

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

**AUDIT OF COMMUNITY SERVICE GRANTS
MENDOCINO COUNTY PUBLIC BROADCASTING
KZYX-FM, PHILO, CALIFORNIA
FOR THE PERIOD JULY 1, 2015 THROUGH JUNE 30, 2017**

REPORT NO. ASR1807-1810

September 28, 2018



Background

We performed this audit based on a suggestion from CPB officials and complaints received by our office.

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 (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 (Act). 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 or visit www.cpb.org/oig

[Listing of OIG Reports](#)

Audit of Community Service Grants, Mendocino County Public Broadcasting, KZYX-FM, Philo, California, for the Period July 1, 2015 through June 30, 2017

What We Found

Based on our audit we found that KZYX:

Overstated NFFS of \$23,311 resulting in excess CSG payments of \$1,234.

- overstated NFFS of \$23,311 for FY 2016 resulting in excess CSG payments of \$1,234 in FY 2018; and
- was not in full compliance with Act requirements for open Board and committee meetings, as well as discrete accounting requirements for CPB expenditures (restricted and unrestricted).

In response to our draft report, station officials agreed with our findings and initiated corrective actions to comply with grant requirement. In September the station submitted a revised FY 2017 AFR correcting overstated NFFS for FY 2017, which CPB approved. Further, station officials indicated they will be developing a corrective action plan for CPB to ensure complete and full compliance with all grant requirements. CPB management will make the final determination on our findings and recommendations.

What We Recommend

That CPB take the following actions to:

- recover CSG overpayments of \$1,234;
- require KZYX to identify the corrective actions and controls it will implement to ensure future compliance with NFFS reporting, open meeting, and discrete accounting requirements; and
- properly classify CSG expenditures by expense categories on the AFR, Schedule E.



Corporation
for Public
Broadcasting

Office of Inspector General

Date: September 28, 2018

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

From: Mary Mitchelson, Inspector General 

Subject: Audit of Community Service Grants, Mendocino County Public Broadcasting,
KZYY-FM, Philo, California, for the Period July 1, 2015 through June 30, 2017,
Report No. ASR1807-1810

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.

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 distribute to appropriate 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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EXECUTIVE SUMMARY

We have completed an audit of the Corporation for Public Broadcasting (CPB) Community Service Grants (CSG) awarded to Mendocino County Public Broadcasting, KZYYX-FM (KZYYX), for the period July 1, 2015 through June 30, 2017. Our objectives were to examine KZYYX'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 CPB's Certification of Eligibility requirements and the statutory provisions of the Communications Act of 1934, as amended (Act).

Based on our audit, we found that KZYYX complied with the grant and Act requirements, except for:

- overstating NFFS by \$23,311, which resulted in CSG overpayments of \$1,234 and which we report as funds put to better use because KZYYX did not deduct special fundraising costs and the fair market value (FMV) of its premiums, obtain documentation of trades it received from underwriters, and it reported trades received from a public broadcasting entity;
- not fully complying with the open meeting requirements of the Act; and
- not fully complying with discrete accounting requirements for CSG expenditures.

We recommend that CPB:

- recover the overpayment of \$1,234;
- require KZYYX to take corrective actions to ensure future compliance with NFFS reporting, open meetings, and discrete accounting requirements; and
- properly classify CSG expenditures by expense categories on the AFR, Schedule E.

In response to the draft report, KZYYX agreed with our findings. The station said it also has begun implementing corrective actions to ensure full compliance with CPB grant requirements. Further, it has submitted and CPB has accepted a revised fiscal year (FY) 2017 AFR. It is also prepared to repay its CSG overpayment. The station also committed to providing CPB with a full corrective action plan within 30 days of the issuance of this report. KZYYX's written response to the draft report is attached in Exhibit E.

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 that are 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 KZYYX's response to the draft report, we consider recommendation one on CSG overpayments resolved but open pending CPB's recovery of the overpayments. We consider recommendation five on properly reporting CSG expenditures by cost category resolved and closed based on CPB's acceptance of KZYYX's revised FY 2017 AFR. The remaining three

recommendations regarding compliance corrective actions are unresolved pending CPB's final management decision accepting KZYY's corrective actions.

We performed this audit based on a suggestion from CPB officials and complaints received by our office. We addressed complaints related to compliance with CPB grant requirements, use of CPB funds, and equal employment opportunity (EEO) requirements within the scope of our work. Other complaints, not under our purview, were not addressed. We conducted our audit in accordance with *Government Auditing Standards* for attestation examination engagements. Our scope and methodology are discussed in Exhibit D.

