

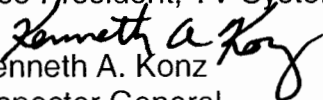


Corporation  
for Public  
Broadcasting

Office of Inspector General

September 29, 2006

To: Brian Sickora  
Vice President, TV System Development & Station Grants Administration

From:   
Kenneth A. Konz  
Inspector General

Subject: Annual Financial Report Guidelines for Reporting Federal Funds  
Received by Stations from an Intermediary Recipient,  
Special Report No. 609

This memorandum addresses the need to clarify the Corporation for Public Broadcasting's (CPB) Financial Reporting Guidelines (Guidelines) to identify federal funds received from intermediate organizations to ensure that they are not subsequently reported as Non-Federal Financial Support (NFFS) by broadcasting stations. These intermediary organizations could include state and local governments, universities, and non-profit organizations. We are raising this issue because we believe that there are opportunities to improve CPB's instructions to the public broadcasting community and assist stations in identifying and reporting federal funds received from intermediary organizations. We identified this issue in two recent audits. Our scope and methodology is discussed in Attachment A.

Our 2004 audit of the CPB Community Service Grants awarded to the New Jersey Public Broadcasting Authority (NJN), for Fiscal Years (FY) 2001 – 2003, identified amounts claimed as NFFS on Schedule A, which included \$100,000 in federal funds. Specifically, our sample of fiscal year 2002 underwriting contracts identified a grant from the New Jersey Council of the Arts that provided NJN with payments of \$600,000. Of this total, \$100,000 was identified as federal funds on the grant document budget schedule; however, these funds were erroneously reported as NFFS.

Our recent audit of WETA, also identified that federal funds were claimed as NFFS. WETA claimed fees they received for providing accounting services to a non-profit producer of two holiday concerts televised from the National Mall, as NFFS. Our audit disclosed that the television producer had received 91 percent of its funding from Federal Departments, the Public Broadcasting Service (PBS), and CPB. WETA agreed with our finding and

acknowledged that they had made a mistake including the fees received from this producer as NFFS, because they were paid from federal funds.

We believe these two instances may not be isolated cases. We have identified how easily federal grant funds can be received indirectly from state and local governments, or other intermediaries, and be reported as NFFS by the receiving station. As we noted, this can be happening because federal funds were not identified when provided to a public broadcaster. In other instances, federal funds may be commingled with non-federal funds at the state or local government levels and were not explicitly identified when they are provided to the public broadcaster. As a result, we believe that CPB guidance can be enhanced to provide stations with better guidance on identifying the source of funds received from intermediaries, by requiring the organization providing the funding to identify whether the source of any of those funds are federal grants.

In response to our draft report CPB agreed to take corrective actions. As a result, we consider our two recommendations resolved but open pending CPB's implementation of their planned corrective actions.

## **Background**

The Public Broadcasting Act of 1967, as amended, defined NFFS as the total value of cash and the fair market value of property and services received:

- As gifts, grants, bequests, donations, or other contributions for the construction or operation of noncommercial educational broadcast stations, or for the production, acquisition, distribution, or dissemination of educational television or radio programs and related activities from any source other than (i) the United States or any agent or establishment thereof, or (ii) any public broadcasting entity; or
- As gifts, grants, or donations, contributions, or payments from any State, any agency or political subdivision of a State, or any educational institution, for the construction or operation of noncommercial educational broadcast stations or for the production, acquisition, distribution, or dissemination of educational television or radio programs, or payments in exchange for services or materials respecting the provision of educational or instructional television or radio programs.

NFFS is one of the major criteria for CPB financial support to public broadcasting stations. The reason for linking the accumulation of NFFS with the incentive portion of Community Service Grants was to encourage public broadcasting stations to raise funds on their own. In this regard, Congress indicated that it intended NFFS received from State and local sources to be derived from State and local tax levies.

Congress appeared to be aware of the potential that federal funds, initially granted to States and local government agencies, could be passed along to public broadcasting stations. During Congressional hearings, Congress made it clear that station grants from State and local governments could be counted as NFFS when the funds originated with

taxes levied by those governments. While Congress did not directly address the pass through of federal funds given to state and local governments that was subsequently passed onto public broadcasting stations; it did define NFFS as non-federal matching funds, raised from non-federal sources by state and local governments or from private sources. However, the congressional definition did not go as far as to explicitly state that federal funds passed through a State or local government could be classified as non-federal.

## **CPB Guidance**

CPB's Guidance discusses the treatment of revenue from federal sources. The Guidelines state that federal funds are not allowable as NFFS. Federal funds are those that are provided directly to a grantee by the United States, or any agency or instrumentality of the United States, or when the terms of a federal grant or payment to an intermediary organization specifically require that the funds retain their federal identity if passed on to other parties, or if they are restricted for public broadcasting purposes. Specifically, funds are federal if they are provided by the Federal government to:

- the station directly, by a Federal agency;
- the licensee of a community station;
- the licensee of an institutional station and specifically restricted for public broadcasting purposes; or
- a non-federal organization with the stipulation that they retain their federal identity when passed on.

In other instances, federal funds may lose their federal identity when they pass through the hands of an intermediary organization. For example, all grants received from CPB are considered non-federal funds for purposes of compliance with financial reporting and federal audit requirements. However, in its Financial Reporting Guidelines for fiscal years 2005-06, CPB provides the following two additional examples which I have previously indicated are problematic and highlight the need for further clarifications in the Guidelines. Chapter 5.2 of the Guidelines states:

“Funds are considered non-federal if they are:

- provided by the federal government to a non-federal organization, including the licensee of an institutional station and the organization has discretion over the further distribution of the funds, and distributes them to the station. An example includes discretionary federal work-study funds that a university distributes to its station.
- matching funds required to qualify for a federal grant. The non-federal portion should be recorded on the appropriate source line of Schedule A. For example,

capital campaign funds raised to meet the Public Telecommunications Facilities Program/National Telecommunications and Information Administration (PTFP/NTIA) match are not considered Federal funds and should be reported on line 18.”

