

CORPORATION FOR PUBLIC BROADCASTING

OFFICE OF INSPECTOR GENERAL

**AUDIT OF COMMUNITY SERVICE GRANTS AT WTMD,
TOWSON, MARYLAND
FOR THE PERIOD JULY 1, 2014 THROUGH JUNE 30, 2016**

REPORT NO. ASR1701-1706

May 12, 2017

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Report in Brief

Why We Did This Audit

We performed this examination based on our annual audit plan objective to perform reviews of a cross-section of stations and organizations in the public broadcasting system.

Our objectives were to examine the station's certifications of compliance with Corporation for Public Broadcasting (CPB) grant terms to: a) claim Non-Federal Financial Support (NFFS) on its Annual Financial Reports 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. The amount of NFFS a station reports to CPB affects the amount of CPB 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 WTMD, Towson, Maryland for the Period July 1, 2014 through June 30, 2016

What We Found

The station overstated NFFS by \$22,708 because it did not adjust for membership premiums.

The NFFS overstatement resulted in potential CSG overpayments of \$1,285.

In addition we found noncompliance with Act requirements to provide the public with reasonable advance notice of Board of Directors committee meetings.

The station agreed with our findings and has instituted corrective actions. CPB management will make the final determination on our findings and recommendations.

What We Recommend

That CPB:

- recover FY 2017 CSG payments made to WTMD of \$602 and potentially reduce FY 2018 CSG payments by \$683;
- require WTMD to identify the corrective actions and controls it will implement to ensure future compliance; and
- verify during the audit resolution process that upcoming committee meetings are posted to the station's website seven days in advance of the upcoming meeting(s).




Corporation
for Public
Broadcasting

Office of Inspector General

Date: May 12, 2017

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

From: Mary Mitchelson, Inspector General 

Subject: Audit of Community Service Grants at WTMD, Towson, MD for the Period
July 1, 2014 through June 30, 2016, Report No. ASR1701-1706

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.

Accordingly, 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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EXECUTIVE SUMMARY

We have completed an examination of the Corporation for Public Broadcasting (CPB) Community Service Grants (CSG) awarded to Towson University, licensee of WTMD-FM, for the period July 1, 2014 through June 30, 2016. Our objectives were to examine WTMD'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 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 examination we found:

- overstated NFFS of \$22,708 because WTMD did not adjust for premiums resulting in potential CSG overpayments of \$1,285 (\$602 in Fiscal Year (FY) 2017 and potentially \$683 in FY 2018) reported as funds put to better use; and
- noncompliance with Act requirements to provide the public with reasonable advance notice of Board of Directors committee meetings.

We recommend that CPB:

- recover potential CSG overpayments of \$1,285;
- require WTMD to identify the corrective actions and controls it will implement to ensure future compliance; and
- verify during the audit resolution process that upcoming Board of Directors committee meetings are posted to the station's website seven days in advance of the upcoming meeting(s).

In response to the draft report, WTMD management agreed with the questioned NFFS related to the exclusion of premiums. Based on WTMD's response, we adjusted our draft finding on overstated NFFS to no longer include ineligible digital and on-air messaging. For all other recommendations, WTMD has indicated that corrective actions were taken. WTMD's written response to the draft report is presented in Exhibit F.

We performed this examination based on the Office of Inspector General's (OIG) annual plan. We conducted our examination in accordance with *Government Auditing Standards* for attestation engagements. Our scope and methodology is discussed in Exhibit E.

This report presents the conclusions of the OIG and the findings reported do not necessarily represent CPB's final position on these issues. While we have made recommendations, we believe would be appropriate to resolve these findings, CPB officials will make a final determination resolving our findings and recommendations in accordance with established CPB audit resolution procedures. Based on WTMD's response to the draft report, we consider all the recommendations resolved but open pending CPB's final management decision accepting WTMD's corrective actions and recovering CSG overpayments.

BACKGROUND

WTMD (89.7 FM) is a public radio station licensed to Towson University and serves the Baltimore and central Maryland area. Its mission as stated on its website is “to be the most trusted radio source for music and cultural programming.” WTMD provides listeners with locally produced music and is focused on community development through partnerships with local businesses and hosting events that showcase local musicians.

In 2014, Towson University Public Media, Inc., a non-profit organization, assumed operation of WTMD. Prior to 2014, the station was managed by the Towson University Foundation. Towson University holds the station’s license and all of WTMD’s assets.

