Corporation
for Public
Broadcasting

Office of Inspector General

March 29, 2018

Mr. John LaBonia
General Manager
WLRN TV/FM
172 NE 15th Street
Miami, FL 33132

Re: Audit of Community Service Grants at WLRN TV/FM Licensed to The School Board of Miami-Dade County, Florida, for the period July 1, 2013 through June 30, 2015, Report No. ASJ1705-1803

Dear Mr. LaBonia:

Enclosed please find our final audit report. Your official response to the draft report is presented in Exhibit H. This report contains the conclusions of the Office of Inspector General (OIG). The reported findings and recommendations do not necessarily represent the final Corporation for Public Broadcasting (CPB) position on the recommendations. CPB officials are required to make a final determination on the findings and recommendations in accordance with established audit resolution procedures, within 180 days of the issuance of this report.

I would like to take this opportunity to thank you and your staff for their assistance. We appreciate the professionalism and cooperation shown to us.

We will post this report to the OIG's website in accordance with the Inspector General Act of 1978, as amended and distribute the report with our recommendations to CPB's congressional committees of jurisdiction. Should you have any questions, please contact me at (202) 879-9628 or Bill Richardson, Deputy Inspector General, at (202) 879-9661.

Very truly yours,

Mary Mitchelson

Mary Mitchelson
Inspector General

Enclosure

cc: Alberto M. Carvalho, Superintendent, Miami-Dade County Public Schools
Daisy Gonzalez-Diego, Chief Communications Officer, Miami-Date County Public Schools

Office of Inspector General
Corporation for Public Broadcasting

Report in Brief

Report No. ASJ1705-1803
March 29, 2018

Background

We performed this audit in response to a Corporation for Public Broadcasting (CPB) request.

Our objectives were to examine the station's certifications of compliance with Corporation for Public Broadcasting 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. The amount of NFFS a station reports to CPB affects the amount of CSG funding the station receives.

This report contains the views of the OIG. CPB will make the final decision on our findings and recommendations.

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 WLRN TV/FM Licensed to The School Board of Miami-Dade County, Florida for the Period July 1, 2013 through June 30, 2015

What We Found

Overstated NFFS resulted in excess CSG payments of $459,719 in FY 2016 and $324,299 in FY 2017.

WLRN overstated NFFS on its 2014 and 2015 AFRs by $7,348,897 because it:

- improperly reported lease reimbursement revenue and other exchange income, as well as inadequately supported subsidies and funds received from public broadcasting entities as NFFS;
- did not exclude premiums provided to donors, bad debt expense, loss on endowments, special fundraising expenses, and ineligible direct expenses; and
- incorrectly calculated indirect administrative support (IAS).

The station disagreed with our findings regarding the lease reimbursement revenue, inadequately supported subsidies, and calculation of IAS. WLRN also disagreed with our recommendation that CPB should assess penalties. Nonetheless, WLRN has initiated corrective actions, including negotiating an agreement with its affiliated non-profit fundraising corporation, to ensure future compliance with CPB requirements. CPB management will make the final determination on our findings and recommendations.

What We Recommend

That CPB take the following actions:

- recover potential CSG overpayment of $784,018;
- apply appropriate penalties in accordance with CPB's CSG Non-Compliance Policy; and
- require WLRN to identify the corrective actions and controls it will implement to ensure future compliance.

CORPORATION FOR PUBLIC BROADCASTING

OFFICE OF INSPECTOR GENERAL

AUDIT OF COMMUNITY SERVICE GRANTS AT WLRN TV/FM LICENSED TO THE SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA FOR THE PERIOD JULY 1, 2013 THROUGH JUNE 30, 2015

REPORT NO. ASJ1705-1803

March 29, 2018

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Corporation
for Public
Broadcasting

Office of Inspector General

Date:	March 29, 2018
To:	Jackie J. Livesay, Vice President, Compliance Ted Krichels, Senior Vice President, System Development and Media Strategy Kathy Merritt, Senior Vice President, Journalism and Radio
From:	Mary Mitchelson, Inspector General Mary Mitchelson
Subject:	Audit of Community Service Grants at WLRN-TV/FM Licensed to The School Board of Miami-Dade County, Florida for the Period July 1, 2013 through June 30, 2015, Report No. ASJ1705-1803

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 and appropriate congressional committees 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

The Office of Inspector General (OIG) has completed an audit of the Corporation for Public Broadcasting (CPB) Community Service grants (CSG) and Interconnection grants for the period July 1, 2013 through June 30, 2015 at WLRN TV/FM, licensed to The School Board of Miami-Dade County, Florida (School Board). Our objectives were to examine WLRN's certifications of compliance with CPB grant terms to: a) claim Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFRs) in accordance with CPB Financial Reporting Guidelines (Guidelines); b) expend 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).

Based on our audit, we found that WLRN was materially noncompliant with CPB Guidelines for reporting NFFS on its AFRs, and improperly claimed $7,348,897 of unallowable NFFS ($3,991,206 in fiscal year (FY) 2014 and $3,357,691 in FY 2015). This overstated NFFS resulted in CSG overpayments of $784,018 ($459,719 in FY 2016 and $324,299 in FY 2017). We have reported the overpayments as funds put to better use.

We recommend that CPB: 1) recover the CSG overpayment of $784,018; 2) apply appropriate penalties in accordance with CPB's CSG Non-Compliance Policy; and 3) require WLRN to identify the corrective actions and controls it will implement to ensure future compliance.

In response to the draft report, WLRN did not agree that it incorrectly reported lease funds and a significant portion of the subsidies. WLRN also did not agree with our recommendation that CPB should assess penalties. Nonetheless, WLRN has initiated corrective actions in response to our recommendation requiring the station to identify the controls it will implement to ensure future compliance with CPB requirements. WLRN's written response to the draft report is presented in Exhibit H. The lease agreement between the School Board and Clearwire Spectrum Holdings that WLRN attached to its response is not included in this Exhibit but is available upon request.

We previously confirmed that WLRN misreported its underwriting NFFS in FYs 2008 through 2015, addressed in Report No. ESJ1708-1710. In total, WLRN materially overstated NFFS during our 2-year audit period by $9,480,043 (37.8 percent) of the total $25,051,693 reported on Exhibit D ($7,348,897 addressed in this report and $2,131,146 previously reported in Report No. ESJ1708-1710).

We initiated this audit and our previous evaluation at the request of CPB officials to address WLRN's restatement of underwriting NFFS revenues for FYs 2008 through 2015. WLRN submitted its restatement to CPB in February of 2017 and identified over $9 million in TV underwriting NFFS revenues that it had overreported and an equal amount in radio underwriting that it had underreported.

This current report presents OIG's conclusions regarding the NFFS claimed on WLRN's FYs 2014 and 2015 AFRs. The findings and recommendations do not represent CPB's final position on the issues. While we believe our recommendations would be appropriate to resolve the findings reported, CPB officials will make final determinations on our recommendations in accordance with established CPB audit resolution procedures. Based on WLRN's response to the draft report, we consider our recommendations unresolved pending CPB's final management decision accepting WLRN's corrective actions and recovering CSG overpayments.

We conducted this audit in accordance with *Government Auditing Standards* for attestation examination engagements. Our scope and methodology are presented in Exhibit G.

BACKGROUND

WLRN is a public radio and TV station in South Florida. Its website explains that WLRN radio began broadcasting in 1948 as a non-profit, non-commercial broadcast station licensed to the School Board. It is the oldest FM station in South Florida. WLRN-TV, also licensed to the School Board, followed in 1955. WLRN also provides media support to Miami-Dade County Public Schools whose 320 schools have an enrollment of over 319,000 students.

WLRN TV and radio receive financial support from various sources including: their licensee; grants from CPB and the State of Florida; tower leases;[1] and revenue from Friends of WLRN, Inc. (Friends), a Florida nonprofit corporation that was incorporated in 1974 to support and enhance the program services of WLRN. During 2009, Friends reactivated an affiliated nonprofit corporation, South Florida Public Media Company (SFPM), to support WLRN news activities. SFPM's financial statements are consolidated with Friends' financials in accordance with generally accepted accounting principles.

Friends has its own Board of Directors, which includes the station general manager and, at times, has included a representative from the School Board. Friends has its own employees and through SFPM employs reporters that support WLRN's news activities. Friends handles the station's fundraising activities including membership, underwriting, and major gifts. The funds Friends raises are used to pay its operating costs and a portion of WLRN's production, broadcasting, and other operating costs.

Annually Friends provides WLRN with an unaudited Supplementary Consolidated Statement of Activities Television and Radio (Supplemental Schedules) of its TV and radio financial information. The station used that information to prepare its financial statements and file separate TV and radio AFRs with CPB.

The School Board also provides financial support to WLRN by paying some station expenses directly, as well as providing indirect administrative support. WLRN employees are School Board employees, and the School Board maintains the official accounting records for the station. During FYs 2008 through 2015, the station prepared its own financial statements and AFRs. These AFRs reported WLRN's NFFS revenue that CPB used to calculate the amount of the CSGs CPB awarded to the station.

As required by the Governmental Accounting Standards Board, Friends has been included in WLRN's financial statements as a blended component unit. Friends and the station both undergo

[1] The School Board leases the station's excess tower capacity and uses a portion of the lease proceeds to pay some station expenses.

separate annual financial statement audits conducted by different independent public accountants (IPAs). Friends contracted for its own audit, a consolidated report of all its activities that did not separate TV and radio activities. WLRN used a consultant to prepare separate financial statements and AFRs for its TV and radio station activities. The station's consultant used the information from Friends supplemental schedules to report the TV and radio revenue splits in WLRN's financial statements and AFRs. The School Board contracted for a financial statement audit of the station's separate TV and radio statements, as well as an attestation examination on the separate AFRs submitted to CPB for TV and radio.

Basis for Review

In February 2017, WLRN notified CPB it had discovered that the Friends' Chief Financial Officer (CFO) had incorrectly reported underwriting revenue to WLRN since FY 2008. For eight years, WLRN misreported a material amount of radio underwriting revenues as TV revenues. The misreporting was brought to light when WLRN's new IPA, conducting the FY 2016 financial statement audit, made inquiries of the station, Friends' CFO, and Friends' IPA about the underwriting split between TV and radio.

After discovering the misreporting, Friends restated its TV and radio underwriting based on the revenues recorded in its general ledgers. Additionally, Friends hired a forensic accountant to perform a limited-procedures review to identify whether there were any financial irregularities related to the preparation of the supplemental schedules provided to WLRN for the years ending December 31, 2008 through December 31, 2015. The forensic accountant's report was issued on February 13, 2017. Based on this information, CPB asked the OIG to conduct an audit.

On September 29, 2017, we issued our report on the misreported underwriting revenues.[2] In this report, we present our examination of the remaining NFFS revenues reported on WLRN's FY 2014 and 2015 AFRs and compliance with CPB grant requirements.

CPB's Community Service Grant Program

The Communications Act of 1934 (Act) provides that specific percentages of the appropriated funds CPB receives annually from the United States Treasury must be allocated and distributed to licensees and permittees of public TV and radio stations. After funds are designated as either TV or radio funds, they are placed in the appropriate CSG grant pool for distribution to eligible stations. TV funds can be distributed only to TV stations and radio funds must go to radio stations.

CPB awards annual CSG grants to public TV and radio stations based on the amount of NFFS claimed by all stations on their AFRs. The CSG calculation process starts with separate amounts

[2] *Evaluation of WLRN-TV/FM's Restatement of its Underwriting Revenue Split Between Television and Radio* (September 29, 2017), Report No. ESJ1708-1710. In our evaluation report, we confirmed the restatement of the underwriting revenues WLRN reported for TV and radio for the period July 1, 2007 through June 30, 2015. The station overstated TV underwriting by $9,477,139 and understated radio underwriting by a corresponding amount. As a result, WLRN was overpaid $1,128,247 in TV CSGs. See https://www.cpb.org/files/oig/reports/WLRN.pdf.

appropriated for the TV and radio CSG pools adjusted by base grants and supplemental grants. The funds that remain are called the Incentive Grant Pools; one is for TV and the other is for radio.

The Incentive Rate of Return (IRR) is calculated by dividing the Incentive Grant Pools by the total adjusted NFFS claimed by all TV and radio stations. The IRR is then multiplied by each 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 WLRN on its FY 2014 AFRs to determine the amount of the CSG the station received in FY 2016.

