CORPORATION FOR PUBLIC BROADCASTING

OFFICE OF INSPECTOR GENERAL

AUDIT OF COMMUNITY SERVICE GRANTS AT MILWAUKEE PBS, MILWAUKEE, WISCONSIN FOR THE PERIOD JULY 1, 2015 THROUGH JUNE 30, 2017

REPORT NO. AST1805-1808

September 25, 2018

Office of Inspector General
Corporation for Public Broadcasting

Report No. AST1805-1808
September 25, 2018

Report in Brief

Why We Did This Audit

We performed this examination based on our Annual Plan to audit a number of public television and radio stations.

Our objectives were to examine Milwaukee PBS's (WMVS-TV) certifications of compliance with Corporation for Public Broadcasting (CPB) grant terms to: a) claim Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFR) in accordance with CPB Financial Reporting Guidelines; b) expend Community Service Grant (CSG) and other grant funds in accordance with grant agreement requirements; and c) comply with the Certification of Eligibility requirements and the statutory provisions of the Communications Act of 1934, as amended (Act). The amount of NFFS a station reports to CPB affects the amount of CSG funding the station receives.

Send all inquiries to our office at (202) 879-9669 or email OIGemail@cpb.org or visit www.cpb.org/oig

Listing of OIG Reports

Audit of Community Service Grants at Milwaukee PBS, Milwaukee, Wisconsin for the Period July 1, 2015 through June 30, 2017

What We Found

The station over and understated NFFS in both fiscal years (FY) with a net understatement of $42,113 in FY 2016 and $124,423 in FY 2017.

Net understated NFFS totaling $42,113 in FY 2016 and $124,423 in FY 2017.

In addition, we found the station did not fully comply with the open meeting requirement of the Act because it did not provide seven days advance notice for some of its public meetings in 2016. It also did not meet the discrete accounting requirements for CSG interconnection and universal service support expenditures.

The station agreed to take corrective actions on our recommendations to ensure future compliance but disagreed with NFFS overstatements related to: a) payments received in exchange for goods and services; and b) the inclusion of the student accounts and college events cost pools to calculate indirect administrative support. It also disagreed with our noncompliance findings related to advance notice and discrete accounting requirements.

CPB management will make the final determination on our findings and recommendations.

What We Recommend

That CPB:

- consult with WMVS-TV on its methodology for claiming future appropriation revenues;
- verify during the audit resolution process that the station is currently meeting the advance notice requirement for open meetings; and
- require WMVS-TV to identify the corrective action and controls it will implement to ensure future compliance with NFFS reporting requirements, seven-days advance notice for open meetings, and discrete accounting requirements.

Corporation for Public Broadcasting

Office of Inspector General

Date: September 25, 2018

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

From: Mary Mitchelson, Inspector General Mary Mitchelson

Subject: Audit of Community Service Grants at Milwaukee PBS, Milwaukee, Wisconsin for the Period July 1, 2015 through June 30, 2017, Report No. AST1805-1808

Enclosed please find our final report, which contains our findings and recommendations. CPB officials must make a final management decision on the findings and recommendations in accordance with established audit resolution procedures.

We have also included under other matters observations for CPB's consideration as it evaluates its indirect administrative support (IAS) guidance. These observations are not findings and do not require a response.

We request that you provide us with a draft written response to our findings and recommendations within 90 days of the final report. We will review your proposed actions and provide our feedback before you issue a final management decision to the grantee, which is due within 180 days of the final report. For corrective actions planned but not completed by the response date, please provide specific milestone dates so that we can track the implementation of corrective actions needed to close the audit recommendations.

We will post this report to the Office of Inspector General's website as required by the Inspector General Act of 1978, as amended. Please refer any public inquiries about this report to our website or our office.

Enclosure

cc: Lori Gilbert, Chair, CPB Board of Directors
Bruce M. Ramer, Chair, CPB Audit and Finance Committee
U.S. Senate Committee on Homeland Security and Governmental Affairs
U.S. House of Representatives Committee on Oversight and Government Reform
U.S. Senate Committee on Commerce, Science and Transportation
U.S. House of Representatives Energy and Commerce Committee
U.S. Senate Committee on Appropriations
U.S. Senate Labor-HHS-Education Appropriations Subcommittee
U.S. House of Representatives Committee on Appropriations
U.S. House of Representatives Labor-HHS-Education Appropriations Subcommittee

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

We have completed an audit of the Corporation for Public Broadcasting (CPB) Community Service Grants (CSG) awarded to Milwaukee PBS (WMVS-TV) for the period July 1, 2015 through June 30, 2017. Our objectives were to examine WMVS-TV's certifications of compliance with CPB grant terms to: a) claim Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFR) in accordance with CPB Financial Reporting Guidelines (Guidelines); b) expend Community Service Grant (CSG) and other grant funds in accordance with grant agreement requirements; and c) comply with the Certification of Eligibility (Eligibility) requirements and the statutory provisions of the Communications Act of 1934, as amended (Act).

Based on our audit we found that WMVS-TV:

- over and understated NFFS in both fiscal years (FY), with a net understatement of $42,113 in FY 2016 and $124,423 in FY 2017, due to overstated indirect administrative support (IAS), unallowable NFFS related to advertising agency fees not paid to the station and payments received in exchange for goods and services, overstated premium adjustments, and understated appropriations;
- did not fully comply with the open meeting statutory requirement of the Act because it did not provide seven days advance notice for some of its public meetings in 2016; and
- did not fully comply with discrete accounting requirements for CSG interconnection and universal service support expenditures.

We recommend that CPB:

- consult with WMVS-TV on its methodology for claiming future appropriation revenues;
- verify during the audit resolution process that the station is currently meeting the advance notice requirement for open meetings; and
- require WMVS-TV to identify the corrective action and controls it will implement to ensure future compliance with NFFS reporting requirements, seven-days advance notice for open meetings, and discrete accounting requirements.

In response to the draft report, WMVS-TV agreed to cooperate fully with CPB in following through with our recommendations to ensure future compliance with NFFS reporting compliance, advance notice of open meetings, and discrete accounting. However, the station disagreed that: 1) indirect administrative support (IAS) was overstated due to inclusion of the student accounts and college events cost pools identified as not providing essential and continuous benefit to the station; 2) NFFS was overstated due to payments received in exchange for goods and services; 3) adequate advance notice was not provided for four public meetings in FY 2016; and 4) discrete accounting requirements were not complied with for interconnection and universal service expenditures. Further, WMVS-TV requested that CPB officials allow the station to revise its FY 2017 AFR to claim understated NFFS in FY 2017.

This report presents the conclusions of the Office of Inspector General (OIG) and the findings reported do not necessarily represent CPB's final position on these issues. While we have made recommendations that we believe would be appropriate to resolve these findings, CPB officials will make final determinations on our findings and recommendations in accordance with established CPB audit resolution procedures. Based on WMVS-TV's response to the draft report, we consider recommendations one, three, four and five unresolved and recommendation two resolved but open pending CPB's verification during the audit resolution process. WMVS-TV's full response to the draft audit report is presented in Exhibit G.

We performed this audit based on the OIG's annual plan. We conducted our examination in accordance with *Government Auditing Standards* for attestation engagements. Our scope and methodology are discussed in Exhibit F.

Finally, under Other Matters we discuss additional policy issues regarding CPB's IAS guidance for CPB's consideration as it evaluates its IAS methodologies. The station commented that it followed CPB's Basic Method methodology in good faith but believes that CPB's guidance lacks clarity and does not provide for a straightforward approach to calculate IAS under the Basic Method methodology.

BACKGROUND

WMVS -TV is an institutional station that serves southeastern Wisconsin and northern Illinois. The station is focused on community development with locally produced series programs including *¡Adelante!, Black Nouveau, International Focus, Outdoor Wisconsin, and The Arts Page.* The station hosts a series of community screenings associated with local and national programming.

The station's website (milwaukeepbs.org) highlights its mission; presents its programming schedule; and contains information about membership and benefits, station operations, annual community and financial reports, and upcoming events and Board of Directors meetings.

CPB awards annual CSG grants to public television and radio stations based in part on the amount of NFFS claimed by all stations on their AFRs. The CSG calculation process starts with separate amounts appropriated for the television and radio CSG pools adjusted by base and supplemental grants. 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) is calculated by dividing the Incentive Grant Pools by the total amount of NFFS claimed by all television/radio stations. The IRR is then multiplied by the station's total amount of adjusted NFFS to calculate the incentive award amount of the station's total CSG. There is a two-year lag between the reported NFFS and CPB's calculation of the FY's CSG amount. For example, CPB used the NFFS claimed by WMVS-TV on its FY 2015 AFR to determine the amount of the CSG the station received in FY 2017.

