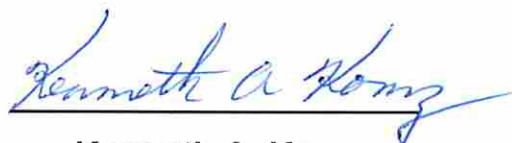


**CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF INSPECTOR GENERAL**

**EXAMINATION OF
ARKANSAS BROADCASTING FOUNDATION, INC.,
LICENSEE OF KABF-FM, LITTLE ROCK, ARKANSAS
FOR FISCAL YEAR 2007**

REPORT NO. ECR907-1003

August 17, 2010

A handwritten signature in blue ink that reads "Kenneth A. Konz". The signature is written in a cursive style with a horizontal line underneath the name.

**Kenneth A. Konz
Inspector General**

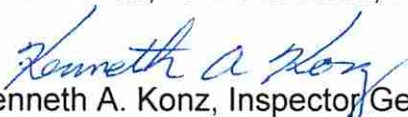


Corporation
for Public
Broadcasting

Office of Inspector General

Date: August 17, 2010

To: Bruce Theriault, Senior Vice President, Radio
Mark Erstling, Senior Vice President, System Development & Media
Strategy
Kevin Martin, Vice President, Station Grants & TV Station Initiatives

From: 
Kenneth A. Konz, Inspector General

Subject: Examination of Arkansas Broadcasting Foundation, Inc., Licensee of
KABF-FM, Little Rock, Arkansas, for Fiscal Year 2007, Report No.
ECR907-1003

We have completed an examination of the Internet Service Acquisition Grant (ISA) and Fiscal Year 2007 Community Service Grant (CSG) awarded to Arkansas Broadcasting Foundation licensee of KABF-FM (KABF). We initiated this review in response to multiple complaints alleging misuse of CPB's Internet Service Acquisition grant funds.

The objectives of the examination were to determine whether KABF: a) claimed Non-Federal Financial Support (NFFS) on its 2007 Annual Financial Report (AFR) in accordance with Corporation for Public Broadcasting (CPB) Financial Reporting Guidelines; b) complied with the Certification of Eligibility requirements and the statutory provisions of the Communications Act of 1934, as amended (Act); and c) expended CSG and Internet Services Acquisition funds in accordance with grant terms. Our scope and methodology is discussed in Exhibit E.

Based upon our examination we found material noncompliance with CPB requirements, as follows:

- \$49,957 in questioned CPB costs, including \$9,631 in ISA grant funding;
- Lack of documentation supporting NFFS underwriting contributions of \$48,097, resulting in a CPB overpayment of \$2,997 in FY 2009 CSG funds;
- The lack of discrete accounting for CPB revenues and expenditures limited the scope of our testing to verify that CSG funds were fully spent within the two year grant period, which did not facilitate our audit; and

- Noncompliance with Act requirements for open meetings, open financial records, maintaining an active Community Advisory Board (CAB), and establishing procedures for explaining the station's compliance with the five Act requirements.

Overall, we found a lack of adequate oversight and controls at the station to ensure compliance with CPB's requirements for activities performed by third party providers and station personnel. Specifically, we found that the Board of Directors (Board) and station management did not maintain adequate control over its finances and other compliance requirements to responsibly manage CPB grants during our audit period. KABF officials annually certified its compliance with CPB requirements in applying for its new CSG grant. Future entitlements may be jeopardized by continuing noncompliance with these requirements.

In response to the draft report, KABF officials said that they only recently realized that CPB requirements for financial recordkeeping and reporting were not being met. They said that they had accepted the Annual Financial Report prepared by their accounting service provider without revision because of assurances by previous KABF station managers and consultants that everything was accurate and complete. They also said from this point forward, compliance with the requirements of the Communications Act will be verified by the Board and the CAB prior to making the required annual certification to CPB. KABF's complete response to the draft report is attached in Exhibit F.

This report presents the conclusions of the OIG. The findings and recommendations contained in this report do not necessarily represent CPB management's final position on these matters. Accordingly, this report contains recommendations the OIG believes would be appropriate to resolve these findings.

In accordance with CPB audit resolution procedures, CPB management is responsible for determining the corrective actions to be taken. Based on KABF's response to the draft report, we consider recommendations 1 - 7 unresolved, pending a final management decision by CPB on the findings and recommendations.

BACKGROUND

KABF is a community radio station located in Little Rock, Arkansas. It is licensed through the Arkansas Broadcasting Foundation, Inc. (ABF). KABF's format is music and talk, with diverse programming.

KABF's independent public accountant identified nine related parties in its notes to the financial statements. These included the Association of Community Organizations for Reform Now (ACORN), Citizens Consulting, Inc. (CCI), and the Affiliated Media Foundation Movement, Inc. (AM/FM). CCI was KABF's accounting service provider and AM/FM personnel served as our audit coordinator. KABF received a variety of other

business services from other related organizations¹ for internet, telephone, health benefits, office space, etc. Currently, KABF is transitioning from CCI to another accounting service in Little Rock.

A station's CSG award amount is determined based on its reported NFFS. The CSG calculation process starts with separate amounts appropriated for the television and radio CSG pools adjusted by the base grant, as well as, the distance and local service grant amounts. The funds that remain are called the Incentive Grant Pools, one is for television and the other is for radio. The Incentive Rate of Return (IRR) for television and radio are calculated by dividing the Incentive Grant Pools for television and radio by the total amount of NFFS claimed by all television and all radio stations, respectively. The appropriate IRR is then multiplied by the station's reported NFFS to calculate the incentive award amount of the station's total CSG. There is a two year lag between the reported NFFS and CPB's calculation of the fiscal year's CSG award amount. CPB used the NFFS claimed on KABF's 2007 AFR (1/1/07–12/31/07) to determine the amount awarded to KABF for its FY 2009 CSG (10/1/08–9/30/09).

CPB's FY 2007 CSG award to KABF was for \$87,388. This award included \$63,050 in unrestricted CSG funds and \$24,338 in restricted funds. Restricted funds were to be spent on the production, acquisition, or distribution of national programming. All CSG awards have a two year spending period, the FY 2007 CSG award could be spent from October 1, 2006 to September 30, 2008. Because annual CSG awards have a two year spending period, the FY 2007 grant was overlapped by the second year of the FY 2006 CSG grant and the first year of the FY 2008 CSG grant.

In 2005 CPB awarded KABF an ISA Grant for \$15,000. The purpose of the ISA Grant was to help rural and minority stations use state-of-the-art web technology to increase service to their listeners. CPB's vision was to improve the stations' web presence to enhance station outreach, deepen community relationships, improve public transparency and accountability, and offer listeners an easy and secure way to support stations financially. The ISA Grant was amended in 2006, modifying the grant period to October 1, 2004 to December 31, 2007. The grant was to be paid out in two installments; the first \$10,000 payment was made in March 2005 to cover expenses for the period October 1, 2004 - December 31, 2006. The second payment of \$5,000 was to cover calendar year 2007 expenses. However, CPB did not make a second payment to KABF, because this audit was planned.

CPB's cash payments for the ISA Grant and the FY 2007 CSG are identified on Exhibit A. KABF reported total revenues of \$237,918 on its 2007 AFR, Exhibit B, and \$134,724 as NFFS, Exhibit C. KABF's 2007 AFR covered the period January 1, 2007 - December 31, 2007.

¹ In addition to the three organizations identified above, the notes to the financial statements identified these other related parties: COUNCIL Health Plan (CHP), COUNCIL Beneficial Association (CBA), Peoples Equipment Resource Corporation (PERC), Fifteenth Street Corporation (FSC), AGAPE Broadcasting Foundation (AGAPE), and the American Institute for Social Justice (AISJ).

RESULTS OF REVIEW

We examined management's assertions of compliance with CPB's CSG agreement terms, Financial Reporting Guidelines, Certification of Eligibility requirements, and Act requirements for FY 2007. We also examined KABF's CSG and ISA expenses. Management is responsible for KABF's compliance with CPB's requirements. Our responsibility is to express an opinion on management's assertions about its compliance based on our examination.

Our examination was conducted in accordance with the *Government Auditing Standards*, for Attestation engagements, and accordingly, included examining, on a test basis, evidence of KABF's compliance with those requirements and performing such other procedures as we considered necessary. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of KABF's compliance with specified requirements.

Our examination disclosed the following issues of material noncompliance with CPB's CSG and ISA grant agreement terms, NFFS financial reporting requirements, Certification of Eligibility requirements, and Act requirements, applicable to the FY ending September 30, 2007.

