related expenses. Further, the H0212 costs apply to students, so allocating them based on a ratio of station expenses to licensee net mission expenses would not result in an equitable allocation to the station.

⁷ The University’s Auxiliary service function includes several departments that the station properly excluded from the institutional support cost pool, such as intercollegiate athletics and other self-supporting enterprises.

bookstore operations. Postal service operations are in department H0179, and the station receives this benefit under the institution support benefit cost function (\$622,934 institutional cost pool, which results in \$32,185 in IAS NFFS). The station also incurred direct postage costs of \$264,306, which included direct expense allocations for postage.

The station also incurred direct printing expenses of \$102,298, which included allocated printing expenses recorded as campus academic printing/copying charges (non-vendor expense). In addition, the Cougar card (an access ID card all staff are required to have) is included in department benefits under the student services function, and OIG allowed it as a benefit to station.

University and HPM financial managers said that University Property Services facilitates land property transactions when HPM receives land donation bequests. However, the general ledger trial balance shows department H0518 costs in auxiliary services are related to rental property expenses, therefore OIG did not find a direct correlation of this benefit to HPM.

Additionally, University financial officials said that some of the costs from auxiliary services are not fully absorbed by fees and the benefits claimed included the indirect costs associated with the services. However, based on OIG's review of the University benefit matrix, we could not determine the amount of fees (such as those employees paid for parking) that were absorbed. HPM should deduct fees paid by users for auxiliary services from any costs pools prior to allocating for IAS. Further, if these auxiliary services were allowed they would need to be allocated to more than the mission functions, as all support functions also have access to these services.

Therefore, we questioned an additional \$12,202,850 in reported benefit costs that resulted in an overstated IAS claimed as NFFS of \$630,486.

Institutional support function costs supporting alumni relations

HPM's institutional support function cost pool of \$61 million was included in the University benefit matrix and included over \$11 million in development, marketing, planned giving, and gift management department expenses. University and station financial managers advised OIG that HPM's chief development officer is funded through these departments. University financial managers stated all these departments, including alumni relations, supported major donors and databases and were part of a university-wide strategy for planned giving. HPM officials said that the station benefits from alumni relations, because a significant number of University graduates also consume HPM media. It is a way in which HPM builds and expands its reach to future donors.

CPB's guidelines state that typically alumni relations are a benefit to the university system fundraising and not an essential part of the station's fundraising. We also note that HPM has the Foundation that provides direct fundraising for HPM. Therefore, we questioned

including \$1,217,617 in alumni relations costs in the institutional support cost pool, which resulted in \$62,911⁸ overstated IAS NFFS.

3) Physical plant support rate used understated licensee square footage

The station incorrectly used the licensee's FY 2011 gross square footage when it calculated its physical plant operations allocation percentage rate instead of the FY 2016 net assignable square footage. The difference in the licensee's square footage of 1,441,542 decreased the station's allocation percentage and resulted in an IAS NFFS understatement of \$24,784. Station officials are aware of the error and have made changes to reflect the correct square footage in its AFR Schedule B reporting procedures.

In summary, we questioned \$2,451,585 in IAS claimed as NFFS on HPM's AFRs Schedule B, TV (\$1,105,772) and Radio (\$1,345,813), resulting in FY 2018 CSG overpayments totaling \$202,404 (TV \$131,150 and Radio \$71,254). See Exhibit D.

Additional factor - CPB Guidelines clarification

CPB officials said that its Guidelines allow for latitude to institutional stations in applying the IAS Basic Method to calculate IAS. However, the Guidelines do not provide enough detail to assist stations in adapting CPB's guidance to the uniqueness of each institution and station's reporting structure, therefore inequities can result.

CPB's Basic Method Guidelines do not provide guidance on reconciling the station's net direct expenses to the licensee's net direct expenses to ensure direct costs are not included as both direct costs to the station and also as indirect costs in the licensee's IAS cost pools. In addition, the Guidelines do not address any adjustments to the licensee base for direct costs on the station's books that may not be in the licensee's direct expenses (i.e., different accounting classification for station's AFS to expense transactions that are recorded as an asset on the licensee's books). Such guidance would assist stations in performing the necessary reviews and ensure a more equitable reporting of NFFS throughout the system.