As shown in Exhibit A, during our audit period WLRN received CSG and Interconnection funds totaling $3,514,768 from CPB for FYs 2014 and 2015 ($2,453,303 for TV and $1,061,465 for FM). The station reported NFFS of $12,923,445 in FY 2014 and $12,128,248 in FY 2015 as presented in Exhibit D. WLRN's audited financial statements for the two FYs we audited reported operating revenues of $15,278,168 in FY 2014 and $18,251,917 in FY 2015. WLRN's fiscal year begins July 1 and ends on June 30.

RESULTS OF REVIEW

In our opinion, based on the material noncompliance issues described below and in our evaluation report titled *Evaluation of WLRN-TV/FM's Restatement of its Underwriting Revenue Split Between Television and Radio*, WLRN has not complied with the requirements in the following paragraph for the FYs 2014 and 2015 CSGs we examined.

We reviewed WLRN 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 WLRN's compliance with AFR/NFFS reporting in accordance with CPB's Guidelines; Act requirements; and discrete accounting requirements. Our responsibility is to express an opinion on management's assertions about its compliance based on our examination.

We conducted our audit in accordance with the *Government Auditing Standards* for attestation examination engagements and, accordingly, included examining, on a test basis, evidence about WLRN'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. However, it does not provide a legal determination on WLRN's compliance with specified requirements.

We have audited the accompanying WLRN AFR's (Exhibits B and C). These reports are the responsibility of WLRN management. Our responsibility is to express an opinion on these reports based on our audit. In addition to more than $9 million of misreported underwriting disclosed in our *Evaluation of WLRN-TV/FM's Restatement of its Underwriting Revenue Split Between Television and Radio, (*Report No. ESJ1708 -1710), this audit disclosed that WLRN was materially noncompliant with CPB Guidelines for reporting NFFS on its AFRs, and improperly claimed $7,348,897 of additional unallowable NFFS ($3,991,206 in FY 2014 and $3,357,691 in FY 2015). This additional overstated NFFS resulted in CSG overpayments of

$784,018 ($459,719 in FY 2016 and $324,299 in FY 2017). We have reported the overpayments as funds put to better use.

FINDINGS AND RECOMMENDATIONS

OVERSTATED NFFS

Our audit found $7,348,897 in overstated NFFS ($3,991,206 in FY 2014 and $3,357,691 in FY 2015) reported on WLRN's AFRs. As a result, CPB made CSG overpayments of $459,719 to WLRN in FY 2016 and overpayments of $324,299 in FY 2017, for total overpayments of $784,018. We classified the overpayments as funds put to better use for reporting purposes, because the funds overpaid to WLRN could have been distributed to other public broadcasting entities. The following table itemizes the findings identified during our audit.

Summary of Overstated NFFS

NFFS Categories	Overstated FM NFFS		Overstated TV NFFS		Total
	FY 2014	FY 2015	FY 2014	FY 2015	
Schedule A: Direct Revenues					
Direct Expenses	$0	$0	$136,938	$99,762	$236,700
WLRN / Lease Reimbursement	$294,157	$324,209	$1,116,069	$825,346	$2,559,781
Subsidies	$154,145	$217,485	$1,289,268	$607,391	$2,268,289
Membership Premiums-Not deducted on AFR Line 10.1	$115,470	$83,497	$301,164	$309,515	$809,646
Membership Pledge Write-offs Not Deducted on Line 10.2	$197,558	$75,943	$62,915	$103,376	$439,792
Bad Debt Expense - Underwriting	$12,605	$2,370	$0	$0	$14,975
Shop WLRN Online Exchange Income	$3,043	$90	$0	$4,815	$7,948
Miami Herald Exchange Income	$0	$19,079	$0	$0	$19,079
Funds Received from Public Broadcasting Entities	$0	$34,970	$37,415	$12,000	$84,385
Cultural Connection Expenses (Special Fundraising)	$171,526	$96,897	$0	$0	$268,423
Loss on Endowment	$0	$395,919	$0	$44,263	$440,182
Miscellaneous Income			$5,500		$5,500
Schedule B: Indirect					
Indirect Administrative Support	($37,219)	($26,030)	$130,652	$126,794	$194,197
Net Overstated NFFS	**$911,285**	**$1,224,429**	**$3,079,921**	**$2,133,262**	**$7,348,897**
IRR	5.76916387%	5.65930006%	13.21933376%	11.95376348%	
Overpaid CSG Grant Funds	**$52,574**	**$69,294**	**$407,145**	**$255,005**	**$784,018**

Based on our audit we found multiple factors contributed to the overstated NFFS. However, the primary cause was a lack of internal controls at WLRN to internally review the work of the consultant and preparation of the AFRs. The station relied solely on the independent auditor's financial statement audit and attestation of the AFRs, however the independent auditor's attestation work did not ensure the AFRs were properly prepared, as required by CPB's Guidelines, nor did the auditor test any of the Friends' activities reported on the Supplemental Schedules provided to WLRN. During our audit period Friends' revenues represented 67.8 percent of the NFFS reported by WLRN.

Unallowable or Unsupported Direct Expenses Claimed as NFFS

During FYs 2014 and 2015 the school board provided direct revenue to WLRN when it paid $1,299,856 of the station's expenses. WLRN claimed this amount as NFFS. Of these expenses, $236,700 were applicable to WLRN's TV station that included $171,920 in capital improvements for Clearwire conversion costs and planning costs; $48,464 in capital improvements for air conditioning (AC) replacement costs; and $16,316 in unsupported revenues and adjustments. In accordance with the CPB Guidelines, we determined the $236,700 was ineligible for NFFS.

Guidelines paragraph 2.4.1 states that:

> To eliminate distortions in the TV CSG grant program precipitated by extraordinary infusions of new capital investment in digital TV broadcasting, the CPB Board of Directors adopted the recommendation of the 1998 TV CSG Task Force to exclude from NFFS all capital contributions restricted for facilities and equipment improvements. This exclusion extends to ALL contributions (direct and in-kind) of, or for the purpose of acquiring new broadcast and operational equipment, as well as new facilities, new construction, and facilities upgrades and improvements.…

CPB Guidelines paragraph 2.4.1 TV Grantees - Restrictions on Contributions of Capital Assets,

Based on the above provision, we concluded WLRN claimed ineligible payments for direct expenses totaling $236,700, which resulted in a CSG overpayment of $30,028 in FYs 2016 and 2017.

WLRN/Lease Reimbursement

In 2008, the School Board leased its excess channel capacity to a commercial company. The lease agreement specified that in FYs 2014 and 2015 the School Board would be paid $4,500,000 per year for the leased channel capacity. WLRN's Budget and Expenditure reports as well as the School Board's other financial records contain program descriptions indicating the source of the funds budgeted and expended. The program descriptions included various sources of funds such as the Florida Department of Education grant funds, CPB CSG funds, and WLRN/Lease Reimbursement funds. The WLRN/Lease Reimbursement description indicates these funds were from payments the School Board received in exchange for leasing tower space to a commercial company and used to pay station's expenses.

The WLRN's financial records indicated in FYs 2014 and 2015 it budgeted $3,069,441, labeled as WLRN/Lease Reimbursement, to pay some of the station's expenses ($1,610,431 and $1,459,010 respectively). These same records indicated that the station expended almost $2.8 million of this amount for FYs 2014 and 2015 expenses. WLRN claimed $2,559,781 of this amount ($1,149,555 and $1,410,226 respectively) as NFFS on its AFRs. The amounts expended each FY were allocated between TV and radio based on total expenditures as shown above in the Summary of Overstated NFFS chart.

Because the lease agreement was with a commercial company, the resulting payments received are considered an exchange transaction and do not qualify for NFFS. For a payment to qualify as NFFS the source of the payment must be a state, local government, or educational institution. For this reason, we considered the $2,559,781 to be ineligible NFFS, because it was not paid from a qualifying source nor did it meet a qualifying purpose

CPB Guidelines describe the criteria for contributions or payments to be eligible as NFFS and define the eligible source and purpose criteria.

> … in terms of the NFFS criteria, revenue is divided into two distinct categories: contributions and payments. With the exception of the recipient criteria (see Sec. 2.3), the criteria for contributions are not the same as the criteria for payments. A **contribution** is an unconditional transfer of cash or other assets or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer from one entity to another …. The most notable types of contributions are membership dues, CPB grants, corporate and foundations grants and underwriting.… A **payment,** on the other hand, is a reciprocal transfer (*i.e., an exchange transaction*) of cash or other assets in which each party receives and sacrifices approximately equal value.
>
> ***Source***
>
> 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.
>
> ***Purpose***
>
> 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.

CPB Guidelines, Section 2.2 – Contributions vs. Payments, and Section 2.3.2 Interpretations NFFS Criteria.

School Board officials disagreed that the lease revenues were ineligible. They said that the WLRN/Lease Reimbursement description in the station's and School Board's accounting records was a mistake. They indicated that the lease reimbursement funds should have been designated as coming from the School Board's General Fund, because it deposited the lease payments it received into the School Board's General Fund, where they were comingled with other funds and lost their identity. Thus, the lease revenues were eligible for NFFS. We disagree, because these funds resulted from an ineligible exchange transaction.

Ineligible payments applicable to WLRN/Lease reimbursements totaled $2,559,781, resulting in a CSG overpayment of $281,515 in FYs 2016 and 2017.

Subsidies

The NFFS WLRN claimed during FYs 2014 and 2015 also included $2,402,289 of direct revenue for various subsidies that the School Board provided to WLRN. These subsidies were for auditing, insurance, parking, interns, security guards, zone mechanics, and AV technicians. We found that $2,268,289 of the $2,402,289 claimed was inadequately supported and is ineligible for NFFS. We accepted the remaining $134,000.

Auditing and Insurance—The $134,000 claimed for auditing costs and property insurance were valid expenses, paid for, and adequately documented by the School Board. As a result, we considered the $134,000 to be valid direct revenue provided by the School Board and eligible NFFS.

Parking and Interns—For the two fiscal years, we audited WLRN reported NFFS revenue totaling $120,452 for parking provided to WLRN/Friends employees and $189,909 for services provided by interns working at the station.

The School Board provided parking to station employees in a facility it already owned. Because the School Board did not incur any expense for the parking, WLRN based the NFFS amount it reported on an estimated $53.50 monthly rate multiplied by the 90 parking spaces used by the station. WLRN based its supporting documentation for the $53.50 rate on an estimate of the average commercial rate charged for parking in the local Miami area.

The interns were unpaid volunteers and the School Board incurred no expenses for interns working at the station. Additionally, volunteer services do not qualify for NFFS unless they provide some type of professional services (e.g., legal, accounting, engineering).

Both subsidies are ineligible NFFS per CPB's Guidelines, Section 5, which states that: "Direct Revenue includes gifts, grants, contributions of cash, payments for services, dividends on investments, royalty payments, etc. For institutional stations, direct revenue may also consist of expenses incurred or absorbed by the licensee specifically for the operation of the station." CPB Guidelines Section 5 Completing AFR Schedule A – Direct Revenue.

Since the School Board incurred no expenses to provide the parking and interns, we determined the $310,361 ($120,452 for parking and $189,909 for interns) reported for these subsidies were ineligible for NFFS

Security Guards and Zone Mechanics—WLRN claimed NFFS totaling $274,166 for security guards and $158,732 for School Board zone mechanics.

The station based the amount claimed on hourly quotes for commercial guard services obtained in FY 2014 by the former WLRN business manager. WLRN estimated that the equivalent of one guard (based on three 8-hour shifts each day) was used by the station to claim the NFFS reported. However, the School Board did not assign a guard to the station's property. Instead, the station was patrolled by security as were all the School Board locations. Since the School Board has not assigned a guard to WLRN or logged the actual hours used to patrol WLRN property, the $274,166 claimed as NFFS was unsupported and is ineligible.

We encountered the same condition for the zone mechanic performing building maintenance for the station. During FYs 2014 and 2015, WLRN claimed NFFS equal to the full-time salary of one zone mechanic. However, the zone mechanic assigned to WLRN also performed maintenance at two other School Board locations. Because the zone mechanic was not assigned to WLRN on a full-time basis, his total annual salary should not have been claimed as NFFS. WLRN should only claim the number of hours worked at WLRN as NFFS, which WLRN could not identify and support. Thus, we determined the $158,732 claimed in FYs 2014 and 2015 for the zone mechanic was unsupported and is ineligible for NFFS, per CPB Guidelines and its FY 2014 Television Community Service Grant General Provisions and Eligibility Criteria (General Provisions), Section 4.