- Questioned \$49,957 in CPB grant expenditures, including \$9,631 in unallowable or undocumented ISA expenses, \$23,298 in restricted FY 2007 CSG funds not spent on national programming, \$11,664 in restricted FY 2006 funds spent for programming that was available to public broadcasting stations for free, and \$5,364 spent in FY 2007 on related parties for administrative support without adequate documentation. The \$28,662 in FY 2007 CSG questioned costs (\$23,298 plus \$5,364) represents 33 percent of the CSG awarded to KABF.
- Underwriting contributions of \$48,097 were claimed as NFFS without adequate supporting documentation to verify its allowability. As a result, CPB overpaid KABF \$2,997 in its FY 2009 CSG award. For reporting purposes we have classified this finding as funds put to better use. The \$48,097 in over-reported NFFS represents 36 percent of the \$134,724 NFFS reported for FY 2007.
- CCI's accounting system (KABF's accounting service provider) did not discretely account for the receipt and expenditure of CSG grant funds in accordance with CPB grant recordkeeping requirements to facilitate our audit. The lack of discrete accounting represents a scope limitation, which prevented us from verifying that CPB's CSG grant funds were expended within the two year grant spending period.
- KABF was not in compliance with the statutory provisions of the Act and the CPB requirements for conducting open meetings of its Board and CAB, maintaining an active CAB, making financial records available to the public, and establishing operating procedures explaining how it complied with the five requirements of the Act.

In our opinion, because of the effect of the material noncompliance issues described above, KABF has not complied with the aforementioned requirements for the period ending September 30, 2007.

FINDINGS AND RECOMMENDATIONS

Need for Governance Improvements

Our review identified that station officials had limited knowledge of its accounting practices and did not prepare the financial reports submitted to CPB. Additionally, KABF officials were unaware of their certification and eligibility requirements and the statutory provisions of the Act. Finally, KABF officials were not aware of the grant requirements for the ISA grant. We attribute these conditions to a lack of adequate oversight and controls at the station to ensure compliance with CPB's requirements for activities performed by either third party contractors or station personnel.

Review of Board meeting minutes during calendar years 2006 and 2007 identified concerns about the station's finances. These concerns included staff members paying for internet streaming from their own funds and finding monies to pay the station's utility bills before the services were turned off.

We found that the Board had developed financial guidance contained in its "Policies Governing Financial Activity." However, these policies had not been effectively implemented at an operating level during our audit period. As a result, funds received for station activities and expenses incurred were not being approved by KABF officials as intended by its policy. The policy required station management to prepare monthly budgets and financial reports and weekly "allocations" for the Board. These reports would serve as the "authority" for execution of specific financial transactions.

At the time of our fieldwork, in June 2009, the station manager had earlier in the year begun to prepare the weekly "allocations" and to document revenues and invoices received at the station. These revenues and invoices were transmitted to CCI in New Orleans for processing. We were not provided with any documentation that this information was provided to the Board for its approval during our audit period.

As described later in this report, CCI did not spend restricted funds on national programming, use ISA grant funds on allowable activities, maintain documentation supporting the rates charged KABF for related party administrative support, or obtain an executed production agreement between KABF and AGAPE for purchasing the *Empowerment Radio* program. As a result, we have no assurance that KABF officials were aware of how its funds were being expended. Many of KABF's financial transactions were only handled by CCI officials, who directly received and processed grant revenues and vendor invoices in its New Orleans office.

The Board was ultimately responsible for ensuring that its policies were implemented by its staff members. However, our review of Board minutes for the period 2006 through mid 2009 identified that weekly financial reporting allocations were not prepared in accordance with the station's budgets and transmitted to the Board, or a committee of the Board, as required in its financial policy. The Board minutes only indicated that CCI made periodic budget and financial information presentations to the Board. However, the minutes did not provide the detail required for us to determine if this financial information met the intent of the Board's financial policies and constituted KABF approval of all station expenditures.

We observed that the station relied heavily on CCI and its independent public accountant (IPA) to answer our accounting and compliance questions in conducting our audit. We found that the IPA prepared the AFR submitted to CPB. While this information was shared with CCI, it was solely prepared by the IPA and both CCI and KABF officials accepted the report without revision. Continued reliance on its IPA to prepare its AFR does not provide the independence required by professional standards for the IPA to opine on future attestations of the AFRs submitted to CPB. Additionally, the IPA informed us that he had performed the KABF audit for a number of years, but he had never visited the radio station or briefed its Board on his audits. In this case, the Board did not take advantage of the independent public accountant's work to gain a better understanding of its financial conditions.

In addition to its financial responsibilities, the Board is also responsible for overseeing compliance with CPB grant requirements under the Act. As discussed later in our findings, KABF had not established operating policies for ensuring compliance with the open meeting, open financial records, CAB, Equal Employment Opportunity (EEO), and donor lists requirements under the Act. While the Board had no mechanism to oversee how the station complied with these requirements, it annually certified to CPB that it had complied with all of these requirements.

In response to this finding, KABF officials said that after many attempts to obtain financial and other information from its consultant/manager, it became clear that it was not receiving the financial information needed to oversee KABF's affairs. The Board then proceeded to replace its consultant/manager by increasing attempts to hire an on-site person to manage and oversee the daily operations of KABF. Finally, they said the station was no longer using the services of CCI.

Recommendations

- 1) We recommend that CPB determine whether the current governance mechanisms are adequate and the licensee has instituted sufficient corrective actions to continue as a CPB grant recipient.
- 2) We recommend that CPB require KABF to:

- a) Ensure the new bookkeeping service receives the necessary training in non-profit accounting and CPB requirements to accurately record and report on the financial activities of KABF.
- b) Ensure the new bookkeeping service provides KABF management and its Board with the necessary financial reports to manage its resources against budgets and obtains KABF's approval of all financial transactions.
- c) Establish payment authorization controls to ensure CPB funds are only expended on allowable activities.
- d) Establish internal controls over the AFR preparation to ensure only allowable contributions are reported as NFFS, ensuring that exchange transactions are identified and evaluated to claim only the value received that exceeded the value given as NFFS.
- e) Discontinue the practice of having its IPA prepare its AFR. Station officials are responsible for preparing the AFR and the station's IPA is responsible for independently attesting to its accuracy.
- f) Explain how the Board will assure that the station is in full compliance with the Communications Act requirements for open meetings, open financial records, CAB, EEO and donor list requirements before the licensee makes its annual certification to CPB.

Management Response

In response to this finding, KABF officials said that the Board was not privileged to know the full extent of CCI and AM/FM activities during the 2006-2008 time period. Without an on-site station manager at KABF, they relied on CCI to perform the accounting in compliance with CPB requirements. When KABF officials asked questions about compliance, they were told that everything was in proper order and in compliance. They said that financial decisions and distribution of funds were made from CCI's offices in New Orleans. Most bills and other documents were mailed directly to New Orleans, so KABF staff and the Board were kept in the dark concerning financial operations. KABF officials were not fully aware of how station funds were being expended. CCI officials directly received and processed grant revenues and vendor invoices, and regularly sent incomplete financial information to the KABF Board. The Board's questions about reported financial information were never fully answered by CCI and decisions made by the KABF Board were routinely disregarded or over-ridden by CCI officials. Only recently did KABF officials begin to realize that CPB requirements for financial recordkeeping and reporting were not being met.

KABF officials did not respond to recommendations 1 and 2a. Recommendation 1 was directed towards CPB management and not KABF. In response to recommendations 2b – 2f, KABF officials said its accounting service provider will provide the Board with the financial reports needed to manage station resources against budgets, all

expenditures will be reviewed and authorized by the Board, internal policies and controls will be put in place to ensure that only allowable contributions are reported as NFFS, station management will now prepare the AFR instead of relying on its IPA, and the Board will establish a Compliance Committee to oversee compliance with all rules, regulations, and laws prior to making the required annual certification of compliance to CPB.

OIG Review and Comment

Based on KABF's response, we consider recommendations 1 and 2 unresolved. Recommendation 1 was directed towards CPB management and remains unresolved until CPB makes a management decision. While KABF agreed to take corrective actions on recommendations 2b – 2f, their response did not include any examples of the financial reports to be provided the Board or written policies and procedures implementing controls over CPB expenditure authorizations for us to evaluate. These recommendations can be resolved and closed when KABF provides CPB officials with documentation of its planned actions and evidence that all actions have been fully implemented.

Questioned CPB Expenses

Based on our examination of KABF expenses, we questioned \$49,957 in CPB expenditures as summarized in Exhibit D. This total included \$9,631 in ISA costs that were unallowable or not documented; \$23,298 in restricted FY 2007 CSG funds that were not spent on national programming; \$11,664 in restricted FY 2006 funds spent for programming that was available to public broadcasting stations for free; \$5,364 spent in FY 2007 on related parties for administrative services without adequate supporting documentation. Our audit of CPB expenditures was complicated by the lack of discrete accounting of CPB revenues and expenditures, as discussed further in our finding on discrete accounting. Further, the \$28,662 in FY 2007 CSG questioned costs represents 33 percent² of CPB's CSG awarded to KABF. This level of questioned costs is materially noncompliant with CPB use of grant funds requirements.