In addition to national programming, WTMD’s 2015 Station Activity Survey shows how the station provides local programming that “connects artists and audiences.” The station produces local programming such as Baltimore Hit Parade “to highlight and connect Maryland musicians with music lovers” in the Baltimore area. WTMD content is available on a variety of platforms including on-air, online, social media, and through engagement with the community at such events as First Thursdays and Baltimore Band Block party.

The station’s website (WTMD.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 meetings.

CPB awards annual CSG grants to public television and radio stations based 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 distance and local service grants and the amount of the base 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 reported NFFS to calculate the incentive award amount of the station’s total CSG. There is a two-year lag between the reported NFFS and CPB’s calculation of the FY’s CSG amount. For example, CPB used the NFFS claimed by WTMD on its FY 2014 AFR to determine the amount of the CSG the station received in FY 2016.

During our audit period WTMD received \$272,763 from CPB for community service grants as itemized in Exhibit A. WTMD reported NFFS of \$2,287,795 in FY 2015 and \$2,462,338 in FY 2016 per Exhibit C. WTMD’s audited financial statements for the two FYs reported revenues of \$2,471,515 in FY 2015 and \$2,666,929 in FY 2016. WTMD’s FY begins July 1 and ends on June 30.

RESULTS OF AUDIT

In our opinion, except for the noncompliance issues described below, WTMD has complied with the requirements in the following paragraph for the FY 2015 and 2016 Radio CSGs (Exhibits B and C).

We examined WTMD 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 WTMD'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 WTMD'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 WTMD's compliance with specified requirements.

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

- overstated NFFS of \$22,708 because WTMD did not adjust for premiums resulting in potential CSG overpayments of \$1,285 (\$602 overpaid in FY 2017 and potentially \$683 in FY 2018) reported as funds put to better use; and
- noncompliance with Act requirements to provide the public with reasonable advance notice of Board of Directors committee meetings.

FINDINGS AND RECOMMENDATIONS

OVERSTATED NFFS

Our examination found \$22,708 in overstated NFFS on WTMD's FY 15 and FY 16 AFRs as presented in the following table and detailed in Exhibit D. As a result, CPB made CSG overpayments of \$602 to WTMD in FY 2017 and will make potential overpayments of \$683 in FY 2018 for total potential overpayments of \$1,285. We classified this amount as funds put to better use for reporting purposes, because the funds overpaid to WTMD could have been distributed to other public broadcasting entities.

Overstated NFFS

Conditions	Overstated FY 2015 NFFS	Overstated FY 2016 NFFS	Total Overstated NFFS	CSG Potential Overpayment ¹
Membership Premium Exclusions	\$10,642	\$12,066	\$22,708	\$1,285
Total	\$10,642	\$12,066	\$22,708	\$1,285

¹ We used the FY 2017 incentive rate of return to calculate the CSG overpayment for FY 2018, because CPB has not finalized the FY 2018 rate as of time of this report.

This overstatement of NFFS occurred because WTMD management did not exclude the fair market value (FMV) of premiums from its membership revenues on its AFRs as required.

During the transition of station leadership in 2015, station personnel reported that they were focused on maintaining operations and not fully aware of CPB requirements. The station agreed it had erroneously included the full amount of membership contributions without excluding the fair market value of the premiums.

Further discussion on our findings are presented below.

Membership Premium Exclusions

Based on analytical procedures performed, we found that WTMD did not exclude membership premiums on its AFRs, as required by CPB Guidelines. As a result, NFFS was overstated in FY 2015 and FY 2016 by \$10,642 and \$12,066, respectively, for a total overstatement of \$22,708.

CPB Guidelines require stations to exclude from NFFS the FMV of high-end premiums that are not of insubstantial value. The Guidelines state:

Grantees frequently provide “thank you gifts” (a.k.a. “premiums”) in exchange for membership contributions. The Internal Revenue Service describes a quid pro quo contribution as a payment a donor makes to a charity partly as a contribution and partly for goods and services (i.e., premiums...). The IRS issues guidance... in instances where the premium is not of insubstantial value.... For CPB’s purposes the portion of the payment that is not considered a contribution by the IRS may not be included as NFFS.

Guidelines AFR line 10.1 NFFS Exclusion.

The station agreed it had erroneously included the full amount of membership contributions without excluding the FMV of the premiums. Station officials said that the error was not identified by the former General Manager who previously oversaw operations and financial reporting. Additionally, we noted that the station’s attestation examination of its audited financial statements did not identify that the premiums were not excluded from NFFS.