We have been unable to identify any federal work-study program that would give discretionary authority to a university to distribute grants to a station and have not received an answer to our prior requests for clarification on this legislation. The second example is also problematic, because it implies that CPB would allow capital campaign funds under the PTFP/NTIA to be applied as matching funds when the Public Broadcasting Act of 1967 does not generally permit capital expenditures to be used for matching purposes.

## **Federal Grant Regulations**

OMB Circular A-110, Revised, titled *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* (A-110) provides restrictions on grant funds in the hands of grantees and sub-grantees. With respect to issues affecting CPB, A-110 applies to awards made by State and local governments to organizations covered by the Circular, including institutions of higher education and non-profit organizations. In other words, the Circular applies to federal grants received by non-profit entities such as public radio and television stations from State and local governments and institutions of higher education (intermediaries).

In regard to cost sharing or matching, A-110, Subpart C, Section 23, provides that “All contributions, including cash and third party in-kind, shall be accepted as part of the recipient’s cost share or matching when such contributions meet all of the following criteria: ... (4) Are not paid by the Federal Government under another award, except where authorized by Federal statute to be used for cost sharing or matching.” Thus, public broadcasting stations are prohibited from using for cost sharing or matching purposes, federal funds received from a sub-recipient State or local governments or institutions of higher education. The basic rule is that except when specifically provided by federal statute, cost sharing or a matching requirement can not be met by using funds from another federal grant.

We believe that this rule could also be applied to the inclusion of federal funds in the calculation of NFFS, i.e., federal funds can only be claimed as NFFS when a federal statute specifically allows the funds to be used for federal cost sharing or matching purposes. In these specific situations, public broadcasting stations could claim federal funds as NFFS.

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In summary, we have identified situations where stations have improperly claimed federal funds from intermediaries such as the New Jersey Council of the Arts and a non-profit organization. Alternatively, our research has also identified that State and local governments could pass federal funds to stations that can be classified as non-federal funds, such as federal work-study grants distributed by universities under Department of Education grants and capital campaign funds used to meet PTFP/NTIA match under the

Department of Commerce. As a result, we believe identifying the sources of any federal funds received from intermediary organizations is critical to the proper reporting of NFFS.

## **Recommendations**

We recommend that CPB enhance its guidance to public broadcasting stations to restrict them from claiming as NFFS any monies whose original source is a federal grant, even if passed through another entity, as follows.

- 1) Revise the Financial Reporting Guidelines, Chapter 5.2, Completing AFR Schedule A, Direct Revenue, Line Item Instructions, Line 1 – Federal Funds, instructions to record all federal funds received by the station and recognized in the audited financial statements on Line 1, by deleting the current guidance that discusses that there may be instances where federal funds can lose their federal identity and be claimed as NFFS. This guidance should be replaced with a more comprehensive discussion of the entire subject of inclusion/exclusion of federal funds.
- 2) Develop guidance to instruct stations to request that intermediary organizations providing funding to the stations to identify any amounts provided from federal funds, which retained their federal identity, and therefore, were not authorized by the federal granting authority to be used for matching or cost sharing purposes.

## **CPB Response**

In response to the draft report, CPB officials stated that they, “had the opportunity to review the document and discuss it with our grants administration staff. We agree with your recommendations and would welcome the opportunity to work with you to develop guidance to assist grantees in properly identifying federal funds. However, we do not believe that the examples you cited (WETA and NJN) of erroneous classification of federal funds were caused by unclear guidance, but were simply mistakes by the station. In fact, both stations agreed with your audit findings and admitted that they had made a mistake.”

## **OIG Review and Comment**

Based upon management’s response we consider these recommendations resolved but open pending issuance of further guidance by CPB to assist grantees in properly identifying federal funds received from intermediary organizations.

cc: Vincent Curren, Executive Vice President and Chief Operating Officer  
Westwood Smithers, Jr., Senior Vice President, General Counsel  
William P. Tayman, Jr., Chief Financial Officer and Treasurer  
Nadine Feaster, Director, Grants Administration

**Scope and Methodology**

We prepared this special report based on the identification of similar findings related to reporting federal funds received by stations as Non-Federal Financial Support (NFFS), in multiple station grant audits. Specifically, we reviewed the findings related to NFFS reporting of federal funds in two audit reports: (1) Audit of Community Service Grants Awarded to the Greater Washington Educational Telecommunications Association, Inc. (WETA), Arlington, VA, for Fiscal Years 2003-2004, Audit Report No. ASJ502-604, dated March 31, 2006; and (2) Audits of Grants Awarded to New Jersey Public Broadcasting Authority Licensee of New Jersey Network Public Television, Trenton, New Jersey, Audit Report No. EST404-408/501, dated January 25, 2005. Additionally, we reviewed the Public Broadcasting Act of 1967, CPB Financial Reporting Guidelines, legislative history related to the establishment of NFFS, and OMB Circular A-110, Revised, titled *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*.

This report was prepared in accordance with the Office of Inspector General Manual, Chapter Seven, Special Assignments to provide advisory services to CPB related to their guidance on reporting of federal funds as NFFS.