Questioned Internet Service Acquisition Expenses

Our review found that KABF over-reported ISA grant expenditures to CPB by approximately \$4,570. KABF reported to CPB over \$15,000 in ISA expenses, but could only identify \$10,431 in ISA costs. Our audit of these costs questioned \$9,631. CCI's accounting system did not separately account for the ISA grant funds and we had no audit trail to trace the reported expenses into the accounting system. We had to rely on CCI to identify expenses charged to this grant.

This audit was initiated after we had received multiple complaints alleging that the ISA funds were not used to enhance KABF's official website. Local KABF officials were not involved in administering the grant funds. The grant funds were controlled by CCI.

² \$28,662 in questioned costs/\$87,388 CSG award amount = 32.8 percent.

KABF Board meeting minutes reflected the Board's frustrations over its website not being updated and employees paying for internet streaming from their own funds. This was a year after CPB had already paid KABF \$10,000 under this grant.

As background, the complainants alleged that KABF's official website had not been updated for twenty years. The station's official website (kabf.org) was maintained by one of KABF's related party contractors in New Orleans. When local officials were denied access to update this site by CCI, the station took the initiative to establish an alternative website (kabf883.com). The complainants said they were not reimbursed from ISA funds to pay for the alternative website. They said they used their own funds to get the kabf883.com website operational and made additional payments related to this website from a local bank account controlled by the station. The complainants further alleged that the grant administrator reported some of these same costs to CPB as ISA expenditures, even though these disbursements were not made with ISA funds.

We found that some of the expenses presented to us by CCI officials were identified as being paid out of a local KABF bank account. However, we were not provided with any documentation (vendor invoices or bank records) to support these disbursements. As a result, we could not verify the validity of any of the expenses paid out of the local bank account, as we discuss later in this finding.

In October 2007, KABF's grant administrator reported that the station had incurred costs in excess of \$10,000 under the ISA Grant for the period October 2004 – December 2006 and incurred an additional \$3,500 in 2007. Their report anticipated spending another \$1,565 before the end of 2007, for total grant expenditures of over \$15,000. CPB had only made one payment of \$10,000 to KABF and the remaining \$5,000 payment was pending the results of this audit.

CCI presented us with a spreadsheet of expenditures totaling \$10,431 representing the costs charged to the ISA grant. We identified that only \$4,531 was incurred through the period ending December 31, 2006, while they had reported expending over \$10,000 for this time period. The remaining expenses of \$5,900 were incurred during 2007.

Based on our analysis, we found that expenses were paid to support two different websites. The official website (kabf.org) maintained through CCI and other related parties and the alternative website (kabf883.com) established by local station officials. Based on our analysis of available information, we believe a total of \$7,129 was spent on the official website and \$3,301 on the alternative website.

The ISA grant had restrictions on the use of funds. The grant was not to be spent to reimburse KABF or its licensee for station staff or internal expenses incurred in creating a standalone station website. KABF was required to acquire services from vendors not related to the station's licensee. Qualified services or service providers included: national or regional website content providers, application service providers, website content management or design services, and internet streaming providers. Further, the grant was explicit regarding the time periods for spending the grant funds. A total of

\$10,000 was to be spent for the period October 1, 2004 through December 31, 2006 and the remaining \$5,000 was to be spent during calendar year 2007.

Our audit of the \$10,431 in ISA expenses identified \$9,631 in questioned costs. We identified \$6,061 in unallowable expenses, and another \$3,570 was questioned because of the lack of documentation (i.e., vendor invoices and bank records to verify disbursements from the local bank account).

Unallowable costs of \$6,061 included \$4,136 in CCI charges for general administrative services; \$1,365 for PERC email reserve account charges (monthly email, news group, and web server fees); and \$560 in AI Communications charges for telephone and internet services. All three organizations are related parties. The grant terms precluded using vendors related to the station. Further, all of these expenditures were internal administrative expenses, which were also unallowable per the grant agreement, except for web server fees, which may qualify but these costs were not separately identified within the overall PERC charges.

Undocumented charges of \$3,570 included unspecified Comcast charges of \$948 for the official website, unspecified services of \$350 paid to a contractor by local station staff for the alternative web site, and \$120 paid to another vendor for unspecified services for the official website. All of these expenses were paid by CCI and recorded in KABF's accounting records. Additional undocumented charges included \$1,725 for a contractor and \$427 in GoDaddy credit card charges. Based on what we were told, these costs were incurred by local KABF staff to operate the alternative web site. The contractor payments of \$1,725 were identified as being paid out of the local KABF bank account. None of the \$3,570 disbursements was supported by vendor invoices.

The \$800 we accepted as allowable under the ISA grant was incurred for web design/promotion. We were told by the complainants that this contractor was hired by local station staff to design the alternative web site. CCI presented us with 3 of 5 invoices for these services paid through CCI and recorded in KABF's official accounting records. We found that the alternative website (kabf883.com) is no longer operational. We could not determine when it ceased operations.

During our initial discussions with local KABF officials about the ISA grant, we were referred to CCI to account for the ISA expenditures. CCI officials did not appear to be familiar with the specific grant terms and limitations. KABF's response to this finding said that the Board had questioned its consultant/manager about this grant for a long time, but how the funds were used was never made clear. They were told the KABF web site was up and running.

FY 2007 Restricted Funds Not Spent on National Programming

KABF did not spend most of the restricted portion of the FY 2007 CSG on the production or acquisition of national programming, as required. KABF received \$24,338

in restricted funding and we questioned \$23,298 because these funds were not spent on national programming in accordance with CPB requirements.

CPB's General Provisions and Eligibility Criteria for Radio CSGs, Section 3, Use of Grant Funds – Purpose and Restrictions states that the restricted portion of the CSG must be used for acquiring or producing programming that is to be distributed nationally and is designed to serve the needs of a national audience. This portion of the CSG must be used for the acquisition, production, promotion, and distribution of national programming of high quality, diversity, creativity, excellence, and innovation with strict adherence to objectivity and balance in all programs or series of programs of a controversial nature. To qualify as a "national" program for funding from CSG funds, a program must be placed in the national marketplace of public radio programming.

Review of KABF financial records and discussions with CCI officials and our audit coordinator disclosed that KABF expended only \$1,040 on national programming during our audit period. This was for a one-year subscription to a nationally-syndicated daily headline news program by and about working people. The other documentation provided was for various routine in-house type expenses that did not qualify as national programming. As a result, we questioned \$23,298 in restricted funds awarded in the FY 2007 CSG.

When we inquired about spending restricted funding on national programming, we were told by the audit coordinator "that this was all there was and that they do not do things like this anymore." Feedback from KABF officials acknowledged that the station had not spent these funds on national programming. When they discovered this error, the station purchased programming from the Workers Independent News, Women's International News Gathering Service and American Public Media. KABF's Board meeting minutes from October 27, 2009 reflect these actions. A cursory review of the CY 2008 expense transactions did not identify any national programming expenditures being incurred during CY 2008.

FY 2006 Restricted Fund Expenditures

Our review of national programming documentation included a September 14, 2006 payment³ made from the KABF CPB bank account to a related party public broadcasting radio station (KNON) in Dallas, Texas for \$11,664. This documentation stated: ". . . material services provided to your project as specified: Production and distribution costs for *Empowerment Radio* as supplied to your station." We discussed this payment with KNON's general manager who told us that the program was available as a free service and anyone could listen to it by downloading it to their computer. It was also available without charge through the Public Radio Exchange.

KNON's general manager told us that the \$11,664 payment was not solicited by the station, and that he did not remember being informed about the transaction by CCI, its

³ September 2006 was outside of our initial audit period; however, the audit coordinator presented us with this documentation and given the unique nature of the transaction, we included it in our report.

accounting service provider. Additionally, he said that the payment was not received by the station, because the funds transfer was processed internally by CCI, in New Orleans. Discussion with the audit coordinator disclosed that she did not know why this payment had been made. CCI did not provide a production agreement between KABF and KNON to support this payment. Since the program was available for free, we questioned the \$11,664 payment.

CPB's General Provisions and Eligibility Criteria, Section 10., B. Record Keeping and Audit Requirements require:

... discrete accounting and proper documentation shall be maintained to support all FY 2007 CSG revenues and expenditures. All CSG expenditures must meet the test of allowability as stated throughout this document and as provided by all other CSG-related documents and policies. CSG funds which cannot be accounted for because of recipient's failure to comply with this requirement may be subject to repayment to CPB.

In this case, we found no evidence of a production agreement between KABF and KNON, the related party station, to produce and distribute this program. While KABF officials told us its Board had been informed by its station's consultant/manager that KABF was purchasing the *Empowerment Radio* program, they did not present any Board minutes to support its approval of this transaction. We concluded this transaction was initiated by CCI without the knowledge of KNON's general manager or a signed production agreement between the stations.