Recommendations

We recommend CPB management take the following actions:

1. recover the CSG overpayments of \$202,404;
2. require HPM to identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines, and
3. review and clarify the AFR Schedule B guidelines for the Basic Method to help institutional stations with varying and unique organizational structures apply guidance consistently in calculating their IAS NFFS to ensure there is an equitable distribution of

⁸ This figure is before OIG's adjustment for a revised institutional support allocation rate of 5.155 percent is applied to the total allowable benefits. See Exhibit D.

CPB funds by:

- a) providing additional guidance to stations on reconciling the station's net direct expenses to the licensee's net direct activities; and
- b) establishing alternative calculations to ensure cost pools are allocated equitably throughout the system.

HPM's Response

In response to the draft report, HPM agreed with our findings that it calculated its institutional and physical plant support rates incorrectly and stated it has taken corrective actions. Station management disagreed with \$2,257,143 of our finding of \$2,451,585 in overstated IAS NFFS resulting from some of the OIG questioned benefits that the station claimed. They also disagreed that the station did not comply with CPB Guidelines Schedule B Worksheet II Basic Method instructions for reporting cost groups that benefit the stations. HPM did not specifically address the remaining \$194,442 in overstated NFFS. HPM did not comment on recommendation three, which was directed to CPB management.

Incorrect rate calculations – Institutional and Physical plant support

HPM stated in its response that it agreed that the station had omitted \$890,882 in direct expenses for its licensee's net direct expenses which overstated the institutional support rate by .012 percent. It agreed that the correct rate should have been 5.155 percent. In addition, the station agreed that it had made an error in calculating its physical plant support rate which resulted in an IAS NFFS understatement of \$24,784.

The station said it has implemented controls to ensure accurate NFFS reporting.

Institutional administrative cost pools included costs not benefiting the station

HPM did not agree with some of the OIG questioned benefit cost pools for non-mission functions – those for Office of Intellectual Property, Auxiliary Services and Alumni Relations -- and requested a review of the audit criteria for this finding.

Non-mission functions:

HPM requested review of the functional expense categories OIG questioned as a non-benefit to the station for departments it said benefited HPM. First, HPM stated the \$4,579,767 in questioned benefits for Academic Affairs and Online Functional Support contributed to the station's capacity to deliver its mission and impact as an educational asset to the community, providing academic credibility. In addition, HPM believes the indirect support from the Division of Academic Affairs provided mutual benefits through partnerships and that the station would incur additional material costs that are associated with subject matter experts if this indirect support was not available to the station.

Second, the station did not agree with OIG's \$7,373,378 in questioned cost pool benefits for the following departments allocated to non-mission functions: Enterprise Systems, University

Information, UIT Security, Technology Services, and Environmental Health and Life Safety. HPM stated these departments provided support to the station through police, fire, facilities and technology resources, and other blanket protection for preventative and emergency response situations.

Office of Intellectual Property

Station management did not agree with the OIG questioned cost pool of \$18,312,646 for the Office of Intellectual Property because HPM's CSG grants go through the Division of Research, Office of Intellectual Property which negotiated indirect support of federal matching grants to cover costs associated with reporting and overhead. HPM stated that this department maintains product license fees (royalties paid to vendors), ensures property rights protections (copyrights, patents, and rights to trademark), and provides legal protection.

Auxiliary Services Function

HPM did not agree with OIG questioned cost pool of \$12,202,850 for Auxiliary Service Functions: Parking and Food Service, Printing and Postal Department, and Property Services. The station said that although employees pay for parking and food service the station receives additional benefits for parking spaces that it does not pay for. HPM said it also indirectly benefits from the University's bulk mail discounts, property services provided on donated property, renting space, and providing document storage at no cost to the station.

Alumni Relations

The station did not agree with the OIG questioned cost pool of \$1,217,617 for Alumni Relations because it said University Advancement oversees all of HPM fundraising, pays salaries for certain staff and its chief development officer. The Division of University Advancement includes the Alumni Relations department.⁹ It also said several of the HPM Foundation board members have been recruited and cultivated by University Alumni Relations as they are University alumni. HPM receives significant gifts from those board members, in addition to the volunteer fundraising services for HPM and other University departments.

Complying with CPB AFR Schedule B reporting requirements: Basic Method Worksheet II

HPM stated in its response that it had complied with CPB's Guidelines Schedule B Instructions for choosing the applicable cost groups that benefit the station and reporting cost groups that do not benefit the station.