> The Communications Act mandates recordkeeping and auditing and provides CPB and its representatives access to all records concerning a CSG (47 U.S.C. 396(1)(3)(B), (C), & (D)) …. Grantees must maintain such records as CPB may in its discretion require to facilitate an effective audit.

General Provisions, Section 4. Recordkeeping and Audit Requirements, Paragraph A.

AV Technicians—WLRN claimed NFFS totaling $1,525,030 on the FYs 2014 and 2015 AFRs ($1,135,123 and $389,907 respectively) for services labeled as "AV Technicians." The documentation the School Board provided showed that the AV Technicians generally provided computer services such as establishing e-mail accounts for new employees, resetting passwords, installing new software, or unlocking computers. The $389,907 reported as NFFS in FY 2015 were for 332 help desk service calls. Of these, only 123 were for WLRN and the remainder were for the Office of Communications, which did not benefit the station. The $389,907 represented the annual salaries of seven technicians plus fringe benefits and insurance.

WLRN calculated the $1,135,123 reported as FY 2014 NFFS based on the salaries of the AV technicians that completed 103 tickets for the station. However, none of the tickets for the completed service calls showed the number of hours required to complete the IT service calls. Without more specific information regarding the number of hours worked, these services cannot be claimed as NFFS, because there is no evidence available to show that the School Board incurred the amount claimed.

Ineligible payments applicable to all subsidies totaled $2,268,289, resulting in a CSG overpayment of $264,240 in FYs 2016 and 2017.

Premiums

WLRN reported NFFS for FYs 2014 and 2015 that did not exclude $809,646 of membership high-end premiums provided to donors, as required by CPB Guidelines. While Friends' records indicated that during FYs 2014 and 2015, the station provided donors "thank-you gifts" (premiums) valued at $1,123,487, WLRN did not obtain this information from Friends when preparing it AFRs. Of this amount, $809,646 was for high-end premiums (e.g., CD sets, DVDs, books, and emergency radios).

CPB Guidelines require stations to exclude from NFFS the fair market value of high-end premiums that are not of insubstantial value.

> 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 or services (i.e., premiums). Thank-you gifts may be anything of value from low-end premiums (e.g., coffee mugs and tee-shirts bearing the stations call letters, name and/or brand) to high-end premiums (e.g., boxed set CDs or DVDs, coffee-table books, travel and lodging, and tickets to performances, dinners or other events).
>
> The IRS issues guidance on the required disclosure statement that must be provided to donors in instances where the premium is not of insubstantial value.[3] 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. However, CPB does not provides guidance beyond that provided by the IRS. Questions about compliance with these provisions should be addressed to your IPA or other tax practitioner or directly to the IRS.…
>
> **What do you need to do for AFR purposes?** … if the financial statements present membership revenues at their gross value (i.e., unadjusted for the non-contribution portion), you must enter the non-contribution amount on Line Guidelines 10.1 NFFS Exclusion – Fare market value of the premiums that are not of insubstantial value.

CPB Guidelines Section 5, Completing AFR Schedule A, Direct Revenue Instructions for Line 10 – Membership and Subscriptions (net of write-offs).

In total, we determined that WLRN over claimed NFFS of $809,646 attributable to high-end premiums. This resulted in CSG overpayments in FYs 2016 and 2017 totaling $88,198.

Uncollectible Membership Pledges Not Excluded from NFFS

WLRN did not exclude membership bad debt expense from NFFS as required by CPB Guidelines. Friends recognizes the amount pledged by donors as revenue at the time of the pledge and then bills the donor several times until the pledge is fulfilled. Generally, if the donor does not pay the pledge within six months it is written off and charged to bad debt expense.

Friends’ records indicated that the station wrote-off $439,792 for uncollectible membership pledges in FYs 2014 and 2015. However, WLRN did not obtain this information from Friends

[3] IRS Guidance on Charitable Contributions - Quid Pro Quo Contributions: http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Charitable-Contributions-Quid-Pro-Quo-Contributions.

when preparing its AFRs. Consequently, the station did not deduct this expense from the membership revenue claimed as NFFS by entering it on Line 10.2 of its AFR, as required by CPB Guidelines.

> Grantees must deduct any amounts taken as write-offs for uncollected pledges. If the write-offs are not netted against revenues in the financial statements but instead charged against an allowance for uncollectible accounts, the bad debt expense must be recorded on Line 10.2 to exclude the write-offs from NFFS.…

CPB Guidelines Section 5 Completing AFR Schedule A-Direct Revenue Instructions for Line 10.2—NFFS Exclusion - Membership bad debt expense.

Not deducting the $439,792 of bad debt expense for uncollectible membership pledges from the NFFS WLRN reported on its AFRs resulted in the station receiving CSG overpayments totaling $36,370 in FYs 2016 and 2017.

Uncollectible Underwriting Pledges Not Excluded from NFFS

WLRN did not exclude underwriting bad debt expense from NFFS as required by CPB's accounting principles. Friends recognized underwriting revenues when underwriting spots were aired and then billed the underwriters for payment. Friends wrote-off uncollected amounts to its Underwriting Bad Debt Expense Account. In FYs 2014 and 2015 Friends' records showed $14,975 of FM underwriting bad debt expense, however, WLRN did not obtain this information from Friends when preparing its AFRs. Consequently, the station did not deduct this expense from the underwriting revenue it reported as NFFS.

CPB's General Provisions and Eligibility Criteria refers grantees to CPB's *Application of Principles of Accounting and Financial Reporting to Public Telecommunications Entities* (*Principles*), May 2005 Edition for additional information on recordkeeping.

> The *Principles* outline accounting and reporting requirements for public broadcasting entities under GAAP and CPB guidance. CPB grant recipients are required to follow the financial accounting and reporting standards of recognized sources of established accounting principles under the Financial Accounting Standards Board (FASB) and Government Accounting Standards Board (GASB).

Principles, Section 1.2 Overview.

The *Principles* address "promises to give" in sections on FASB, Section 3.3.1, and GASB, Section 4.5.1. The guidance under FASB and is equally applicable to GASB states:

> Regardless of the type and duration of promises involved, an important element in the initial and ongoing valuation of unconditional promises, as with any other receivable, is the establishment and maintenance of an allowance for doubtful receivables. This should be established, based on historical experience and other factors, to cover any uncertainties concerning collectability.

Principles, Section 3.3.1 Promises to Give (Pledges).

Because WLRN did not deduct $14,975 bad debt expense for uncollectible underwriting from the NFFS reported on its AFRs, it received CSG overpayments totaling $861 in FYs 2016 and 2017.

Exchange Transactions Claimed as NFFS

WLRN erroneously reported payments of $27,027 on its FYs 2014 and 2015 AFRs that did not meet the source criteria for NFFS (i.e., received from state/local government or educational institution). These exchange payments included:

Reason for Payments	Amount
Shop WLRN online-payments for WLRN memorabilia	$7,948
Payments from a local newspaper for analyst services	19,079
Total	**$27,027**

Discussion with Friends' employees and a review of WLRN's website disclosed the station maintains a shop WLRN section on its website that sells WLRN memorabilia, such as T-shirts and DVDs of its documentaries, etc. Friends' records indicated that on-line sales totaled $7,948 during the FYs we reviewed.

Friends' records also indicated the station received additional payments totaling $19,079 from a local newspaper. An agreement between Friends and the newspaper arranged for Friends to hire a full-time analyst/digital strategist to provide services for both organizations and stated that Friends and the newspaper would each be responsible for 50 percent of the analyst's base salary. Additionally, the agreement required the newspaper to reimburse Friends in monthly installments for the newspaper's share of the analyst's salary. Friends' employees confirmed that the payments were related to reimbursement to pay for half the analyst's salary.

Because the revenues (payments) Friends reported were from the sales of WLRN memorabilia to on-line customers and fees for services provided by an analyst to a local newspaper, a commercial entity, these payments were exchange transactions and not eligible for NFFS. Under CPB Guidelines, Section 2.3.2, to qualify as NFFS the source of these payments must be from a state, local government, or educational institution, which these payments were not.

Revenues eligible as NFFS take the form of either a contribution or a payment. CPB Guidelines provide the criteria for contributions or payments to be eligible as NFFS and define the eligible source criteria for each. CPB Guidelines state that:

> … in terms of the NFFS criteria, revenue is divided into two distinct categories: contributions and payments. With the exception of the recipient criteria (see Sec. 2.3), the criteria for contributions are not the same as the criteria for payments. A **contribution** is an unconditional transfer of cash or other assets or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer from one entity to another …. The most notable types of contributions are membership dues, CPB grants, corporate and foundations grants and underwriting.… A **payment,** on the other hand, is a reciprocal transfer (*i.e., an exchange transaction*) of cash or other assets in which each party receives and sacrifices approximately equal value.

Source

> 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.

CPB Guidelines, Section 2.2 – Contributions vs. Payments, and Section 2.3.2 Interpretations NFFS Criteria.

In total, we determined that WLRN over claimed NFFS of $27,027, because it reported the revenue from exchange transactions as NFFS on its AFRs. This error resulted in CSG overpayments in FYs 2016 and 2017 totaling $1,836.

Revenues Received from Public Broadcasting Entities Claimed as NFFS

Our audit of Friends' financial records identified $84,385 in revenues received from two public broadcasting entities (CPB and PBS) that WLRN reported as NFFS. This revenue included $46,970 received in FY 2015 from two production grants CPB awarded to WLRN as follows.

CPB Grants

Grant Description	Amount
Diverse Perspectives-Health Care Innovation-CPB Grant # 15273	$34,970
American Graduate Initiative-Public Media Community Hub-CPB Grant # 14203	12,000
Total	**$46,970**

The Health Care Innovation grant provided funding so that WLRN could collaborate with three other stations to create radio content exploring health care innovation and how it is improving healthcare and reducing costs. The American Graduate Initiative required WLRN to distribute content concerning the dropout crisis and potential solutions. Friends' records indicated that the station received $46,970 under these two grants from CPB in FY 2015. WLRN received an additional $37,415 from PBS in FY 2014, which was WLRN's share of the proceeds that PBS received from the sale of its interest in a joint venture.

Friends received these funds and correctly reported the revenues on the Supplemental Schedules it provided to WLRN. However, WLRN did not obtain the source of these revenues from Friends when preparing its AFRs. Subsequently WLRN erroneously reported these revenues as NFFS on Line 8, "Foundations and Nonprofit Associations" of its FYs 2014-2015 AFRs instead of Line 2, as required by CPB Guidelines.

CPB Guidelines Section 5, Line Item Instructions explain that funds received from public broadcasting entities are ineligible for NFFS. More specifically these Guidelines state in part:

> **Line 8 – Foundations and nonprofit associations**
> Use Lines 8.1 and 8.2 to report all contributions, grants, payments, and other revenues received … from foundations or nonprofit associations …. The term nonprofit is used to describe any not-for-profit corporation, foundation, or association that is not a public telecommunications entity.…
>
> **Line 2 - Amounts provided by Public Broadcasting Entities**
> Public Broadcasting funds are reported on this line and will be forwarded to line 23 to be automatically excluded from NFFS.
>
> **<u>Specific Line Instructions</u>**:
> **A. Community Service Grants**
> Use this line to report the TV and Radio CSG funds received.
> **B. CPB – all other funds from CPB (e.g., DDF, RTL, Programming Grants)**
> Use this line to report all non-CSG funds received from CPB including digital grants and production grants.
> **C. PBS – All payments except copyright royalties and other pass through payments** Use this line to report all PBS revenues except copyright royalties and other pass-through payments.…

CPB Guidelines Section 5, Line 2 - Amounts provided by Public Broadcasting Entities and Line 8 – Foundations and nonprofit associations.

In total, WLRN over claimed NFFS of $84,385, because it reported revenue received from public broadcasting entities as NFFS on its AFRs. This error resulted in CSG overpayments in FYs 2016 and 2017 totaling $8,360.

Special Fundraising Costs Not Offset Against Revenues

WLRN over claimed NFFS totaling $268,423 because it did not deduct the costs incurred for special fundraising from the amount reported as NFFS on its FYs 2014 and 2015 Radio AFRs.