Related Party Charges Not Adequately Documented

We found that KABF paid for administrative services provided by related parties without adequate supporting documentation. We questioned CPB's portion of these costs totaling \$5,364. Based on the documentation provided, we could not attest to the specific services provided or the reasonableness of the charges. Discussions with CCI officials indicated that these charges were allocations of related party costs spread between its clients based on their respective budgets. The supporting documentation provided by CCI was not adequate. Specifically, we found multiple service agreements from different related parties providing similar services, out-dated service agreements that did not cover our audit period and a lack of documentation of FY 2007 billing rates.

As previously referenced, CPB's General Provisions and Eligibility Criteria, Section 10., B. Record Keeping and Audit Requirements require:

... discrete accounting and proper documentation shall be maintained to support all FY 2007 CSG revenues and expenditures. All CSG expenditures must meet the test of allowability as stated throughout this document and as provided by all other CSG-related documents and policies. CSG funds which cannot be accounted for because of recipient's failure to comply with this requirement may be subject to repayment to CPB.

KABF utilized the services of a number of different related parties for a variety of administrative services, e.g., accounting, legal, facilities, telephone, internet, human resources, FCC assistance, etc. These services were charged monthly to KABF's accounts by CCI. During FY 2007, KABF paid \$12,561 to related parties as shown in the following table without adequate documentation or support.

Related Party	10/1/06-9/30/07	Administrative Activities
ACORN	\$277	Campaign & program services
AI Communications (ACORN Institute)	464	Telephone, internet & website
Network Council Fees (AMFM)	4,387	Networking services to corporation
CCI Accounting	5,221	Accounting services
CCI Legal	985	Legal services
CCI General	1,227	Other administrative services
Total	\$12,561	

We were not able to verify that these monthly assessments were reasonable based on the documentation provided. A total of \$1,691 of these costs was charged directly to CPB's ISA Grant, the balance of \$10,870 was charged to the CSG. We questioned \$5,385 in related party costs against the FY 2007 CSG, calculated as follows:

100 percent charged to CSG grant	\$2,172
36.7 percent of \$8,698 allocated between funders ⁴	<u>3,192</u>
Total CPB Questioned Costs	\$5,364

The documentation provided to support these charges was not adequate to attest to its reasonableness, particularly when you consider the less than arm's length relationships inherent in related party transactions. KABF did not receive a monthly bill for the services provided; CCI just recorded the charges to KABF's accounting records. We could not verify what services were provided, how the charges were calculated and, whether the basis for calculating the charge was equitably distributed between the related parties' clients.

To illustrate, the CCI agreement provided to support these charges was dated December 16, 2001, and covered accounting, bookkeeping, corporate, and administrative services. The agreement did not identify legal services, but legal services were billed to KABF during our audit period. In the agreement, KABF agreed to pay all direct costs incurred by CCI plus a monthly fee. However, we were not provided any documentation of the fee structure for our audit period in FY 2007. The only documentation provided of CCI's annual service fees was for FY 2004. Based on

⁴ \$10,891 - \$2,193 = \$8,698 portion of related party charges to be allocated between KABF funding sources. 36.7 percent calculated based on percentage of CPB income to all income (\$87,388/\$237,918).

our work, we could not determine whether the FY 2004 fees were still in effect during our audit period.

The AM/FM agreement was dated December 16, 1986, over 20 years ago, to provide: bookkeeping and accounting services; advice and assistance in establishing and maintaining management systems (including recruitment and training of qualified management and broadcast personnel); advice and assistance regarding FCC laws, rules, and regulations; assistance arranging loans and financing of broadcast equipment; and advice and assistance relating to the technical operations of the station. KABF agreed to pay all direct costs authorized by KABF plus a monthly fee. Based on our work, we could not determine whether this agreement was still in effect during our audit or what the fees were.

Finally, the ACORN Institute's agreement dated March 21, 2009, subsequent to our audit period, provided many of the same services billed under the CCI and AM/FM agreements for such things as FCC assistance, staff training and management assistance, Board training, legal services, and human resources management. An agreement was not provided to identify the services provided by AM/FM during the audit period and the related fees in effect at that time.

In discussions with KABF officials about these charges, we were referred back to CCI. The KABF officials said the accounting was done by CCI and that the station was no longer using their services. Based on our understanding of events, KABF officials relied on CCI and the other related parties to provide various administrative services. KABF had not established adequate oversight mechanisms or controls to verify the reasonableness or necessity of the services provided and the related charges.

Recommendations

- 3) We recommend that CPB management require KABF to:
 - a) refund \$49,957 in questioned costs;
 - b) establish controls over spending to ensure radio restricted funds are spent on qualified national programming;
 - c) demonstrate that it has spent the FY 2008-2009 restricted portion of its CSGs on national programming or refund the restricted portion of those grants; and
 - d) ensure future CPB administrative service costs, supplied by related parties, are supported by current agreements that establish the methods used to determine the rates charged to KABF, specify the services provided, and the reasonableness of the costs billed (i.e., rates were consistently applied to all clients and can be verified to current market rates).

Management Response

KABF officials did not respond to recommendations 3a and 3c. Their response to recommendation 3b indicated that expenditures from restricted and non-restricted CPB funds will be subject to approval by station management and the Board. Their response to recommendation 3d indicated that all administrative service expenses would be supported by current agreements that specified the services provided and the reasonableness of the amounts billed.

OIG Review and Comment

Based on KABF's response we consider recommendation 3 to be unresolved. While KABF agreed to take corrective actions on recommendations 3b – 3d, their response did not include any written policies and procedures implementing controls over restricted spending or copies of any current service provider agreements for us to evaluate. These recommendations can be resolved and closed when KABF provides CPB officials with documentation of its planned actions and evidence that all actions have been fully implemented.

Allowability of Amounts Claimed as NFFS

KABF claimed NFFS of \$134,724 on schedule A of the FY 2007 AFR, including \$54,396 in underwriting. KABF could not provide supporting documentation for \$48,097 in underwriting revenue claimed on its AFR. Thus, we could not determine the allowability of these revenues as NFFS. As a result, CPB overpaid KABF \$2,997 in its FY 2009 CSG grant based on the reported NFFS in FY 2007. For reporting purposes we have classified the \$2,997 as funds put to better use. The unsupported \$48,097 represents 36 percent of the total NFFS reported for FY 2007 of \$134,724. This degree of over-statement was materially not compliant with CPB Financial Reporting Guidelines.

CPB Financial Reporting Guidelines for Preparing the AFR and FSR, Grantees' Fiscal Year 2007 and 2008, Section 3: NFFS – Minimums for CSG Eligibility, Statutory Definition and Reporting Criteria, states under Other Definitions:

Contribution or exchange?

A grantee must determine whether a transaction is a contribution or an exchange. . . .

Underwriting

The grantee must determine, based on the facts and circumstances, if a portion of the underwriting meets the test of an exchange transaction.

CPB Financial Reporting Guidelines for Preparing the AFR and FSR, Grantees' Fiscal Year 2007 and 2008, Section 5.2: Completing AFR Schedule A, Direct Revenue:

Line 8 – Foundation and nonprofit associations

How much of this revenue was received as underwriting? Enter on this line any restricted revenue received from foundation and nonprofit associations to pay for the cost of producing or acquiring a program for which the donor receives on-air or printed credit.

Our review of the 21 underwriting documents provided by KABF officials found that six transactions did not adequately document KABF's claim for underwriting revenue of \$48,097. To illustrate, there was no documentation provided for three transactions, two transactions had no specific agreement terms, and one transaction was identified as a trade agreement. We found no analysis of the trade agreement to determine whether a portion or all of the trade was an exchange transaction and not eligible to be reported as NFFS. Based on the documentation provided, we could not verify the business purpose of these transactions and whether they were legitimate underwriting contributions and did not include any exchange transactions.

Lacking adequate supporting documentation or donor agreements, we could not determine the *nature* or *purpose* of the revenue (e.g., production underwriting, construction or operations of the station, or if a portion of the revenue met the test of an exchange transaction). The station must determine, based on the facts and circumstances, if contributions received qualify to be reported as NFFS. If an exchange transaction occurred the exchange amount cannot be reported as NFFS. The station can only claim the difference between the value received if it exceeds the value given to the donor for the services provided.

KABF officials stated that because of a lack of administrative direction, staff members failed to secure contracts/agreements with some underwriters and that corrective action has now been taken to obtain contracts/agreements for underwriting transactions as they occur. They did not provide any further information to explain what specific corrective actions have been implemented (e.g., written operating procedures and control techniques to ensure documentation is obtained).

Recommendation

- 4) We recommend that CPB management require KABF to:
 - a) submit a revised FY 2007 AFR eliminating the unallowable underwriting contributions claimed as NFFS;
 - b) recover \$2,997 in excess FY 2009 CSG payments made to KABF based on the FY 2007 reported NFFS; and
 - c) document corrective actions taken and controls instituted to ensure future compliance with CPB guidelines for documenting, recording, and reporting NFFS, including underwriting contributions.

Management Response

KABF official's response did not address recommendation 4b. In response to recommendation 4a KABF agreed to submit a revised FY 2007 AFR, however, they indicated they were trying to re-construct their financial records for FY 2007 but the lack of documentation from CCI, their prior accounting service provider, was presenting challenges. In response to recommendation 4c, they indicated they will be instituting controls for documenting, recording, and reporting NFFS.