OIG Review and Comment

⁹ The University's website states: "University Advancement includes fund development, alumni relations, volunteer relations, and donor and alumni information and services for the university's fourteen colleges, athletics, M.D. Anderson Library, student affairs and Houston Public Media, including corporate and foundation relations, annual giving and planned giving offices."

Based on HPM's written response to our draft report, we have not changed our findings and recommendations. We consider recommendations one and two unresolved pending CPB's final management determination and acceptance of HPM's corrective actions. Recommendation three is unresolved pending CPB's final management determination as it was directed to CPB. Our specific review and comment to HPM's response is discussed below.

Incorrect rate calculations – institutional and physical plant support

HPM agreed that it had made mistakes in calculating its institutional and physical plant support rate calculations, which overstated institutional support and understated its physical plant support. We consider this portion of recommendation 2 resolved pending CPB's acceptance of HPM's corrective actions and the balance of recommendation 2 regarding cost pools benefiting the station unresolved pending CPB's final management decision.

Institutional administrative cost pools included costs not benefiting the station

HPM disagreed with our findings that it included institutional cost pools that did not benefit the station. The station specifically addressed \$43,686,259 of the \$47,761,870 (91 percent) in benefits we questioned, or \$2,257,143 of the overstated NFFS. We have not changed our findings based on the station's response to our draft report.

Upon further evaluation of these issues we observed that HPM's methodology for calculating the institutional support rate is more like a Grantee Developed IAS methodology than an application of CPB's Basic Method. Applying a Grantee Developed methodology would have required CPB's prior approval.

We do note that HPM correctly applied CPB's Basic Method formula to the physical plant support rate, except for the calculation error noted above, and to the occupancy value calculations. We discuss HPM's response by finding category.

Non-mission functions:

First, HPM disagreed with OIG questioned cost pool benefits of \$4,579,767 for Academic Affairs department H0005 and Online Support department H0550 because it believes these departments play a pivotal role for HPM. We note that OIG allowed \$49,098 in benefits for these departments that were allocated to the CPB defined mission functions (Instruction, Research, Public Service or Institutional Support). We did not allow \$3,213,185 allocated to the University's Academic Support function and \$1,366,582 to Student Services function totaling \$4,579,767. These costs were specifically identified with non-mission functions and do not meet the definition of F&A costs incurred for common or joint objectives. Further, CPB's Basic Method determines an institutional support rate based on the station's net direct costs to the licensee direct costs for only the CPB-defined mission functions. Thus, including these costs results in an inequitable allocation to the station, because the direct costs in other functions are not included in the licensee base to calculate the institutional support rate to apply to these cost pools.

Second, the station disagreed that \$7,373,378 in certain department benefits that had been allocated to non-mission functions (Academic Services \$5,983,024, Student Services \$1,306,228 and Auxiliary Services \$84,127) should be allowed in the benefits costs pools allocated to the station. We agreed that these departments provided benefits to the station for technology, safety and environmental services and allowed \$21,364,292 of the \$28,737,670 of these department's benefiting cost pools reported. Therefore, we allowed the station \$1,103,831¹⁰ in IAS NFFS benefits for these departments. However, the additional \$380,961 in IAS NFFS claimed benefited non-mission functions and therefore overstated NFFS.

Office of Intellectual Property

HPM stated that its CSG grants go through the Division of Research, Office of Intellectual Property. The station included \$18,312,646 for its Office of Intellectual Property in its benefiting cost pools, which resulted in the station claiming IAS NFFS of \$946,161. We questioned this benefit as \$14,809,898 (81 percent) of this department's costs were for royalty disbursements. However, the station directly paid for its program rights and various licensing fees. In addition, the station also included \$6,062,016 in the University's Research departments benefits from the following departments: Research, Business Operations, Research Policies, Research Business Operations, Grants and Contracts, and Sever Storm Pred. EDU) and claimed \$313,207 in IAS NFFS, which we allowed. Based on our evaluation of HPM's response we could not determine how the station demonstrated that it received the additional \$946,161 in indirect benefits.

Auxiliary Services

We evaluated HPM's response to our questioned benefits for Auxiliary Services Functions totaling \$12,202,850. While HPM may have received some additional benefits that it did not directly pay for, allowing the total costs for the three departments: Auxiliary Services, Parking and Transportation, and Property Services is not equitable. First, auxiliary services are largely self-supporting operations that charge fees for services provided. Based on our review of the University's FY 2016 published financial statements, 90 percent (before allowances and discounts) and 81 percent (after allowances) of these auxiliary costs are covered by assessed fees resulting in approximately only 10-19 percent in uncovered auxiliary services costs.