Based on our audit, we identified overstated NFFS of \$22,708 for membership, resulting in CSG overpayments of \$1,285, \$602 in FY 2017 and potential overpayments of \$683 in FY 2018. See Exhibit D.

Recommendations

We recommend CPB management:

- 1) recover FY 2017 CSG payments made to WTMD of \$602 and potentially reduce FY 2018 CSG payments by \$683; and

- 2) require WTMD to identify the corrective action and controls it will implement to ensure future compliance.

WTMD Response

In response to the draft report, WTMD agreed with our findings regarding the exclusion of premiums from membership. WTMD management acknowledged that the station did not properly identify and exclude the FMV of premiums from membership revenues on its AFRs. WTMD response also noted its corrective actions and procedure changes for premium adjustments.

WTMD's response also addressed our draft report finding that several on-air and digital underwriting messages included calls to action. The station argued that the wording used was descriptive rather than promotional and informed listeners where to find information and was not a call to action. WTMD officials believed that the on-air messages were in compliance with Federal Communication Commission (FCC) guidance and the station aired announcements that in their "good faith judgment" were not promotional.

A copy of the station's full response to the draft finding is presented in Exhibit F.

OIG Review and Comment

Based on WTMD's response to the draft report and further research on FCC rulings we eliminated the draft report's finding on ineligible digital and on-air messaging. Regarding premium adjustments, WTMD's response agreed with this finding. As a result, we consider recommendations one and two resolved, but open pending CPB's acceptance of WTMD's corrective actions and recovery of CSG overpayments.

ACT COMPLIANCE

Our examination found that WTMD did not fully comply with the statutory provisions of the Act or the CPB Certification Requirements for Station Grant Recipients (CPB certification requirements). The station did not provide reasonable advance notice of Board of Directors committee meetings.

Open Meetings

WTMD did not fully comply with open meetings requirements of the Act, because it did not provide reasonable notice to the public for open meetings it held for all committees of the Board of Directors in FY 2015. The Act requires that WTMD's governing board and committees of the board hold meetings that are open to the public. The station should have provided notice on the station's website or through other acceptable means, which includes the "Legal Notices" section of the local newspaper, recorded announcement accessible on the station's phone system, or on-air broadcast. There were no committee meetings in FY 2016 due to the turnover of a majority of the board members.

The term “meeting” is defined in Section 397 of the Act as “the deliberations of at least the number of members of a governing or advisory body or any committee thereof, required to take action on behalf of such body or committee where such deliberations determine or result in the joint conduct or disposition of the governing or advisory body’s business, or the committee’s business, as the case may be, but only to the extent that such deliberations relate to public broadcasting.”²

Funds may not be distributed pursuant to this subsection ... 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.

The Act, Sec. 396(k)(4) – Open Meetings.

Based on discussions with station management, during FY 2015 the station was focused on addressing recent staff turnover and was not fully aware of the Act requirement to provide reasonable notice to the public for meetings of all committees of the board.

Upon learning of this requirement during our audit fieldwork (December 2016), station officials took action to comply. The station now posts open meeting notices for all committees of the board on its website and is now compliant with open meeting policy notices.

Recommendation

We recommend CPB management take the following action:

- 3) verify during the audit resolution process that upcoming committee meetings are posted to the station’s website seven days in advance of the upcoming meeting(s).

WTMD Response

In response to the draft report, WTMD agreed with our finding that the station did not provide adequate advance notice to the public of all Board of Director committee meetings. WTMD response also discussed its corrective actions. WTMD’s full written response is attached in Exhibit F.

OIG Review and Comment

Based on WTMD’s response we consider recommendation three resolved, but open pending CPB’s verification of current compliance during the audit resolution process.

² As of May 2015, CPB’s certification requirements note that deliberations do not require any formal action to make it a meeting, only that discussion of public broadcasting issues that could influence members of the board makes it a meeting.