BACKGROUND

KZYY was incorporated in 1985 and is comprised of KZYY-FM (90.7), KZYZ-FM (91.5), and the Fort Bragg translator (88.1). The station broadcasts as Mendocino Public Broadcasting (MCPB) and is a community non-commercial radio station serving several counties in northern California. Its programming and operating philosophy is controlled by its membership, which is open to all. The programming schedule includes 11 hours of in-house locally produced public affairs programs and 66 hours of locally presented music. It produces a daily local newscast and tries to cover all issues of importance in the county, with news, regular programs and specials.

The station's Local Content and Services report describes Mendocino County as vast and sparsely populated, and KZYY listeners rely on the station for news and daily programming with little or no alternative. Through its dedication to balanced, excellent programming, MCPB reflects the rich diversity of the county, rural and urban, while promoting a sense of community across a large and varied geographical area.

MCPB is a membership-based organization dedicated to serving the entire community of Mendocino County and contiguous counties. The primary purpose of MCPB is to engage in providing high-quality, independent, community and public radio and other media products and services, per its bylaws.

OIG initiated this audit at the suggestion of CPB officials and in response to complaints to our office. From 2014 through 2017, the OIG received a number of complaints about KZYY from multiple individuals and sources. Most of the complaints raised issues outside of the OIG's purview, e.g., irregularities during annual board elections, interrupted broadcast signals, insufficient board oversight of the general manager and expenditures, issues of internal station management, and violations of the station bylaws. Issues raised within the OIG's purview included that the station did not have a Community Advisory Board (CAB) as required by CPB and that the station had hiring/EEO irregularities in 2014. OIG referred those issues to CPB management and to the FCC, respectively, as more appropriate for their action. Other allegations lacked sufficient specificity and/or evidence to merit inquiry.

The more recent 2018 complaints alleged (among other non-CPB specific issues) possible misallocation of funds, waste, and conflict of interests. In March 2018, OIG notified the station that we would conduct an audit of the station's CSG grant and certifications of compliance with CPB grant terms.

CPB's Community Service Grant Program

The Act provides that specific percentages of the appropriated funds CPB receives annually from the United States Treasury must be allocated and distributed to licensees and permittees of public TV and radio stations. After funds are designated as either TV or radio funds, they are placed in the appropriate CSG grant pool for distribution to eligible stations. TV funds can be distributed only to TV stations and radio funds must go to radio stations.

CPB awards annual CSG grants to public TV and radio stations based in part on the amount of NFFS claimed by all stations on their AFRs. The CSG calculation process starts with separate amounts appropriated for the 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.

The Incentive Rate of Return (IRR) is calculated by dividing the Incentive Grant Pools by the total adjusted NFFS claimed by all TV and radio stations. The IRR is then multiplied by each station's total amount of adjusted NFFS to calculate the incentive award amount of the station's total CSG. There is a two-year lag between the reported NFFS and CPB's calculation of the CSG awards. For example, CPB used the NFFS claimed by KZYX on its FY 2016 AFRs to determine the amount of CSG the station received in FY 2018.

As shown in Exhibit A, during our audit period KZYX received CSG and Rural Service grant funds totaling \$245,473 from CPB (\$124,477 in FY 2016 and \$120,996 in FY 2017). The station reported NFFS of \$410,541 in FY 2016 and \$403,195 in FY 2017 as presented in Exhibit C. KZYX's audited financial statements for the two fiscal years audited reported operating revenues of \$540,018 in FY 2016 and \$560,119 in FY 2017. KZYX's FY begins July 1 and ends on June 30.

RESULTS OF REVIEW

In our opinion, except for the noncompliance issues described below, KZYX complied with the requirements in the following paragraph for the FYs 2016 and 2017 CSGs that we examined. We reviewed KZYX 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 KZYX's compliance with NFFS reporting on its AFRs in accordance with CPB's Guidelines; Act requirements for open meetings, open financial records, CAB, 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 KZYX'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 KZYX's compliance with specified requirements.

We have audited the accompanying AFRs submitted by KZYX (summarized in Exhibit B). These reports are the responsibility of KZYX management. Our responsibility is to express an opinion on these reports based on our audit.

Our audit found that KZYX overstated NFFS on its AFRs totaling \$23,311, which resulted in CSG overpayments of \$1,234. We reported these overpayments as funds put to better use. We also found that the station did not fully comply with the open meeting requirements of the Act and CPB guidance nor did it fully comply with the discrete accounting requirements of the grant.

We also found that the allegation that the station failed to adhere to EEO requirements in a 2017 hiring of a part-time employee was not a violation of FCC requirements because they did not apply. At that time the station had less than five full-time employees, which is the FCC threshold for requiring that vacant positions be recruited widely.