The three departments that HPM included in its institutional cost pools make up only 12 percent of the total auxiliary costs for the University and result in approximately \$1.1- \$2.3 million in uncovered costs out of the \$12,202,850 claimed.¹¹ Further, these costs should be allocated to all functions that benefit from the services not just the CPB-defined mission functions. Therefore, as stated above, allowing these auxiliary costs pools then applying CPB's Basic Method formula results in a hybrid of the Basic Method and Grantee Developed Method. The result was neither equitable nor approved by CPB.

¹⁰ Calculated on the HPM reported combined rate 5.167 percent before adjustment for calculation error, revised rate should be 5.155 percent.

¹¹ We applied the percentages from the published financial statements to the financial statements provided for the AFR reporting benefits matrix.

Alumni Relations

Based on our evaluation of HPM's response to our draft report, we have not changed our position and question \$1,217, 617 in alumni relation department expenses based on consistently applying CPB guidance that lists the alumni office as a cost group that does not provide an essential benefit to station operations. We noted in the body of the report that the station included \$11 million in University Advancement department costs in its benefits cost pools, which also included the alumni office. We allowed \$9.9 million of University Advancement cost pools, which resulted in HPM claiming over \$500,000 in IAS NFFS.

Based on HPM's response to recommendation 1, we have not changed this recommendation, and it remains unresolved.

Complying with CPB AFR Schedule B reporting requirements: Basic Method Worksheet II

HPM stated in its response that it had complied with CPB's Basic Method reporting requirements. We disagree. The station did not fully comply with the requirements because it did not check off the boxes on its AFRs Schedule B to indicate the types of cost pools that benefit the station, claimed costs as IAS not listed on CPB's Schedule B Worksheet, included more than the functional institutional cost pools in calculating the amounts claimed, and essentially applied the equivalent of an unapproved Grantee Developed Method for calculating its IAS.

Based on HPM's response to recommendation 2, we consider recommendation 2 unresolved.

Exhibit A

**CPB Grant Payments to HPM
September 1, 2015 through August 31, 2016**

CPB Grants	TV	Radio	Total
Community Service Grants	\$1,661,421	\$646,432	\$2,307,853
Interconnection	30,469		30,469
Total CPB Payments	\$1,691,890	\$646,432	\$2,338,322

**HPM Summary of Non-Federal Financial Support
For the period ending August 31, 2016
Certified by Head of Grantee and Independent Account's Report**

Line	Description	TV FY 2016	Radio FY 2016	Total
	<i>Summary of Non-Federal Financial Support:</i>			
1	Direct Revenue (Schedule A)	\$4,783,450	\$8,327,856	\$13,111,306
2	Indirect Administrative Support (Schedule B)	3,123,280	3,486,573	6,609,853
3	In-Kind Contributions (Schedule C)	0		
4	Total Non-Federal Financial Support	\$7,906,730	\$11,814,429	\$19,721,159

Exhibit C

**HPM Annual Financial Report
Schedule B - Indirect Administrative Support
September 1, 2015 – August 31, 2016**

Line	Description	TV 2016	Radio 2016	Total 2016
	Schedule B			
1	Total support activity benefiting station	\$2,890,971	\$3,393,455	\$6,284,426
2	Occupancy value	232,309	93,118	325,427
3	Deductions: Fees paid to the licensee for overhead, recovery, assessment, etc.	\$0	\$0	\$0
4	Deductions: Support shown on lines 1 and 2 in excess of revenue reported in financial statements	\$0	\$0	\$0
5	Total Indirect Administrative Support (Forwards to Line 2 of the Summary of Non-federal Financial Support)	\$3,123,280	\$3,486,573	\$6,609,853
6	Please enter an institutional type code for your licensee.	SU	SU	