The Cultural Connection website states it is a website jointly supported by WLRN and the Theatre League of South Florida that offers half priced, same-day discount theatre tickets to listeners. The website also explains there is a processing and handling fee of $5 per ticket, that provides $2 to WLRN and $1 to the Theatre League with the $2 balance covering the cost of providing this service. Listeners order tickets through the website and pay WLRN by credit card. Subsequently, WLRN reimburses the various theatres for the tickets provided.

Friends' financial records showed it received sales income totaling $309,175 for the tickets purchased during FYs 2014 and 2015 through the Cultural Connection website. WLRN claimed this amount as NFFS on its FYs 2014 and 2015 radio AFRs. These same financial records showed that Friends reimbursed the theatres and paid credit card processing fees totaling $268,423 during these two fiscal years.

The revenue eligible for NFFS was the $2 per ticket that WLRN received totaling $40,752 ($309,175 - $268,423), which is the difference between sales income and the cost of tickets provided to listeners. However, WLRN claimed the gross revenue of $309,175 on AFR Line 11, "Revenue from Friends," instead of Line 14, Special Fundraising, as required by CPB Guidelines. WLRN also did not enter Friends' special fundraising expenses totaling $268,423 in its AFRs for the cost of the tickets it sold as required by CPB Guidelines.

CPB Guidelines for reporting Special Fundraising provide that Line 14A should be used to report gross special fundraising revenues, and Line 14B should be used to report total direct special fundraising expenses…. The instructions for AFR Line 14 also state:

> This line represents the net revenue earned from special fundraising activities. It is determined…by subtracting Line 14B from Line 14A. Only net special fundraising revenues (the gross special fundraising revenues less all direct, third-party expenses for the event) are eligible as NFFS….

CPB Guidelines, Section 5 Completing AFR Schedule A-Direct Revenue, Line 14-Special Fundraising activities (net).

By not deducting cost of tickets WLRN over claimed NFFS of $268,423 on its AFRs, resulting in CSG overpayments in FYs 2016 and 2017 totaling $15,379.

Loss on Endowments Claimed as NFFS

During FY 2015, Friends' financial records reported $395,919 in losses on endowments (investments) that were erroneously reported as NFFS revenue on the FY 2015 Radio AFR. WLRN reported $361,602 of this amount on line 8 of its AFR and the remaining $34,317 on line 11. The TV AFR for the same year also erroneously reported a $44,263 loss on endowment as NFFS on line 3. In total, WLRN erroneously reported $440,182 ($395,919 + $44,263) of NFFS.

CPB does not permit endowment gains and losses to be reported as NFFS. CPB Guidelines states that: "The following are examples of revenue producing activities that fail to meet at least one of the NFFS criterion and are ineligible as NFFS … realized or unrealized gains or losses on investment." CPB Guidelines Section 2.3.2 NFFS Criteria Interpretations.

By erroneously claiming endowment losses of $395,919 on its radio AFR and $44,263 on its TV AFR, WLRN over claimed NFFS totaling $440,182. This error resulted in CSG overpayments in FY 2017 totaling $27,697.

Unsupported Miscellaneous Income Reported as NFFS

Our audit identified $5,500 in unsupported miscellaneous TV revenues that WLRN claimed as NFFS on its FY 2014 AFR. Friends reported this miscellaneous income on the FY 2014 Supplemental Schedule it provided to WLRN. However, WLRN claimed the $5,500 without determining the source and purpose of these funds from Friends. We considered this income as unsupported and ineligible for NFFS, because Friends could not provide any documentation to identify the source and purpose of this income as required by CPB guidance.

> The Communications Act mandates record-keeping and auditing and provides CPB and its representatives have access to all records concerning a CSG (*see* 47

> U.S.C. 396(1)(3)(B), (C), & (D)) …. Grantees must maintain such records as CPB may in its discretion require to facilitate an effective audit.…

General Provisions, Section 4, Recordkeeping and Audit Requirements, Paragraphs A and E.

The ineligible $5,500 resulted in CSG overpayments of $727 in FY 2016

Overstated Indirect Administrative Support

Our audit found that WLRN's calculation of Indirect Administrative Support (IAS) did not fully comply with CPB guidance under the Basic Method using the salaries and wages option. As a result, WLRN:

- overstated its allocations of station salaries and wages to licensee salaries and wages for direct activities;
- overstated the cost pools benefiting the station in its calculations (e.g., included cost pools that did not benefit the station and adjustments for costs charged directly to the station that were also included in the cost pools benefiting the station); and
- reported all physical plant support costs as TV NFFS, with no physical plant costs being allocated to Radio NFFS.

The station's calculation of the institutional support rate understated licensee salaries and wages for direct activities, which is used as the base denominator to calculate the allocation rate. Specifically, WLRN excluded the salaries and wages for various functional categories covering all other instructional support categories, student services, and school administration ($286,954,093 in FY 2014 and $281,300,739 in FY 2015). This exclusion resulted in a higher institutional support rate to claim IAS for TV by .021423 percent in FY 2014 and .018905 percent in FY 2015. For radio, there was a reduction in the IAS rate by .005811 percent in FY 2014 and an increase by .007793 percent in FY 2015. These calculations are presented in Exhibits E and F.

The station also included the functional categories of instructional media services, instructional and curriculum development, and instructional staff training in its administrative cost pools benefiting the station. However, we could find no basis for their inclusion. These benefits that relate to a major function of the School District, were clearly identified as instructional (not benefiting the WLRN) and were not general administration (benefiting WLRN).[4] Including these instructional cost pools in the costs benefiting the station increased these costs by $30,265,018 in FY 2014 and by $32,063,995 in FY 2015, resulting in the station reporting a higher level of IAS those years.

CPB's Guidelines address the calculation of the institutional support rate allocation and identification of general administrative expense cost pools that benefit the station.

> Enter the total licensee salaries and wages for direct activities. These include the total cost of instruction, research, and public service.

[4] WLRN also did not identify the cost groups that benefited the station on its AFR, Schedule B, Line 2c.1.

CPB's Guidelines, Section 6, Completing AFR Schedule B, Line 2b.2.

> 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 service provided.

CPB's Guidelines, Section 6, Completing AFR Schedule B, Line 2c.1.

Since CPB's Schedule B instructions for completing Worksheet II: Basic Method refers only to the functional categories of costs for university environments when calculating licensee IAS, the School District needed to convert that guidance to the functional categories reported in its financial statements. This conversion complicated the calculation of the institutional support rate (identification of licensee's salaries and wages for a school district's functional categories that are similar to a university's instruction, research, and public services functional categories).

CPB's guidance defined the cost pools that can be claimed as IAS as those that relate to facilities and general administrative activities that cannot be directly charged and do not relate solely to a major function of the institution. CPB's guidance identified the functional categories for a university station. These university functional categories were instruction, research, other sponsored activities, and other institutional activities. CPB provided no further guidance for a school district on how to calculate IAS based on a school district's functional categories.

Based on how WLRN calculated its IAS, we determined the station overstated its TV NFFS by $257,446 ($130,652 in FY 2014 and by $126,794 in FY 2015). Radio was understated by $63,249 ($37,219 in FY 2014 and by $26,030 in FY 2015). See Exhibits E and F comparing the IAS WLRN reported on its AFRs, Schedule B and the OIG calculated IAS NFFS. These resulted in CSG overpayments of $28,808.

Factors Contributing to Overstated NFFS

Based on our audit we found multiple factors contributed to the overstated NFFS. These included:

- WLRN did not have a Chief Financial Officer, and relied on a part-time consultant (accountant) to prepare its annual financial statements and the AFRs submitted to CPB;
- WLRN did not do its own accounting, its financial statements were prepared at the end of the fiscal year based on financial reports provided by the School Board and unaudited Supplemental Consolidated Statements of Activities Television and Radio report (Supplemental Schedule) provided by Friends;
- the financial information reported on the Friends Supplemental Schedule was not verified to Friends' official accounting records;
- neither the part-time consultant nor WLRN officials adequately understood CPB's Guidelines for preparing the AFRs;

- WLRN officials did not inform Friends of the financial information needed to prepare the AFRs, verify the information reported on the Supplemental Schedule, or provide Friends with copies of the AFRs submitted to CPB;
- Friends' Supplementary Schedule provided only financial statement level information and did not include the additional information necessary to properly prepare the AFRs such as:
  - FMV of high-end premium offsets ($809,646);
  - membership pledge write-offs ($439,792);
  - uncollected underwriting pledges ($14,975);
  - exchange transactions ($27,027);
  - grants received from public broadcasting entities ($84,385);
  - special fundraising costs ($268,423);[5] and
  - miscellaneous income that does not meet CPB criteria for source and purpose ($5,500).
- there were no internal controls at WLRN to internally review the work of the consultant and the preparation of the AFRs. The station relied solely on the independent auditor's financial statement audit and attestation of the AFRs. However, the independent auditor's attestation work did not ensure the AFRs were properly prepared, as required by CPB's guidelines, nor test any of the Friends' activities reported on the Supplemental Schedules provided to WLRN.

Friends' revenues represented a material amount of WLRN's total revenues (63.6 percent) and an equally material amount of the total NFFS WLRN reported on its AFRs (67.8 percent).[6] Of the $7,348,897 in overstated NFFS we identified in this report, $1,649,748 related to reductions or exclusions not made to the Friends' revenue on the Supplemental Schedules, as itemized above.

These are all issues WLRN did not address in preparing its AFRs, nor did WLRN's independent auditor identify them during the attestation examination. Adequate controls over the AFR preparation process at the station level and an improved independent attestation examination of WLRN's AFR reporting (that included testing of Friends' financial information against CPB's financial reporting criteria) would have reasonably been expected to identify similar errors and eliminate or at least appreciably reduce the NFFS over reporting we found during our audit.

Because WLRN did not comply with CPB Guidelines to accurately report NFFS revenues when preparing its FYs 2014-2015 TV and radio AFRs, WLRN materially overstated the NFFS reported to CPB by $9,480,043 ($7,348,897 as specifically addressed in this report and $2,131,146 in underwriting previously identified in Report No. ESJ1708-1710. As a result, WLRN received CSG overpayments of $784,018 for the findings presented in this report.

Recommendations

We recommend that CPB management take the following actions:

1) recover CSG overpayment of $784,018;

[5] Cultural Connection costs were reported on Friends Supplemental Schedule but not identified as special fundraising costs.
[6] For FYs 2014 and 2015, Friends' revenues totaled $21,348,589 of $33,551,443 reported on WLRN's audited financial statements. Friends' NFFS revenues totaled $16,986,722 of $25,051,693 reported.

2) apply appropriate penalties in accordance with CPB's CSG Non-Compliance Policy; and

3) require WLRN to identify the corrective actions and controls it will implement to ensure future compliance, to include at a minimum:

   a. that the School Board and its independent accountant have access to all Friends' financial data needed to attest to the accuracy of its AFRs and compliance with CPB Guidelines including:
      i. FMV of high-end premium offsets
      ii. membership pledge write-offs;
      iii. uncollected underwriting pledges;
      iv. exchange transaction adjustments;
      v. funds received from public broadcasting entities;
      vi. special fundraising costs adjustments; and
      vii. miscellaneous income that does not meet CPB's purpose and source criteria; and
   b. provide CPB with a copy of the station's written procedures or negotiated agreement with Friends that identifies the internal controls implemented to address AFR reporting.

WLRN Response

In response to the draft report, WLRN indicated that the School Board had made significant progress in improving its processes since the audit. These include implementing new internal controls and entering into an agreement with Friends of WLRN, Inc. to increase oversight of financial processes and reporting.

Recommendation One

In regard to recommendation one, WLRN stated the draft report reached erroneous conclusions about the allowability of the WLRN/Lease reimbursement, the reporting of AV Technicians services as NFFS, and calculating allowable indirect administrative support.

WLRN/Lease Reimbursement

WLRN disagreed that "WLRN/Lease Reimbursement" revenues do not qualify as NFFS. WLRN explained, "The School Board contributed significant revenue to WLRN *even before* it started receiving revenue from the lease.… Since Spectrum Lease funds are not given directly to WLRN but deposited in the general fund, the revenue loses its identifying characteristics.… Additionally, nothing in the Spectrum Lease with the School District (not WLRN) mandates revenue generated by the lease be allocated to WLRN".