FINDINGS AND RECOMMENDATIONS

OVERSTATED NFFS

Our audit found that KZYX did not fully comply with CPB Guidelines for reporting eligible NFFS. These noncompliance issues resulted in overstated NFFS totaling \$23,311 on its FYs 2016 AFR for the following requirements:

- not deducting special fundraising costs from special fundraising revenues;
- not obtaining documentation from trade underwriters of the goods and services donated to the station (e.g., date of donation and value) to support the amount claimed for in-kind contributions);
- reporting underwriting trades received from a public broadcasting entity as NFFS; and
- not deducting high value premiums from membership revenues.

Similar overstatements were found on KZYX’s FY 2017 AFR, however during our audit KZYX officials submitted a revised AFR correcting the overstatements. CPB accepted and approved the revised AFR in September of 2018, thus eliminating NFFS overstatements of \$35,928 and potential CSG overpayments of \$1,902 in FY 2019 as reported in the draft audit report.

The FY 2016 NFFS overstatements resulted in CSG grant overpayments of \$1,234 for FY 2018. Specifically, we found the following noncompliance issues.

Overstated NFFS and CSG Overpayments

Conditions	Overstated FY 2016 NFFS	FY 2018 Incentive Rate of Return	CSG Overpayment
Special Fundraising Costs Not Deducted from NFFS	\$5,711	5.29448764	\$303
Undocumented Underwriting Trades Received	\$8,147	5.29448764	\$132
Ineligible Source for Underwriting Trade	\$2,500	5.29448764	\$431
High Value Premiums Not Deducted from NFFS	\$6,953	5.29448764	\$368
Total	\$23,311		\$1,234

Additionally, we noted that \$5,000 in NFFS eligible grant funds were erroneously reported as CSG revenues and adjusted from eligible NFFS in FY 2016. Further, we identified that underwriting trades totaling \$19,309 in FY 2016 were erroneously reported as direct revenues on Schedule A instead of Schedule C for in-kind contributions.

CPB Guidelines prescribe what revenues qualify as NFFS and how total NFFS is calculated and reported on the AFR.

Special Fundraising Activities

Line 14 – Special fundraising activities (net)

This line represents the net revenue from special fundraising activities. It is determined automatically 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. If direct special fundraising expenses are greater than gross special fundraising revenues, the loss will not affect NFFS.

Guidelines, FY 2017 Edition, Part III – AFR and FSR Line Item Instructions, 5 Completing AFR Schedule A – Direct Revenue, Line 14 – Special fundraising activities (net).

Documenting Underwriting Trades Received

Trade underwriting agreements (*See Section 2.6.5*) or contracts do not satisfy CPB's documentation requirements for in-kind contributions claimed as NFFS. A trade underwriting agreement is a promise to give that confirms only the intent to trade an in-kind contribution; it does not demonstrate that an in-kind contribution was actually received by the station. Instead, grantees need to secure and retain documentation from the underwriter that is tantamount to a receipt for the goods and services it received and claimed as NFFS. In order to satisfy CPB's documentation requirements the documentation must originate from the donor and it must contain the following elements:

- Documentation must be on formal business stationery or an invoice that prominently displays the donor's name, address and other identifying characteristics (e.g., business logo, etc.).
- Documentation must contain:
 - A description of the goods or services donated
 - The date(s) of donation
 - The value of the donated goods or services and the method of valuation (e.g., lawyer's hourly rate x hours worked)
 - Explicit statement of the donor's intent to donate or trade the goods or services
 - Signature, name, and title of the donor or donor's representative
Stations may obtain electronically signed donor certifications for in-kind contributions reported as NFFS.
- CPB provides a template to certify in-kind donations for optional use by stations.

Guidelines, FY 2017 Edition, Section 2.6.4, Documentation Criteria for In-kind Contributions.

Ineligible Source of Underwriting Trade

Source

The universe of eligible sources for contributions is relatively large: any source except the federal government or another public broadcasting entity ...

Guidelines, FY 2017 Edition, Section 2.3.2, Interpretations.

Premium Deductions

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

Grantees frequently provide “thank you gifts” (a.k.a. “premiums”) in exchange for membership contributions. The Internal Revenue Service describes a quid pro quo contribution as a payment a donor makes to a charity partly as a contribution and partly for goods 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, gourmet foods & wines, tickets to performances, dinners or other events).

The IRS issues guidance on charitable contributions, including disclosure statements 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 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 provide guidance beyond that provided by the IRS. 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 on a net basis (i.e., the contribution portion only), report the same amount on Line 10 (i.e., it is unnecessary to make any further adjustment). However, 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 10.1 NFFS Exclusion – Fair market value of premiums that are not of insubstantial value.

Guidelines, FY 2017 Edition, Part III – AFR and FSR Line Item Instructions, 5 Completing AFR Schedule A – Direct Revenue, Line 10 – Membership and Subscriptions (net of write-offs). (Emphasis in original.)