Exhibit D

Overstated Indirect Administrative Support Claimed as NFFS

Excerpt for Worksheet Schedule B	HPM Reported on FY 2016 AFRs			OIG Audit			Variance HPM Reported vs OIG Audit			Variance
HPM University of Houston, TX	TV	Radio	Combined Total	TV	Radio	Combined Total	TV	Radio	Combined Total	Notes *
Basic Method AFR Schedule B line										
2a. Net Direct Method										
2a.1 Station net direct expenses	\$8,816,975	\$10,618,366	\$19,435,341	\$8,816,975	\$10,618,366	\$19,435,341	\$0	\$0	\$0	
2a.2 Licensee net direct expenses	\$376,164,683	\$376,164,683	\$376,164,683	\$377,055,565	\$377,055,565	\$377,055,565	\$890,882	\$890,882	\$890,882	1)
2a.3 Percentage of allocation	2.344%	2.823%	5.167%	2.338%	2.816%	5.155%	(.006%)	(.007%)	(.012%)	
2c. Institutional support calculation										
2c.2 Costs per licensee financial statements	\$902,012,780	\$902,012,780	\$902,012,780	\$118,638,276	\$118,638,276	\$118,638,276	(\$783,374,504)	(\$783,374,504)	(\$783,374,504)	
2c.3 Less: Cost groups that do not benefit the station	\$783,374,504	\$783,374,504	\$783,374,504	\$47,761,871	\$47,761,871	\$47,761,871	(\$735,612,633)	(\$735,612,633)	(\$735,612,633)	
2c.4 Costs benefiting the station	\$118,638,276	\$118,638,276	\$118,638,276	\$70,876,405	\$70,876,405	\$70,876,405	(\$47,761,871)	(\$47,761,871)	(\$47,761,871)	2)
2c.5 Percentage of allocation	2.344%	2.823%	5.167%	2.338%	2.816%	5.155%	(.006%)	(.007%)	(.012%)	
2c.6 Total institutional costs benefiting the station	\$2,780,778	\$3,348,917	\$6,129,695	\$1,657,356	\$1,995,970	\$3,653,326	(\$1,123,422)	(\$1,352,947)	(\$2,476,369)	3)
3. Physical plant support calculation										
3a. Net square footage occupied by station	32,129	12,986	45,115	32,129	12,986	45,115	0	0	0	
3b. Licensee's net assignable square footage	10,441,909	10,441,909	10,441,909	9,000,367	9,000,367	9,000,367	(1,441,542)	(1,441,542)	(1,441,542)	4)
3c. Percentage of allocation	0.3077%	0.1244%	0.4321%	0.3570%	0.1443%	0.5013%	0.049%	0.020%	0.069%	
3d.2 Costs per licensee financial statements	\$47,336,701	\$47,336,701	\$47,336,701	\$47,336,701	\$47,336,701	\$47,336,701	\$0	\$0	\$0	
3d.3 Less: Cost groups that do not benefit the station	\$11,523,867	\$11,523,867	\$11,523,867	\$11,523,867	\$11,523,867	\$11,523,867	\$0	\$0	\$0	
3d.4 Costs benefiting the station	\$35,812,834	\$35,812,834	\$35,812,834	\$35,812,834	\$35,812,834	\$35,812,834	\$0	\$0	\$0	
3d.5 Percentage of allocation	0.3077%	0.1244%	0.4321%	0.3570%	0.1443%	0.5013%	0.049%	0.020%	0.069%	
3d.6 Total physical plant support costs	\$110,193	\$44,538	\$154,731	\$127,843	\$51,672	\$179,515	\$17,650	\$7,134	\$24,784	
4. Total costs benefiting station	\$2,890,971	\$3,393,455	\$6,284,426	\$1,785,199	\$2,047,642	\$3,832,841	(\$1,105,772)	(\$1,345,813)	(\$2,451,585)	

Note: Due to calculation formulas in this table rounding differences may occur.

* See variance footnotes on Exhibit D continued page.

Overstated Indirect Administrative Support NFFS

Schedule B Totals	HPM Reported on FY 2016 AFRs			OIG Audit			Variance HPM Reported vs OIG Audit			Variance
HPM University of Houston, TX	TV	Radio	Total	TV	Radio	Total	TV	Radio	Total	Notes *
1. Total support activity benefiting station	\$2,890,971	\$3,393,455	\$6,284,426	\$1,785,199	\$2,047,642	\$3,832,841	(\$1,105,772)	(\$1,345,813)	(\$2,451,585)	
2. Occupancy Value	\$232,309	\$93,118	\$325,427	\$232,309	\$93,118	\$325,427	\$0	\$0	\$0	
3. Deductions: Fees paid to licensee for overhead recovery, assessment, etc.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
4. Deductions: Support shown on lines 1 and 2 in excess of revenue reported in financial statements	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
5. Total Indirect Administrative Support (Forwards to Line 2 of the Summary of Non-federal Financial Support)	\$3,123,280	\$3,486,573	\$6,609,853	\$2,017,508	\$2,140,760	\$4,158,268	(\$1,105,772)	(\$1,345,813)	(\$2,451,585)	
Total Overstated NFFS							(\$1,105,772)	(\$1,345,813)	(\$2,451,585)	
2018 IRR							11.86051635%	5.29448764%		
<i>CSG overpayments 2018</i>							<i>\$131,150</i>	<i>\$71,254</i>	<i>\$202,404</i>	