The station further explained that,

> [t]he Guidelines do not place limitations on where an institutional licensee's revenues originated for qualification as NFFS…. From a policy prospective, disqualifying the Spectrum Lease funds from being counted as NFFS appears to

> WLRN as arbitrary as well as setting a capricious precedent.… First, the Draft Report does not provide any rationale for singling out the School Board's Spectrum Lease revenues, as opposed to any other revenues, to be disqualified as NFFS. Section 2.3.2 of the Guidelines does not include any provisions for analyzing the various types of revenue received by an institutional licensee and separating such revenue into NFFS qualified and non-qualified categories when then provided by an institutional licensee to a CPB qualified station. Second, the Draft Report contains no justification for undertaking an analysis of Institutional licensee revenues as warranted in determining whether Spectrum Lease revenues would qualify as NFFS….

Claiming AV Technicians as NFFS

WLRN's response explained that despite the lack of proper documentation by the School Board, WLRN should not "receive zero credit" for the AV Technician subsidy. The station asserted it would meet the criteria in CPB Guidelines Section 2.6.7 to include the services provided by the AV Technicians employed by the Miami-Dade County Public Schools as NFFS, which state that:

> Some grantees provide Instructional Television (ITV) or Educational Radio services where the station develops and delivers educational content for in-classroom use. This content may be delivered via broadcast transmission, closed circuit transmission, the Web, or prerecorded materials (e.g. DVDs, VHS, etc.). Direct revenues of contributions or payments in exchange transactions for ITV or Educational Radio services that meet the appropriate recipient, form, source and purpose criteria (*See Section 2.3.1*) are eligible as NFFS. However, with respect to the NFFS eligibility of in-kind contributions a grantee may receive for ITV or Educational Radio, there are limitations on the nature of the services provided and the value that may be recognized for NFFS purpose.
>
> First, the grantee must be able to demonstrate that the ITV or Educational Radio service has a direct benefit to the station's mission as an educational broadcaster.
>
> Second, the grantee must demonstrate that the ITV or Educational Radio service is under the station's direct management and operational control and, in the case of an institutional station, not a separate activity under the management and operational control of the licensee. The station must have control over distribution of the materials or services received.

Miscalculation of Indirect Administrative Support

Regarding the calculation of IAS, WLRN noted that two other OIG reports disclosed that the Guidelines for IAS need further clarification. Thus, the station asserted that it should not be penalized for miscalculating IAS when all parties recognize the Guidelines need revision.

Recommendation Two

In response to recommendation two, WLRN argued that punitive penalties are not appropriate, because it has and continues to implement revised internal controls and has already repaid $1,128,427 of TV CSG funds. WLRN also explained it will need to repay additional funds due to the findings in this draft audit report. According to the station, assessing additional punitive penalties to the over $1 million dollars already paid would further jeopardize its ability to continue to serve its community and result in significant cutbacks of both service and staff.

Recommendation Three

Regarding recommendation three, WLRN agreed and stated it, "…will work with its licensee ... to implement several corrective actions that will be delineated in the fundraising services contract the station is negotiating with Friends. As previously noted in WLRN's response to draft report No. ESJ1708-1710, WLRN has already begun implementing corrective actions to ensure compliance with CPB regulations…." WLRN also asserted its actions will ensure the station has access to financial information created and kept by its fundraiser, Friends of WLRN, Inc. WLRN is confident that its planned actions will ensure the information required by CPB is submitted accurately and on a timely basis.

OIG Review and Comment

Based on WLRN's response to the draft report, our three recommendations remain open and unresolved. Our evaluation of WLRN's specific comments on our three recommendations follows.

Recommendation One

WLRN disagreed with our findings on overstated NFFS for WLRN/Lease reimbursements, AV technicians' costs, and IAS. Our evaluation of each issue follows.

WLRN/Lease Reimbursement

Concerning the station's claim of "WLRN/Lease Reimbursement" funds as NFFS, our position remains unchanged. First, we disagree that depositing the lease funds into the general fund alters the origin of the funds. These revenues were not from a qualifying source or for a qualifying purpose and their character was not changed by depositing them in the general fund and subsequently claiming them as an appropriation from the licensee.

Second, contrary to WLRN's response, as we explained in our finding, CPB Guidelines do provide a specific rationale for singling out the school board's Spectrum Lease revenues to be disqualified as NFFS. The Guidelines provide definitive criteria for determining when payments qualify as NFFS and explain that payments from commercial entities are ineligible for NFFS. Further, Sections 2.3.2 and 5 of the Guidelines do in fact include provisions for analyzing the various types of revenue received by recipients (for both the institutional licensee and the grantee) and separating such revenue into NFFS qualified and non-qualified categories. As we explained in our finding, the lease revenues are a payment from a non-qualifying source.

Lastly, both the School Board and WLRN officials sign the CPB agreements and are subject to compliance with the Guidelines. The licensee is responsible for ensuring the funding sources reported under Schedule A, Line 3 local boards and departments of education or other local government or agency sources are from qualifying NFFS sources. The School Board's WLRN/Lease reimbursement revenues can be used to pay for the operations of the station, it just does not qualify as NFFS.

Claiming AV Technicians as NFFS

In our finding, we demonstrated that the documentation provided by School Board officials to support that AV technician services were for IT services and did not substantiate the amounts claimed. In its response, the station continued to maintain that these costs were for AV technicians located in the schools supporting instructional TV.

Initially WLRN personnel told us the School Board used AV technicians in schools to ensure the WLRN broadcasts were functioning properly on the schools' TVs. Subsequent discussions with School Board officials disclosed the AV techs provided IT services and not services related to educational broadcasts. We reviewed the School Board's records that documented the $1,525,030 reported on WLRN's FYs 2014 and 2015 AFRs ($1,135,123 and $389,907 respectively) for services claimed as "AV Technicians." As School Board officials indicated, these records showed the amounts claimed were for IT services and not educational broadcasts.

Nor are the claims adequately supported. The FY 2015 amount was calculated based on the full time annual salaries of seven technicians performing IT services. Similarly, WLRN based the 2014 amount on the full-time salaries of 11 technicians performing IT services. Also, the records provided to us showed the annual salaries of the 11 technicians were more than $600,000, but a WLRN calculation error resulted in $1,135,123 being claimed.

In addition to these costs not being adequately supported, AV technician services are not identified as qualifying in-kind support under CPB Guidelines, Section 2.6.6 In-kind Contributions for Instructional Television and Educational Radio (2015 Guidelines). Further, the station claimed these services as direct revenues under Schedule A, but these positions did not serve in a public broadcasting capacity working in the schools to be claimed as a direct revenue. Finally, if WLRN believed these costs were allowable they should have been claimed as in-kind contributions under schedule C, as required by CPB Guideline.

Regarding WLRN's argument that WLRN should receive some credit for the subsidized services provided by the AV technicians, we did allow some credit in our calculation of IAS. We added the School Board's Administrative Technology Services to the administrative cost pools benefiting the station in calculating the allowable IAS to be claimed as NFFS. WLRN had excluded this cost pool in its calculation of indirect administrative support.

Miscalculation of IAS

We acknowledge that CPB's IAS Guidance needs clarification; however, the grantee is responsible for complying with CPB requirements. In this case the bulk of the overstated IAS related to claiming administrative cost pools that did not benefit the station and physical plant support costs that were claimed only against TV without any allocation to radio. CPB's guidance for these two areas does not need to be clarified. As a result, our position regarding IAS remains unchanged.

Recommendation Two

Regarding WLRN's disagreement that additional penalties are appropriate, the depth and breadth of the station's noncompliance with CPB Guidelines are egregious and warrant penalties. WLRN overstated its NFFS by $7,348,897 through multiple violations of CPB Guidelines ranging from reporting exchange transactions and endowment losses as NFFS, not deducting high value premiums, not writing-off uncollectible contributions, not deducting special fundraising expenses, and incorrectly calculating IAS NFFS. Our findings show a disregard for CPB requirements and demonstrate that penalties are appropriate and warranted.

Recommendation Three

While the actions WLRN proposed in response to recommendation three appear reasonable, we do not know what specific internal controls it has implemented over the preparation of its financial statements and AFRs to ensure that the station is accurately reporting NFFS in accordance with CPB Guidelines. The actions outlined in WLRN's response all address the audits of the financial statements and AFRs, not the controls over WLRN's preparation of these financial reports. Further, the agreement with Friends has yet to be finalized, so we cannot evaluate whether that document fully addresses the issues identified in this report.

Finally, we are concerned about delaying the preparation of WLRN's financial statements and AFRs until it receives the Friends' financial statement audit on October 31. Based on our experience we do not believe such an arrangement provides the school board enough time to have its financial statement audit and AFR attestation examination completed by November 30, as required by CPB Guidelines.

Friends should provide WLRN its financial statement information, including the split between TV and radio, within a reasonable time period (e.g., 30-45 days) following the close of Friends' fiscal year on June 30. This will enable WLRN to prepare its financial statements and the AFRs so that they can be audited by WLRN's independent auditor by CPB's due date of November 30. Such an arrangement will require coordination between the Friends and WLRN auditors to ensure the necessary auditor adjustments are made to the Friends and or WLRN's financial statements and to the final AFRs submitted to CPB.

Based on WLRN's response we consider recommendations one through three unresolved pending CPB's management decision addressing the overstated NFFS, penalty assessments, and whether WLRN's planned corrective actions are adequate to ensure future compliance.

CPB Grant Payments to WLRN
July 1, 2013 – June 30, 2015

CPB Grants	FY 2014	FY 2015	Total
WLRN-TV			
Community Service Grant	$1,174,654	$1,233,876	$2,408,530
Interconnection	$22,451	$22,322	$44,773
WLRN-TV Totals	**$1,197,105**	**$1,256,198**	**$2,453,303**
WLRN -FM			
Unrestricted Community Service Grant	$446,964	$336,706	$783,670
Restricted Community Service Grant	$157,206	$120,589	$277,795
WLRN-FM Totals	**$604,170**	**$457,295**	**$1,061,465**

FYs 2014 and 2015 payments for TV and radio totaled $3,514,768
.

Exhibit B

WLRN-FM Annual Financial Reports
Years Ending June 30,2014 and 2015

AFR Line	Description	FY 2014	FY 2015
	Schedule A,		
	Source of Income		
1	Amounts provided directly by federal government agencies	$0	$0
2	Amounts provided by Public Broadcasting Entities	604,170	457,295
A	CPB - Community Service Grants	604,170	457,295
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	Other PBE funds(specify)	0	0
3	Local boards and departments of education or other local government or agency sources	970,643	802,505
3.1	NFFS Eligible	970,643	802,505
A	Program and production underwriting	657,314	463,349
B	Grants and contributions other than underwriting	313,329	339,156
4	State boards and departments of education or other state government or agency sources	0	100,000
4.1	NFFS Eligible	0	100,000
A	Program and production underwriting	0	0
B	Grants and contributions other than underwriting	0	100,000
8	Foundations and non-profit associations	2,926,270	3,023,676
8.1	NFFS Eligible	2,926,270	3,023,676
A	Program and production underwriting	2,924,232	2,826,785
B	Grants and contributions other than underwriting	2,038	196,891
10	Membership and subscriptions	2,960,250	2,443,898
10.1	NFFS Exclusion - Fair Market value of premiums that are not of insubstantial value	0	0
10.2	NFFS Exclusion - Membership bad debt expense	0	0
11	Revenue from Friends groups less any revenue included on line 10	283,764	283,488
12	Subsidiaries and other activities unrelated to public broadcasting	0	0
		0	0
	Form of Revenue		
13	Auction revenue	0	0
14	Special fundraising activities	0	0
A	Gross Special Fundraising revenues	0	0
B	Direct Special Fundraising expenses	0	0
15	Passive income	3,534	2,344
A	Interest and dividends (other than on endowment funds)	3,534	2,344
16	Gains and losses on investments, charitable trusts and gift annuities and sale of other assets (other than endowment funds)	6,391	-1,985
B	Realized gains/losses on investment (other than endowment funds)	6,391	-1,985
17	Endowment revenue	1,346,301	71,909
B	Interest and dividends on endowment funds	207,361	467,828
C	Realized net investment gains and losses on endowment funds (if this a negative amount, add a hyphen, e. g; “-1,765”)	1,138,940	-395,919
18	Capital fund contributions from individuals	170,000	0
A	Facilities and equipment (except funds received from federal or public broadcasting sources)	170,000	0
B	Other	0	0