OIG Review and Comment

Based on KABF's response we consider recommendation 4 to be unresolved. While KABF agreed to take corrective actions on recommendations 4a and 4c, their response did not include a revised AFR for FY 2007 or any written policies and procedures implementing controls over NFFS reporting for us to evaluate. These recommendations can be resolved and closed when KABF provides CPB officials with documentation of its planned actions and evidence that all actions have been fully implemented.

Discrete Accounting Needed to Document the Use of CSG Funds

CCI's accounting system (KABF's accounting service provider) did not discretely account for the receipt and expenditures of CSG grant funds in accordance with CPB grant recordkeeping requirements. While a separate CPB bank account had been established to initially deposit CPB funds, CPB revenues were commingled with other revenues in either a Grants-unrestricted or a Grants-restricted income account in the accounting system. Additionally, CPB expenses were not separately identifiable in the accounting system's expense accounts. The inability to match CPB revenues received by fiscal year to corresponding expenditures prevented us from verifying that CPB CSG funds were spent within the two year grant spending period. The lack of discrete accounting for CPB revenues and expenditures represented a scope limitation, as discussed further in our Scope and Methodology section.

CPB's General Provisions and Eligibility Criteria for Radio CSGs, Section 10.B. Record Keeping and Audit Requirements, require stations to provide discrete accounting and proper documentation to support all CSG expenditures. It further requires that:

- CSG funds which cannot be accounted for because of the recipient's failure to comply with this requirement may be subject to repayment;
- grant recipients must maintain financial records that facilitate an effective audit; and
- records must be retained for no less than three years after the end of the expenditure period.

As previously mentioned, CCI maintained KABF's financial records. These records included two primary bank accounts, a "CPB" cash account and a KABF "Main" cash

account While CCI had established a separate CPB bank account to deposit CPB funds, a large amount of these funds were subsequently transferred to the KABF "Main" account and discrete accountability over the transferred CPB revenues was lost.

During FY 2007, \$55,896 of the \$87,388 received from CPB was transferred to the "Main" account. Payments of \$24,257 were also made out of the "CPB" bank account to a variety of vendors. For auditing purposes, we considered these payments to be CPB expenditures, since there was no other record of CPB expenses maintained by CCI.

CPB revenues were recorded in either a Grants-unrestricted or a Grants-restricted income account in the accounting system. Both revenue accounts commingled CPB receipts with revenues received from other sources. The commingling of multiple years of CPB funding in either the unrestricted or restricted grant accounts did not provide an audit trail to enable us to verify that annual CSG grant awards were spent within the two year grant spending period authorized in the CSG agreement.

Finally, CPB expenses were not separately identifiable in the accounting system's expense accounts. CCI did not maintain any supplemental records to the accounting system expense accounts to record and track CPB unrestricted and restricted expenditures. As a result, records were not maintained to facilitate an effective audit to account for CPB expenditures against funds received on a fiscal year basis and to ensure that CPB grant funds were spent within the two year grant spending period.

Since total CPB expenditures were not identified by CCI, we analyzed the cash flow in and out of the "CPB" cash account in an effort to determine whether all the FY 2007 revenues were paid out of this account during the fiscal year. We calculated an ending cash balance of \$12,357 in the "CPB" account at September 30, 2007, as follows:

Analysis of Cash Balances

Opening cash balance at October 1, 2006	\$ 5,122 ⁵
CPB FY 2007 funds received	87,388
Less: Disbursements (vendor payments & transfers)	<u>80,153</u>
Ending cash balance at September 30, 2007	\$12,357 ⁶

From this analysis we were able to determine that not all of the FY 2007 CSG funds were expended as of September 30, 2007. The available FY 2007 CSG fund balance on this date ranged from \$7,235 to \$12,357 depending upon how the opening balance was liquidated and whether this account included unused ISA funds. Since CCI didn't

⁵ We could not determine what CPB grant or multiple grants funds were included in the opening cash balance of \$5,122. At this date the ISA grant had an available cash balance of \$5,574 in unused funds and some portion of the ISA grant funds could have been included in this amount.

⁶ Again, we could not determine what funds made up this cash balance. On this date the ISA grant had an available cash balance of \$2,190 and some portion of the ISA grant funds could have been included in this amount.

account for CSG expenditures, we could not independently verify whether these funds were subsequently expended in FY 2008.

We also identified an ending cash balance of \$8,258 in the KABF “Main” bank account at September 30, 2007. As previously mentioned a total of \$55,896 in CPB funds had been transferred to this account during the fiscal year. However, we could not determine whether this balance included any unspent FY 2007 CPB funds, because we could not match the CPB deposits to the \$360,498 in disbursements and adjustments made from this account.

Discussions with CCI officials and our audit coordinator disclosed that this was the way CCI had performed its accounting function. They stated that having a separate CPB bank account was adequate for their needs. KABF station officials stated that the accounting had been performed by CCI and that they were no longer using their services. In our judgment, KABF officials relied on CCI to perform its accounting activities and did not ensure CCI followed CPB requirements for financial recordkeeping and reporting.

Recommendations

- 5) We recommend that CPB require KABF to:
 - a) Comply with CPB’s discrete accounting requirements and maintain sufficient financial records to facilitate an effective audit of CPB revenues and expenditures. Such records should discretely account for all CPB income, expenditures against grants awarded on a fiscal year basis and include tracking expenditures over the two year grant period, and identify grant cash balances at the end of the grant’s fiscal year September 30th.
 - b) Reconstruct its accounting records for FY 2007–2010 to track CPB expenditures against CPB revenues on a fiscal year authorization basis and report to CPB whether all the CSG funds were spent within the two year grant spending periods.
 - c) Annually report to CPB revenues received by grant (unrestricted and restricted), opening cash balances, expenditures, and ending cash balances as of September 30th of each year.

Management Response

KABF’s response to recommendations 5a, 5b, and 5c agreed to take corrective actions. KABF’s new accountant will discretely account for the receipt and expenditure of all CPB funds and maintain proper documentation to facilitate an effective audit. KABF is currently trying to re-construct complete financial records for FY 2007-2010, but is experiencing difficulties because of the lack of documentation from its previous accountant, CCI. KABF agreed to annually report to CPB restricted and unrestricted

grant revenues, opening cash balances, expenditures, and ending cash balances as of September 30th of each year.

OIG Review and Comment

Based on KABF's response we consider recommendation 5 to be unresolved. While KABF agreed to take corrective actions on recommendations 5a – 5c, their response did not explain how they will discretely account for CPB revenues and expenditures for us to evaluate, the re-construction of its accounting records was ongoing, and the reporting on CPB grants will not occur until the end of the fiscal year. These recommendations can be resolved and closed when KABF provides CPB officials with documentation of its planned actions and evidence that all actions have been fully implemented.

Communications Act Noncompliance

We found that KABF was not in compliance with the statutory provisions of the Act or the CPB requirements for conducting open meetings of its Board and CAB, maintaining an active CAB, making financial records available to the public, and establishing operating procedures explaining how it complied with the five requirements of the Act. Based on our audit, we found that KABF was significantly non-compliant with these requirements.

Discussions with KABF officials and our audit coordinator indicated that they were not fully aware of all of the requirements of the Act and believed that they were meeting the needs of its membership and audience.

Open Meetings

Review of available documentation and interviews of station employees disclosed that the station did not fully comply with CPB's open meeting requirements. Although KABF officials held monthly meetings of its Board, they stated that they were not aware of the specific requirements for notifying the public about the meetings and other CPB requirements, as follows:

- Provide seven days advance notice of public meetings of the Board of Directors and the Community Advisory Board.
- Provide quarterly on-air announcements on at least three consecutive days of the station's open meeting policy and how the public can obtain information on the dates, times, and location of upcoming board meetings.
- Provide an explanation of the reasons for closing a public meeting (e.g., discussion of personnel matters, litigation, proprietary information, confidential advice of counsel, etc. permitted by the Act).

Section 396(k)(4) of the Act (47 U.S.C. §396(k)(4)), prohibits the distribution of federally appropriated funds to the licensee of a public broadcasting station unless the governing

body of the organization, any committees of such governing body, or any advisory body of any such organization holds open meetings preceded by reasonable notice to the public.

The minimum compliance requirements for “reasonable notice” to the public as stated in CPB’s explanation of the Act requires stations to “Give reasonable notice to the public of the fact, time and place of an open meeting at least one week (7 days) in advance of the scheduled date” CPB’s explanation of the Act requires stations to provide three types of notice.

1. Notice is placed in the "Legal Notices" or the radio and television schedules section of a local newspaper in general circulation in the station's coverage area; or, notice is available through a recorded announcement that is accessible on the station's phone system; or, notice is available through an announcement that is accessible on the station's web page.
2. Notice is communicated by letter, e-mail, fax, phone, or in person to any individuals who have specifically requested that they be notified.
3. On-air announcements are made on at least three consecutive days once during each calendar quarter that explain the station's open meeting policy and provides information about how the public can obtain information regarding specific dates, times, and locations.