*Variance notes: OIG revised variance to station reported

- 1) KUHA Department H0619 was omitted from the licensee direct activities but was included in the station's net direct expenses.
- 2) The station claimed benefits for non-essential or continuous benefit from licensee totaling \$47,761,861.

	2) Questioned Benefits	3) Overstated IAS NFFS
Allocated to non-mission functions	\$12,260,180	\$ 633,448
Questioned benefits – mission/non-mission functions	22,081,224	1,140,873
Auxiliary services function	12,202,850	630,486
Institutional support function– alumni relations	<u>1,217,617</u>	<u>62,911</u>
Total	\$47,761,871	\$2,467,718

- 3) Overstated NFFS of \$2,476,369 (\$1,123,422 TV and \$1,352,947 Radio) for overstated institutional support included \$2,467,718 (\$1,119,497 TV and \$1,348,221 Radio) for questioned benefits plus \$8,651 (\$3,925 TV and \$4,726 Radio) for the rate allocation calculation combined variance of .012 percent times revised OIG allowable cost pools.
- 4) AFR B reported FY 2011 gross square footage; OIG revised uses the correct FY 2016 licensee's net assignable square footage.

Scope and Methodology

We performed a limited scope audit to determine HPM's compliance with CPB Guidelines. The scope of the audit included reviews and tests of the information reported on its AFRs Schedule B and AFRs Schedule E for the period ending August 31, 2016 and certifications on its financial reports submitted to CPB.

We tested the allowability of NFFS claimed on HPM's AFRs by performing financial reconciliations and comparisons to underlying accounting records (general ledger) and the audited financial statements for the station and the licensee amounts reported on AFRs Schedule B to calculate the IAS. In addition, we judgmentally selected indirect cost pools included in HPM's IAS calculations and tested for allowability based on CPB's Guidelines requirement that the station received an essential and continuous benefit from the cost pool.

Our procedures included interviewing station and licensee officials. We gained an understanding of internal controls over the preparation of AFRs Schedules B and E. 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 June 12, 2017 through October 11, 2017. We performed our audit in accordance with the *Government Auditing Standards* for performance audits.

December 15, 2017

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

Dear Mr. Richardson,

In reference to your November 15, 2017 draft audit report of Indirect Administrative Support reported as Non-Federal Financial Support at Houston Public Media, please find below our comments for your review and consideration.

Houston Public Media agrees that review of methodology, calculations and value of indirect institutional support should be reviewed periodically according to CPB's guidelines.

1. Omission of \$890,882 of direct expenses related to KUHA operations:

- HPM Concurrs with the OIG revised institutional support rate calculation, a .012% variance resulting in \$716 of CSG overpayment.

$$\frac{\text{Net station direct expenses} = \$19,435,341}{\text{Licensee's net direct expenses } \$377,055,565} = 5.155\%$$

2. Physical Plant support rate used understated licensee square footage: Understatement of \$24,784.

- HPM concurs that the FY 2011 gross square footage was used when we calculated our physical plant operations allocation percentage rate instead of the FY 2016 net assignable square footage. The difference square footage of 1,441,542 decreased the station's allocation percentage and resulted in an IAS NFFS understatement of \$24,784.

3. Institutional administrative cost pools included costs not benefiting the station:

- Houston Public Media (HPM) has already started implementing controls to ensure accurate NFFS reporting. We have a relatively in-depth process and have extensively reviewed our calculations and we disagree with some of the auditor's assessments of the claimed benefits.