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AFR Line	Description	FY 2014	FY 2015
19	Gifts and bequests from major individual donors	237,444	368,577
20	Other Direct Revenue	1,589,400	1,589,400
21	Total Revenue (Sum of lines 1 through 12, 13A, 14A and 15 through 20	11,098,167	9,141,107
	Adjustments to Revenue		
22	Federal revenue from line 1.	0	0
23	Public broadcasting revenue from line 2.	604,170	457,295
25	Revenue on line 20 not meeting the source, form, purpose, or recipient criteria	1,589,400	1,589,400
26	Other automatic subtractions from total revenue	1,145,331	-397,904
D	Realized gains/losses on investments (other than endowment funds) -16b	6,391	-1,985
F	Realized and unrealized net investments gains/losses on endowment funds -line 17c, line 17d	1,138,940	-395,919
27	**Total Direct Nonfederal Financial Support**	7,759,266	7,492,316
	Schedule B		
	1. Determine Station net direct expenses		
	1.a Total station operating expenses and capital outlays (forwards from line 10 of Schedule E)	8,638,203	8,544,059
	Deductions (line 1b.1 through 1b.7):		
	1b.1. Capital Outlays (from Schedule E, line 9 total)	170,000	55,666
	1b.2. Depreciation	102,831	114,177
	1b.8. Total deductions	272,831	169,843
	1c. Station net direct expenses	8,195,372	8,374,216
	2. Institutional support rate calculation (Note: Chose one method only-either 2a or 2b)		
	2a. Net direct expense method	0	0
	2a.1. Station net direct expenses (forwards from line 1)	8,195,372	8,374,216
	2b. Salaries and wage method		
	2b.1Station salaries and wages	756,215	750,770
	2b.2 Licensee salaries and wages for direct activities	1,544,834,710	1,511,604,476
	2b.3.Percentage of allocation (2b.1 divided by 2b.2) (forward to line 2c.5 below)	%0.048951	%0.049667
	2c. Institutional support calculation		
	2c.1 Choose applicable cost groups that benefit the station	None chosen	None chosen
	2c.2. Costs per licensee financial statements	125,801,267	126,837,163
	2c.3. LESS: Cost groups that do not benefit the operations of the public broadcast station	17,462,343	14,882,462
	2c.4. Costs benefiting station operations	108,338,924	111,954,701
	2c.5. Percentage of allocation (from line 2a.3 or 2b.3)	%0.048951	%0.049667
	2c.6. Total institutional costs benefiting station operations	53,033	55,604
	4. Total institutional costs benefiting station operations (forwards to line 1 on tab 3)	53,033	55,604
	Schedule B Totals		
	1. Total support activity benefiting station	53,033	55,604
	2. Occupancy value	0	0
	3. Deductions: Fees paid to the licensee for overhead recovery, assessment, etc.	0	0
	4. Deductions: Support shown on lines 1 and 2 in excess of revenue reported in financial statements.	0	0
	5. Total Indirect Administrative Support (Forwards to Line 2 of the Summary of Nonfederal Financial Support)	53,033	55,604

WLRN-FM Annual Financial Reports
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AFR Line	Description	FY 2014	FY 2015
	6. Please enter an institutional type code for your licensee.	LG	LG
	Schedule E EXPENSES		
	PROGRAM SERVICES		
	1. Programming and production	1,787,135	1,841,133
	A. Restricted Radio CSG	157,206	137,189
	B. Unrestricted Radio CSG	332,590	320,126
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	1,297,339	1,383,818
	2. Broadcasting and engineering	83,311	97,027
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	43,651	45,729
	C. Other CPB Funds		
	D. All non-CPB Funds	39,660	51,298
	3. Program information and promotion	65,516	56,936
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	32,853	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	32,663	56,936
	SUPPORT SERVICES		
	4. Management and General	4,373,008	4,761,308
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	55,103
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	4,373,008	4,706,205
	5. Fund raising and membership development	970,288	760,549
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	970,288	760,549
	6. Underwriting and grant solicitation	1,086,114	857,263
	A. Restricted Radio CSG	0	0
	B. Unrestricted Radio CSG	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	1,086,114	857,263
	7. Depreciation and amortization	102,831	114,177
	A. Restricted Radio CSG		
	B. Unrestricted Radio CSG		
	C. Other CPB Funds		
	D. All non-CPB Funds	102,831	114,177

WLRN-FM Annual Financial Reports
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AFR Line	Description	FY 2014	FY 2015
	8. Total Expenses (Sum of lines 1 to 7) must agree with Audited Financial Statements	8,468,203	8,488,393
	A. Total Restricted Radio CSG (sum of Lines 1.A, 2.A, 3.A, 4.A, 5.A, 6.A, 7.A)	157,206	137,189
	B. Total Unrestricted Radio CSG (sum of Lines 1.B, 2.B, 3.B, 4.B, 5.B, 6.B, 7.B)	409,094	420,958
	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)	7,901,903	7,930,246
	INVESTMENT IN CAPITAL ASSETS		
	9. Total capital assets purchased or donated	170,000	55,666
	9a. Land and buildings	0	0
	9b. Equipment	170,000	55,666
	9c. All other	0	0
	10. Total expenses and investment in capital assets (sum of lines 8 and 9)	8,638,203	8,544,059
	Additional Information (Lines 11+12 must equal line 8 and Lines 13+14 must equal line 9)		
	11. Total expenses (direct only)	1,402,650	1,156,647
	12. Total expenses (indirect and in-kind)	7,065,553	7,331,746
	13. Investment in capital assets (direct only)	170,000	55,666
	14. Investment in capital assets (indirect and in-kind)	0	0
	Schedule F		
	Data from AFR		
	Schedule A, Line 21	11,098,167	9,141,107
	Schedule B, Line 5	53,033	55,604
	Schedule C, Line 6	0	0
	Schedule D, Line 8	0	0
	Total from AFR	11,151,200	9,196,711

Exhibit C

WLRN-TV Annual Financial Reports
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AFR Line	Description	FY 2014	FY 2015
	Schedule A,		
	Source of Income		
1	Amounts provided directly by federal government agencies	0	0
2	Amounts provided by Public Broadcasting Entities	1,197,105	1,256,198
A	CPB - Community Service Grants	1,174,654	1,233,876
B	CPB - all other funds from CPB	22,451	22,322
3	Local boards and departments of education or other local government or agency sources	2,898,111	1,947,948
3.1	NFFS Eligible	2,898,111	1,947,948
A	Program and production underwriting	0	0
B	Grants and contributions other than underwriting	2,898,111	1,947,948
4.	State boards and departments of education or other state government or agency sources	307,447	307,447
4.1	NFFS Eligible	307,447	307,447
A	Program and production underwriting	0	0
B	Grants and contributions other than underwriting	307,447	307,447
8	Foundations and non-profit associations	1,116,271	1,458,439
8.1	NFFS Eligible	1,116,271	1,458,439
A	Program and production underwriting	1,107,271	1,396,439
B	Grants and contributions other than underwriting	9,000	62,000
10	Membership and subscriptions	510,790	521,965
10.1	NFFS Exclusion - Fair Market value of premiums that are not of insubstantial value	0	0
10.2	NFFS Exclusion - Membership bad debt expense	0	0
11	Revenue from Friends groups less any revenue included on line 10	0	0
12	Subsidiaries and other activities unrelated to public broadcasting	0	0
	Form of Revenue		
13	Auction revenue	0	0
14	Special fundraising activities (net)	0	0
A	Gross special fundraising revenues	0	0
B	Direct special fundraising expenses	0	0
15	Passive income	389	259
A	Interest and dividends (other than on endowment funds)	389	259
B	Royalties	0	0
C	PBS or NPR pass-through copyright royalties	0	0
16	Gains and losses on investments, charitable trusts and gift annuities and sale of other assets (other than endowment funds)	854	-223
A	Gains from sales of property and equipment (do not report losses)	0	0
B	Realized gains/losses on investment (other than endowment funds)	854	-223
C	Unrealized/losses on investments and actuarial gains/losses on charitable trusts/gift annuities	0	0
17	Endowment revenue	145,843	7,718
A	Contributions to endowment funds	0	0
B	Interest and dividends on endowment funds	23,771	51,981
C	Realized net investment gains and losses on endowment funds (if this a negative amount, add a hyphen, e.g., “-1,765”)	122,072	-44,263
D	Unrealized net investment gains and losses on endowment funds (if this a negative amount, add a hyphen, e.g., “-1,765”)	0	0

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AFR Line	Description	FY 2014	FY 2015
18	Capital fund contributions from individuals	490,939	110,815
A	Facilities and equipment (except funds received from federal or public broadcasting sources)	490,939	110,815
B	Other	0	0
19	Gifts and bequests from major individual donors	0	50,159
20	Other Direct Revenue	178,600	178,600
21	Total Revenue (Sum of lines1through 12, 13A, 14A and 15 through 20)	6,846,349	5,839,325
	Adjustments to Revenue		
22	Federal revenue from line 1.	0	0
23	Public broadcasting revenue from line 2.	1,197,105	1,256,198
24	Capital funds exclusion	490,939	110,815
25	Revenue on line 20 not meeting the source, form, purpose, or recipient criteria	178,600	178,600
26	Other automatic subtractions from total revenue	122,926	-44,486
A	Auction expense	0	0
B	Special Fundraising event expenses	0	0
C	Gains from the sales of property and equipment-line 16a	0	0
D	Realized gains/losses on investments (other than endowment funds) -16b	854	-223
E	Unrealized investment and actuarial gains/losses (other than endowment funds)	0	0
F	Realized and unrealized net investments gains/losses on endowment funds -line 17c, line 17d	122,072	-44,263
K	FMV of High-end premiums (line 10.1)	0	0
L	Membership bad debt expense (line 10.2)	0	0
27	**Total Direct Nonfederal Financial Support**	4,856,779	4,338,198
	Schedule B		
	1. Determine Station net direct expenses		
	1.a. Total station operating expenses and capital outlays (forwards from line 10 of Schedule E)	7,438,888	6,142,454
	Deductions (line 1b.1 through 1b.7):		
	1b.1. Capital Outlays (from Schedule E, line 9 total)	490,939	110,815
	1b.2. Depreciation	480,877	504,568
	1b.8. Total deductions	971,816	615,383
	1c. Station net direct expenses	6,032,173	5,527,071
	2. Institutional support rate calculation (Note: Chose one method only-either 2a or 2b)		
	2a. Net direct expense method		
	2a.1. Station net direct expenses (forwards from line 1)	6,032,173	5,527,071
	2b. Salaries and wage method		
	2b.1. Station salaries and wages	2,112,608	1,821,351
	2b.2. Licensee salaries and wages for direct activities	1,544,834,710	1,511,604,476
	2b.3. Percentage of allocation (2b.1 divided by 2b.2)	%0.136753	%0.120491
	2c. Institutional support calculation		
	2c.1 Choose applicable cost groups that benefit the station	None chosen	None chosen
	2c.2. Costs per licensee financial statements	125,801,267	126,837,163
	2c.3. LESS: Cost groups that do not benefit the operations of the public broadcast station	17,462,343	14,882,462
	2c.4. Costs benefiting station operations	108,338,924	111,954,701
	2c.5. Percentage of allocation (from line 2a.3 or 2b.3)	%0.136753	%0.120491
	2c.6. Total institutional costs benefiting station operations	148,156	134,895

WLRN-TV Annual Financial Report
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AFR Line	Description	FY 2014	FY 2015
	3. Physical plant support rate calculation		
	3a.Net square footage occupied by station	11,790	11,790
	3b. Licensee's net assignable square footage	39,600,696	39,600,696
	3c. Percentage of allocation (3a divided by 3b) (forward to line 3d.5 below)	%0.029772	%0.029772
	3d.1 Chose applicable cost groups that do benefit the station		
	3d.2 Costs per licensee financial statements	356,746,427	360,190,442
	3d.3 Less: Cost groups that do not benefit the station	0	0
	3d.4 Costs benefiting station operations	356,746,427	360,190,442
	3d.5 Percentage of allocation (from line 3.c)	%0.029772	%0.029772
	3d.6 Total physical plant support costs benefiting station operations	106,211	107,236
	4. Total costs benefiting station operations (forwards to line1 on tab3)	254,367	242,130
	Schedule B Totals		
	1. Total support activity benefiting station	254,367	242,130
	2. Occupancy value	0	0
	3. Deductions: Fees paid to the licensee for overhead recovery assessment, etc.	0	0
	4. Deductions: Support shown on lines 1&2 in excess of revenue reported in financial statements	0	0
	5. Total Indirect Administrative Support (Forwards to Line 2 of the Summary of Nonfederal Financial Support)	254,367	242,130
	6. Please enter an institutional type code for your licensee.	LG	LG
	Schedule E EXPENSES		
	PROGRAM SERVICES		
	1. Programming and production	2,781,962	2,228,850
	A. TV CSG	701,056	548,277
	B. TV Interconnection	22,451	22,266
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	2,058,455	1,658,307
	2. Broadcasting and engineering	1,245,565	841,121
	A. TV CSG	310,442	356,491
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	935,123	484,630
	3. Program information and promotion	56,297	56,936
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	56,297	56,936
	SUPPORT SERVICES		
	4. Management and General	1,837,545	1,852,289
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	1,837,545	1,852,289
	5. Fund raising and membership development		
	A. TV CSG	460,639	508,212
	B. TV Interconnection	0	0