Further, CPB’s guidance on the Act requirements specifies that, if a meeting is closed in accordance with exceptions recognized by the Act, the station must prepare a written statement containing the reasons for closing the meeting and make it available to the public within a reasonable time after the closed meeting. This notice should be distributed in the same manner as announcements for open meetings. This same guidance prohibits requiring the public to register their name or provide any other information, except as needed to maintain public safety.

The station manager told us that the Board met on the fourth Thursday of every month. Minutes of these meetings were maintained at the station. A schedule of Board meetings was posted on the station’s front door during our fieldwork. The station manager also said that they made on-air announcements about upcoming meetings; however, these announcements were not documented in the program log for our verification. As a result, we could not verify the station’s compliance with the “reasonable notice” requirements to provide the public with seven days advance notice of its upcoming board meetings.

The station’s lack of compliance with these specific requirements for providing reasonable notice to the public of the fact, time, and place of board meetings deprived the public of the required information envisioned by the Act.

Community Advisory Board

Our review of available documentation and interviews of KABF officials disclosed that documentation was not maintained to ascertain whether KABF had a fully functioning CAB that met at regular intervals. During our visit to the station we were told that the station did have a CAB; however, there was no documentation to verify the frequency of its meetings or what activities were conducted. We were not provided with a listing of the CAB members.

Documentation provided indicated that a meeting of community members was held on May 8, 2008. The documentation included a sign-in sheet which identified that over half the attendees were either station employees or members of the Board of Directors. Minutes of this meeting were not available to determine what business was conducted by the CAB. Further, we could not determine whether a quorum of CAB members were in attendance at the May 8th meeting. Other documentation available at the station showed that the station may have used community advisory meetings to deal with local community issues that did not involve public broadcasting.

CPB guidance requires community licensees to establish a viable CAB pursuant to the statutory requirements of Section 396(k)(8) of the Act. This section provides that funds may not be distributed to a community public broadcast station unless it establishes a CAB that meets at regular intervals and Board members regularly attend the meetings. Further, CPB's minimum compliance requirements require the CAB to:

- review programming goals established by the station;
- review the services provided by the station;
- review significant policy decisions rendered by the station; and
- advise the governing board whether the programming and other policies of the station meet specialized educational and cultural needs of the communities served by the station

CPB guidance also requires that to qualify as a meeting, the sessions of governing bodies, including the CAB, must include the following elements:

- a quorum, for the purpose of taking action, must be in attendance;
- deliberations must take place; and
- the deliberations must . . . relate to public broadcasting.

Based on the documentation provided, we could not determine whether the CAB was fully functioning as intended by the Act. The lack of a functioning CAB denied the public the opportunity to provide input on how well the station was accomplishing its public broadcasting mission.

Open Financial Records

KABF was not in compliance with the open financial records requirements of the Act because required financial information and records were not maintained at the station

and were not readily accessible to provide to the public upon request. The station manager said that if a member of the public requested to see financial information they would be directed to contact the station's liaison at AM/FM in New Orleans and she would provide the requested information.

Our discussions with the AM/FM liaison, our audit coordinator, determined that the required financial documents were also not readily available from the liaison. She had to contact CCI, KABF's accounting service provider, and the independent public accountant to obtain all the financial information required by the Act.

Section 396(k)(5) of the Act provides that funds may not be distributed to any public telecommunications entity that does not maintain for public examination its Annual Financial Report (AFR) filed with CPB, any audit reports or financial statements on the financial condition of the station, or other information regarding finances, submitted to CPB pursuant to subsection (l)(3)(B). CPB addresses this requirement in its minimum compliance requirements by stating that the following documents must be made available for public inspection:

- AFR filed with CPB;
- Audited financial statements or other financial statements filed with CPB, and
- Information regarding finances submitted to CPB related to any funding agreement with CPB that requires a financial report.

KABF's arrangement, to have financial information provided by an off-site third party (AM/FM) did not comply with CPB guidance which states that if the documents are kept in a different place than the station, the documents should be maintained in a readily accessible location. As a result, the public's access to the station's CPB financial information was limited and was not readily available, as required by the CPB guidelines.

Documented Procedures

KABF had not developed documentation or written procedures that explain how it complied with the open meeting, open financial records, CAB, EEO, or donor list and political activities requirements of the Act. These procedures shall specify in detail how the station actually goes about complying with each of the five sections of the certifications made by grant recipients. These procedures are necessary to provide the public with information they can use to understand how the station complies with these responsibilities.

CPB provides the following guidance in its certification requirements for developing implementing instructions for the Act's requirements.

Each recipient of a CPB station grant . . . shall develop documentation . . . that will indicate, for example, the recognition of the provision by the relevant boards and committees, the procedure

for open meetings, the method used to give reasonable notice to the public, examples of notices of open meetings . . . and other information indicating community response, if any, to open meetings.

Each station . . . will indicate, for example, the type of [financial reports and other financial] records made available for public inspection (by specific description), the mechanism by which the records are made available . . . the location of these records . . . and any limitations placed on access to the file. . . .

Each licensee . . . is to develop documentation that may be used to verify the statistical employment information reported to CPB This documentation shall contain . . . the type of records made available . . . the location of these records, the arrangements made for reproduction . . . , and any limitations placed on access.

Each recipient of a CPB station grant, after reviewing the above information requirements, shall develop documentation indicating the manner of compliance with these requirements. The documentation shall be kept at a reasonable location by each station and be made available to CPB, upon request, to determine the fact and extent of compliance.

These policies and procedures are essential to ensure compliance with the Act and to provide the public with information about how the station operates. It also provides the transparency envisioned by CPB's guidelines.

KABF officials annually certified the station's compliance with these requirements when applying for its CSG. Future entitlements may be jeopardized by continuing noncompliance with these requirements.

In response to these findings, KABF officials stated that:

- *Open Public Meetings:* The station has corrected this situation by including the Board open public meeting announcement on the log instead of just letting the programmers mention the meeting because it was on the bulletin board.
- *Community Advisory Board:* The station plans to revise its CAB plan and hold regular stand-alone meetings.
- *Open Financial Records:* The station acknowledged a lack of administrative direction to staff members to maintain and make available all required public information. This condition has been corrected by maintaining all records in its office.
- *Documented Procedures:* The station is currently developing procedural documentation that explains how the station complies with the Open Meeting,

Open Financial Records, CAB, EEO, and Donor List and Political Activities requirements of the Act.

Recommendations

- 6) We recommend that CPB require KABF management to fully comply with all requirements of the Act and provide CPB with documentation of its compliance with the following requirements over the next fiscal year.
 - a) Improve recordkeeping of advance public meeting announcements for Board, CAB, and other committees established by the Board, placed on its web site, or by other notice, so that announcement dates can be verified.
 - b) Make on-air announcements for at least three consecutive days once each calendar quarter that explain the station's open meeting policy and provide information on how the public can obtain information regarding specific dates, times, and locations of public meetings. Maintain documentation of station on-air announcements, including the date and time of each announcement.
 - c) Maintain accurate and complete records of all public meetings, including minutes and agendas of the Board and CAB, as well as, reports the CAB provided to the Board.
 - d) Ensure an independent CAB has been established, meets regularly, and carries out its responsibilities to:
 - i) review program goals;
 - ii) review significant station policy decisions; and
 - iii) advise the Board whether programming and other policies meet the specialized educational and cultural needs of the community.
 - e) Ensure required financial information is available at the station location for public inspection, as required by the Act and CPB guidelines.
 - f) Establish written implementing policies on the station's practices for all of the Act's requirements, including open meetings, maintaining a functioning CAB, maintaining open financial records, reporting EEO information, and maintaining donor lists.
- 7) We recommend that CPB consider establishing a policy to:
 - a) reduce CSG funding from stations who violate provisions of the Act until compliance is fully achieved; and
 - b) suspend stations from the CSG program for repeat violations of Act requirements.

Management Response

In response to recommendations 6a – 6f, KABF officials agreed to take corrective actions. All of their actions are prospective to be implemented in the future. KABF officials did not respond to recommendation 7, this recommendation was directed towards CPB management and not KABF.

OIG Review and Comment

Based on KABF's response, recommendations 6 and 7 remain unresolved. While KABF agreed to take corrective actions on recommendations 6a – 6f, their response did not include written policies and procedures addressing compliance with the Communications Act requirements for us to evaluate. These recommendations can be resolved and closed when KABF provides CPB officials with documentation of its planned actions and evidence that all actions have been fully implemented. Recommendation 7 was directed towards CPB management and remains unresolved until CPB makes a management decision.