Exhibit A**CPB Payments to WTMD
July 1, 2014 – June 30, 2016**

CPB Grants	FY 2015	FY 2016	Total
Community Service Grant	\$118,530	\$154,233	\$272,763
Total	\$118,530	\$154,233	\$272,763

Exhibit B

WTMD Annual Financial Reports
Years Ending June 30, 2015 and 2016

Line	Description	FY 2015	FY 2016
	Schedule A		
	Source of Income		
1	Amounts provided directly by federal government agencies	\$0	\$0
2	Amounts provided by Public Broadcasting Entities	\$118,530	\$154,233
	A. CPB - Community Service Grants	\$118,530	\$154,233
	B. CPB - all other funds from CPB	\$0	\$0
	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	\$0
	F. Other PBE funds	\$0	\$0
3	Local boards and departments of education or other local government or agency sources	\$1,300	\$36,040
3.1	NFFS Eligible	\$1,300	\$36,040
	A. Program and production underwriting	\$1,300	\$36,040
3.2	NFFS Ineligible	\$0	\$0
4	State boards and departments of education or other state government or agency sources	\$3,000	\$17,653
4.1	NFFS Eligible	\$3,000	\$17,653
	A. Program and production underwriting	\$3,000	\$17,653
4.2	NFFS Ineligible	\$0	\$0
5	State colleges and universities	\$842,380	\$862,886
5.1	NFFS Eligible	\$842,380	\$862,886
	A. Program and production underwriting	\$14,510	\$26,975
	C. Appropriations from the licensee	\$827,870	\$835,911
5.2	NFFS Ineligible	\$0	\$0
6	Other state-supported colleges and universities	\$13,363	\$7,977
6.1	NFFS Eligible	\$13,363	\$7,977
	A. Program and production underwriting	\$13,363	\$7,977
6.2	NFFS Ineligible	\$0	\$0
7	Private colleges and universities	\$8,420	\$17,470
7.1	NFFS Eligible	\$8,420	\$17,470
	A. Program and production underwriting	\$8,420	\$17,470
7.2	NFFS Ineligible	\$0	\$0
8	Foundations and nonprofit associations	\$177,874	\$151,332
8.1	NFFS Eligible	\$176,874	\$151,332
	A. Program and production underwriting	\$129,785	\$138,332
	B. Grants and contributions other than underwriting	\$47,089	\$13,000
8.2	NFFS Ineligible	\$1,000	\$0
	A. Rental Income	\$1,000	\$0
9	Business and Industry	\$558,673	\$630,288
9.1	NFFS Eligible	\$557,773	\$626,838
	A. Program and production underwriting	\$556,441	\$625,318
	B. Grants and contributions other than underwriting	\$1,332	\$1,520
9.2	NFFS Ineligible	\$900	\$3,450
	A. Rental Income	\$900	\$3,450
10	Memberships and subscriptions	\$516,961	\$434,359
10.1	NFFS Exclusion – Fair market value of premiums that are not of insubstantial value	\$0	\$0

Exhibit B (continued)

**WTMD Annual Financial Reports
Years Ending June 30, 2015 and 2016**

Line	Description	FY 2015	FY 2016
	Form of Revenue		
13	Auction Revenue	\$0	\$0
14	Special fundraising activities -net	\$50,598	\$97,658
	A. Gross special fundraising activities revenues	\$62,977	\$97,658
	B. Special fundraising activities expenses	\$12,379	\$0
15	Passive Income	\$0	\$240
	A. Interest and dividends (other than on endowment funds)	\$0	\$240
16	Gains and losses on investments, charitable trusts and gift annuities and sale of other assets (other than endowment funds)	\$0	\$849
	C. Unrealized gains/losses on investments and actuarial gains/losses on charitable trusts and gift annuities (other than endowment funds)	\$0	\$849
17	Endowment revenue	\$0	\$0
18	Capital fund contributions from individuals	\$0	\$0
19	Gifts and bequests from major individual donors	\$102,877	\$199,788
20	Other Direct Revenue	\$920	\$700
21	Total Revenue	\$2,407,275	\$2,611,473
	Form of Revenue		
	Adjustments to Revenue		
22	Federal revenue from line 1.	\$0	\$0
23	Public broadcasting revenue from line 2.	\$118,530	\$154,233
25	Revenue on line 20 not meeting the source, form, purpose, or recipient criteria to be included as NFFS	\$920	\$700
26	Other automatic subtractions from total revenue	\$14,279	\$4,299
	B. Special fundraising event expenses - limited to the lessor of lines 14a or 14b	\$12,379	\$0
	E. Unrealized investment and actuarial gains/losses (other than endowment funds) - line 16c	\$0	\$849
	G. Rental Income (3.2A, 4.2A, 5.2A, 6.2A, 7.2A, 8.2A, 9.2A)	\$1,900	\$3,450
27	Total Direct Non-Federal Financial Support	\$2,273,546	\$2,452,241
	Schedule C		
1	PROFESSIONAL SERVICES	\$0	\$0
2	GENERAL OPERATIONAL SERVICES	\$14,249	\$10,097
	C. Station operating expenses	\$14,249	\$0
	D. Other - 150 shares T. Rowe Price Group, Inc.	\$0	\$10,097
3	OTHER SERVICES (must be eligible as NFFS)	\$0	\$0
4	Total In-Kind Services - services and other assets eligible as NFFS (sum of lines 1 through 3), forwards to Line 3a. of the Summary of Non-federal Financial Support	\$14,249	\$10,097
5	IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	\$62,370	\$45,359
	M. Other - Underwriting trade agreements not meeting NFFS requirements	\$62,370	\$45,359
6	Total in-kind contributions - services and other assets (line 4 plus line 5), forwards to Schedule F, line 1c. Must agree with in-kind contributions recognized as revenue in the AFS.	\$76,619	\$55,456

