

Arizona Public Media[®]

April 2015 **FY15 - #03**

Submitted to:

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Copies to:

Audit Committee, Arizona Board of Regents

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Summary

Our review of Arizona Public Media® (“AZPM”) was included in our approved Fiscal Year (“FY”) 2015 Audit Plan. AZPM contributes to the University of Arizona’s (“UA”) strategic goals by offering learning opportunities for academic interns, journalism apprentices, and student employees. We have not previously conducted any audits of AZPM.



Background: AZPM is a member-supported, non-commercial public media organization that serves all of Southern Arizona. AZPM has been continuously located on the UA campus for more than 55 years and is an operating unit of the University. Although the AZPM Director & General Manager reports to the UA Senior Vice President for University Relations, AZPM maintains editorial independence from the institution.¹

In the early 1920s, UA students started an experimental AM radio station that evolved into public media services that now include multiple radio, television, and online services.¹ AZPM provides six public television channels and three radio services (see Appendix 1 for details). In addition to public media services, AZPM provides expertise and technical support for various UA colleges and departments.

AZPM’s active Community Advisory Board (“CAB”) advises AZPM management and the University on a variety of issues of importance to the community, and participates in community relations, fundraising activities, and AZPM’s strategic planning process. The CAB plays a major role in fundraising by working with AZPM development staff to reach out to potential donors.

AZPM continually measures its quantity and quality of service by utilizing Nielsen ratings, TRAC Media Services,² radio audience surveys, and tracking of online usage. These measurements have shown an increase in AZPM’s television, radio, and online service audiences over the last two years.

In October 2014, AZPM’s staff won 22 Rocky Mountain Emmy® Awards for 15 AZPM productions. This was a record number of wins for AZPM in a single year and AZPM staff received more nominations and awards than any other broadcaster in Southern Arizona and more than any other public broadcaster in the region, which includes Arizona, New Mexico, Utah, Wyoming, and El Centro, California.¹

¹ *Arizona Public Media Business Review*

² TRAC Media Services is a research company that performs audience analyses for American public television.

Prior to July 2014, UA provided an approximately \$2.6 million appropriation to AZPM. However, UA began reducing its appropriation to AZPM in FY 2015 by \$400,000 per year and will continue to do so until the appropriation is reduced to approximately \$600,000 by FY 2019. Additionally, because grants from the Corporation for Public Broadcasting (“CPB”) are based on non-Federal money AZPM receives, the UA appropriation reduction will have a direct negative impact on the amount of Federal grants received by AZPM.

The UA appropriation was used to pay AZPM staff salaries; therefore, the reduction will have an effect on staffing which may, in turn, have an effect on services provided. UA’s in-kind support to AZPM, however, will continue. UA provides approximately \$1.7 million per year in in-kind support such as utilities, facilities, and administrative support.

AZPM has taken proactive steps to address the UA reduction and continues to evaluate methods to mitigate the impact of reduced state funding. AZPM has restructured its organizational staffing to maximize resources; has supported a UA/AZPM task force to review future direction of AZPM as it relates to sustaining and funding program services; reduced fundraising overhead; and continues to evaluate whether its program services and stations are necessary and relevant.

In 2013, AZPM initiated a sustainer membership program designed to improve consistent annual support for the public service stations and to help offset the UA appropriation reduction. Due to the sustainer membership campaign and other membership and fundraising efforts, donor membership experienced a net increase of approximately 2,326 new members (bringing total membership to 27,032). The sustainer membership program will help improve cash flow and donor retention by allowing a sustaining member to contribute an automatic pre-determined monthly donation from a credit card, debit card, or bank account. There is no expiration date; therefore, the monthly donations continue until the member wishes to change the amount of the donation, the credit card expires or the donor changes his/her account information.