WLRN-TV Annual Financial Reports
Years Ending June 30, 2014 and 2015

AFR Line	Description	FY 2014	FY 2015
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	460,639	508,212
	6. Underwriting and grant solicitation	85,464	39,763
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	85,464	39,763
	7. Depreciation and amortization	480,477	504,468
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	480,477	504,468
	8. Total Expenses (Sum of lines 1 to 7) must agree with Audited Financial Statements	6,947,949	6,031,639
	A. Total TV CSG (sum of Lines 1.A, 2.A, 3.A, 4.A, 5.A, 6.A, 7.A)	1,011,498	904,768
	B. Total TV Interconnection (sum of Lines 1.B, 2.B, 3.B, 4.B, 5.B, 6.B, 7.B)	22,451	22,266
	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)	5,914,000	5,104,605
	INVESTMENT IN CAPITAL ASSETS		
	9. Total capital assets purchased or donated	490,939	110,815
	9a. Land and buildings	0	0
	9b. Equipment	490,939	110,815
	9c. All other	0	0
	10. **Total expenses and investment in capital assets** (sum of lines 8 and 9)	7,438,888	6,142,454
	Additional Information (Lines 11+12 must equal line 8 and Lines 13+14 must equal line 9)		
	11. Total expenses (direct only)	3,235,112	2,390,807
	12. Total expenses (indirect and in-kind)	3,712,837	3,640,832
	13. Investment in capital assets (direct only)	490,939	110,815
	14. Investment in capital assets (indirect and in-kind)	0	0
	Schedule F		
	Data from AFR		
	Schedule A, Line 21	6,846,349	5,839,325
	Schedule B, Line 5	254,367	242,130
	Schedule C, Line 6	0	0
	Schedule D, Line 8	0	0
	Total from AFR	7,100,716	6,081,455

WLRN Summary of Non-Federal Financial Support
For the Periods Ending June 30, 2014 and 2015
Certified by Head of Grantee and Independent Account's Report

AFR Line	WLRN-FM Description	FY 2014	FY 2015	Total
	Summary of Non-Federal Financial Support:			
1	Direct Revenue (Schedule A)	$7,759,266	$7,492,316	$15,251,582
2	Indirect Administrative (Schedule B)	$53,033	$55,604	$108,637
	3a. In-Kind Contributions (Schedule C)	0	0	
	3b. In-Kind Contributions (Schedule D)	0	0	
4	**Total Non-Federal Financial Support**	**$7,812,299**	**$7,547,920**	**$15,360,219**

AFR Line	WLRN-TV Description	FY 2014	FY 2015	Total
	Summary of Non-Federal Financial Support:			
1	Direct Revenue (Schedule A)	$4,856,779	$4,338,198	$9,194,977
2	Indirect Administrative (Schedule B)	$254,367	$242,130	$496,497
	3a. In-Kind Contributions (Schedule C)	0	0	
	3b. In-Kind Contributions (Schedule D)	0	0	
4	**Total Non-Federal Financial Support**	**$5,111,146**	**$4,580,328**	**$9,691,474**

The NFFS WLRN reported in FY 2014 for its FM and TV stations totaled $12,923,445 and in FY 2015 it reported a total of $12,128,248 for both stations.

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Exhibit E

OIG Recalculation of WLRN's FY 2014 Schedule B
For Indirect Administrative Support

Schedule B	Per AFRs TV	Per AFRs FM	Per AFRs Total	Per Audit TV	Per Audit FM	Per Audit Total	Over/Under Stated NFFS TV	Over/Under Stated NFFS FM
2b. **Salaries and wages method**								
2b.1 Station salaries & wages	$2,112,608	$756,215		$2,112,608	$1,003,125			
2b.2 Licensee salaries & wages for direct activities	$1,544,834,710	$1,544,834,710		$1,831,788,803	$1,831,788,803			
2b.3 Percentage of allocation	0.136753%	0.048951%		0.115330%	0.054762%			
2c. **Institutional support calculation**								
2c.2 Costs per licensee financial statements	$125,801,267	$125,801,267		$125,801,267	$125,801,267			
2c.3 Less; Cost groups that do not benefit the station	$17,462,343	$17,462,343		$47,754,953	$47,754,953			
2c.4 Costs benefiting the station	$108,338,924	$108,338,924		$78,046,314	$78,046,314			
2c.5 Percentage of allocation	0.136753%	0.048951%		0.115330%	0.054762%			
2c.6 Total institutional costs benefiting the station	$148,157	$53,033	$201,190	$90,011	$42,740	$132,751	$58,146	$10,293
3. **Physical plant support calculation**								
3a. Net square footage occupied by station	11,790	$0		4,893	6,897			
3b. Licensee's net assignable square footage	39,600,696	$0		39,600,696	39,600,696			
3c. Percentage of allocation	0.029772%	0%		0.012355%	0.017417%			
3d.2 Costs per licensee financial statements	$356,746,427	$0		$272,797,058	$272,797,058			
3d.3 Less; Cost groups that do not benefit the station	$0	$0		$0	$0			
3d.4 Costs benefiting the station	$356,746,427	$0		$272,797,058	$272,797,058			
3d.5 Percentage of allocation	0.029772%	0%		0.012355%	0.017417%			
3d.6 Total physical plant support costs	$106,211	$0	$106,211	$33,705	$47,512	$81,218	$72,506	($47,512)
4. **Total costs benefiting station operations**	$254,367	$53,033	$307,400	$123,716	$90,252	$213,969		
Total Overstated NFFS FY 2014							$130,652	($37,219)

OIG Recalculation of WLRN's FY 2015 Schedule B
For Indirect Administrative Support

Schedule B	Per AFRs			Per Audit			Over/Under Stated NFFS	
	TV	FM	Total	TV	FM	Total	TV	FM
2b. **Salaries and wages method**								
2b.1 Station salaries & wages	$1,821,351	$750,770		$1,821,351	$750,770			
2b.2 Licensee salaries & wages for direct activities	$1,511,604,476	$1,511,604,476		$1,792,905,215	$1,792,905,215			
2b.3 Percentage of allocation	0.120491%	0.049667%		0.101587%	0.041874%			
2c. **Institutional support calculation**								
2c.2 Costs per licensee financial statements	$126,837,163	$126,837,163		$126,837,163	$126,837,163			
2c.3 Less; Cost groups that do not benefit the station	$14,882,462	$14,882,462		$46,946,457	$46,946,457			
2c.4 Costs benefiting the station	$111,954,701	$111,954,701		$79,890,706	$79,890,706			
2c.5 Percentage of allocation	0.120491%	0.049667%		0.101587%	0.041874%			
2c.6 Total institutional costs benefiting the station	$134,895	$55,604	$190,499	$81,158	$33,454	$114,612	$53,737	$22,150
3. **Physical plant support calculation**								
3a. Net square footage occupied by station	11,790	$0		4,893	6,897			
3b. Licensee's net assignable square footage	39,600,696	$0		39,600,696	39,600,696			
3c. Percentage of allocation	0.029772%	0%		0.012355%	0.017417%			
3d.2 Costs per licensee financial statements	$360,190,442	$0		$276,630,615	$276,630,615			
3d.3 Less; Cost groups that do not benefit the station	$0	$0						
3d.4 Costs benefiting the station	$360,190,442	$0		$276,630,615	$276,630,615			
3d.5 Percentage of allocation	0.029772%	0%		0.012355%	0.017417%			
3d.6 Total physical plant support costs	$107,236	$0	$107,236	$34,179	$48,180	$82,359	$73,057	($48,180)
4. **Total costs benefiting station operations**	$242,131	$55,604	$297,735	$115,337	$81,634	$196,971		
Total Overstated NFFS FY 2015							$126,794	($26,030)

Scope and Methodology

We performed an attestation examination to determine WLRN's compliance with CPB Financial Reporting Guidelines, provisions of the Communications Act, grant certification requirements, and other grant provisions. The scope of the audit included reviews and tests of the information reported by the station on its AFRs and reconciled to audited financial statements for the years ending June 30, 2014 and June 30, 2015; grant certifications of compliance with Act requirements; and certifications on its financial reports submitted to CPB.

We tested the allowability of NFFS claimed on WLRN's AFRs by performing financial reconciliations and comparisons to underlying accounting records (general ledger) and the audited financial statements of both WLRN and Friends. We reviewed underwriting and grant agreements and other documentation supporting revenues reported. Specifically, we reviewed NFFS revenue transactions totaling $598,004 of the $12,923,445 WLRN reported in FY 2014 and $633,268 of the $12,128,248 reported in FY 2015, including Schedule B Indirect Administrative Support costs claimed.

We reviewed the allowability of expenses charged to the WLRN CSGs during FY 2014 and 2015. To determine whether expenditures were incurred in accordance with grant terms, we reviewed $454,430 of the CSG expenditures totaling $3,469,995 reported by WLRN during our review period. We reviewed supporting documentation, including the School Board's records for payroll, grant expenditures, and other documentation for judgmentally selected transactions.

We reviewed policies, records, and documents supporting the station's compliance with Act requirements to provide advance notice of public meetings; make financial and equal employment opportunity information available to the public; and safeguard donor lists. We also reviewed WLRN's website to determine its compliance with CPB's transparency requirements. Our procedures included interviewing station and Friends' officials and their independent public accountants.

We gained an understanding of internal controls over the preparation of AFRs, cash receipts, and cash disbursements. We also gained an understanding of WLRN's policies and procedures for compliance with certification of eligibility requirements, Communication 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.

We conducted fieldwork from October 2, 2017 through December 20, 2017. We performed our audit in accordance with the *Government Auditing Standards* for attestation examinations.

Exhibit H

March 13, 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 WLRN TV/FM Licensed to The School Board of Miami-Dade County, Florida For the Period July 1, 2013 Through June 30, 2015 Draft Report No. ASJ1708-XXXX

Dear Mr. Richardson,

Thank you once again for this opportunity to respond to the Office of Inspector General ("OIG") Draft Audit Report in the matter indicated above. As before, we appreciate the professionalism of your audit team as we work through the audit process. This audit covered Fiscal Years 2014-2015. The School Board made significant progress in improving its processes since the audit period. These include implementing new internal controls and entering into an agreement with Friends of WLRN, Inc. to increase oversight of financial processes and reporting. As such, WLRN believes it has implemented practices that will correct the deficiencies noted in the Draft Audit Report. However, WLRN would like to take this opportunity to address where it believes the Draft Report reaches erroneous conclusions.

As the Draft Audit Report details, the OIG's audit found WLRN-TV and WLRN-FM (collectively "WLRN") was materially noncompliant with CPB Guidelines for reporting NFFS on its AFRs, and improperly claimed $7,348,897 of unallowable non-Federal financial support ("NFFS"), which resulted in CSG overpayments of $784,018.

The Draft Audit Report also reiterated the findings in the Audit Report No. ESJ1708-1710 that WLRN misreported its underwriting NFFS in FYs 2008 through 2015. Before responding to the OIG's findings that are unique to this report, WLRN would like to restate its response to the findings that are contained in Report No. ESJ1708-1710. As discussed before, the findings in Report No. ESJ1708-1710 were the result of restated underwriting revenues that were submitted by WLRN to the Corporation for Public Broadcasting ("CPB") to correct a misallocation of NFFS between WLRN-TV and WLRN-FM, which Report No. ESJ1708-1710 confirmed were correct. While the resulting grant overpayments due to this error will be repaid in full, in its response to Report No. ESJ1708-1710, CPB management did not impose additional penalties on WLRN. WLRN is grateful to CPB management for recognizing WLRN has consistently acted in good faith to rectify the misreporting discussed in Report No. ESJ1708-1710.