Exhibit B (continued)

**WTMD Annual Financial Reports
Years Ending June 30, 2015 and 2016**

Line	Description	FY 2015	FY 2016
Radio	Schedule E - EXPENSES		
	PROGRAM SERVICES		
1	Programming and production	\$1,134,326	\$1,343,690
	A. Restricted Radio CSG	\$31,257	\$39,993
	B. Unrestricted Radio CSG	\$87,273	\$41,251
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$1,015,796	\$1,262,446
2	Broadcasting and engineering	\$0	\$0
	A. Restricted Radio CSG	\$0	\$0
	B. Unrestricted Radio CSG	\$0	\$0
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$0	\$0
3	Program information and promotion	\$0	\$0
	A. Restricted Radio CSG	\$0	\$0
	B. Unrestricted Radio CSG	\$0	\$0
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$0	\$0
	SUPPORT SERVICES		
4	Management and general	\$406,112	\$370,728
	A. Restricted Radio CSG	\$0	\$0
	B. Unrestricted Radio CSG	\$0	\$15,397
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$406,112	\$355,331
5	Fund raising and membership development	\$783,612	\$907,168
	A. Restricted Radio CSG	\$0	\$0
	B. Unrestricted Radio CSG	\$0	\$57,592
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$783,612	\$849,576
6	Underwriting and grant solicitation	\$0	\$0
	A. Restricted Radio CSG	\$0	\$0
	B. Unrestricted Radio CSG	\$0	\$0
	C. Other CPB Funds	\$0	\$0
	D. All non-CPB Funds	\$0	\$0
7	Depreciation and Amortization if not allocated	\$0	\$0
8	Total Expenses (sum of lines 1 to 7) must agree with audited financial statements	\$2,324,050	\$2,621,586
	A. Total Restricted Radio CSG (sum of lines 1.A, 2.A, 3.A, 4.A, 5.A, 6.A, 7.A)	\$31,257	\$39,993
	B. Total Unrestricted Radio CSG (sum of lines 1.B, 2.B, 3.B, 4.B, 5.B, 6.B, 7.B)	\$87,273	\$114,240
	D. Total All non-CPB Funds (sum of lines 1.D, 2.D, 3.D, 4.D, 5.D, 6.D, 7.D)	\$2,205,520	\$2,467,353
9	INVESTMENT IN CAPITAL ASSETS	\$0	\$0
10	Total expenses and investment in capital assets	\$2,324,050	\$2,621,586

Exhibit C

**Summary of Non-Federal Financial Support
For the periods ending June 30, 2015 and 2016
Certified by Head of Grantee and Independent Accountant's Report**

Line	Description	FY 2015	FY 2016	Total
	<i>Summary of Non-Federal Financial Support:</i>			
1	Direct Revenue (Schedule A)	\$2,273,546	\$2,452,241	\$4,725,787
2	Indirect Administrative (Schedule B)	0	0	0
3	In-Kind Contributions (Schedule C)	14,249	10,097	24,346
4	Total Non-Federal Financial Support	\$2,287,795	\$2,462,338	\$4,750,133