During our audit period WMVS-TV received $4,449,670 from CPB for CSG as itemized in Exhibit A. WMVS-TV reported NFFS of $8,498,280 in FY 2016 and $8,237,408 in FY 2017 per Exhibit D. WMVS-TV's audited financial statements for the two FYs reported revenues of $17,502,692 in FY 2016 and $16,477,639 in FY 2017. WMVS-TV's FY begins July 1 and ends on June 30.

RESULTS OF AUDIT

In our opinion, except for the noncompliance issues described below, WMVS-TV has complied with the requirements in the following paragraph for the FYs 2016 and 2017 Television CSGs (Exhibit B).

We examined WMVS-TV's management's assertions of compliance with CPB grant requirements: a) CSG Certification of Eligibility; b) CSG Legal Agreement; and c) AFR Signature Page. The CSG Certification of Eligibility includes WMVS-TV's compliance with AFR/NFFS reporting in accordance with CPB's Guidelines; Act requirements for open meetings, open financial records, Equal Employment Opportunity (EEO) reporting, and donor lists; and discrete accounting requirements. Our responsibility is to express an opinion on management's assertions about its compliance based on our examination.

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

Our examination found the following issues of noncompliance with NFFS financial reporting requirements, CPB grant agreement requirements, Act, and Eligibility requirements:

- over and understated NFFS in both fiscal years with net understatements of $42,113 in FY 2016 and $124,423 in FY 2017;
- lack of full compliance with the open meeting requirement of the Act by not providing seven days advance notice of some of its public meetings in 2016; and
- lack of full compliance with discrete accounting requirements for CSG interconnection and universal service support expenditures.

Other Matters

Our audit also identified additional policy issues regarding CPB's IAS guidance for CPB's consideration as it evaluates its IAS methodologies in response to another report. These considerations do not require corrective actions for this audit.

FINDINGS AND RECOMMENDATIONS

NFFS REPORTING

Our audit found both overstated and understated NFFS as summarized in the following table. Overstatements included errors in IAS calculations and unallowable claims for both advertising agency fees and exchange transactions. Underreported NFFS included appropriation revenues and premium adjustments from membership revenues. The net effect is that the station could have claimed additional NFFS in both FYs had it used a different methodology for claiming appropriation revenues and properly reported high-value premium adjustments, as further explained below.

NFFS Reporting Issues

Conditions	Misstated FY 2016 NFFS	Misstated FY 2017 NFFS	Total Misstated NFFS
Overstated IAS	$189,387	$202,096	$391,483
Unallowable NFFS	$13,792	$23,956	$37,748
Understated Appropriation	($21,515)	($350,475	($371,990)
Overstated Premium Adjustments	($223,777)	$0	($223,777)
Net Misstated NFFS	**($42,113)**	**($124,423)**	**($166,536)**

We identified net understated NFFS totaling $42,113 in FY 2016 and $124,423 in FY 2017 related to understated appropriations NFFS and the corrections of high-end premium adjustments.

The station cited multiple reasons for overstated NFFS for IAS and unallowable transactions, e.g., the late audit adjustment to the licensee’s financial statements that was not incorporated into Schedule B calculation of IAS, the use of a historical number to calculate the licensee’s net assignable square footage for IAS, and the station not recognizing that advertising agency fees should have been deducted from underwriting revenues. The station believes that it correctly applied CPB’s guidance to calculate: 1) IAS; 2) the high-end premium adjustments; and 3) the value of exchange transactions, which it views as nominal to the underwriter and therefore should not be netted against the contribution. Further discussion on our findings are presented below.

Overstated Indirect Administrative Support

We found that WMVS-TV’s calculation of IAS did not fully comply with CPB guidance under the Basic Method. As a result, WMVS-TV:

- overstated the cost pools benefiting the station in its calculations by including cost pools that did not provide essential and continuous benefit to the station;
- overstated its institutional support rate by understating licensee net direct activities and understated general institutional costs allocated to the station, resulting in a net IAS overstatement in FY 2016; and
- overstated its allocations of physical plant support by understating the licensee’s total net assignable square footage.

The station included the functional categories of alumni relations, college events, and student accounts in its administrative cost pools benefiting the station. These cost pools relate to a major function of the college, and we conclude that they do not provide an essential and continuous benefit to the station. The CPB Guidelines address the identification of general administrative expense cost pools that benefit the station

> Select all the cost groups that provide an essential and continuous benefit to the station operations. The station must demonstrate that the benefits provided (1) include services that are an essential part of station operations; (2) services are continuous and ongoing in support of the station; and (3) the station uses the services or is required to use the services provided.

CPB Guidelines, Part III – AFR and FSR Line Item Instructions, Section 6 – Schedule B – Indirect Administrative Support, Line 2c – Institutional support calculation, Line 2c.1 (2016 and 2017).

We acknowledge that the station receives some benefit from the student accounts cost pool, such as the college's cashier in processing non-development station transactions for the sale of goods and services. However, the nature of services provided primarily from that cost pool were in support of invoicing and disbursing student financial aid. Including the three cost pools in the calculation increased IAS by $113,016 in FY 2016 and $126,295 in FY 2017.

The station also understated the licensee's net direct activities in calculating the institutional support rate applied to the general institutional cost pools to allocate to the station and general institutional costs in FY 2016. CPB Guidelines provide for the inclusion of licensee costs per the financial statements.

> Enter the licensee's net direct activities. These include the total cost of instruction, research, and public service, net of capital outlays. These are the institution's mission costs. They should not be confused with the licensee's support activities—Institutional Support (line 2c) and Physical Plant Support (line 3). In addition, exclude from licensee net direct activities adjustments to pension expenses relating to changes in Net Pension Liability as a result of implementing GASB No. 68- Accounting and Financial Reporting for Pensions.

CPB Guidelines, Part III – AFR and FSR Line Item Instructions, Section 6 – Schedule B – Indirect Administrative Support, Line 2 – Institutional support rate calculation, Line 2a.2 (2016 and 2017).

> Enter the licensee's current year total costs for institutional support (instruction, research, public research). Include the licensee's unrestricted general fund expenses and exclude designated funds and restricted funds.

CPB Guidelines, Part III – AFR and FSR Line Item Instructions, Section 6 – Schedule B – Indirect Administrative Support, Line 2c – Institutional support calculation, Line 2c.2 (2016 and 2017).

Adjusting the costs to agree with the licensee's audited financial statements increased the base of the rate by $539,940, increased general institutional costs by $104,974, and decreased IAS by $10,008. The results of these adjustments are included in the amounts shown in Exhibit D.

Lastly, the station's calculation of the physical plant support rate understated the licensee's total net assignable square footage, which is used as the denominator to calculate the allocation rate. CPB Guidelines state the calculation of the physical plant support allocation is:

> The physical plant support rate calculation is determined by comparing the station's net assignable square footage to the licensee's total net assignable square footage. This information must be provided by the licensee's facilities planning and management office. …
>
> Enter the licensee's total net assignable square footage. [on Line 3b)]

CPB Guidelines, Part III – AFR and FSR Line Item Instructions, Section 6 – Schedule B – Indirect Administrative Support, Line 3 – Physical plant support rate calculation and Line 3b – Licensee's net assignable square footage (2016 and 2017).

The understated net assignable square footage resulted in a 0.62 percent higher physical plant support rate to claim IAS and increased IAS by $66,238 in FY 2016 and $75,801 in FY 2017, per Exhibit D.

In response to this finding, station officials gave the following reasons for overstated IAS:

- The station applied CPB's guidance and believes that all cost groups except alumni relations benefit the station;
- There was a late audit adjustment to the licensee's financial statements that was not incorporated into Schedule B; and
- The licensee's net assignable square footage was a historical number.

The station incorrectly calculated IAS, which resulted in an overstatement of NFFS totaling $189,387 in FY 2016 and $202,096 in FY 2017. See Exhibit D.

Unallowable NFFS

Our audit found that WMVS-TV reported unallowable NFFS totaling $13,792 and $23,956 on its FY 2016 and FY 2017 AFRs, respectively. These included:

- $26,549 in advertising agency fees that were not paid to the station ($12,993 in FY 2016 and $13,556 in FY 2017) but were included in reported underwriting revenues; and
- $11,199 ($799 in FY 2016 and $10,400 in FY 2017) in payments received in exchange for goods and services that were reported as underwriting contributions.