Station officials indicated that they were not fully aware of these requirements. The current bookkeeper was not employed by the station during our audit period. Further, special fundraising activities and underwriting trades are managed by Business Development staff. Premiums are managed by the Membership staff. Neither staff member was fully aware of the CPB financial reporting requirements and the related financial documentation requirements over their activities necessary to properly prepare and support NFFS reporting. Further, the station's last two attestation examinations, conducted by different independent public accountants, did not identify these NFFS reporting issues.

Recommendations

We recommend that CPB management take the following actions and require KZYX to:

- 1) repay CSG overpayment of \$1,234 for FY 2018; and
- 2) identify the corrective actions and controls it will implement to ensure future compliance.

KZYX Management Response

KZYX's response to the draft report agreed with our recommendations by stating it stands ready to repay CSG overpayments and by committing to submit a corrective action plan to ensure future compliance in NFFS reporting requirements within 30 days of receipt of this final report.

OIG Review and Comment

Based on KZYX's response to the draft report we consider recommendation one resolved but open pending recovery of the CSG overpayment. Recommendation two is unresolved pending CPB final management determination and acceptance of KZYX's corrective actions. Further, based on CPB's acceptance of KZYX's revised FY 2017 AFR, we revised our finding from our draft report, reducing overstated NFFS to \$23,311 and CSG overpayments to \$1,234.

COMMUNICATIONS ACT COMPLIANCE

KZYX-FM did not fully comply with the statutory provisions of the Act or the CPB Certification Requirements for Station Grant Recipients (Compliance Guidance) for open Board and committee meetings. We found that the station did not fully comply with the requirement that stations provide the public with notice of open meetings seven days in advance.

Specifically, our testing found evidence of 11 Board of Director meetings and 3 CAB meetings during our audit period, FYs 2016-2017, and 4 Board of Director meetings in FY 2018. Of these, the station did not provide adequate advance notice of 7 Board of Directors meetings during our audit period and 1 Board of Directors meeting during FY 2018. The 8 meetings identified did not provide 7 days advance notice, and 2 of the 8 also did not identify the specific location of the meetings. All three CAB meetings were properly announced.

There may have been other meetings of committees of the Board that did not have adequate advance notice or may have been closed meetings, but we neither found nor received any announcements or minutes for other committee meetings. One former Board member informed us that Finance committee meetings were announced, but we could not find evidence of those announcements. Our review of available minutes from Board meetings contained many

references to other committees in the form of committee reports and mentions of meetings as well. However, we are unable to determine if committee meetings were held, if the public received adequate notice of those meetings, or if the committee meetings were closed and should have had explanations for closure.

The Act requires that stations make reasonable advance notice of open meetings to the public. The Act provides:

Funds may not be distributed pursuant to this subsection to the Public Broadcasting Service or National Public Radio (or any successor organization), or to the licensee or permittee of any public broadcast station, unless the governing body of any such organization, any committee of such governing body, or any advisory body of any such organization, holds open meetings preceded by reasonable notice to the public.

Act, Subpart D – Corporation for Public Broadcasting, Sec. 396, 47 U.S.C. § 396(k) Financing Restrictions, (4).

CPB’s Compliance Guidance clarifies that stations may satisfy the reasonable notice requirement by doing the following:

Stations may satisfy that requirement by providing at least seven days advance notice of an Open Meeting, including the time and date of the meeting, by:

1. posting notice on the station’s website¹;
2. broadcasting notice on-air between 6 a.m. and 11 p.m., as shown by the station’s log;
3. placing notice in the “Legal Notices” section of a local newspaper in general circulation in the station’s primary coverage area; or
4. giving notice through a recorded announcement accessible on the station’s phone system.

CPB’s Compliance Guidance, I. Open Meetings, E. Notice of Open Meetings (June 2016).

Our review of the information about all known meetings indicates that the station was inconsistent in posting or airing announcements of upcoming board meetings. We reviewed some web notices that gave enough advance notice and some that were less than seven days in advance. We also reviewed some on-air notices via traffic logs, but not for every meeting, and some Facebook/twitter notices, but not for all meetings. Based on our review the station did not have adequate practices in place to ensure it consistently complied with open meeting requirements nor did the station retain documentation to demonstrate its compliance.

As a result, station members and the public were not provided adequate advance notice of upcoming Board of Directors and possibly committee meetings or the location of those meetings

¹ “Station website,” as defined in the General Provisions, includes the CSG recipient’s station website, if it has one, and if not then its licensee’s website or an affiliated station’s website. If the CSG recipient has none of the foregoing, it may, with CPB’s approval, use a website shared by other public broadcasting stations.

on a consistent basis. Information in Board minutes indicates that Board meetings rotate through an established series of locations throughout Mendocino County on the first Monday, every other month. Identifying the location of upcoming meetings is critical because of the large geographic area the station serves and the time required to traverse the county.