Exhibit D

WTMD Overstated Reported NFFS

Overstated NFFS	FY 2015	FY 2016	Total
<i>Membership premium exclusions</i>			
Fair Market Value (FMV) of premiums that are not of insubstantial value	\$ 10,642	\$ 12,066	\$ 22,708
Subtotal membership premium exclusions	\$ 10,642	\$ 12,066	\$ 22,708
CPB's FY 2017 Incentive Rate of Return	5.659%	5.659%	5.659%
<i>CSG overpayment</i>	<i>\$ 602</i>	<i>\$ 683</i>	<i>\$ 1,285</i>
Total overstated NFFS	\$ 10,642	\$ 12,066	\$ 22,708
CPB's FY 2017 Incentive Rate of Return *	5.659%	5.659%	5.659%
<i>Potential CSG overpayment/funds put to better use</i>	<i>\$ 602</i>	<i>\$ 683</i>	<i>\$ 1,285</i>

*CPB's FY 2017 rate used for FY 2018 as CPB has not finalized IRR for 2018 as of time of this report.

Scope and Methodology

We performed an attestation examination to determine WTMD's compliance with CPB 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, 2015 and June 30, 2016; grant certifications of compliance with Act requirements; and certifications on its financial reports submitted to CPB.

We tested the allowability of NFFS claimed on WTMD'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 and other documentation supporting revenues reported. Specifically, we reviewed 55 NFFS revenue transactions totaling \$990,159 of \$2,287,795 in FY 2015 and 75 NFFS revenue transactions totaling \$986,230 of \$2,462,338 in FY 2016.

We reviewed the allowability of expenses charged to CPB CSG grants. To determine that expenditures were incurred in accordance with the grant terms, we reviewed \$188,190 of \$272,763 expenses (69 percent) reported on the CPB CSG grants in FYs 2015 and FY 2016. We reviewed vendor invoices and other documentation supporting expenditures tested.

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 EEO 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 (IPA) audit planning, internal controls, risk assessment, 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 WTMD'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 October 2016 through January 2017. Our examination was performed in accordance with the *Government Auditing Standards* for attestation engagements.



Exhibit F

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1 Olympic Place
Suite 100
Towson, MD 21204

April 7, 2017

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

Re: Response to Audit of Community Service Grants at WTMD, Towson,
Maryland, for the Period July 1, 2014 – through June 30, 2016, Draft report
No. ASR1701-XXXX

Dear Mr. Richardson,

Thank you for this opportunity to respond to the Office of Inspector General draft
audit report for the period July 1, 2014 to June 30, 2016.

Overall, we are pleased with the findings, especially considering the period covered.
The two year period covered was a time of great change and transition for WTMD
and included the first year of operating as our own 501-c3 operation. For the second
year of the period covered, WTMD was operating without the long time General
Manager. I was named Interim GM at that time. So, all things considered we think
WTMD fared well.

We agree with your observations that WTMD erred in reporting a small percentage
of its NFFS calculation that resulted in CPB overpayments of \$2,570 over the two-
year period. This was due to WTMD's failure to properly identify and exclude the
fair market value of premiums from membership revenues as reported on its AFRs
as required. I have worked closely with our Membership Director and Director of
Finance & Administration to address this issue. Procedures have been changed and
fair market value of premiums will no longer be included in WTMD's NFFS
calculations.

We agree with your findings that WTMD did not properly provide notice to the
public of all committee meetings of the Board of Directors in 2015. This has been
rectified.

However, we disagree with the conclusion of your auditor that "WTMD broadcast
on-air several underwriting messages that included calls to action that directed
readers and listeners to buy tickets and make reservations".



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There are no examples given in the draft audit report, but in a follow up email auditor Julia Stancil provided these examples:

*Baltimore Soundstage Presents Delta Spirit and Avid Dancer Thursday April 2
Tickets at TicketFly or the Baltimore Soundstage Box Office*

Live Nation supports WTMD. Presenting the Dave Matthews Band performing a 2-set concert on Saturday, May 23rd at Jiffy Lube Live. Tickets and show information at live nation dot com, all Ticketmaster outlets, or by phone at 800-745-3000

Baltimore Soundstage supports WTMD. Thursday June 25th Baltimore Soundstage presents the Mowglis. The Mowglis June 25th with Vinyl Theatre and Handsome Ghost. Tickets at TicketFly dot com. Baltimore Soundstage 124 Marketplace and Baltimore soundstage dot com.