The CPB guidelines define the recipient criterion for contributions and payments as follows:

> The **recipient criterion** is the same for both contributions and payments: the recipient must be a public broadcasting entity on behalf of a public broadcasting station or stations. Generally, contributions or payments received in part or in whole by third parties for the benefit of the public broadcaster but for which the public broadcaster does not take

> constructive receipt will neither meet financial statement revenue recognition criteria nor NFFS recognition criteria.

Guidelines, Part I – NFFS Guiding Principles and Policy, Section 2.3.2 Interpretations, Recipient (2016 and 2017).

The Guidelines also define constructive receipt as when there is an agreement between the grantee and the advertising agency:

> Underwriting revenues reported as NFFS must have been received directly by the grantee or constructively through a third party. Direct receipt refers to underwriting revenue provided/paid to the grantee by the donor. Constructive receipt refers to the situation where there is a written agreement between the grantee and the third party which authorizes the third party to receive funds on the grantee's behalf.

Guidelines, Part I – NFFS Guiding Principles and Policy, Section 2.5.2 Advertising and Underwriting (2016 and 2017).

Furthermore, the forms of revenues eligible as NFFS are defined in CPB's Guidelines as either a payment or contribution:

> In terms of the **purpose criterion**, to be eligible as NFFS a **contribution** must be specifically intended for the construction or general operations of a public broadcasting station, which includes producing, acquiring and disseminating educational programming.
>
> However, for a **payment** in an exchange transaction to be eligible as NFFS the payment must be in exchange for educational or instructional television or radio programs. In other words, a qualifying source must pay the grantee to provide a service directly related to producing, developing, or delivering educational or instructional programming. Payments for non-broadcast activities that are not paid by a qualifying source and not in exchange for services directly related to producing, developing, or delivering educational or instructional programming are not eligible as NFFS.

Guidelines, Part I – NFFS Guiding Principles and Policy, Section 2.3.2 Interpretations, Purpose (2016 and 2017).

CPB Guidelines differentiate the criteria for each revenue form (contribution or a payment) and its eligibility as NFFS and define the eligible source criteria for each.

> The universe of eligible sources for contributions is relatively large: any source except the federal government or another public broadcasting entity, while the universe of eligible sources for payments in exchange transactions is relatively small: only eligible sources are state and local governments and educational institutions. Educational institutions are defined as degree-granting institutions.

Guidelines, Part I – NFFS Guiding Principles and Policy, Section 2.3.2 Interpretations, Source (2016 and 2017).

Based on discussion with station management, the station reported unallowable NFFS totaling $37,748 because of the following:

- The station did not realize advertising agency fees should have been deducted from underwriting agreements; and
- The station believes it followed CPB's guidelines and views the transactions as nominal in value to the underwriter and should not be netted with the contribution.

WMVS-TV overstated NFFS by $13,792 and $23,956 on the FY 2016 and FY 2017 AFRs, respectively.

Understated Appropriation NFFS

Initially our audit work found that the station had overstated its NFFS for appropriations because we could not verify that the appropriation revenues reported were for eligible activities. The station claimed as NFFS its debt service payments for capital assets (national and local programming) paid for by the licensee as appropriation revenues. The annual debt service payment for accumulated debt is comprised of assets purchased over a six to seven-year period (a mix of programming and equipment acquisitions). The station's methodology for claiming appropriation revenues consisted of the station claiming a portion of its annual debt service on Line 3.1, C, Appropriation from licensee, and the balance on Line 18.A, Facilities and equipment, equal to the amount of its current year's new capital acquisitions. Based on the station's methodology we accepted annual national programming costs, but we could not verify that the balance of revenues claimed as debt service didn't include debt for equipment purchased over the last six to seven years, which would not qualify as NFFS.

The station said its methodology took a conservative approach to reporting eligible debt service. It stated:

> Due to the timing of debt issuance, capital asset spend and debt repayment, the appropriation received by the licensee each fiscal year for debt service will never agree dollar for dollar with the exclusion for the station's purchase of capital assets in each fiscal year (using the proceeds of the current fiscal year's debt). However, over time the source of funds (appropriation) will offset the funds used in a given current year to purchase capital assets.
>
> It is the station's belief that the way the station has been reporting both the full appropriation as NFFS eligible revenue, as well as the exclusion of each current fiscal year's capital asset purchases, results in a proper netting out amounts paid for capital asset purchases *over time*. The station acknowledges that over time this netting results in an appropriation residual consisting of the nominal interest component of the financing. As such, the station believes that it has followed, in

good faith, the CPB guidance by excluding from the NFFS eligible appropriation, revenue amounts restricted for current year capital asset purchases.

Subsequent research by the station found that they had inadvertently excluded local programming in its reported appropriation revenues, thus reducing our initial finding of overstated NFFS. It had reported local programming as equipment acquisitions in its calculations. Even with this adjustment, a balance of claimed debt service revenues remained that we could not verify whether it included equipment debt service.

Additionally, after considerable work, the station reconstructed by year how much of its annual debt service was comprised of acquisitions over the last six to seven years. Using that information, we apportioned the debt service between programming and equipment. Based on our calculations of programming debt service, the station underreported appropriations NFFS in both FYs for appropriations ($21,515 in FY 2016 and $350,475 in FY 2017).

Overstated Premium Adjustments

In FY 2016, WMVS-TV overstated the exclusion for high-end premiums, which resulted in understated NFFS totaling $223,777. The station reported the fair market value (FMV) of high-end premiums when the FMV exceeded the pledged amount.

CPB Guidelines instruct stations to adhere to IRS guidance and limit the contribution to the amount in excess of the FMV of premiums.

> The contribution portion that is deductible for federal income tax purposes is limited to the excess of the payment over the fair market value of the premium(s) provided by the charitable organization.
>
> **For CPB's purposes the portion of the payment that is not considered a contribution by the IRS may not be included as NFFS**. CPB expects that all grantees are compliant with IRS rules and regulations on these matters.

Guidelines, Part III – AFR and FSR Line Item Instructions, 5 Schedule A – Direct Revenue, 10.1 NFFS Exclusion – Fair Market Value of high-end premiums that are not of insubstantial value (2016 and 2017).

The station did not adjust the FMV when the pledge amount was less than the FMV of premiums, because it was not explicitly stated in CPB's guidance. WMVS-TV overstated the exclusion for high-end premiums, which resulted in understated NFFS totaling $223,777.

Recommendations

We recommend CPB management:

1) require WMVS-TV to identify the corrective action and controls it will implement to ensure future compliance with the various NFFS reporting requirements; and

2) consult with WMVS-TV on its methodology for claiming future appropriation revenues for debt services related to qualifying revenues.

WMVS-TV Response

In response to the draft report, WMVS-TV agreed that it reported a net understatement of NFFS in FY 2016 and FY 2017. The station requested that CPB officials permit it to revise its FY 2017 AFR to claim the understated NFFS. Additionally, the station agreed to consult with CPB on its methodology for claiming future appropriation revenues for debt services related to qualifying revenues.

The station agreed with the OIG's audit findings except for NFFS overstatements related to including the functional categories of college events and student accounts in its calculation of IAS and payments received in exchange for goods and services. Station officials believe that the student accounts and college events cost pools directly benefit the station and therefore should be included in the IAS calculation per CPB's guidelines. They stated that the student accounts cost pool directly benefits the station, in that the college's cashiers securely process and deposit station transactions for the sale of goods and services. They also stated that if the station had to provide funding for the direct resources necessary to provide the services from student accounts, the cost would be far greater. They stated that the station routinely benefits from the college events cost pool when the station hosts events and believe that removing these cost pools from the general institutional cost pool would defy what the IAS is trying to accomplish. The station also disagreed that payments received in exchange for goods and services should have been netted with the contribution, because it views the transactions as nominal in value to the underwriter.

OIG Review and Comment

Regarding WMVS-TV's written response to our draft report, we have not changed our findings and recommendations. We acknowledge that the station receives some benefit from the student accounts cost pool; however, the nature of services provided primarily from that cost pool were in support of invoicing and disbursing student financial aid. These cashier type services only nominally benefit WMVS-TV activities. Similarly, we do not think the college events cost pool provides much benefit to the station's public broadcasting mission because it is a major function of the college and is not essential to the station's operations.

