

CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF INSPECTOR GENERAL

**EVALUATION OF CPB RESTRICTED FUNDS
AWARDED TO WMPG-FM, PORTLAND, MAINE
FOR FISCAL YEAR ENDING JUNE 30, 2014**

REPORT NO. ASR1408-1504

March 23, 2015




Corporation
for Public
Broadcasting

Office of Inspector General

Date: March 23, 2015

To: Jackie J. Livesay, Vice President, Compliance

From: Mary Mitchelson, Inspector General 

Subject: Evaluation of CPB Restricted Funds Awarded to WMPG-FM, Portland, Maine for Fiscal Year Ending June 30, 2014, Report No. ASR1408-1504

We have completed an evaluation of the Corporation for Public Broadcasting (CPB) Community Service Grant (CSG) restricted funds awarded to WMPG-FM (WMPG) for the period July 1, 2013 – June 30, 2014. The objectives of this evaluation were to determine whether WMPG: a) spent CPB restricted funds on national programming; b) discretely accounted for CPB revenues and expenditures in its accounting system; and c) complied with the Communication Act requirements for open meetings, open financial records, Equal Employment Opportunity (EEO) reporting, and donor lists/political activities prohibitions.

Our evaluation determined that WMPG was in compliance with the Communication Act requirements; however, we also found:

- questionable restricted expenditures totaling \$6,873 for broadcast services not exclusively related to distributing national program content; and
- WMPG's accounting system did not discretely account for restricted and unrestricted expenditures within its CPB general ledger account.

We recommended that CPB: 1) recover the \$6,873 in questioned costs; 2) provide additional guidance on the use of restricted funds; and 3) require WMPG to separately account for its restricted expenditures in its accounting system.

In response to the draft report, WMPG management acknowledged our findings and stated it had initiated corrective actions to address both issues. WMPG's written response to the draft report is presented in Exhibit D.

The findings and recommendations contained in this report do not necessarily represent CPB management's final position on these matters. CPB management will make a final management decision on the recommendations in this report in accordance with CPB's audit resolution procedures.

Based on WMPG's response to the draft report, we consider recommendation 1 unresolved and recommendation 3 resolved but open pending CPB's final management decision resolving both

recommendations. Recommendation 2 was directed to CPB management and is unresolved pending CPB's final management decision. We made no changes to our draft findings and recommendations in response to WMPG's comments on the draft report.

We performed our evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Quality Standards for Inspection and Evaluation*. Our scope and methodology is discussed in Exhibit C.

BACKGROUND

WMPG is an institutional radio station broadcasting from Portland, Maine, located at the University of Southern Maine (USM) Portland campus. WMPG's license holder is the University of Maine System and the Board of Trustees of the University of Maine System. The Board has full legal responsibility and authority for the University of Maine System and WMPG.

WMPG's mission states it strives to empower USM students and community members to create diverse, innovative, high quality media, foster the exchange of ideas, and celebrate the many cultures of USM and surrounding communities for broadcast to the world. It transmits a range of music, public affairs, and news live, daily to promote understanding among people of diverse social and cultural backgrounds throughout the community.

CPB's annual award of CSG grants to public television and radio stations are based on the amount of Non-Federal Financial Support (NFFS) claimed by all stations on their Annual Financial Reports (AFR) and Annual Financial Summary Reports (FSR) to CPB. The CSG calculation process starts with separate amounts appropriated for the television and radio CSG pools, adjusted by the base grant. The TV CSG pool is also adjusted by distance and local grant amounts and the Radio CSG pool is adjusted by rural support 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 weighted amount of NFFS claimed by all television or radio stations eligible to receive incentive grants. The IRR is then multiplied by the station's reported NFFS to calculate the incentive award amount of the station's total CSG. A portion of radio CSG funds (23 percent) are restricted to be used for acquiring or producing programming that is to be distributed nationally and is designed to serve the needs of a national audience, as required by the Public Broadcasting Act, Section 396 (3)(A)(iii)(III).

There is a two year lag between the reported NFFS and CPB's calculation of the fiscal year's (FY) CSG award amount. For example, CPB used the NFFS claimed on WMPG's FY 2012 FSR to calculate the amount of WMPG's FY 2014 CSG award.

WMPG's annual CSG award for FY 2014 totaled \$71,514, of which \$18,608 was restricted for national programming as presented in Exhibit A. Each CSG grant can be spent over a two year period. WMPG's FY begins on July 1 and ends on June 30.

RESULTS OF EVALUATION

Questioned Restricted Expenditures

Our review of WMPG's FY 2014 CSG restricted expenditures found a portion of restricted expenditures was not used to broadcast and distribute national programming. As a result, we are questioning \$6,873 in reported restricted costs, per Exhibit B. WMPG charged internet services and engineer expenses to CPB restricted funds without allocating the costs between local programming use and national programming use. Instead, WMPG charged 100 percent of the costs as national programming costs.