Recommendations

We recommend that CPB management take the following action and require KZYX to:

- 3) identify the corrective actions and controls it will implement to ensure future compliance with open meeting requirements.

KZYX Management Response

KZYX's response to the draft report agreed with our finding and committed to submitting a corrective action plan to ensure future compliance with the open meeting requirements within 30 days of receipt of this final report.

OIG Review and Comment

Based on KZYX's response recommendation three remains unresolved pending CPB's final management decision and acceptance of KZYX's corrective actions.

DISCRETE ACCOUNTING

KZYX-FM maintains discrete accounting for CPB revenues but did not discretely account for CPB CSG expenditures (restricted and unrestricted) so that CPB or an auditor could identify CPB funded expenditures totaling \$250,473 (\$129,477 in FY 2016 and \$120,996 in FY 2017) reported on its AFRs. Station officials had to reconstruct CPB expenditures from NPR, Pacifica, and PRI fees, as well as station staff salaries, to enable us to test CSG spending.

The CPB Terms and Conditions require discrete accounting:

The use of unique accounting codes by CSG recipients to identify CSG funds – both revenues and expenses, restricted and unrestricted – so that both CPB and an auditor can discretely track those funds within the recipient's accounting system.

CSG recipients are not required to segregate CSG funds in separate bank accounts; co-mingling funds is allowable as long as the accounting system easily identifies transactions associated with a major activity (e.g., department, grant, contract, or other project).

CPB Television and Radio CSG General Provisions and Eligibility Criteria, Part II. Definitions, S. Discrete Accounting Requirement (2017).

Station officials indicated that they were not fully aware of these requirements. The current bookkeeper was not employed by the station during our audit period.

When the station reconstructed CSG payment transactions for us to test, the reconstructed expenditures did not align with cost categories reported on AFR, Schedule E, reporting CSG expenses. At least \$25,186 in FY 2016 employee wages should have been reported on Schedule E as Support Services under both Line 4., Management and general, and Line 5., Fund raising and membership development, instead of under Program Services, Line 3., Program information and promotion.

Recommendations

We recommend that CPB management take the following action and require KZYX to:

- 4) identify the corrective actions and controls it will implement to ensure future compliance with discrete accounting requirements for expenditures; and
- 5) properly classify CSG expenditures by expense categories (program services or support services) on the AFR, Schedule E.

KZYX Management Response

KZYX's response to the draft report agreed with our findings and committed to submitting a corrective action plan within 30 days of receipt of this final report to ensure future compliance with discrete accounting requirements for reporting expenditures by the proper expense categories.

OIG Review and Comment

Based on KZYX's response to the draft report we consider recommendation five resolved and closed with CPB's approval of KZYX's revised FY 2017 AFR. Recommendation four remains unresolved pending CPB's final management decision and acceptance of KZYX's corrective actions.

**CPB Payments to KZYX
July 1, 2015 – June 30, 2017**

CPB Grants	FY 2016	FY 2017	Total
Unrestricted Community Service Grant	\$74,138	\$71,902	\$146,040
Restricted Community Service Grant	\$25,955	\$25,356	\$51,311
Rural Service (awarded under the CSG agreement)	\$24,384	\$23,738	\$48,122
Total	\$124,477	\$120,996	\$245,473

**KZYX Annual Financial Reports
Years Ending June 30, 2016 and 2017**

Line	Description	FY 2016	FY 2017
	Schedule A		
	Source of Income		
1	Amounts provided directly by federal government agencies	\$0	\$0
2	Amounts provided by Public Broadcasting Entities ²	\$129,477	\$120,996
	A. CPB - Community Service Grants	\$129,477	\$120,996
	B. CPB - all other funds from CPB	\$0	\$0
	C. PBS - all payments except copyright royalties and other pass-through payments.	\$0	\$0
	D. NPR - all payments except pass-through payments	\$0	\$0
	E. Public broadcasting stations - all payments	\$0	\$0
	F. Other PBE funds	\$0	\$0
3	Local boards and departments of education or other local government or agency sources	\$0	\$0
3.1	NFFS Eligible	\$0	\$0
3.2	NFFS Ineligible	\$0	\$0
4	State boards and departments of education or other state government or agency sources	\$0	\$0
4.1	NFFS Eligible	\$0	\$0
4.2	NFFS Ineligible	\$0	\$0
5	State colleges and universities	\$0	\$0
5.1	NFFS Eligible	\$0	\$0
5.2	NFFS Ineligible	\$0	\$0
6	Other state-supported colleges and universities	\$0	\$0
6.1	NFFS Eligible	\$0	\$0
6.2	NFFS Ineligible	\$0	\$0
7	Private colleges and universities	\$0	\$0
7.1	NFFS Eligible	\$0	\$0
7.2	NFFS Ineligible	\$0	\$0
8	Foundations and nonprofit associations	\$0	\$14,000
8.1	NFFS Eligible	\$0	\$14,000
	A. Program and and production underwriting	\$0	\$0
	B. Grants and contributions other than underwriting	\$0	\$14,000
	C. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (Radio only)	\$0	\$0

² FY 2016 total includes a \$5,000 non-CPB grant and was adjusted from NFFS online 24 of the AFR. The \$5,000 was also reported as a FY 2016 CSG expense on Schedule E.