We reviewed IRS guidance to determine if goods and services received by the underwriters were nominal in value. Contrary to the station's position, we found that the value of goods and services received by underwriters exceeded the nominal dollar-value threshold defined by the IRS. We concluded that the value of goods and services received by underwriters was substantial and therefore should be netted with the contribution.

Based on the station's response, CPB OIG considers recommendation one unresolved. CPB OIG considers recommendation two resolved, but open pending CPB's verification during the audit resolution process.

COMMUNICATIONS ACT COMPLIANCE

Our examination found that 4 of 44 open meetings did not fully comply with the reasonable advance notice provisions of the Act or the CPB Certification Requirements for Station Grant Recipients to provide seven-days advance notice for upcoming open meetings. All four instances occurred in FY 2016; the 13 meetings in FY 2017 met the seven-day requirement.

The Act and CPB require that stations make reasonable advance notice of open meetings to the public. The Act provides for the following:

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

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

CPB's Communications Act Compliance requirements clarify that stations may satisfy the reasonable notice requirement by doing the following:

> Stations may satisfy that requirement by providing at least seven days advance notice of an Open Meeting, including the time and date of the meeting, by:
>
> 1. posting notice on the station's website[1];
> 2. broadcasting notice on-air between 6 a.m. and 11 p.m., as shown by the station's log;
> 3. placing notice in the "Legal Notices" section of a local newspaper in general circulation in the station's primary coverage area; or
> 4. giving notice through a recorded announcement accessible on the station's phone system.

CPB's Communications Act Compliance requirements, I. Open Meetings, E. Notice of Open Meetings (June 2016).

The station said that it met the one-day advance notice requirement from Wisconsin State law. The station acknowledged that CPB guidance states that stations could meet the advance notice requirement by providing "at least seven days advance notice," but interprets the guidance to not preclude the licensee from providing less than seven-days' notice as long as reasonable advance notice was provided.

We disagree because CPB has defined reasonable advance notice as seven days. For 4 of 44 open meetings, the public did not have reasonable advance notice of open meetings as prescribed

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

by CPB. In addition to the 44 meetings tested in FYs 2016-2017, we also reviewed 13 meetings in FY 2018, and they all met the seven-day advance notice requirement.

Recommendation

We recommend CPB management take the following action:

3) verify during the audit resolution process that WMVS has maintained compliance with the 7-day advance notice requirement for public meetings for the current fiscal year; and
4) require WMVS to identify what processes it has implemented to ensure continuing compliance with open meeting requirements.

WMVS-TV Response

In its response, WMVS-TV officials disagreed that the station was noncompliant with the Act in providing reasonable advance notice to the public for open meetings. The station reiterated that they followed Wisconsin's open meetings law because the station's license holder, Milwaukee Area Technical College District Board, is organized and governed by state statutes. Wisconsin statutes state that public notice of every meeting of a governmental body shall be given at least 24 hours prior to the commencement of such meeting unless for good cause such notice is impossible or impractical, in which case shorter notice may be given, but in no case may the notice be provided less than 2 hours in advance of the meeting. Since the federal statue has no specification of a "reasonable" time period, the station believes that 24 hour advance notice required by state statute should be deemed "reasonable." The station also mentioned that CPB's guidance states that stations "may" satisfy the requirement by providing at least seven-days advance notice of a meeting but there is no mandate that seven-days is required in all cases.

OIG Review and Comment

After reviewing WMVS-TV's response, we consider recommendations three and four unresolved, pending CPB's final management decision. CPB defines a reasonable period of advance notice as 7 days and the station did not meet that requirement.

DISCRETE ACCOUNTING

We found that WMVS-TV maintained discrete accounting for CPB revenues. However, it did not discretely account for CPB CSG broadcasting and engineering expenditures so that CPB or an auditor could identify CPB funded interconnection and universal service support expenditures. In FY 2016, CPB interconnection expenditures of $37,651 were comingled in a general account totaling $2,065,739. In FY 2017, CPB interconnection and universal service support expenditures of $61,390 were comingled in a general account totaling $2,037,510. CSG unrestricted expenditures were discretely accounted for in separate general ledger accounts in the accounting system and were not comingled with expenditures funded from non-CSG sources.

The CPB Terms and Conditions contain a discrete accounting requirement that requires:

> The use of unique accounting codes by CSG recipients to identify CSG funds – both revenues and expenses, restricted and unrestricted – so that both CPB and an auditor can discretely track those funds within the recipient's accounting system.
>
> CSG recipients are not required to segregate CSG funds in separate bank accounts; co-mingling funds is allowable as long as the accounting system easily identifies transactions associated with a major activity (e.g., department, grant, contract, or other project).

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

The station interpreted CPB's Guidelines to allow for commingling of expenditure funds. Station officials believe that for accounting purposes, the station was compliant with discrete account requirements and had general ledger accounts and sub-accounts that covered CPB CSG qualifying type expenses.

The station was not fully compliant with CSG discrete accounting requirements.

Recommendation

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

5) identify the corrective actions and controls it will implement to ensure future compliance with discrete accounting requirements for interconnection and universal service support expenditures, including identifying accounting codes.

WMVS-TV Response

In response to this finding, WMVS-TV officials disagreed that the station was not fully compliant with CPB's requirements for discrete accounting. The station agreed that CSG expenditure funds were commingled but noted that CPB's guidance states that "co-mingling funds is allowable as long as the accounting system easily identifies <u>transactions</u> associated with a major activity." The guidance does not state that discretely accounted expenditures must be exactly equal to the discretely accounted CSG revenues in a given fiscal year. The station's good faith interpretation of this guidance led to the establishment of detailed expenditure sub-accounts. In doing so, the station contends that an auditor or grantor could easily identify CSG-funded expenditures at the transactional level.

OIG Review and Comment

After reviewing WMVS-TV's response, we consider recommendation five unresolved. We disagree with the station's interpretation and believe that the station was not fully in compliance with CPB's guidance for discrete accounting. CPB's guidance allows commingling CPB funds in bank accounts and requires the use of unique accounting codes to identify CSG expenditures. We agree that expenditures do not need to exactly equal CSG revenues in a given fiscal year due to timing. However, we were unable to identify CPB funded expenditure transactions for interconnection and universal service in both FYs because the station's general ledger coding comingled CPB funded and non-CPB funded transactions. As such, the station was not in compliance with CPB's discrete accounting requirements.

OTHER MATTERS

While auditing WMVS-TV's IAS, we identified additional issues that CPB should consider as it evaluates its IAS methodologies. The station is a component unit of Milwaukee Area Technical College (MATC). This two-year vocational-technical college does not have research or public service functional expense categories, but rather it has student services and instructional resources. In following CPB's guidance for the Basic Method, the station used the licensee's instruction costs from the general fund and the station's direct costs from the auxiliary enterprise fund as the denominator to calculate the institutional support rate. The station's institutional support rate was 11.27 percent and 11.28 percent in FY 2016 and FY 2017, respectively. Applying the station's institutional support rate to the licensee's general institutional cost pool resulted in $2,296,632 and $2,021,422 in costs benefiting the station.

We have two observations from our review of WMVS-TV's application of CPB's Basic Method: 1) to properly calculate institutional support, the station has to make adjustments to the institutional support costs per the financial statements that require another allocation methodology; and 2) the station's post retirement costs for station retirees resulted in an inequitable distribution of these costs to the station.

Institutional Support

To properly apply CPB's methodology, a station would have to adjust its institutional support costs in its financial statements to identify the institutional costs related to the functional categories of only instruction, research, and public service. WMVS-TV did not do so. It used the total college's institutional costs and allocated them across a base that included only instructional and station direct costs. The other university activities for instructional resources, student services, and other auxiliary enterprise services were excluded from the base, resulting in an inequitable allocation to the station.

Station officials noted that it is impossible to quantify costs within general institutional costs that specifically benefit instructional resources and student services (two functional categories that are primarily related to the college's educational activities but are excluded from the base per CPB's Basic Method option). The station further said trying to quantify the institutional costs related to these two functional categories would be time consuming and would require making unnecessary nominal distinctions between costs.

In our prior audits of IAS calculated pursuant to the Basic Method, we identified that other functions (student services, academic affairs) benefitted from these cost pools but we did not identify the impracticality of allocating institutional costs by the functional categories of instruction, research, and public service. Instead, we focused on other adjustments and reporting issues. We are raising this issue here to assist CPB as it considers the challenges in applying the

Basic Method (i.e., establishing an allocation rate based on functional cost categories per the licensee's financial statements, because the total functional institutional costs cannot be practically allocated between all the functional categories in the financial statements).