Grant fund restrictions, require that the restricted portion of the CSG be spent on national program production and acquisition.

These funds must be used as specified in Section 396(k)(3)(A)(iii) of the Communications Act, which provides that the funds are "solely to be used for acquiring or producing programming that is to be distributed nationally and is designed to serve the needs of a national audience."

The restricted portion of the CSG must be used exclusively for the acquisition, production, promotion, and/or distribution of national programming of high quality, diversity, creativity, excellence, and innovation, with strict adherence to objectivity and balance in all programs or series of programs of a controversial nature.

To qualify as a national program for funding from CSG funds, a program must be placed in the national marketplace of public radio programming. In addition to the purposes described in the previous paragraph, this portion of the CSG may be used for the direct costs associated with placing a program produced with CSG funds into the national marketplace, such as the cost of purchasing satellite time or other direct distribution costs.

CPB's FY 2014 Radio CSG General Provisions and Eligibility Criteria, Section 6.A.9.

CPB awarded WMPG \$18,608 in restricted funds in its FY 2014 CSG. WMPG officials identified \$23,509 in restricted expenditures charged to its CPB FY 2014 CSG account.

We audited 100 percent of the \$23,509 restricted transactions and accepted \$11,735 in qualifying restricted expenditures, per Exhibit B. We questioned \$6,873 in internet and contract engineer services, the difference between the \$18,608 restricted funds granted by CPB and the \$11,735 accepted as restricted expenditures. We found that WMPG charged 100 percent of the internet services (\$1,756) and engineer expenses (\$11,000) related to the broadcast and distribution to CPB restricted funds without allocating the costs between local programming and national programming.

To do this allocation, we used WMPG's program schedule to identify its national and local programming. National programming represented only 7.7 percent of the station's total weekly

programming hours (13 hours divided by 168 hours). Applying the 7.7 percent rate to the total internet and contract engineer's service costs (\$12,756), we identified \$982 allocable to national programming. This figure added to the allowable national program acquisition costs and processing fees of \$10,753 totaled \$11,735 in allowable national programming costs.

In response to this finding WMPG officials acknowledged that restricted spending included expenses that were not proportional to the national programming it aired. They indicated that they have contacted CPB for guidance. They also said that they had other expenses they believe would qualify and can make adjustments as needed.

Recommendations

We recommend that CPB management:

- 1) recover \$6,873 in questioned costs; and
- 2) provide additional guidance for using restricted funds to pay for distribution services related to national programming.

WMPG Response

WMPG's response indicated that it had contacted CPB for guidance on using restricted funds and was advised on how to proceed with allocating the questionable restricted expenditures. Officials said it had also adjusted its 2014 CSG FSR to reflect the recommended changes and had submitted it to CPB.

OIG Review and Comments

Based on WMPG's response we consider recommendation 1 unresolved, pending CPB's final management decision. Recommendation 2 was directed to CPB management and is unresolved pending CPB's final management decision.

Discrete Accounting for Restricted CSG Funds

WMPG's accounting system did not separately identify the use of the restricted portion of the CSG in accordance with CPB grant terms. Although CPB CSG grant funds were discretely accounted for within the station's accounting system, the restricted expenditures were not separately identified within that account. Consequently, we could not independently verify restricted fund expenditures without the assistance of WMPG officials.

CPB's Radio CSG General Provisions and Eligibility Criteria, Section 4.D., require stations to provide discrete accounting and proper documentation to support all CSG revenues and expenditures.

Discrete accounting requires a unique code that identifies CSG revenues and expenses, restricted and unrestricted, so that both the grantor and the auditor can discretely track those

funds within the accounting system. There is no requirement to segregate CSG funds in separate bank accounts. Co-mingling funds is allowable as long as the accounting system can easily identify transactions associated with a major activity (i.e., department, grant, contract or other project).

CPB's website for Stations and Producers, Station Guidelines, further defines discrete accounting.

Our review found WMPG accounting system didn't adequately distinguish restricted versus unrestricted expenditures. WMPG separated all of the CPB CSG funds into one account and then created a sub account within that account to track restricted spending. However, this design did not work properly, because restricted expenditures were not always included in the sub account. As a result, we had to rely on WMPG officials to identify the expenses charged to the restricted funds.

WMPG officials were aware of the need to segregate the restricted portion of the CSG and had established procedures to do so; however, the procedures did not function properly. In order to address this issue, WMPG officials said they created two completely separate accounts; one for restricted expenditures (#951) and one for unrestricted expenditures (#950). During our fieldwork we did not verify these actions.