**KZYX Annual Financial Reports
Years Ending June 30, 2016 and 2017**

Line	Description	FY 2016	FY 2017
	D. Gifts and grants received through a capital campaign but not for facilities and equipment	\$0	\$0
	E. Other income eligible as NFFS (specify)	\$0	\$0
8.2	NFFS Ineligible	\$0	\$0
9	Business and Industry	\$61,467	\$42,977
9.1	NFFS Eligible	\$61,467	\$42,977
	A. Program and production underwriting ³	\$61,467	\$42,977
	B. Grants and contributions other than underwriting	\$0	\$0
	C. Gifts and grants for facilities and equipment as restricted by the donor or received through a capital campaign (Radio only)	\$0	\$0
	D. Gifts and grants received through a capital campaign but not for facilities and equipment	\$0	\$0
	E. Other income eligible as NFFS (specify)	\$0	\$0
9.2	NFFS Ineligible	\$0	\$0
10	Memberships and subscriptions (net of membership bas debt)	\$329,396	\$331,914
10.1	NFFS Exclusion – Fair market value of premiums that are not of insubstantial value	\$0	\$4,188
10.2	NFFS Exclusion - All bad debt expenses from NFFS eligible revenues including but not limited to pledges, underwriting, and membership	\$0	\$0
	2016 data 2017 data		
	10.3 Total number of contributors 2,300 2,156		
11	Revenue from Friends Group less any revenue included on line 10	\$0	\$0
12	Subsidiaries and other activities unrelated to public broadcasting	\$0	\$0
	Form of Revenue		
13	Auction Revenue	\$0	\$0
14	Special fundraising activities	\$18,418	\$4,742
	A. Gross special fundraising revenues	\$18,418	\$20,554
	B. Direct special fundraising expenses	\$0	\$15,812
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	\$0	\$0
19	Gifts and bequests from major individual donors	\$0	\$0

³ Underwriting totals include underwriting trades of \$19,309 in FY 2016 that should have been reported on Schedule C for in-kind contributions.

**KZYX Annual Financial Reports
Years Ending June 30, 2016 and 2017**

Line	Description	FY 2016	FY 2017
22	Total Revenue	\$538,758	\$530,441
	Adjustments to Revenue		
23	Federal revenue from line 1.	\$0	\$0
24	Public broadcasting revenue from line 2.	\$129,477	\$120,996
25	Capital fund exclusion - TV	\$0	\$0
26	Revenue on line 20 not meeting the source, form, purpose, or recipient criteria to be included as NFFS	\$0	\$0
27	Other automatic subtractions from total revenue	\$0	\$20,000
	A. Auction expenses - limited to the lesser of lines 13a or 13b	\$0	\$0
	B. Special fundraising event expenses - limited to the lesser of lines 14a or 14b	\$0	\$15,812
	C. Gains from sales of property and equipment - line 16a	\$0	\$0
	D. realized gains/losses on investment (other than endowment funds) - line 16b	\$0	\$0
	E. Unrealized investment and actuarial gains/losses (other than endowment funds) - line 16c	\$0	\$0
	F. Realized and unrealized net investment gains./losses on endowment funds - line 17c, line 17d	\$0	\$0
	G. Rental income (3.2A, 4.2A, 5.2A, 6.2A, 7.2A, 8.2A, 9.2A)	\$0	\$0
	H. Fees for services (3.2B, 4.2B, 5.2B, 6.2B, 7.2B, 8.2A, 9.2A)	\$0	\$0
	I. Licensing Fees (3.2C, 4.2C, 5.2C, 6.2C, 7.2C, 8.2C, 9.2C)	\$0	\$0
	J. Other revenue ineligible as NFFS (3.2E, 4.2E, 5.2E, 6.2E, 7.2E, 8.2E, 9.2E)	\$0	\$0
	K. FMV of high-end premiums (Line 10.1)	\$0	\$4,188
	L. All bad debt expenses from NFFS eligible revenues including but not limited to pledges, underwriting, and membership (Line 10.2)	\$0	\$0
	M. Revenue from subsidiaries and other activities ineligible as NFFS (12.B, 12.C, 12.D)	\$0	\$0
	N. proceeds from spectrum auction, interest earned on these funds, channel sharing revenues, and spectrum leases from line 21 (TV only)	\$0	\$0
28	Total Direct Non-Federal Financial Support	\$409,281	\$389,445
	Schedule B Totals		
1	Total support activity benefiting station	\$0	\$0
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