To apply CPB's Basic Method guidance and allocate total institutional costs for the functional categories of instruction, research, and public service would require the station to develop a methodology to also allocate these institutional costs. CPB's guidance is silent on this point.

The federal guidance on indirect costs, in contrast, logically allocates costs that cannot be readily identified to any particular activity. 2 CFR, Part 200. The federal guidance requires grantees to account for all licensee costs and to distinguish those costs as direct or indirect. Further, the Federal methodology requires that indirect costs be allocated on either a simplified basis (indirect over direct) or a multiple allocation basis based on the nature of the costs and the use of the services (e.g., facilities usage is allocated on a square footage basis). CPB's guidance does not provide for such a straight forward approach under the Basic Method option.

<u>Inequitable Allocation of Retirement Health Care Costs under the Basis Method</u>

We found that applying CPB's Guidelines for calculating institutional support that benefits the station using the Basic Method resulted in an inequitable distribution of post retirement costs for station retirees.

Specifically, we reviewed the general institutional cost pools and applied the station's institutional support rate. For one of the largest cost pools, "district wide miscellaneous ex", the station claimed $777,572 ($529,967 in FY 2016 and $247,605 in FY 2017) in IAS NFFS. The "district wide miscellaneous ex" cost pool covered post-retirement healthcare benefits for MATC retirees. Under CPB's Basic Method option, this one cost pool resulted in $92,224 in CSG payments to the station over the two years of our audit.

We compared the percentage of WMVS-TV retirees to all MATC retirees and noted that approximately 2.2% and 2.3% were former station employees. If we applied this more equitable rate to the cost pool, the station would report only $155,900 ($104,549 in FY 2016 and $51,351 in FY 2017), with resulting CSG payments of $18,490. This is a more equitable calculation of the benefits received by the station for retirees' healthcare costs. Exhibit E shows our comparison.

WMVS-TV Response

In response to the draft report, WMVS-TV s officials stated they believe, in good faith, that the station followed CPB's Basic Method in claiming IAS. Furthermore, the station believes that CPB's guidance for calculating IAS under the Basic Method lacks clarity and does not provide a straight forward approach.

OIG Review and Comment

We reported the information under other matters to highlight issues found in applying the Basic Method option for CPB's consideration as it develops future guidance for claiming IAS. No corrective actions are required for this matter.

Exhibit A

CPB Payments to WMVS-TV
July 1, 2015 – June 30, 2017

CPB Grants	FY 2016	FY 2017	Total
WMVS-TV			
Community Service Grant*	$2,053,022	$2,297,607	$4,350,629
Interconnection	37,651	43,450	81,101
Universal Service	0	17,940	17,940
Total	**$2,090,673**	**$2,358,997**	**$4,449,670**

**CSG funds were booked as deferred revenue in the year received. The station recognizes CSG revenues in the subsequent year of receipt.*

Exhibit B

WMVS-TV Annual Financial Reports
Years Ending June 30, 2016 and 2017

Line	Description	FY 2016	FY 2017
	Schedule A		
	Source of Income		
1	Amounts provided directly by federal government agencies	$23,689	$10,094
	A. Grants for facilities and other capital purposes	$0	$0
	B. Department of Education	$0	$0
	C. Department of Health and Human Services	$0	$0
	D. National Endowment for the Arts and Humanities	$0	$0
	E. National Science Foundation	$0	$0
	F. Other Federal Funds	$23,689	$10,094
2	Amounts provided by Public Broadcasting Entities	$2,090,791	$2,126,412
	A. CPB - Community Service Grants	$2,053,140	$2,053,022
	B. CPB - all other funds from CPB*	$37,651	$63,390
	C. PBS - all payments except copyright royalties and other pass through payments.	$0	$0
	D. NPR - all payments except pass-through payments	$0	$0
	E. Public broadcasting stations - all payments	$0	$10,000
	F. Other PBE funds	$0	$0
3	Local boards and departments of education or other local government or agency sources	$4,251,154	$2,874,848
3.1	NFFS Eligible	$4,251,154	$2,874,848
	C. Appropriations from the licensee	$4,251,154	$2,874,848
3.2	NFFS Ineligible	$0	$0
4	State boards and departments of education or other state government or agency sources	$0	$0
5	State colleges and universities	$0	$0
6	Other state-supported colleges and universities	$0	$11,800
6.1	NFFS Eligible	$0	$0
6.2	NFFS Ineligible	$0	$11,800
	A. Rental Income	$0	$11,800
7	Private colleges and universities	$0	$15,000
7.1	NFFS Eligible	$0	$15,000
	A. Program and production underwriting	$0	$15,000
7.2	NFFS Ineligible	$0	$0
8	Foundations and nonprofit associations	$906,331	$778,840
8.1	NFFS Eligible	$885,218	$769,360
	A. Program and production underwriting	$885,218	$769,360
8.2	NFFS Ineligible	$21,113	$9,480
	A. Rental Income	$17,400	$3,300
	B. Fees for services	$2,250	$6,180
	C. Licensing fees (not royalties - see instructions for Line 15)	$1,463	$0
9	Business and Industry	$279,752	$370,535
9.1	NFFS Eligible	$135,431	$153,101
	A. Program and production underwriting	$135,431	$153,101
9.2	NFFS Ineligible	$144,321	$217,434
	A. Rental income	$95,635	$37,894
	B. Fees for services	$48,686	$179,540
10	Memberships and subscriptions	$3,896,478	$4,093,993
10.1	NFFS Exclusion – Fair market value of premiums that are not of insubstantial value	$920,024	$656,147
	Form of Revenue		
13	Auction Revenue	$377,248	$277,181
	A. Gross auction revenue	$821,495	$707,817
	B. Direct auction expenses	$444,247	$430,636

Exhibit B (continued)

WMVS-TV Annual Financial Reports
Years Ending June 30, 2016 and 2017

Line	Description	FY 2016	FY 2017
14	Special fundraising activities -net	$0	$0
	A. Gross special fundraising revenues	$72,809	$89,302
	B. Direct special fundraising expenses	$216,492	$210,569
15	Passive Income	$8,843	$12,185
	B. Royalties	$7,442	$6,878
	C. PBS or NPR pass-through copyright royalties	$1,401	$5,307
16	Gains and losses on investments, charitable trusts and gift annuities and sale of other assets (other than endowment funds)	$0	$0
17	Endowment revenue	($118,660)	$804,945
	B. Interest and dividends on endowment funds	$200,876	$210,653
	C. Realized net investment gains and losses on endowment funds	($47,288)	$59,398
	D. Unrealized net investment gains and losses on endowment funds	($272,248)	$534,894
18	Capital fund contributions from individuals	$1,802,169	$1,446,912
	A. Facilities and equipment (except funds received from federal or public broadcasting sources)	$1,802,169	$1,446,912
19	Gifts and bequests from major individual donors	$603,642	$487,234
20	Other Direct Revenue (Dubbing 990T)	($940,155)	$6,118
21	Proceeds from spectrum auction, interest earned on these funds, channel sharing revenues, and spectrum leases (TV only)	$0	$0
22	**Total Revenue**	**$13,698,338**	**$13,836,035**
	Adjustments to Revenue		
23	Federal revenue from line 1.	$23,689	$10,094
24	Public broadcasting revenue from line 2.	$2,090,791	$2,126,412
25	Capital funds exclusion - TV (3.2D, 4.2D, 5.2D, 6.2D, 7.2D, 8.2D, 9.2D, 18A)	$1,802,169	$1,446,912
26	Revenue on line 20 not meeting the source, form, purpose, or recipient criteria	$431	$6,118
27	Other automatic subtractions from total revenue	$1,282,978	$2,009,091
	A. Auction expenses - limited to the lesser of lines 13a or 13b	$444,247	$430,636
	B. Special fundraising event expenses - limited to the lesser of lines 14a or 14b	$72,809	$89,302
	F. Realized and unrealized net investment gains/losses on endowment funds – line 17c, line 17d	($319,536)	$594,292
	G. Rental income (3.2A, 4.2A, 5.2A, 6.2A, 7.2A, 8.2A, 9.2A)	$113,035	$52,994
	H. Fees for services (3.2C, 4.2C, 5.2C, 6.2C, 7.2C, 8.2C, 9.2C)	$50,936	$185,720
	I. Licensing Fees (3.2C, 4.2C, 5.2C, 6.2C, 7.2C, 8.2C, 9.2C)	$1,463	$0
	K. FMV of high-end premiums (Line 10.1)	$920,024	$656,147
28	**Total Direct Non-Federal Financial Support**	**$8,498,280**	**$8,237,408**
	Schedule B		
	1 Determine station net direct expenses		
	1a. Total station operating expenses and capital outlays (Schedule E line 10)	$22,384,318	$22,096,759
	1b.1. Capital outlays (from Schedule E, Line 9 total)	$4,068,560	$3,944,351
	1b.2. Depreciation	$1,830,495	$2,099,125
	1b.5. Indirect administrative support (see Guidelines for instructions)	$2,863,768	$2,641,604
	1b.7. Other	$397,402	$333,019
	1b.8. Total deductions	$9,160,225	$9,018,099
	1c. Station net direct expenses	$13,224,093	$13,078,660
	2. Institutional support rate calculation		
	2a. Net direct expense method		
	2a.1. Station net direct Expenses (forwards from line 1)	$13,224,093	$13,078,660
	2a.2. Licensee net direct activities	$117,257,142	$116,090,043
	2a.3. Percentage of allocation	11.277857%	11.265962%

