



Corporation  
for Public  
Broadcasting

February 13, 2019

VIA ELECTRONIC MAIL AND HARDCOPY TO FOLLOW

Mr. Thomas Dow  
Interim General Manager  
KZYX-FM  
9300 Highway 128  
Philo, CA 95466

Dear Mr. Dow,

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

The audit referenced above reported that KZYX complied with the grant and Communications Act of 1934, 47 U.S.C. §396, et seq. (Communications Act or Act) requirements with the following exceptions: it overstated non-federal financial support (NFFS) which resulted in a \$1,234 overpayment of its community service grant (CSG), and it did not fully comply with the open meetings requirement and the discrete accounting requirement for CSG expenditures. The specific audit findings and CPB's determinations for them follow.

- I. Recommendations 1 & 2: The report recommends that CPB recover the CSG overpayments resulting from the findings below and require that KZYX identify the corrective actions and controls it will implement to ensure future compliance.

Category	NFFS Overstated	CSG Overpayment
Special Fundraising Activities	\$5,711	\$303
Misreported Underwriting	\$8,147	\$431
Ineligible Source	\$2,500	\$132
High Value Premiums	\$6,953	\$368
<b>Total</b>	<b>\$23,311</b>	<b>\$1,234</b>

- A. **Special Fundraising Activities:** Before reporting proceeds from special fundraising activities as NFFS, they must be reduced by the activity's expenses pursuant to the Financial Reporting Guidelines<sup>1</sup> (Guidelines). KZYX failed to deduct \$5,711 in expenses for special fundraising activities resulting in a CSG overpayment of \$303. KZYX and we agree with this finding and we require that KZYX return this overpayment to CPB.
- B. **Misreported Underwriting:** The Guidelines require that donors contributing goods and/or services to a station must provide the station with documentation at the time they make the donation that includes among other things, the value, the date, and the donor's intent<sup>2</sup>. KZYX did not obtain proper documentation for \$8,147 in donations resulting in a \$431 CSG overpayment. KZYX and we agree with this finding and we require that KZYX return this overpayment to CPB.
- C. **Ineligible Source:** The Guidelines provide that donations and amounts provided by public broadcasting entities may not be reported as NFFS<sup>3</sup>. KZYX reported \$2,500 it received from a public broadcasting entity as NFFS, which resulted in a \$132 CSG overpayment. KZYX and we agree with this finding and we require that KZYX return the overpayment to CPB.
- D. **High Value Premiums:** Before reporting donations as NFFS, they must be reduced by the fair market value of any high-value premiums the station provides to it, pursuant to the Guidelines<sup>4</sup>. The audit reported that KZYX did not make the required deduction of \$6,953 resulting in a \$368 CSG overpayment. KZYX and we agree with this finding and require that it return this overpayment to CPB.

We adopted the CSG Non-compliance Policy to encourage stations to comply with the applicable provisions governing their CSG and the Communications Act. Failure to comply with these requirements which results in an overpayment of the recipient's CSG subjects the recipient to a penalty of ten percent of the amount of the overpayment, in addition to refunding the overpayment. However, in this instance, considering the errors, KZYX's prompt action, and the amounts involved, we will not assess a penalty.

Action: KZYX must return the \$1,234 CSG overpayment to CPB which we will obtain through an adjustment to KZYX's NFFS reported for its 2020 CSG.

- II. **Recommendation 3:** The audit found that KZYX complied with the multiple requirements in each of the five categories set forth in the Communications Act, except for the open meetings requirement pertaining to board and board committee meetings. The Communications Act requires that stations give reasonable advance notice of any board, board committee and community advisory board meetings<sup>5</sup>, and pursuant to the General Provisions and Eligibility Criteria (General Provisions), CPB requires at least seven-days' notice<sup>6</sup>. KZYX did not provide that notice for eight of 18 meetings and for two of those meetings, it did not specify the meeting location, as the Act and guidance require. During the review of the board's minutes, the report found references to several board committee meetings for which it found no documentation that evidences KZYX

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<sup>1</sup> Part III, AFR and FSR Line Instructions, Section 5, Line 14 – Special Fundraising Activities (net).

<sup>2</sup> Part I, NFFS Guiding Principles and Policy, Section 2.6.4 – Documentation Criteria for In-kind Contributions.

<sup>3</sup> Part I, NFFS Guiding Principles and Policy, Section 2.3.2 – Interpretations.

<sup>4</sup> Part III, AFR and FSR Line Item Instructions, Section 5, Line 10.1 – NFFS Exclusion – Fair Market Value of high-end premiums that are not of insubstantial value.