**KZYX Annual Financial Reports
Years Ending June 30, 2016 and 2017**

Line	Description	FY 2016	FY 2017
5	Total Indirect Administrative Support (Forwards to Line 2 of the Summary of Nonfederal Financial support)	\$0	\$0
	Schedule C		
1	PROFESSIONAL SERVICES	\$0	\$0
2	GENERAL OPERATIONAL SERVICES	\$1,260	\$13,750
	A. Annual rental value of space (studios, offices, or tower facilities)	\$0	\$4,150
	B. Annual value of land used for locating a station-owned transmission tower	\$0	\$0
	C. Station operating expenses	\$1,260	\$0
	D. Other (see specific line item instructions in Guidelines before completing)	\$0	\$9,600
	Description	Amount	
	Event Tickets	\$5,600	
	Event Supplies	\$4,000	
3	OTHER SERVICES (must be eligible as NFFS)	\$0	\$0
4	Total In-Kind Services - services and other assets eligible as NFFS (sum of lines 1 through 3), forwards to Line 3a. of the Summary of Non-federal Financial Support	\$1,260	\$13,750
5	IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	\$0	\$15,928
	A. Compact discs, records, tapes and cassettes	\$0	\$0
	B. Exchange transactions	\$0	\$0
	C. Federal or public broadcasting sources	\$0	\$10,000
	D. Fundraising related activities	\$0	\$0
	E. ITV or educational radio outside the allowable scope of approved activities	\$0	\$0
	F. Local productions	\$0	\$0
	G. Program supplements	\$0	\$0
	H. Programs that are nationally distributed	\$0	\$0
	I. Promotional items.	\$0	\$0
	J. Regional organization allocations of program services	\$0	\$0
	K. State PB agency allocations other than those allowed on line 3(b)	\$0	\$0
	L. Services that would not need to be purchased if not donated	\$0	\$0

Exhibit B (continued)

**KZYG Annual Financial Reports
Years Ending June 30, 2016 and 2017**

Line	Description	FY 2016	FY 2017
	M. Other	\$0	\$5,928
	Description	Amount	
	undocumented meals, lodging	\$5,928	
6	Total in-kind contributions - services and other assets (line 4 plus line 5), forwards to Schedule F, line 1c. Must agree with in-kind contributions recognized as revenue in the AFS.	\$1,260	\$29,678
	Schedule D		
1	Land (must be eligible for NFFS)	\$0	\$0
2	Building (must be eligible for NFFS)	\$0	\$0
3	Equipment (must be eligible for NFFS)	\$0	\$0
4	Vehicle(s) (must be eligible for NFFS)	\$0	\$0
5	Other (specify) (must be eligible for NFFS)	\$0	\$0
6	Total in-kind contributions - property and equipment eligible as NFFS	\$0	\$0
7	IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	\$0	\$0
8	Total in-kind contributions - property and equipment (line 6 plus line 7), forwards to Schedule F, line 1d. Must agree with in-kind contributions recognized as revenue in the AFS.	\$0	\$0
	Schedule E - EXPENSES		
	PROGRAM SERVICES		
1	Programming and production	\$68,679	\$49,129
	A. Restricted Radio CSG	\$0	\$0
	B. Unrestricted Radio CSG	\$68,679	\$49,129
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$0	\$0
2	Broadcasting and engineering	\$106,304	\$126,792
	A. Restricted Radio CSG	\$0	\$0
	B. Unrestricted Radio CSG	\$0	\$0
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$106,304	\$126,792

**KZYG Annual Financial Reports
Years Ending June 30, 2016 and 2017**

Line	Description	FY 2016	FY 2017
3	Program information and promotion	\$117,428	\$91,835
	A. Restricted Radio CSG	\$25,955	\$25,356
	B. Unrestricted Radio CSG	\$34,843	\$11,277
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$56,630	\$55,202
	SUPPORT SERVICES		
4	Management and general	\$58,086	\$184,154
	A. Restricted Radio CSG	\$0	\$0
	B. Unrestricted Radio CSG	\$0	\$13,198
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$58,086	\$170,956
5	Fund raising and membership development	\$56,970	\$92,607
	A. Restricted Radio CSG	\$0	\$0
	B. Unrestricted Radio CSG	\$0	\$11,636
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$56,970	\$80,971
6	Underwriting and grant solicitation	\$150,480	\$62,575
	A. Restricted Radio CSG	\$0	\$0
	B. Unrestricted Radio CSG	\$0	\$10,400
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$150,480	\$52,175
7	Depreciation and Amortization if not allocated	\$0	\$0
8	Total Expenses (sum of lines 1 to 7) must agree with audited financial statements	\$557,947	\$607,092
	A. Total Restricted Radio CSG (sum of lines 1.A, 2.A, 3.A, 4.A, 5.A, 6.A, 7.A)	\$25,955	\$25,356
	B. Total Unrestricted Radio CSG (sum of lines 1.B, 2.B, 3.B, 4.B, 5.B, 6.B, 7.B) ⁴	\$103,522	\$95,640
	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)	\$428,470	\$486,096

⁴ Reported non-CPB expenses of \$5,000 as CPB unrestricted expenses.