Exhibit B (continued)

WMVS-TV Annual Financial Reports
Years Ending June 30, 2016 and 2017

Line	Description	FY 2016	FY 2017
	2b. Station salaries and wages method		
	2c. Institutional support calculation		
	2c.2. Costs per licensee financial statements	$20,677,246	$18,234,944
	2c.3. LESS: Cost groups that do not benefit the operations of the public broadcast station	$313,163	$292,198
	2c.4. Costs benefiting station operations	$20,364,083	$17,942,746
	2c.5. Percentage of allocation	11.277857%	11.265962%
	2c.6. Total institutional costs benefiting station operations	$2,296,632	$2,021,422
	3. Physical plant support rate calculation		
	3a. Net square footage occupied by station	60,326	60,326
	3b. Licensee's net assignable square footage	1,205,043	1,205,043
	3c. Percentage of allocation	5.006128%	5.006128%
	3d.2. Costs per licensee financial statements	$18,090,145	$19,295,613
	3d.3. LESS: Cost groups that do not benefit the operations of the public broadcast station	$6,964,683	$7,110,543
	3d.4. Costs benefiting station operations	$11,125,462	$12,185,070
	3d.5. Percentage of allocation (from line 3c.)	5.006128%	5.006128%
	3d.6. Total physical plant support costs benefiting station operations	$556,954	$610,000
	4. Total costs benefiting station operations	$2,853,586	$2,631,422
	Occupancy List		
1	Land area (in acres)	2.06	2.06
2	Unit Value per acre	$44,915	$45,000
3	Land value	$92,525	$92,700
4	Rate of return on the land	11%	11%
5	Annual value before deductions	$10,178	$10,197
8	Annual value for NFFS purposes	$10,178	$10,197
1	Total support activity benefiting station	$2,853,586	$2,631,422
2	Occupancy value	$10,177	$10,197
5	Total Indirect Administrative Support	$2,863,763	$2,641,619

**In FY 2017, the station reported a $2,000 PBS grant as CPB related. Other CPB funds totaled $61,390.*

B (continued)

WMVS-TV Annual Financial Reports
Years Ending June 30, 2016 and 2017

Line	Description	FY 2016	FY 2017
TV	**Schedule E - EXPENSES**		
	PROGRAM SERVICES		
1	Programming and production	$2,147,243	$2,114,263
	A. TV CSG	$1,858,029	$1,936,880
	B. TV Interconnection	$0	$0
	C. Other CPB Funds	$0	$0
	D. All non-CPB Funds	$289,214	$177,383
2	Broadcasting and engineering	$2,794,487	$2,726,827
	A. TV CSG	$195,111	$116,142
	B. TV Interconnection	$37,651	$61,390
	C. Other CPB Funds	$0	$0
	D. All non-CPB Funds	$2,561,725	$2,549,295
3	Program information and promotion	$2,192,867	$955,959
	A. TV CSG	$0	$0
	B. TV Interconnection	$0	$0
	C. Other CPB Funds	$0	$0
	D. All non-CPB Funds	$2,192,867	$955,959
	SUPPORT SERVICES		
4	Management and general	$4,847,208	$4,686,765
	A. TV CSG	$0	$0
	B. TV Interconnection	$0	$0
	C. Other CPB Funds	$0	$0
	D. All non-CPB Funds	$4,847,208	$4,686,765
5	Fund raising and membership development	$934,905	$2,391,211
	A. TV CSG	$0	$0
	B. TV Interconnection	$0	$0
	C. Other CPB Funds	$0	$0
	D. All non-CPB Funds	$934,905	$2,391,211
6	Underwriting and grant solicitation	$521,445	$228,561
	A. TV CSG	$0	$0
	B. TV Interconnection	$0	$0
	C. Other CPB Funds	$0	$0
	D. All non-CPB Funds	$521,445	$228,561
7	Depreciation and Amortization if not allocated	$4,877,603	$5,048,822
	A. TV CSG	$0	$0
	B. TV Interconnection	$0	$0
	C. Other CPB Funds	$0	$0
	D. All non-CPB Funds	$4,877,603	$5,048,822
8	**Total Expenses (sum of lines 1 to 7) must agree with audited financial statements**	**$18,315,758**	**$18,152,408**
	A. Total TV CSG (sum of lines 1.A, 2.A, 3.A, 4.A, 5.A, 6.A, 7.A)	$2,053,140	$2,053,022
	B. Total TV Interconnection (sum of lines 1.B, 2.B, 3.B, 4.B, 5.B, 6.B, 7.B)	$37,651	$61,390
	C. Total Other CPB Funds (sum of lines 1.C, 2.C, 3.C, 4.C, 5.C, 6.C, 7.C)	$0	$0
	D. Total All non-CPB Funds (sum of lines 1.D, 2.D, 3.D, 4.D, 5.D, 6.D, 7.D)	$16,224,967	$16,037,996
	INVESTMENT IN CAPITAL ASSETS		
9	Total capital assets purchased or donated	$4,068,560	$3,944,351
	b. Equipment	$1,802,169	$1,446,912
	c. All other	$2,266,391	$2,497,439
10	**Total expenses and investment in capital assets (sum of lines 8 and 9)**	**$22,384,318**	**$22,096,759**

Exhibit C

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

Line	Description	WMVS-TV FY 2016	WMVS-TV FY 2017	Total WMVS-TV
	Summary of Non-Federal Financial Support:			
1	Direct Revenue (Schedule A)	$8,498,280	$8,237,408	$16,735,688
2	Indirect Administrative (Schedule B)	2,863,763	2,641,619	5,505,382
3	In-Kind Contributions (Schedule C)	0	0	0
4	**Total Non-Federal Financial Support**	**$11,362,043**	**$10,879,027**	**$22,241,070**

Exhibit D

OIG Recalculation of WMVS-TV's FY 2016 and FY 2017 Schedule B For Indirect Administrative Support