In our email exchange, the auditor specified that in their audit judgment the reference to tickets was a call to action. It has been my experience, in 30 years in public broadcasting, that including the word tickets is acceptable practice and is not a call to action. I have consulted with several veteran General Managers and programmers who all agree that including such a statement is standard practice across the industry. In fact, WTMD regularly receives copy from NPR that includes identical language. Here is a recent example from the week of February 6, 2017:

Support for N-P-R comes from: Vital Projects Fund, supporting The Museum of Modern Art in Manhattan, where the exhibit, "Francis Picabia: Our Heads Are Round So Our Thoughts Can Change", is on view. More information and tickets at MoMA dot org.

And this from the week of April 7, 2017:

Support for N-P-R comes from: Vital Projects Fund, supporting The Museum of Modern Art in Manhattan, where 'Unfinished Conversations: New Work from the Collection' is on view. More info and tickets at MoMA dot org.

There is no call to action language included in these examples. But only a direct statement of fact as to where tickets and information can be found, with no inducement to act.

It appears that both the WTMD and NPR examples adhere to CPB guidelines that state: "underwriting credits may not contain the following elements":



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A call to action
Qualitative or descriptive language
Comparative Language
Price or value information
Inducements to buy, sell, rent or lease
Endorsements
Demonstrations of consumer satisfaction

I also consulted on this issue with attorney John Crigler of the law firm Garvey, Schubert and Barer in Washington DC. Mr. Crigler's opinion on the issue follows:

The WTMD underwriting messages in question contain information about where tickets are available. WTMD believes that such information is descriptive, rather than a "call to action" and that it does not "direct" listeners "to buy tickets and make reservations," as the draft audit report concludes. The announcements are entirely lacking in price information or explicit invitations to purchase. They are no more calls to action than statements that inform listeners where information is available.

A finding that information about ticket availability is a call to action would be inconsistent with FCC rulings on the subject. FCC rulings frequently consider underwriting announcements that offer ticketed services, but the rulings do not prohibit the very mention of tickets as a call to action or inducement to purchase. If that were the case, ticketing services could never be underwriters.

In *Isothermal Community College*, DA-01-2831 (Enforcement Bureau, December 6, 2001), one of the leading cases involving ticket sales, the FCC admonished the licensee of Station WNCW(FM), Spindale, North Carolina for announcements related to tickets for a concert conducted by a for-profit entity. In exchange for airing the announcements, the station received tickets that it could use as premiums or giveaways. After concluding that the tickets constituted consideration received by the station in exchange for the announcements, the FCC turned to the question of whether the announcements were promotional. The test it articulated was whether the announcements "directly benefited" a for-profit. The station did not contest the finding that the inclusion of inducements to buy ("tickets are on sale now at 877-995-9961"), calls to action ("visit concertwire.com for tickets ...") and qualitative language ("escape from the ordinary") directly benefited the underwriter. By contrast, the WTMD announcements lack the very language that tip the balance between descriptive and promotional language.

The *Isothermal* case contains other cautionary lessons as well. It admonishes the licensee rather than imposing a monetary fine, and it acknowledges that "it may



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be difficult at times for licensees to distinguish between language that promotes versus that which merely identifies the underwriter, but [the Commission] expects that licensees exercise reasonable, good faith judgment in this area," *citing Xavier University*, 5 FCC Rcd 4920 (1990); *Public Notice*, "In the Matter of the Commission Policy Concerning the Noncommercial Nature of Educational Broadcasting Stations," (April 11, 1986), *republished* 7 FCC Rcd 827(1992).

The CPB Guidelines adopt criteria the FCC has developed for distinguishing underwriting announcements from advertisements, with one notable exception: they do not recognize that the distinction is often a difficult one, and that the test of a violation is not whether an announcement promotes rather than identifies, but whether the licensee made a good faith judgment. A good faith judgment – one based upon FCC precedent and industry practice – is precisely what WTMD made in concluding the announcements it aired were not promotional. If the underwriting announcements aired by WTMD satisfy FCC standards, they should not be found to violate CPB's interpretation of the same statute, Section 399B of the Communications Act. CPB's different, stricter interpretation of a statute famous for its ambiguity would create considerable, and unnecessary, confusion in public broadcasting.

John Crigler

This issue of the word tickets in underwriting copy, if determined to be unacceptable, would negatively impact WTMD's ability to raise much needed funding through underwriting sales. We look forward to your response and a satisfactory conclusion of the audit process. Thank you again for this opportunity to express our opinions on the issues raised.
Please contact me if you have any questions.

Sincerely,

Scott Mullins
General Manager
89.7 WTMD