<sup>5</sup> Section (47 U.S.C § 396(k)(4)).

<sup>6</sup> Section 2A, Communications Act Requirements – Open Meetings.

gave appropriate notice. The report recommends that CPB require KZYX to identify the corrective actions and controls it will implement to ensure future compliance with the open meetings requirement and we agree.

The CSG Non-compliance Policy provides for a penalty of \$5,000 for non-compliance with each category in the Act. Since KZYX promptly updated its website to include all open meetings and considering the amount of the penalty in relation to KZYX's revenue, we will assess a reduced penalty of \$2,500. We also require that the individual from KZYX who is responsible for assuring compliance with CSG requirements, attend our CSG Requirements and Resources training.

Action: KZYX must provide CPB the corrective actions and controls it will implement to ensure future compliance with the open meetings requirement and the \$2,500 penalty within 45 days of the date of this correspondence. We also require that the individual from KZYX who is responsible for assuring compliance with CSG requirements, attend our CSG Requirements and Resources on-line webinar which will be held prior to November 1, 2019.

- III. Recommendation 4: The General Provisions<sup>7</sup> requires that CSG recipients discretely account for all CSG funds. Although no improper CSG expenditures were identified, the audit found that the station did not discretely account for them. The report recommends that CPB require KZYX to identify the corrective actions and controls it will implement to ensure future compliance with the discrete accounting requirement. Since KZYX has adopted discrete accounting before submitting its 2017 annual financial report to CPB, we are confident that it understands the requirement and will not require any further action.

The CSG Non-compliance Policy provides for a \$1,000 penalty for each incidence of non-compliance with the General Provisions. Because KZYX discretely accounted for its revenues and the audit did not identify improper CSG expenditures, we will reduce the penalty to \$500.

Action: KZYX must provide the \$500 penalty to CPB within 45 days of the date of this correspondence.

- IV. Recommendation 5: The Guidelines require that stations report their CSG expenditures by expense category on their annual financial report<sup>8</sup>. The report found that KZYX spent its CSG funds consistent with the General Provisions, although it did not classify at least \$25,186 in wages on the required line in its annual financial report for fiscal year 2016. Accordingly, it recommends that CPB require the station to properly classify those expenditures. However, considering that the audit did not raise any concerns about those expenditures, and recognizing that KZYX complied with this requirement in the following year, we will not require that it take any additional steps, and consider this matter resolved and closed.

Action: CPB considers this matter resolved and closed, and no further action is required of KZYX.

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<sup>7</sup> Section 3D, Recordkeeping Requirements – Discrete Accounting Requirement.

<sup>8</sup> Section 9, Completing AFR Schedule E – Expenses.

Mr. Thomas Dow  
Interim General Manager  
KZYX-FM

Please make a check payable to CPB for \$3,000 for the penalties explained above and forward it to the attention of Nick Stromann, Vice President, Controller, Corporation for Public Broadcasting, 401 Ninth Street N.W., Washington, D.C. 20004-2129. The required documentation should be emailed to Andrew Charnik, Director of Radio CSG Policy and Administration at [acharnik@cpb.org](mailto:acharnik@cpb.org). If you wish CPB to consider additional information relating to this matter, please provide the same in writing within 30 days of the date of this letter. Failing that, CPB will consider these determinations final and KZYX will be required to comply with the actions set forth above. CPB reserves the right to take any other action it deems appropriate until these issues are resolved to CPB's satisfaction.

Kind regards,



Jackie J. Livesay  
Assistant General Counsel & Vice President, Compliance

CC: VIA ELECTRONIC MAIL

John Azzaro, Board President, KZYX-FM  
Michael Levy, Executive Vice President & Chief Operating Officer, CPB  
Steven J. Altman, Executive Vice President & Chief Policy & Business Affairs Officer, CPB  
J. Westwood Smithers, Jr., Senior Vice President & General Counsel, CPB  
William P. Tayman, Jr., Chief Financial Officer & Treasurer, CPB  
Mary Mitchelson, Inspector General, CPB  
Bill Richardson, Senior Director & Deputy Inspector General, CPB  
Kathy Merritt, Senior Vice President, Journalism & Radio, CPB  
Erika Pulley-Hayes, Vice President, Radio, CPB  
Greg Schnirring, Vice President, CSG & Station Initiatives, CPB  
Nick Stromann, Vice President, Controller, CPB  
Katherine Arno, Director, TV CSG Policy & Review, CPB  
Andrew Charnik, Director, Radio CSG Policy & Administration, CPB  
Nadine Feaster, Director, Grants Administration, CPB