Exhibit A

**Schedule of CPB Payments to KABF-FM
for CPB Grants Examined**

Payment Date	Grant Type	Unrestricted	Restricted	Total
3/7/05	Internet Service Acquisition Grant	\$0	\$10,000	\$10,000
	ISA Total		\$10,000	\$10,000
10/1/06	FY 2007 CSG	\$31,525	\$12,169	\$43,694
8/8/07	FY 2007 CSG	31,525	12,169	43,694
	FY 2007 Total	\$63,050	\$24,338	\$87,388
	Total Grants	\$63,050	\$34,338	\$97,388

**KABF-FM Annual Financial Report
January 1, 2007 – December 31, 2007**

Line	Description	2007
	Schedule A, Source of Income:	
1.	Amounts provided directly by federal government	\$ 0
2.A.	CPB-CSG	59,950
2.C.	CPB-Restricted CSG	23,141
4.	State boards and departments of education	43,624
5.	State colleges and universities	37,450
8.	Foundation and nonprofit associations	1,261
9.	Business and Industry	54,396
10.	Memberships and subscriptions	16,746
14.A.	Gross special fundraising revenues	1,350
21.	Total Revenue	\$237,918
	Adjustments to Revenue	
22.	Federal revenue	\$ 0
23.	Public broadcasting revenue	83,091
25.	Other revenue on line 21	18,753
26.B	Special fundraising event expenses	1,350
27.	Total Direct Nonfederal Financial Support	\$134,724
	Schedule E, Expenses:	
	Program Services	
1	Programming and production	\$167,252
2	Broadcasting and engineering	47,889
3	Program information and promotion	8,390
	Support Services	
4	Management and general	30,608
5	Fund raising and membership development	10,748
6	Underwriting and grant solicitation	3,230
7	Depreciation and amortization	0
	Total Expenses	\$268,117

Exhibit C

KABF-FM Summary of Non-Federal Financial Support 2007
Certification by Head of Grantee and Independent Accountant's Report
January 1, 2007 – December 31, 2007

Line	Description	2007
	<i>Summary of Non-Federal Financial Support:</i>	
1	Direct Revenue (Schedule A)	\$134,724
2	Indirect Administrative (Schedule B)	0
3	In-Kind Contributions (Schedule C)	
3a	Services and Other Assets (Schedule C)	0
3b	Property and Equipment (Schedule D)	0
4	Total Non-Federal Financial Support	\$134,724

**Analysis of Questioned Costs
Period October 1, 2004 – September 30, 2007**

CPB Grant Type	CPB GRANT PERIODS			Total
	10/04-12/07	10/05-9/06	10/06-9/07	
Internet Service Acquisition				
Unallowable	\$6,061			\$6,061
Lack of Documentation	\$3,570			\$3,570
CSG - Restricted				
Unallowable			\$23,298	\$23,298
Lack of Documentation		\$11,664		\$11,664
CSG - Unrestricted				
Lack of Documentation			\$5,364	\$5,364
Total	\$9,631	\$11,664	\$28,662	\$49,957

Scope and Methodology

We performed the examination to determine KABF's adherence to the requirements of the CPB Financial Reporting Guidelines, Generally Accepted Accounting Principles, provisions of the Act, and CPB grant provisions and certification requirements. The scope of the examination included reviews and tests of the data reported by the station on the 2007 AFR and audited financial statement. We examined KABF's compliance with the Act and Certification Requirements for CPB station grant recipients. We examined expenses for the Community Service Grant and Internet Service Grant to determine if expenses incurred were allowable in accordance with the terms and conditions of the grants. Our examination of expenditures was limited by the lack of discrete accounting for CPB revenues and expenditures by grant. This limited our ability to verify that CSG funds were fully spent within the two year grant period.

We conducted a risk assessment using the information presented on KABF's 2007 AFR and audited financial statements. As part of our risk assessment, we gained an understanding of internal controls established by KABF for preparation of the AFR, recording revenue, and approving expenditures. We met with KABF's independent public accountant (IPA) and reviewed copies of the IPA's working trial balance and certain supporting schedules retained at the IPA's office that were used to prepare the audited financial statements. The risk assessment was used to plan our audit work and to select those areas that presented the greatest risk to KABF and CPB.

Specifically, we tested the accuracy of the AFRs primarily by performing financial reconciliations and comparisons to KABF's underlying accounting records and audited financial statements. We evaluated compliance with CPB's Financial Reporting Guidelines, in part, by reviewing KABF's determination of revenue when computing its NFFS. We reviewed documentation supporting revenue reported on the 2007 AFR. Without discrete accounting for CPB CSG expenditures we had to sample from all KABF expenses transactions to verify they were used for public broadcasting purposes. We selected a judgmental sample of these expenses and reviewed the supporting documentation to determine whether the expenses were appropriate and allowable. CCI presented us with a schedule of the Internet Service Acquisition grant expenditures. The \$10,000 that KABF received was to be spent during the period October 1, 2004 through December 31, 2006. We also reviewed the trial balances and supporting detailed transactions submitted to us by CCI.

Our examination was performed in accordance with *Government Auditing Standards*, for Attestation engagements. We conducted our examination fieldwork during April 2009 and obtained additional information, as needed, through January 2010 to prepare our report.



KABF 88.3 FM – Community Radio
2101 S. Main St. – Suite 200
Little Rock, AR 72206
501-372-6119

Date: May 28, 2010
To: Bruce Theriault, Senior Vice President, Radio
Mark Erstling, Senior Vice President, System Development & Media Strategy
Kevin Martin, Vice President, Station Grants & TV Station Initiatives
From: Arkansas Broadcasting Foundation, Licensee of KABF 88.3 FM, Little Rock, Arkansas
Subject: Response to the Corporation for Public Broadcasting, Office of the Inspector General
Report Draft No. ECR907-XXX; Examination for Fiscal Year 2007

KABF officials in years past accepted the Annual Financial Report (AFR) without revision because of assurances by previous KABF station managers and consultants that everything was accurate and complete. From this point forward, compliance with the requirements of the Communications Act will be verified by the Board of Directors (BOD) and the Community Advisory Board (CAB) prior to making the required annual certification to the Corporation for Public Broadcasting (CPB).

In recent years, the inaccurate certifications of compliance occurred because the BOD was not aware of the basic requirements needing to be met. The BOD signed off on the certifications at the direction of Liz Wolff and Valerie Coffin, both former KABF station managers, resting upon their assurances that all requirements were being fully complied with. The future certifications of compliance with the requirements of Sections 396(k)(4), (5), (8), and (12) of the Communications Act will be three layers deep. The station manager and the KABF BOD will become sufficiently knowledgeable about these requirements to assure full compliance. The station manager will first certify compliance in writing, then in like manner, the BOD, and also the CAB.

The KABF BOD was not privileged to know the full extent of Citizens Consulting, Inc. (CCI) and Affiliated Media Foundation Movement, Inc. (AM/FM) activities during the 2006 - 2008 time periods. In spite of attempts being made there was no permanent on-site station manager between 2006 and 2008 until Mr. William Cosme offered to fill the position in October, 2008. During that period of having no on-site manager, KABF officials had relied on CCI to perform accounting activities in compliance with CPB requirements, and when KABF officials asked questions about compliance, we were told that everything was in proper order and in compliance. At that time, Ms. Liz Wolff, the AM/FM representative, was also actively working with KNON radio in Dallas, TX. Financial decisions and distributions of funds were made from offices in New Orleans. Most bills and other documents were being mailed directly to New Orleans, so KABF staff and the BOD were kept in the dark concerning financial operations. All records, documents, and funds were kept in and/or controlled from New Orleans. KABF officials were not fully aware of how station funds were being expended. CCI officials directly received and processed grant revenues and vendor invoices, and regularly sent incomplete financial records to the KABF BOD. These ambiguous figures were routinely questioned by the Board. In turn, CCI and AM/FM always promised more clarity at the next meeting, but these questions were never fully answered, and clarity was never achieved. The KABF BOD questioned these practices by CCI and AM/FM, but the decisions made by KABF's BOD were routinely disregarded and/or over-ridden by Ms. Wolff in New Orleans. Only recently did KABF officials begin to realize that CPB requirements for financial recordkeeping and reporting were not being met. The New Orleans offices had

not made any reasonable attempt to provide training or consultation services to help KABF officials understand what was lacking in order to be in compliance.

KABF management and BOD will determine what, if any, agreements for services are currently in effect, and what, if any, fees are owed, and then formally dissolve and/or terminate all contractual agreements between KABF and CCI, AM/FM, ACORN, and all ACORN subsidiaries, with the single exception being whatever agreement may exist between KABF and Fifteenth Street Corporation, a subsidiary of ACORN which owns the property from which KABF rents studio and office spaces. KABF management and BOD will research alternative locations and relocate as soon as possible.

KABF management is currently trying to re-construct complete financial records for Fiscal Years 2007 through 2010, but lack of documentation from CCI and previous management is presenting challenges. KABF management will continue to attempt to procure the financial documents from CCI which are required by the Communications Act of 1934, as amended.