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- UH complied with Corporation for Public Broadcasting (CPB) Financial Reporting Guidelines Schedule B Instructions Worksheet II: Basic Method Line 2c.1 and Line 3d.1 – “Choose applicable cost groups that benefit the station”

“Select all the cost groups that provide an essential and continuous benefit to station operations. The station must demonstrate that the benefits provided (1) include services that are an essential part of station operations; (2) services are continuous and ongoing in support of the station; and (3) the station uses the services or is required to use the services provided. If there are cost groups that benefit the station but are not included in the predetermined list, then check the “Other” box”.

- UH complied with Corporation for Public Broadcasting (CPB) Financial Reporting Guidelines Schedule B Instructions Worksheet II: Basic Method Line 2c.3 - LESS: Cost groups that do not benefit the operations of the public broadcasting station.

“For instance, no services are provided to the station; services provided are not an essential part of station operations; and the station or station employees are required to pay for the services provided. Cost groups that do not benefit the operations of the station generally include the alumni office, commencement, contract administration, development office, faculty recruitment, medical careers improvement, office of the registrar, publications services, purchasing, bad debts, capital outlays, contingencies, and prior period expenses and /or adjustments, etc”.

- The mission of the University of Houston is to offer nationally competitive and internationally-recognized opportunities for learning, discovery and engagement to a diverse population of students in a real-world setting. The University of Houston offers a full range of degree programs at the baccalaureate, master's, doctoral and professional levels and pursues a broad agenda of research and creative activities.
 - Both HPM and the University of Houston are dynamic organizations with changing needs, expenditures and imposed requirements at the state and federal level. University of Houston Strategic goals encompass: National Competitiveness, Student Success, Community Advancement, Athletic Competitiveness, National and Local Recognition and Resource Competitiveness.
 - We request review of the criteria of the auditor’s assessment based on the functional expense categories for departments falling under the categories of Academic Affairs, Enterprise Systems, UIT Security, Technology Services, Environmental Health and Life Safety, Auxiliary Services, and Alumni Relations.
4. Academic Affairs and Online Functional Support: OIG questioned Benefits Cost Pool \$4,579,767 (Applicable to Non-Mission functions).

UH’s Division of Academic Affairs plays a pivotal role in the past, present and future of Houston Public Media. HPM has worked to forge important relationships, resulting in vital indirect



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support that contributes to our capacity to deliver our mission and impact as an educational asset available to the community at large. Our connection to the University's Academic Affairs departments validates our credibility in this arena that we wouldn't otherwise obtain as a non-academic unit. Examples of these relationships include:

- The Valenti School of Communications provides support for national collaborations such as NPR's broadcasting of "Generation Listen." HPM benefits by mission fulfillment and reaching a new generation of media consumers and potential supporters.
- The Bauer School of Business provides content suggestions and qualified sources for weekly news feature that educates listeners about business news issues.
- The Cullen College of Engineering provides resources for the daily content of HPM's feature radio program - "Engines of our Ingenuity." ***The Engines of Our Ingenuity*** is a radio program that tells the story of how our culture is formed by human creativity. Written and hosted by Mr. John Lienhard and other contributors, it is heard nationally on Public Radio and produced by Houston Public Media. Among other features, the web site houses the transcripts for every episode heard since the show's inception in 1988.
- Through our collaboration with the College of Education, we are able to provide a connection to future teachers by promoting a greater awareness of PBS digital media. Images, documentaries, and information about the nation's first educational television station are now available electronically to the world. The University of Houston's digital library has preserved 45 films and more than 200 images of the history of KUHT-Houston PBS.
- "This university started the first educational television station in the country. KUHT is a piece of our history and this effort celebrates that perspective," said Michele Reilly, head of UH digital projects. "This collection shows that when the television medium was brand new, we were in the forefront. We were making history."
- PBS Digital Media is also used as a tool for filling gaps in underserved areas, such as Houston's Third Ward Task Force. HPM assisted the Third Ward Task Force in meeting an essential match component to the \$30 million promise grant proposal authored and submitted by the College of Education staff and faculty.
- We believe the indirect support from the Division of Academic Affairs is growing because of mutual benefit obtained through partnerships and indirect support and, hence, was part of our calculation using the basic rate method. If we do not have access to the resources provided by departments such as the Valenti School of Communications and the Bauer School of Business, we would incur additional material costs that are associated with subject matter experts.