AZPM is a heavily regulated organization, having to comply with numerous Federal Communications Commission (“FCC”) and Corporation for Public Broadcasting (“CPB”) inspections and audits. The FCC requires maintenance of Daily Transmitter and Emergency Alert System logs for radio and television, Quarterly Programs and Issues Reports for television, and Annual Equal Employment Opportunity Commission reports, among others. The CPB requires various reports, such as an annual Station Activities Benchmarking Study, annual Station Activity Survey, and an annual Radio Station Local Content and Services Report. AZPM is also required to submit annual independently audited financial statements to CPB, in order to remain qualified to receive federal funding.

AZPM’s FY 2014 audited financial statements revealed that from FY 2013 through FY 2014, AZPM experienced an overall dollar amount increase in revenues (see Table 1

below). The increase in revenues was due mainly to an increase in Capital Grants and Gifts and non-operating revenues from the sustainer membership campaign.

Table1: AZPM Revenues³

Source	FY 2013		FY 2014	
	Amount	%	Amount	%
Grants and Contracts	\$4,060	<1	\$21,433	<1
Auxiliary Enterprises	412,864	4	398,466	3
State Allocation from UA	2,853,088	24	2,621,447	21
Donated Facilities and Support (UA)	1,794,561	15	1,814,465	14
Federal Allocation (CPB)	1,409,649	12	1,403,122	11
Subscription/Membership	2,367,672	20	2,494,023	20
Business & Underwriting	1,085,244	9	1,138,671	9
Other Gifts and Non-Operating Revenue	1,836,005	15	2,099,936	17
Capital Grants & Gifts	146,000	1	608,025	5
TOTAL	\$11,909,143	100	\$12,599,588	100

There was an overall dollar amount decrease in expenses from FY 2013 through 2014 (see Table 2 below) due to reduced expenses in Programming & Production, Broadcasting, Public Information & Promotion, and Management & General; however, Fundraising and Membership expenses increased.

Programming & Production, Broadcasting, and Public Information & Promotion expenses decreased slightly due to discounts obtained from providers and reduced program acquisition costs. Management & General expenses decreased because AZPM chose to leave certain employee positions vacant. These decreases were offset, however, by increased direct mail and fundraising costs.

Table 2: AZPM Expense Breakdown³

Source	FY 2013		FY 2014	
	Amount	%	Amount	%
Programming & Production	\$5,896,406	54	\$5,845,531	54
Broadcasting	1,454,620	13	1,286,704	12
Public Information & Promotion	501,972	5	440,344	4
Management & General	1,184,870	11	1,151,218	11
Fundraising & Membership	1,834,948	17	2,106,134	19
TOTAL	\$10,872,816	100	\$10,829,931	100

³ Arizona Public Media Financial Statement, Years Ended June 30, 2014 and 2013, *BeachFleischman PC*

Review Objectives: To determine whether AZPM complied with University and ABOR policies and procedures and conducted operations efficiently and effectively, including whether:

- AZPM met its strategic objectives;
- The organizational structure was efficiently staffed;
- Internal controls over receipts and expenditures were adequate;
- Funds were efficiently and effectively managed;
- Expenditures were in compliance with UA and ABOR policies; and
- Employees complied with AZPM policies.

Scope: Our review included AZPM's FY 2014-17 Strategic Plan, FY 2014 revenues and expenses, and organizational structure as of February 20, 2015.

Methodology: Our review objectives were accomplished through:

- Meeting with AZPM staff, including the Director/General Manager and the Director, Finance/Chief Financial Officer ("CFO"), to become familiar with AZPM's structure and overall operations;
- Touring AZPM's main office and studio;
- Attending an AZPM CAB Meeting to gain a general understanding of the CAB's role in AZPM's business operations;
- Examining UA, ABOR, and AZPM policies and procedures;
- Selecting specific objectives and goals from AZPM's 2014-2017 Strategic Plan for review;
- Discussing and documenting the Strategic Plan's progress with the AZPM General Manager;
- Meeting with the General Manager and the CFO to gain an understanding of AZPM procedures for requesting, approving, and monitoring expenses;
- Discussing controls over donor receipts with the CFO and the Director of Development;
- Meeting with UA Facilities Management Garage personnel to discuss procedures for UA vehicle titling, fueling, and maintenance;
- Meeting with Procurement & Contracting Services personnel to discuss procedures and review files for AZPM's leased vehicles;
- Discussing signature authority policy with the Director of Purchasing, Procurement & Contracting Services;
- Reviewing supporting documentation for each sample item in UAccess Financials to ensure compliance with UA policies and to determine whether financial transactions were reasonable, properly approved, and supported;
- Obtaining from UAccess Employee AZPM's professional staff and student employee listings and comparing with AZPM's organizational structure;

- Analyzing the organizational structure to determine if employees were being efficiently utilized across functional areas, where feasible;
- Reviewing AZPM files to determine if employees were trained in the organization's *Code of Editorial Ethics and Practices for Arizona Public Media Staff* policy; and
- Discussing with the general manager AZPM's controls to ensure compliance with the *Arizona Public Media® Editorial Standards and Policies*.

Sample Selection Methodology:

- To select financial transactions for review, we used UAccess Analytics to identify and download FY 2014 expenses for each of the five AZPM organizational codes. We then summarized the financial transactions by both organizational code and object code to ensure departments with a large quantity of transactions, as well as object codes with large total amounts, were included in sample test work. Next, we judgmentally selected for review 18 of 73 object codes based on large dollar amount, and/or the potential for fraud, waste, and abuse and/or savings. Our sample selection represented \$3.2 million (30%) of AZPM's \$10.8 million in expense transactions during FY 2014.
- To determine if AZPM staff were trained in or aware of the *Code of Editorial Ethics and Practices for Arizona Public Media Staff* policy, we used ACL Analytics to randomly select 10 of 82 staff employees and 3 of 23 student employees for review.

Conclusions: Based on our review, AZPM is taking measures to ensure it continues to provide a quality public media service to the community. AZPM monitors its progress in meeting its established strategic plan goals and objectives; effectively utilizes its staff, students, and volunteers; ensures funds are efficiently utilized and in compliance with UA and ABOR policies; and complies with the *Code of Editorial Ethics and Practices for Arizona Public Media Staff* policy and the *Arizona Public Media® Editorial Standards and Policies*. Specifically:

- AZPM's strategic plan is discussed regularly at staff meetings and CAB meetings to determine progress and obtain suggestions for improvement.
- AZPM restructured its organizational staffing to utilize job sharing and involve as many students and volunteers as possible in order to reduce overhead. AZPM's staff of 83 professional employees shares a variety of roles, including on-air talent, programming and production, engineering and technology, journalism and reporting, underwriting, marketing, and fundraising, among others.
- AZPM also employs approximately 30 students who gain on-the-job training in radio, television, marketing and other media functions, working alongside AZPM's

professional staff. AZPM has a team of over 200 volunteers who assist in a variety of functions.

- AZPM created an internal control expense form that departments must submit to the business office for approval prior to any expenditure. If the expense request is \$1,000 or more, the CFO must approve; if it is over \$5,000, the General Manager must approve and sign.

Although AZPM is operating efficiently and effectively overall, we identified the following opportunities for improvement:

- AZPM should closely monitor expenses to ensure the most cost effective methods are utilized and should continue to monitor the AM station for popularity and relevancy.
- A section of AZPM's *Code of Editorial Ethics and Practices* policy was not aligned with UA's property management policy. AZPM took immediate action to correct its policy and notify AZPM employees of the revised policy.
- AZPM regularly enters into media and trade agreements that commit UA resources in consideration for in-kind services. The delegated signature authority for the agreements is currently with the Senior Vice President for University Relations, and AZPM does not have subdelegated signature authority. The UA Office of General Counsel ("OGC") is in the process of reviewing institutional signature authority and plans to include AZPM's authority and these types of agreements as a part of the review. UA OGC will recommend and implement revised and adjusted signature authority for AZPM as needed.