KABF station management will submit a revised FY 2007 AFR, eliminating the non-allowable underwriting contributions claimed as Non-Federal Financial Support (NFFS) and institute controls to ensure future compliance with CPB guidelines for documenting, recording, and reporting NFFS, including underwriting contributions. The station manager and Denman & Associates, our new accountant, will discretely account for the receipt and expenditures of all grant funds in accordance with CPB grant recordkeeping requirements, and proper documentation will be maintained to support all disbursements from CSG funds, sufficient to facilitate effective audits of CPB revenues and expenditures. Expenditures from restricted and non-restricted CBP funds will be subject to approval by station management and the KABF BOD, and also subject to review by the CAB.

KABF station management will now prepare the Annual Financial Report (AFR) instead of relying upon the Independent Public Accountant (IPA) for that regular function. The IPA will independently attest to the accuracy of the AFR. The BOD will take advantage of the IPA work to gain a better understanding of the station's financial conditions. The IPA will be asked to visit the station annually and brief the BOD and CAB on current audits.

KABF is in the process of creating improved systems of maintaining documentation, which include plans to convert documents to a digital format, and then distribute those files and post them online. The minutes of meetings, financial records and documentation, reports, certifications, and all other required documents, will be maintained in duplicate, with hard-copies on file at the station, and with digital files maintained in various places and also online. This method of record-keeping will help KABF to be able to provide complete answers and total transparency on the occasion of any future inquiries, even in the event of fire or natural disaster. This system will also help the BOD and the CAB to have complete access to all areas of station operations and documentation. All documentation will be maintained for at least three years.

KABF will satisfy the public information requirement by making available the appropriate sections from the CPB Stations Activity Benchmarking Study (SABS) or the annual Stations Activities Survey (SAS). This information will be checked for accuracy and compliance will be certified at least once each year by the BOD and also the CAB.

KABF will develop and maintain documentation containing information that will indicate, for example, the type of records made available to the public (by specific description), the mechanisms by which the records are made available (and, if appropriate, the location of these records), the arrangements made for reproduction of the documents by members of the public, and any limitations placed on access to such records by the licensee.

KABF will continually comply with the open financial records requirements of the Communications Act. All required documentation will be maintained at the station for public access, and will be monitored continuously by

the station manager, and also periodically certified for compliance by both the BOD and the CAB. The following documents will be made readily available for public inspection at the station as required by the Communications Act and CPB guidelines:

1. The current AFR filed with CPB
2. Audited financial statements or other financial statements filed with CPB
3. Information regarding finances submitted to CPB related to any funding agreement with CPB that requires a financial report.

KABF will maintain documentation on the nature and purpose of all revenues, and will include documentation about whether a portion of any specific revenue meets the test of an exchange transaction, claiming only the portion that exceeds the value of the services provided to the donor. The station manager and BOD will carefully determine, based on the facts and circumstances, if a contribution received qualifies to be reported as NFFS, and those determinations will be reviewed by the CAB.

KABF will obtain contracts and/or written agreements for underwriting transactions as they occur.

KABF will annually report to CPB restricted and unrestricted grant revenues, opening cash balances, expenditures, and ending cash balances as of September 30th of each year.

KABF will track and discretely account for CPB expenditures against CPB revenues on a fiscal year authorization basis and report to CPB whether all the CSG funds were spent within the two year grant spending period. Grant cash balances will be identified at the end of the grant's fiscal year ending September 30th.

All KABF administrative service expenses will be supported by current agreements that establish the methods used to establish the rates that will be charged to the station. The agreements will also specify the services provided, and the reasonableness of the billed amounts.

KABF's BOD is in the process of recruiting members for the proposed CAB. These members will be KABF listeners, and not members of the staff or BOD, and not affiliated with ACORN or any ACORN subsidiary. The CAB will have committees working together with station management and the BOD to provide oversight, and assure continual compliance with all requirements of having open meetings, financial records being comprehensive and open to the public, observance of equal employment opportunity (EEO) regulations and reporting requirements, and fulfillment of all the CPB requirements for a donor list and also for political activities. The CAB will meet at regular intervals, and members of the BOD will attend these meetings. The CAB will:

1. Review programming goals established by the station
2. Suggest changes in programming
3. Review the services provided by the station
4. Review significant policy decisions rendered by the station
5. Deliberate on matters pertaining to public broadcasting
6. Advise the governing board whether the programming and other policies of the station meet specialized educational and cultural needs of the communities served by the station

KABF recognizes and acknowledges that CPB prohibits requiring the public to register their name at open meetings, or provide any other information, except as needed to maintain public safety. KABF will fully comply with the CPB's requirement for open meetings, and will post and air dates, times, and places of the meetings of the BOD and also the CAB, at least seven days in advance. These notifications will be posted in the KABF mail room and other conspicuous places at the station, and will also be posted on the station's website and facebook page. Meetings will be announced on the air, with the dates and times documented on the station log. KABF will broadcast on-air announcements, at least every three months, for three consecutive days in each quarter, detailing the station's open meeting policy, and how the public can obtain the dates, times, and locations of upcoming BOD

meetings. KABF will send out electronic mail notifications of meetings on a regular basis to inform and remind persons who have requested such notifications. KABF will regularly notify others by phone, fax, letter, in person, or by other means, who have specifically requested such notifications. No meeting will be closed for any reason except as permitted by the Communications Act. If a meeting is closed to the public for any reason, a written explanation will be announced in much the same manner as announcements for open meetings, made available to the public within a reasonable time after the closed meeting, recorded in the minutes of the meeting and maintained as part of the station's records. KABF will also maintain a record in the minutes of open meetings of public responses, if any.

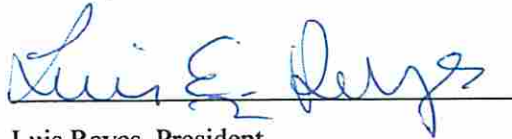
KABF will increase the number of Board members, and form and maintain committees for the purpose of oversight and continual compliance verification. The Board will then appoint members to various committees:

1. The "Compliance Committee" will oversee compliance with all rules, regulations, and laws, including those of the CPB, FCC, state and local statutes, and EEO guidelines. KABF will incorporate policies regulating donor lists and political activities as required by the Communications Act. Compliance with the requirements of the Communications Act will be verified prior to making the required annual certification to CPB. KABF will develop documentation that may be used to verify the statistical employment information reported to CPB, which will contain the types of records, their respective locations, the arrangements for reproduction, and any limitations placed on access.
2. The "Finance Committee" will review financial records and assure a sufficient level of record-keeping and proper documentation. The committee will periodically review and certify the financial records made available to the public. This committee will also work with management to make recommendations for weekly financial allocations, which will then be voted on by the full Board, and the Board's decision will then become the authority for execution of specific financial transactions, to be subsequently reviewed by the CAB. Management will prepare monthly budgets and financial reports, and these will be submitted to and reviewed by both the BOD and also the CAB.
 - a. There will be no third party involved in managing station finances. All financial decisions will be made by KABF officials, and all documentation will be maintained at the station. All expenditures will be reviewed and authorized by the KABF BOD. A Little Rock accounting service, Denman & Associates, 310 Natural Resources Drive, Little Rock, AR 72205, 501-312-9491, has been hired, and CCI will no longer handle any current KABF bookkeeping or current expense documentation. Denman & Associates will provide KABF management and Boards with financial reports adequate for managing station resources against budgets. Denman & Associates will obtain written approval from station management and BOD for all financial transactions.
 - b. Accurate records and documentation will be maintained to track CPB grant funds, and those CPB grant funds will not be co-mingled with other funds as to become indistinguishable one from another.
 - c. Internal policies and control mechanisms will be put in place to ensure that only allowable contributions are reported as NFFS, ensuring that exchange transactions are identified and evaluated to claim only the value received that exceeds the value given as NFFS.
 - d. The BOD will establish sufficient oversight mechanisms to ensure and verify the reasonableness and/or necessity of services procured and utilized, and likewise with the related charges. These mechanisms include the formation of the CAB, and a much higher level of control and participation by the KABF BOD, the function of each group being enhanced by complete financial transparency and the availability of financial documentation.

KABF will begin to make changes in policies and programming, based on input from the CAB and station volunteers , as approved by the station management and the BOD. The BOD will vote on all changes in programming.

The statements and promises made throughout this document will be incorporated into written policies and operating procedures. New control techniques and systems of checks and balances will be employed by the station management and the BOD to ensure that these new policies and procedures are adhered to. KABF station management and the BOD desire to cooperate fully with the Inspector General's Office, and comply with all CPB requirements.

Sincerely,

A handwritten signature in blue ink that reads "Luis E. Reyes". The signature is written in a cursive style and is positioned above a horizontal line.

Luis Reyes, President
Arkansas Broadcasting Foundation

A handwritten signature in blue ink that reads "William Cosme". The signature is written in a cursive style and is positioned above a horizontal line.

William Cosme, Manager
KABF 88.3 FM Community Radio