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5. Enterprise Systems, University Information, UIT Security, Technology Services, Environmental Health and Life Safety; OIG questioned benefits cost pool: \$7,373,378 (Applicable to Non-Mission functions).
 - The University of Houston operates as a city within a city. Separate Fire, Police, Facilities and technology resources are interwoven in the fabric of every operating unit on campus. HPM benefits from routine inspections, safety policies, and safety infrastructure services. These services include 24-7 security monitoring through the university's campus-wide 1,400 camera network and emergency call boxes that have been strategically placed around every building and parking lot on the property.
 - This year, in the wake of Hurricane Harvey, building damage occurred to some of our walls and underneath raised flooring at HPM studios. HPM's indirect relationships with the Environmental Health and Life Safety and Risk Management departments enabled them to provide pre-negotiated rates with contractors. This pre-negotiation facilitated a quick assessment and plan for remediation. Overall, these departments provide HPM a blanket of protection for preventive and emergency response situations.
6. Office of Intellectual Property OIG questioned Benefits Cost Pool \$18,312,646 (Applicable to Mission/Support functions).
 - HPM's CSG grants go through the Division of Research, Office of Intellectual Property. It has negotiated a 50% match in indirect support of federal grants to cover costs associated with reporting and overhead.
 - As the owner of HPM's station licenses, the University of Houston maintains the product license fees (royalties paid to vendors), ensures property rights protections (copyrights, patents, and rights to the trademarks), and provides legal protection. During FY16 and in prior years, these costs were absorbed by this department. Please refer to [UH System Administrative Memorandum \(SAM\) 01.E.01](#) and [Board Policy 21.08](#)).
7. Auxiliary Services Function: OIG questioned Benefits Cost Pool \$12,202,850– Parking and food service, Printing and Postal Department, Property Services,
 - While employees pay for parking and food service, Houston Public Media is situated in a preferred location as it has significant visitor parking which is easily accessible and specifically for the use of Houston Public Media guests. These visitor parking areas are maintained by UH. Visitor parking supports our mission by facilitating guests' access to the HPM's building for our daily talk show, "Houston Matters" and weekly broadcasts. It is important to note that HPM has a 76-space parking, 47% of that lot is permanently designated only for HPM guests, such as donors or on-air visitors. These parking spaces are for use only by HPM and no parking fees are imposed. Furthermore, parking enforcement assists during events where we might need additional vigilance and need



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those spaces opened up, and again we are not charged for this service. Additionally, upkeep of these spaces are free of charge, so we suggest further review with the rationale that no part of the H0178 \$5,686,768 Auxiliary function can be allocated as indirect support.

- With regards to the Printing and Postal department (H0171), it is true that HPM incurs direct costs for the postage expenses, but there are several benefits provided by this department that should be calculated as part of indirect support. One benefit is our ability to receive a material discount due to bulk mailing, which we could do ourselves but we would also have to obtain annual permits and pay monthly fees which is now paid by the University. We also receive envelopes and mail packages free of charge. We are able to have our mail picked up several times a day to be dropped off at the post office as needed. Having those benefits through the University enables us to save money. During the audit, we referenced the University Policies and Procedures Manual (MAPP). MAPP number 03.02.02 (MAPP 03.02.02 – Campus Mail Services; MAPP 03.02.02 – Permit Mailing – Bulk and First-Class) and MAPP number 03.02.03 (MAPP 03.02.03 – Non-Permit Mailing) for additional support information.
 - Property services is working with us to discover the status of property for potential disposition of land donated to HPM. This land was given to the Houston Public Media Foundation when the station held auctions as fundraisers and was not sold during the auction. It is our goal to transfer ownership to the University, if possible, and then sell the land when possible. Property services assists HPM by renting warehouse space at cost/below market rates as necessary, and provides up to 4 years of document storage at no cost to us.
8. Institutional support function costs supporting Alumni Relations. OIG questioned benefits cost pool \$1,217,617
- University Advancement oversees all of HPM Fundraising. University Advancement pays salaries for certain staff members, including our chief development officer. Several HPM Foundation Board Members have been recruited as they are UH alumni and have been cultivated by UH Alumni Relations. HPM is now receiving significant gifts from those Board members, in addition to their services as volunteer fundraisers for HPM, as well as other University departments.



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We want to take this opportunity to thank the auditor for her patience and continued support during the audit process.

Should you have further questions, please feel free to contact me at 832-842-5867 or at lshumate@houstonpublicmedia.org.

Sincerely,

Lisa Shumate
Associate Vice President & General Manager
Houston Public Media