Recommendation

- 3) We recommend that CPB require WMPG to provide evidence that its corrective action has been implemented and is working effectively to separately account for restricted transactions.

WMPG Response

In response to our draft report, WMPG officials acknowledged our finding and established two separate accounts to record CSG funds; one for the unrestricted funds and one for restricted funds. Officials said this system will allow easy tracking and reporting of CPB CSG funds.

OIG Review and Comments

Based on WMPG's response, we consider recommendation 3 resolved but open pending CPB's review and acceptance of WMPG corrective actions.

EXHIBIT A

**CPB Payments to WMPG-FM
July 1, 2013 – June 30, 2014**

Date	Grants:	Amounts
11/19/2013	Community Service Grant – Restricted	\$12,317
4/7/2014	Community Service Grant – Restricted	\$6,291
	Sub-Total	\$18,608
11/19/2013	Community Service Grant – Unrestricted:	\$35,111
4/7/2014	Community Service Grant – Unrestricted:	\$17,795
	Sub-Total	\$52,906
	Total Payments	\$71,514

EXHIBIT B

WMPG Questioned Restricted Expenditures

Type	Amount	Allowable	Description
Program Acquisition	\$510	\$510	Public Radio Exchange- membership fees for programming
Program Acquisition	205	205	Feature Story News for a daily news service
Program Acquisition	1,230	1,230	Feature Story News for a daily news service
Program Acquisition	8,308	8,308	National Public Radio interconnect fees
Processing Fees	500	500	Processing Fees from National Public Sound Exchange
Sub-Total	\$10,753	\$10,753	
Distribution	1,019	78	Internet service for distributing audio (allocated to National Programming @ 7.7% rate)
Distribution	737	57	Internet service for distributing audio (allocated National Programming @ 7.7% rate)
Engineering	6,200	477	Contract engineer- maintains studio, transmitters, etc. (allocated to National Programming @ 7.7% rate)
Engineering	4,800	370	Contract engineer- maintains studio, equipment (allocated to National Programming @ 7.7% rate)
Sub-Total	\$12,756	982	
Total	\$23,509	\$11,735	

CSG restricted funds \$18,608
 Allowable costs 11,735
Questioned Costs \$6,873

National Program Allocation Basis: 13 hours weekly national programming
 168 total weekly programming
 7.7% percentage allocable to national programming

Scope and Methodology

We performed an evaluation to determine WMPG's compliance with Communications Act, restricted fund use, and discrete accounting requirements. The scope of the examination included reviews and tests of Communication Act requirements, the allowability of expenses charged to the CPB restricted grant for the fiscal year ending June 30, 2014, and the station's financial recordkeeping.

We reviewed records and documents supporting the station's compliance with the Communications Act 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.¹ We also reviewed the station's website and policies to determine its compliance with CPB's new eligibility transparency CSG requirements.

We also tested all the restricted expenditures identified by WMPG officials during FY 2014 to determine if they were spent on national programming in accordance with the terms of the grant. CPB awarded WMPG \$18,608 in restricted funds under the FY 2014 CSG. We reviewed \$23,509 or 100 percent of the restricted expenditures identified by WMPG as spent against the FY 2014 CSG. We had to rely on WMPG officials to identify restricted expenditures because the accounting system did not identify restricted transactions. We reviewed supporting documentation that included vendor invoices and other documents supporting expenditures tested.

Our procedures included interviewing station officials and its independent public accountant. We gained an understanding of WMPG's policies and procedures for compliance with Communications Act and use of restricted funds. We used this information to assess risks and plan the nature and extent of our testing to conclude on our objectives.

Our fieldwork was performed at WMPG, during the week of December 1, 2014. Our evaluation was performed in accordance with CIGIE *Quality Standards for Inspection and Evaluation*.

¹ Under the CSG grant program WMPG is an institutional station and is not required to have a Community Advisory Board.



Southern Maine Community Radio
Broadcasting from the University of Southern Maine
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March 17, 2015

William Richardson
Deputy Inspector General
401 Ninth Street, NW
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William,

The Draft Report No.ASR1408-XXXXX is a fair representation of the audit conducted by Monica Williams. Below are a few comments on how we have addressed the issues raised.

We have implemented the CPB Auditor's recommendation to make our accounting of restricted funds more trackable by creating two separate accounts for the CSG funds. One that contains all Unrestricted CSG funds and one that contains all Restricted funds. This now allows easy report generating and tracking.

We also contacted the CPB and was advised on how to proceed with the allocating of the questionable restricted expenditures. We adjusted our 2014 CSG FSR to reflect the recommended change and have submitted it to the CPB.

We were glad to see that we were in complete compliance with all Communication Act requirements.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jim Rand', written over a horizontal line.

Jim Rand
WMPG Station Manager