	Per AFRs			Per Audit			Over/Under Stated NFFS		
Schedule B	**FY 2016**	**FY 2017**	**Total**	**FY 2016**	**FY 2017**	**Total**	**FY 2016**	**FY 2017**	**Total**
1a. Total station operating expenses and capital outlays	$22,384,318	$22,096,759		$22,384,318	$22,096,759				
1b.1. Capital outlays	$4,068,560	$3,944,351		$4,068,560	$3,944,351				
1b.2. Depreciation	$1,830,495	$2,099,125		$1,830,495	$2,099,125				
1b.3. Amortization	$0	$0		$0	$0				
1b.4. In-kind contributions	$0	$0		$0	$0				
1b.5. Indirect administrative support	$2,863,768	$2,641,604		$2,863,768	$2,641,604				
1b.6. Donated property and equipment	$0	$0		$0	$0				
1b.7. Other	$397,402	$333,019		$397,402	$333,019				
1b.8. Total deductions	$9,160,225	$9,018,099		$9,160,225	$9,018,099				
1c. Station net direct expenses	$13,224,093	$13,078,660		$13,224,093	$13,078,660				
2. Institutional support rate calculation									
2a. Net direct expense method									
2a.1. Station net direct Expenses	$13,224,093	$13,078,660		$13,224,093	$13,078,660				
2a.2. Licensee net direct activities	$117,257,142	$116,090,043		$117,797,082	$116,090,043				
2a.3. Percentage of allocation	11.277857%	11.265962%		11.226163%	11.265962%				
2c. **Institutional support calculation**									
2c.2 Costs per licensee financial statements	$20,677,246	$18,234,944		$20,782,220	$18,234,944				
2c.3 Less; Cost groups that do not benefit the station	$313,163	$292,198		$1,421,351	$1,413,226				
2c.4 Costs benefiting the station	$20,364,083	$17,942,746		$19,360,869	$16,821,718				
2c.5 Percentage of allocation	11.277857%	11.265962%		11.226163%	11.265962%				
2c.6 Total institutional costs benefiting the station	$2,296,632	$2,021,423	$4,318,055	$2,173,483	$1,895,128	$4,068,611	$123,149	$126,295	$249,444
3. **Physical plant support calculation**									
3a. Net square footage occupied by station	60,326	60,326		60,326	60,326				
3b. Licensee's net assignable square footage	1,205,043	1,205,043		1,376,034	1,376,034				
3c. Percentage of allocation	5.006128%	5.006128%		4.384049%	4.384049%				
3d.2 Costs per licensee financial statements	$18,090,145	$19,295,613		$18,157,888	$19,295,613				
3d.3 Less; Cost groups that do not benefit the station	$6,964,683	$7,110,543		$6,964,683	$7,110,543				
3d.4 Costs benefiting the station	$11,125,462	$12,185,070		$11,193,205	$12,185,070				
3d.5 Percentage of allocation	5.006128%	5.006128%		4.384049%	4.384049%				
3d.6 Total physical plant support costs	$556,954	$610,000	$1,166,954	$490,716	$534,199	$1,024,915	$66,238	$75,801	$142,039
4. **Total costs benefiting station operations**	$2,853,586	$2,631,423	$5,485,009	$2,664,198	$2,429,328	$5,093,526			
Total Overstated NFFS							$189,387	$202,096	$391,483

Exhibit E

Comparison of Benefits Claimed and Alternative Allocation Basis

Description	FY 2016	FY 2017	Totals		CSG Payment*
District Wide Miscellaneous Ex	$ 4,699,182	$ 2,197,813	**$ 6,896,995**		
Station allocation rate per AFR	11.28%	11.27%			
Allocated costs per AFR	**$ 529,967**	**$ 247,605**	**$ 777,572**		$ 92,224
MATC retirees	854	856			
WMVS-TV retirees	19	20			
Percentage of station retirees	2.22%	2.34%			
Allocated District Wide Miscellaneous Ex --- station costs based on retirees	**$ 104,549**	**$ 51,351**	**$ 155,900**		$ 18,490

Exhibit F

Scope and Methodology

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

We tested the allowability of NFFS claimed on WMVS-TV's AFRs by performing financial reconciliations and comparisons to underlying accounting records (general ledger) and the audited financial statements. We reviewed underwriting and grant agreements, as well as other documentation supporting revenues reported. Specifically, we reviewed 39 NFFS revenue transactions totaling $7,170,570 of $8,498,280 in fiscal years (FY) 2016 and 31 NFFS revenue transactions totaling $5,380,710 of $8,237,408 in FY 2017.

We reviewed the allowability of expenses charged to CPB CSGs. To determine that expenditures were incurred in accordance with the grant terms, we reviewed $926,011 of $4,205,203 expenses (22 percent) reported on the CPB CSG, Interconnection, and Universal Service grants in FYs 2016 and FY 2017. We reviewed payroll and time reports, journal entry detail, vendor invoices, and other documentation supporting expenditures.

We reviewed corporate policies, records, and documents supporting the station's compliance with the Act requirements to: provide advance notice of public meetings; make financial and equal employment opportunity information available to the public; and provide documents supporting compliance with donor lists and political activities prohibitions. We also reviewed the station's website and policies to determine its compliance with CPB's eligibility transparency requirements. Furthermore, we reviewed the independent public accountant's audit planning, internal controls, and attestation working papers. Our procedures included interviewing station officials and its IPA.

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

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

Exhibit G

September 14, 2018

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

Re: Audit of Community Service Grants at Milwaukee PBS, Milwaukee, Wisconsin, for the Period July 1, 2015 through June 30, 2017, Draft Report No. AST1805-XXXX

Dear Mr. Richardson,

Thank you for the opportunity to respond to the Office of Inspector General's Draft Report for the above-mentioned recent audit of Milwaukee PBS Community Service Grants. Milwaukee PBS (the station) has worked side by side with the Office of Inspector General audit team and appreciates the professionalism and thoroughness of the auditors, and their Draft Report.

We understand that the Draft Report presents the conclusions of the Office of Inspector General and that the findings reported, and recommendations made do not necessarily represent the final position of Corporation for Public Broadcasting (CPB). Further, we understand that final determinations will be made by CPB officials in accordance with established CPB audit resolution procedures.

Milwaukee PBS's operating and accounting management and staff viewed this audit as an opportunity to enhance and clarify its understanding of CPB'S AFR/NFFS reporting guidelines and compliance requirements, and to conduct a detailed review of internal processes and procedures.

The Draft Report indicates that the reported potential financial impact of the audit findings is a net underpayment to Milwaukee PBS of $42,113 in FY2016 and $124,423 in FY 2017. These identified net underpayments are the result of understated NFFS appropriations and an adjustment to overstated NFFS exclusions for high-end premiums. It has been noted that it is not expected that CPB will allow Milwaukee PBS to claim the FY 2016 underpayment of $42,113 since CSG calculations and payments have already been made and distributed to the station. ***However, the station respectfully requests consideration of CPB officials in allowing Milwaukee PBS to revise its FY 2017 AFR to claim the understated FY 2017 underpayment of $124,423, which has not yet been distributed.***

For your convenience, we have organized the following discussion of the reported findings and recommendations in the same order as they appear in the Draft Report.

FINDINGS AND RECOMMENDATIONS

NFFS REPORTING

I. Overstated Indirect Administrative Support

Audit finding: WMVS-TV's calculation of IAS did not fully comply with CPB guidance under the Basic Method. As a result, WMVS-TV overstated the cost pools benefiting the station in its calculations by including cost pools that did not provide essential and continuous benefit to the station. The station also understated the licensee's net direct activities in calculating the institutional support rate applied to the general institutional cost pools that were allocated to the station and general institutional costs in FY 2016. Lastly, the station's calculation of the physical plant support rate understated the licensee's total net assignable square footage, which is used as the denominator to calculate the allocation rate.

- **Overstated the cost pools benefiting the station in its calculations by including cost pool that did not provide essential and continuous benefit to the station:** ***The station does not fully agree. The station applied CPB's guidance and believes that all cost groups, except alumni relations, benefit the station. See station responses below.***
- **Overstated its institutional support rate by understating licensee net direct activities and understated general institutional cost allocated to the station, resulting in a net IAS overstatement in FY 2016:** ***The station agrees. There was a late audit adjustment to the licensee's financial statements that was not incorporated into Schedule B.***
- **Overstated its allocations of physical plant support by understating the licensee's total net assignable square footage:** ***The station agrees. The licensee's net assignable square footage was a historical number.***

Station response: The station disagrees that it overstated IAS by including student accounts and college events cost pools in the general institutional cost pool. The student accounts cost pool provides essential and continuous benefit to the station. The station directly benefits from the student accounts cost pool, in that the college's cashiers securely process and deposit station transactions for the sale of goods and services. If the station had to provide funding for the direct resources necessary to provide these services, the cost would be far greater. The cost to provide dedicated Milwaukee PBS staff, along with necessary equipment, workspace and other consumable and overhead costs would not be insignificant.

The station also routinely receives benefit from the college events cost pool when Milwaukee PBS (MPBS) host events. There are also multiple college events in which MPBS collaborates, promotes and plays a direct role in the college event.

To remove the student accounts and college events cost pools from the general institutional cost pool would defy what the IAS is trying to accomplish. The IAS methodology requires that stations establish an administrative cost pool that benefits the station and then allocate general institutional administrative cost to the station using a ratio (station cost divided by institutional cost). When determining the institutional costs that benefit the station, and capturing the full administrative cost that benefits the station, the student accounts and college events cost pools must be included in the general institutional cost pool. These cost pools, student accounts and college events, provide an essential and continuous benefit to the station. In conclusion, the station believes that it complied, in good faith, with CPB guidance, in including the student accounts and college events cost pools in the general institutional administrative cost pool.

II. Unallowable NFFS

Audit finding: WMVS-TV reported unallowable NFFS totaling $13,792 and $23,956 on its FY 2016 and FY 2017 AFR's, respectively.