**KZYX Annual Financial Reports
Years Ending June 30, 2016 and 2017**

Line	Description	FY 2016	FY 2017
	INVESTMENT IN CAPITAL ASSETS		
9	Total capital assets purchased or donated	\$0	\$2,433
	b. Equipment	\$0	\$2,433
10	Total expenses and investment in capital assets	\$557,947	\$609,525
11	Total expenses (direct only)	\$557,947	\$607,092
12	Total expenses (indirect and in-kind)	\$0	\$0
13	Investment in capital assets (direct only)	\$0	\$2,433
14	Investment in capital assets (indirect and in-kind)	\$0	\$0

**Summary of Non-Federal Financial Support
For the Periods Ending June 30, 2016 and 2017
Certified by Head of Grantee and Independent Accountant's Report**

Line	Description	FY 2016	FY 2017	Total
	<i>Summary of Non-Federal Financial Support:</i>			
1	Direct Revenue (Schedule A)	\$409,281	\$389,445	\$798,726
2	Indirect Administrative (Schedule B)	\$0	\$0	\$0
3	In-Kind Contributions (Schedule C)	\$1,260	\$13,750	\$15,010
4	Total Non-Federal Financial Support	\$410,541	\$403,195	\$813,736

Scope and Methodology

We performed an attestation examination to determine KZYX's compliance with CPB Financial Reporting Guidelines, provisions of the Act, grant certification requirements, and other grant provisions. The scope of the examination included reviews and tests of the information reported by the station on its AFRs and reconciled to audited financial statements for the FYs ending June 30, 2016 and June 30, 2017; grant certifications of compliance with Act requirements; and certifications on its financial reports submitted to CPB.

We tested the allowability of NFFS claimed on KZYX's AFRs by performing financial reconciliations and comparisons to underlying accounting records (general ledger) and the audited financial statements. We reviewed underwriting and grant agreements, as well as other documentation supporting revenues reported. Specifically, we reviewed NFFS revenue transactions totaling \$188,904 of \$834,404 (22.6 percent) for FYs 2016 and FY 2017.

We reviewed the allowability of expenses charged to CPB CSGs. To determine that expenditures were incurred in accordance with the grant terms, we reviewed \$146,598 of \$245,373 expenses (59.7 percent) reported on the CPB CSG and Interconnection grants in FYs 2016 and FY 2017. We reviewed payroll records, vendor invoices, and other documentation supporting expenditures.

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

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

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

KZYX Response

24 September 2018

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



Re: Audit of Community Service Grants, Mendocino County Public Broadcasting, KZYX-FM, Philo, California, for the Period July 1, 2015, through June 30, 2017, Draft Report No. ASR1807-XXXX

Dear Mr Richardson,

Greetings from Mendocino County Public Broadcasting. As requested, we are herewith providing our initial response to the above-captioned report of preliminary audit findings.

We agree with the audit's preliminary findings across the three areas identified: Overstated NFFS, Communications Act Compliance and Discrete Accounting. Based on these findings, and in fact even before receiving them, we already had begun implementing a range of corrective actions to ensure proper and full compliance with CPB Community Service Grant and Communications Act requirements. Under the guidance of the CPB Office of Grants Administration, we have complied with the audit report's recommendation that we revise our Annual Financial Report for FY2017 to bring it into compliance with CSG requirements, and we stand ready to repay the CSG overpayment.

Finally, we commit to prepare and submit a full corrective action plan within 30 calendar days of receipt of the final CPB Audit Report, so as to ensure complete and full compliance with the terms of Community Service Grant and Communications Act requirements.

On behalf of our staff, board, volunteers and members, I wish to thank you and Ms Helen Mollick for the time and effort you've expended in this audit, and to express our deep gratitude for the opportunity to learn from the audit process and to improve our capacity to comply with CSG and Communications Act requirements. We deeply share the Corporation's dedication to community service through public radio.

Sincerely,
Jeffrey Parker
Executive Director and General Manager



MENDOCINO COUNTY PUBLIC BROADCASTING

P.O. Box 1, Philo, CA 95466

707 895-2324

www.kzyx.org

KZYX Listener Supported Community Radio

Federal Employer ID Number: 68-0050440