According to the Institute of Internal Auditors International Professional Practices Framework, an organization is expected to establish and maintain effective risk management and control processes. These control processes are expected to ensure, among other things, that:

- the organization's strategic objectives are achieved;
- financial and operational information is reliable and possesses integrity;
- operations are performed efficiently and achieve established objectives;
- assets are safeguarded; and
- actions and decisions of the organization are in compliance with laws, regulations, and contracts.

Our assessment of these control objectives as they relate to AZPM is presented on the next page.

General Control Objectives	Control Environment	Audit Result	
		No.	Page
Achievement of the Organization's Strategic Objectives			
<ul style="list-style-type: none"> AZPM continually monitors progress in achieving its strategic objectives for: <ul style="list-style-type: none"> Audience engagement Visibility and financial sustainability Organizational culture Partnership Technologies 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> AZPM contributes to UA strategic goals by employing students, interns, and apprentices. 	Reasonable to Strong Controls in Place		
Reliability and Integrity of Financial and Operational Information			
<ul style="list-style-type: none"> Internal controls over receipts and expenditures were sufficient. 	Reasonable to Strong Controls in Place		
Effectiveness and Efficiency of Operations			
<ul style="list-style-type: none"> AZPM's organizational structure was efficiently staffed. 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> AZPM managed funds efficiently and effectively. 	Reasonable to Strong Controls in Place		
Safeguarding of Assets	Not Applicable		
Compliance with Laws and Regulations			
<ul style="list-style-type: none"> Financial transactions were in compliance with UA and ABOR policies. 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> AZPM employees complied with the public media policies. 	Reasonable to Strong Controls in Place		

We appreciate the assistance of AZPM employees during the audit.

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Broadcast Assets			
	Programs	Call Sign(s)	Channels
Television			
PBS 6	<u>National</u> : Public Broadcasting Service (PBS) <u>Local</u> : Arizona Illustrated; Metro Week; Arizona Week; Documentary Productions	KUAT-TV KUAS-TV	Broadcast: 6.1 & 27.1 Cox: 6 & 1006 (HD) Comcast: 6 & 220 (HD) DIRECTV®: 6 DISH®: 6
PBS Kids	Educational programming for children, ages K-12.	KUAS-TV	Broadcast: 27.2 Cox: 80 Comcast: 200
WORLD	Non-fiction programming featuring documentary science and domestic and world affairs programming.	KUAT-TV	Broadcast: 27.3 Cox: 83 Comcast: 203
ReadyTV	How-to and Life-long Learning Programming.	KUAT-TV	Broadcast: 6.3 Cox: 82 Comcast: 201
Vme	Spanish-language news, information, and educational.	KUAT-TV	Broadcast: 6.2 Cox: 81 Comcast: 202 DIRECTV®: 440 DISH®: 9414
UA Channel	PBS titles, community affairs programs, lectures, and events from the University of Arizona campus.	N/A	Broadcast: N/A Cox: 116 Comcast: 76
Radio			
NPR 89.1	<u>National</u> : NPR news, <i>BBC World Service</i> , Jazz music. <u>Local</u> : <i>Arizona Spotlight</i> , 23 daily newscasts.	KUAZ-AM KUAZ-FM KUAZ-FM HD-2	1550 AM Tucson 89.1 FM Tucson 91.7 FM Sierra Vista 88.9 FM (Construction Permit) 89.1 FM HD-2 Tucson BBC World Service
Classical 90.5	Classical music programming from American Public Media (APM) and Public Radio International (PRI), WFMT and others. Community concerts; 6 daily newscasts on weekdays.	KUAT-FM KUAT-FM HD2	89.7, 90.5 FM Tucson 89.7 FM Sierra Vista 91.1 FM Nogales 89.5 FM Safford 88.9 FM Bisbee 90.5 FM HD-2 Tucson NPR 89.1 simulcast