- **$26,549 in advertising agency fees that were not paid to the station ($12,993 in FY 2016 and $13,556 in FY 2017) but were included in reported underwriting revenues:** ***The station agrees.*** ***The station did not realize advertising agency fees should have been deducted from underwriting agreements.***

- **$11,199 ($799 in FY 2016 and $10,400 in FY 2017) in payments received in exchange for good and services that were reported as underwriting contributions:** ***The station does not agree.*** ***The station believes that it followed the CPB's guidelines and views the transactions as nominal in value to the underwriter, and should not be netted with the contribution.***

III. Understated Appropriation NFFS

Audit finding: The station's methodology for claiming appropriations revenues consisted of the station claiming a portion of its annual debt service on Lin3.1,C, Appropriation from licensee, and the balance on Line 18.A, Facilities and equipment, equal to the amount of its current year's new capital acquisitions. Based on the station's methodology we accepted annual national programming costs but could not verify that the balance of revenues claimed as debt service didn't include debt for equipment purchased over the last six to seven years, which would not qualify as NFFS. After considerable work the station reconstructed by year how much of its annual debt service was comprised of acquisitions over the last six to seven years. Using that information, we apportioned the debt service between programming and equipment. Based on our calculation of programing debt service, the station underreported appropriations NFFS in both FYs for appropriations ($21,515 in FY 2016 and $350,475 in FY 2017). ***The Station agrees.*** ***Going forward the station will prepare an annual debt service payment schedule comprised of prior year acquisitions. The debt schedule will allow for an accurate apportionment of debt service for programming and equipment.***

IV. Overstated Premium Adjustments

Audit finding: In FY 2016, WMVS-TV overstated the exclusion for high-end premiums, which resulted in understated NFFS totaling $223,777. The station reported the fair market value (FMV) of high-end premiums when the FMV exceeded the pledged amount. ***The station agrees.*** ***The station did not adjust its exclusion for the FMV of premiums when the pledge amount was less than the FMV of the premiums, because CPB's guidance did not explicitly and clearly state that this was allowable. Clarification to CPB's guidance on this matter was provided in 2017, and Milwaukee PBS immediately modified its reporting to comply with the guidance.***

COMMUNICATION ACT COMPLIANCE

Audit Finding: 4 of 44 open meetings did not fully comply with the reasonable advance notice provisions of the Act or the CPB Certification Requirements for Station Grant Recipients to provide seven-days advance notice for upcoming open meetings. All four instances occurred in FY 2016; the 13 meetings in FY 2017 met the seven-day requirement. ***The station does not agree with the finding that four open meetings did not have adequate advance notice.***
Station response: The audit report does accurately reflect the station's position on this finding in that it believes it has complied with the Communications Act in providing reasonable notice in following Wisconsin's Open Meetings Law. The Communications Act requires that boards, committees and advisory bodies hold open meetings "preceded by reasonable notice to the public." The statute does not specify a period of time by which the notice should precede the meeting.

The Milwaukee Area Technical College District Board is the license holder for Milwaukee PBS, and is organized and governed by Chapter 38 of the Wisconsin Statutes. Section 19.84(3) of the Wisconsin Statutes states that: Public notice of every meeting of a governmental body shall be given at least 24 hours prior to the commencement of such meeting unless for good cause such notice is impossible or impractical, in which case shorter notice may be given, but in no case may the notice be provided less than 2 hours in advance of the meeting.

Since the federal statute has no specification of timing which will be deemed "reasonable," MATC believes that the 24 hour advance notice required by Wisconsin law should be deemed "reasonable" since it is specifically set out in state statute as a requirement. CPB's guidelines do not make the 7 day period an immutable requirement. CPB's guidance states that stations "may" satisfy the requirement by providing at least 7 days advance notice of a meeting but there is no mandate that 7 days is required in all cases. All meetings and agendas of the MATC District Board and Board committees were posted in accordance with state statute giving reasonable notice to the public of time and place as well as agenda items.

DISCRETE ACCOUNTING

Audit finding: WMVS-TV maintained discrete accounting for CPB revenues. However, it did not discretely account for CPB CSG broadcasting and engineering expenditures so that CPB or an auditor could identify CPB funded inter-connection and universal service support expenditures. In FY 2016, CPB interconnection expenditures of $37,651 were comingled in a general account totaling $2,065,739. In FY 2017, CPB interconnection and universal service support expenditures of $61,390 were comingled in a general account totaling $2,037,510. CSG unrestricted expenditures were discretely accounted for in separate general ledger accounts in the accounting system and were not comingled with expenditures funded from non-CSG sources.
Station response: The station disagrees that the total claimed broadcasting and engineering costs, as they relate to CPB CSG broadcasting and engineering expenditures, were commingled with other funding sources. Since these CPB-funded expenditures were not segregated into one CSG-designated GL expenditure line, *in an exact dollar amount equal to the CSG revenue amount,* the finding asserts that the station inappropriately commingled CPB-funded expenditures with other funding source expenditures.

The station believes that it has complied, in good faith, with CPB's "Discrete Accounting Requirements". Discrete accounting requires a unique code that identifies CSG funds — both revenues and expenses, restricted and unrestricted — so that both the grantor and the auditor can discretely track those funds within the accounting system. Nowhere does the guidance state that discretely accounted expenditures must be exactly equal to the discretely accounted CSG revenue amount in a given fiscal year. In fact, the guidance states that co-mingling funds *is allowable as long as the accounting system can easily identify* *<u>transactions</u>* *associated with a major activity (i.e., department, grant, contract or another project)*. The station believes that it has complied with these requirements by establishing unique expenditure GL codes, with appropriate sub-accounts that would enhance an auditor's or grantor's ability to identify the nature of the CSG-funded expenditure, as well as the total spend for each category of expenditure.

In our good faith interpretation of CPB's Discrete Accounting Requirements, detailed expenditure sub-accounts were established for the very purpose of making it easy for transactions to be identified and tested. We believe that journalizing CSG-funded expenditures equal to CSG revenue into one GL account, as we have been asked to do, diminishes the ability of an auditor or grantor to discern the nature of the CSG transactional expenditure. Our good faith interpretation of the essence of the guidance is that our accounting system must allow an auditor or grantor to easily identify CSG-funded expenditures at the *transactional* level. We believe that our discrete accounting accomplishes this objective.

<u>OTHER MATTERS</u>

I. <u>Institutional Support</u>

Milwaukee PBS management and staff stand firm in their belief that the station has followed, in good faith, the Basic Methodology in claiming its indirect administrative support (IAS). The Draft Report suggests that to properly apply CPB's Basic Methodology, a station would have to adjust its institutional support costs in its financial statements to identify the institutions costs related to the functional categories of only instruction, research and public service. The station contends that the time, effort and resources necessary to dissect each and every institutional cost pool would render this approach impractical and would defeat the purpose and intent of the Basic Methodology. The station's position is that CPB's guidance for calculating IAS under the Basic Method option lacks clarity and does not provide for a straight forward approach.

II. <u>Inequitable Allocation of Retirement Health Care Cost under the Basis Method</u>

As stated in the preceding paragraph, the very premise of the Basic Methodology involves the determination of a support rate to be used to produce a *reasonable* calculation of a station's institutional support. This methodology will never produce results with 100% accuracy, as is demonstrated in this allocation of retirees' healthcare costs. Nonetheless, the station does not believe that it should be penalized since it followed, in good faith, CPB's Basic Methodology in determining this allocation.

In closing, we wish to express that Milwaukee PBS intends to cooperate fully with CPB in following through with OIG's recommendations on page one of the Draft Report. We welcome the opportunity to consult with CPB to ensure that we are in alignment with the recommended revised methodology for claiming future appropriations. We will also work with CPB to provide verification of compliance with the advance-notice requirement for open meetings and to provide corrective action to ensure future compliance with NFFS reporting requirements, seven-days advance-notice for open meetings, and discrete accounting requirements.

Milwaukee PBS believes that it has consistently, in good faith, made efforts to comply with AFR/NFFS reporting guidelines, open meeting statutory requirements of the Communications Act and CSG discrete accounting requirements. ***As such, the station respectfully requests consideration of CPB officials in allowing Milwaukee PBS to revise its FY 2017 AFR to claim the understated FY 2017 underpayment of $124,423, which has not yet been distributed.***

We appreciate this opportunity to enhance our understanding of CPB's guidelines and to improve our internal processes.

Respectfully,

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