For your convenience, WLRN's responses to the findings in the Draft Report are organized to respond to the Draft Report's three (3) recommendations.

Recommendation 1: CPB recover CSG overpayment of $784,018.

The Draft Report's found WLRN misreported NFFS from several sources. While WLRN believed it was reporting its NFFS properly and maintained proper documentation to support its NFFS reporting, the OIG disagreed. There are several areas where WLRN continues to disagree with the OIG and believes it properly claimed NFFS during the reporting periods covered by this audit.

Misreporting of NFFS under the heading "WLRN/Lease Reimbursement"

WLRN disagrees with the Draft Report's finding that the revenues identified as "WLRN/Lease Reimbursement" in the School Board's accounting records constitute an exchange transaction and does not qualify as NFFS. Section 2.3.2 of CPB's Financial Reporting Guidelines (the "Guidelines") allows for institutional licensees, such the School Board, to include "[d]irect revenues, including appropriations from the licensee and expenses incurred or absorbed by the licensee specifically for the station" as NFFS. Since Fiscal Year 2008-09, the School Board has received funds from an Educational Broadband Service Long-Term De Facto Lease Agreement (the "Spectrum Lease"), which is deposited into its general fund. The School Board contributed significant revenue to WLRN *even before* it started receiving revenue from the lease. The lease revenue did not demonstrably alter the nature of the School Board's support of WLRN, as shown in the attached spreadsheet, which is attached hereto as Attachment A, and denotes School Board funding provided to WLRN from Fiscal Year 2004 to Fiscal Year 2017. Since Spectrum Lease funds are not given directly to WLRN but deposited in the general fund, the revenue loses its identifying characteristics. These are independent and nonconsecutive events that are not related to each other. Additionally, nothing in the Spectrum Lease with the School District (not WLRN) mandates revenue generated by the lease be allocated to WLRN. For your convenience, WLRN has attached the Spectrum Lease hereto as Attachment B.

The Guidelines do not address the source(s) of an institutional licensee's funds when it makes an appropriation or contribution of revenue to a station. Instead, the Guidelines state NFFS may include direct revenues from an institutional licensee. The Guidelines do not place limitations on where an institutional licensee's revenues originated for qualification as NFFS. As such, nothing in Guidelines disqualifies the School Board's discretionary funding from the general fund for WLRN from being counted as NFFS based on the originating source(s) of the School Board's financial resources.

From a policy perspective, disqualifying the Spectrum Lease funds from being counted as NFFS appears to WLRN as arbitrary as well as setting a capricious precedent for CSG-qualified stations reporting such revenues to CPB. First, the Draft Report does not provide any rationale for singling out the School Board's Spectrum Lease revenues, as opposed to any other revenues, to be disqualified as NFFS. Section 2.3.2 of the Guidelines does not include any provisions for analyzing the various types of revenue received by an institutional licensee and separating such revenue into NFFS qualified and non-qualified categories when then provided by an institutional licensee to a CPB qualified station. Second, the Draft Report contains no justification for undertaking an analysis of Institutional licensee revenues as warranted in determining whether Spectrum Lease revenues would qualify as NFFS. Finally, no standards are provided in the Draft Report to determine when the type of segregation of institutional licensee direct revenues into NFFS qualified and non-qualified is appropriate and whether, in turn, those sources of revenues should also be analyzed in the same manner.

Misreporting of NFFS regarding AV Technicians under the heading "Subsidies"

While the Draft Report noted the School Board did not adequately document the time spent by AV Technicians on station activities, the auditor did not dispute that such subsidies may be properly counted as NFFS. WLRN does not agree it should receive zero credit for the AV Technician subsidy in Fiscal Years 2014 and 2015 solely because of the lack of proper documentation.

WLRN reported NFFS for the AV Technicians on Schedule A of the AFR as a subsidy from the School Board, as is permitted under Section 5 of the Guidelines, which states: "[f]or institutional stations, direct revenue may also consist of expenses incurred or absorbed by the licensee specifically for the operations of the station." While the NFFS claimed by WLRN is counted a direct revenue, the permissibility of such services, paid by the School Board, to be appropriately classified as NFFS is discussed in CPB's Guidelines regarding in-kind contributions.[1] The Fiscal Year 2014 edition of the Guidelines[2] provides:

2.6.7 In-kind Contributions for Instructional Television and Educational Radio

Some grantees provide Instructional Television (ITV) or Educational Radio services where the station develops and delivers educational content for in-classroom use. This content may be delivered via broadcast transmission, closed circuit transmission, the Web, or prerecorded materials (e.g. DVDs, VHS, etc.). Direct revenues of contributions or payments in exchange transactions for ITV or Educational Radio services that meet the appropriate recipient, form, source and purpose criteria (*See Section 2.3.1*) are eligible as NFFS. However, with respect to the NFFS eligibility of in-kind contributions a grantee

[1] WLRN is not claiming (and understands it cannot claim) in-kind contributions from the School Board, as the School Board is WLRN's licensee. However, the rationale provided by the Guidelines in its discussion of in-kind contributions is also applicable to the appropriateness of WLRN counting the subsidy of the AV technicians as NFFS.

[2] The language quoted from the Fiscal Year 2014 Guidelines is repeated in Section 2.6.6 of the Fiscal Year 2015 Guidelines.

> may receive for ITV or Educational Radio, there are limitations on the nature of the services provided and the value that may be recognized for NFFS purposes.
>
> First, the grantee must be able to demonstrate that the ITV or Educational Radio service has a direct benefit to the station's mission as an educational broadcaster.
>
> Second, the grantee must demonstrate that the ITV or Educational Radio service is under the station's direct management and operational control and, in the case of an institutional station, not a separate activity under the management and operational control of the licensee. The station must have control over distribution of the materials or services received.

WLRN would meet these criteria for counting as NFFS the services provided by AV Technicians employed by the Miami-Dade County Public Schools. Section 2.6.7 of the Fiscal Year 2014 Guidelines then provides a listing of various in-kind contributions that would count as NFFS under this principle. While AV Technicians are not specifically discussed in this list, the Guidelines do not state the list is comprehensive or exhaustive. Further, the exclusions to counting such contributions as NFFS would not apply to WLRN. Section 2.6.7 states:

> **Do not** include any of the following in-kind contributions as NFFS (*same as stated in Section 2.4.2*):
>
> - Salaries or benefits of classroom teachers who use the instructional services or
> - The cost of receiving or playback equipment located at educational or instructional facilities.
> - Donated programs produced and delivered to the grantee by others, whether local productions or national programs, even when the donated programs are produced for instructional use and/or distributed as part of a grantee's instructional services.

None of these instances would apply to WLRN and the services of the AV Technicians. As such, nothing in the Guidelines would specifically prevent the value of the AV Technicians performing services from being counted as NFFS (if WLRN was claiming an in-kind contribution). Under this same rationale, other work provided by School Board employees could also have been claimed as NFFS contributions. However, WLRN has only chosen to claim those which most directly tie to WLRN's services. As such, WLRN should receive some credit for the subsidized services provided by the AV Technicians to WLRN.

<u>Misreporting of NFFS regarding AV Tech under the heading "Overstated Indirect Administrative Support"</u>

In addressing the calculation of indirect administrative support ("IAS"), the OIG has noted in two separate Reports the Guidelines need further clarification. WLRN has worked in good faith to provide an accurate calculation of its IAS from the School Board, but has been hampered by the imprecise nature of the Guidelines in addressing IAS. As such, WLRN should not be penalized unduly for miscalculation of IAS, when all parties recognize the Guidelines should be revised to be clear on IAS calculation methodology.

Recommendation 2: CPB apply appropriate penalties in accordance with CPB's CSG Non-Compliance Policy.

WLRN disagrees that additional punitive penalties are appropriate. While we understand the importance of accurate NFFS reporting, WLRN has adopted additional internal control processes to ensure future accurate NFFS reporting and is in the process of adopting further procedures to ensure that WLRN and Friends of WLRN communicate with each other as needed to complete an accurate Annual Financial Report ("AFR").

WLRN has already been obliged to operationally absorb a loss of $1,128,247 due to the repayment of TV CSG funds as a result of the findings in Audit Report No. ESJ1708-1710. WLRN recognizes that there will be additional repayment of funds due to the findings in this Draft Audit Report. Adding additional punitive penalties in addition to well over $1 million dollars in repayment obligations would further stretch and jeopardize WLRN's ability to continue to serve its community and surely result in significant cutbacks in terms of both service and staff. Further, WLRN and its licensee, The School Board of Miami-Dade County, Florida, must also rely on information provided by Friends of WLRN, Inc.'s accounting records in its preparation of documentation for CPB. WLRN does not have independent records to verify what is reported to WLRN by Friends of WLRN, Inc.

Recommendation 3: CPB require WLRN to identify the corrective actions and controls it will implement to ensure future compliance.

Again, WLRN agrees with these recommendations and will work with its licensee, The School Board of Miami-Dade County, Florida, to implement several corrective actions that will be delineated in a fundraising services contract we are negotiating with Friends. As previously noted in WLRN's response to Draft Report No. ESJ1708-1710, WLRN has already begun implementing corrective actions to ensure compliance with CPB regulations and WLRN has access to financial information created and kept by its fundraiser, Friends of WLRN, Inc. These actions include:

- Friends will annually provide by October 31 of each year, its audited financial statements, which will include the audited combining statements of revenues and expenses for Radio and, segregated by line of business, as well as supporting schedules and /or back-up, including a detailed trial balance that agrees with the audited financial statements.
- The audited financial statements must be prepared by an independent certified public accountant ("CPA") licensed by the state of Florida.

- Friends' independent auditor, as well as staff must be available to answer The School Board of Miami-Dade County, Florida's independent auditor/staff questions as needed to complete an accurate and timely AFR as required by CPB.
- The School Board of Miami-Dade County, Florida Chief Auditor and/or designee will secure the services of an independent auditor to audit WLRN's financial statements in accordance with generally accepted accounting principles ("GAAP") and CPB Financial Reporting Guidelines, and to attest to the accurateness and reliability of amounts reported in the AFR.

WLRN believes that the implementation of these actions, will adequately ensure that the required information by CPB is submitted accurately and on a timely basis.

Thank you for this opportunity to comment on the Draft Audit Report. We appreciate the hard work that has gone into this process. Please feel free to contact WLRN if you have any questions or would like further information.

Sincerely,

John LaBonia
General Manager WLRN

JL/mca

Attachment

WLRN Budget Allocations								Clearwire Lease Receipts		
Lease Year	**Fiscal Year**	**Program #**	**Program Name**	**Budget**	**Actual Expenditures**	**Variance**		**M-DCPS Clearwire Lease Receipts**	**M-DCPS Clearwire Bonus Receipts**	**Total Cash Receipts**
Pre-Lease	2003-04	Varies	Varies	3,420,818.00	2,940,377.71	480,440.29		Not Applicable	Not Applicable	Not Applicable
Pre-Lease	2004-05	Varies	Varies	3,203,429.00	2,933,961.58	269,467.42		Not Applicable	Not Applicable	Not Applicable
Pre-Lease	2005-06	Varies	Varies	3,495,011.00	2,887,181.10	607,829.90		Not Applicable	Not Applicable	Not Applicable
Pre-Lease	2006-07	Varies	Varies	3,652,893.00	2,862,336.93	790,556.07		Not Applicable	Not Applicable	Not Applicable
Pre-Lease	2007-08	Varies	Varies	3,662,212.69	2,954,533.31	707,679.38		Not Applicable	Not Applicable	Not Applicable
1	2008-09	9680	WLRN Support	2,864,450.00	2,630,136.99	234,313.01		3,720,012.00	13,000,000.00	16,720,012.00
2	2009-10	9680	WLRN Support	2,838,239.34	2,536,562.36	301,676.98		3,720,012.00	-	3,720,012.00
3	2010-11	9680	WLRN Support	2,192,391.10	2,166,970.64	25,420.46		3,720,012.00	-	3,720,012.00
4	2011-12	9680	WLRN Support	1,865,729.27	1,688,377.51	177,351.76		3,720,012.00	2,000,000.00	5,720,012.00
5	2012-13	9680	WLRN Support	1,748,610.26	1,700,805.92	47,804.34		3,720,012.00	-	3,720,012.00
6	2013-14	9680	WLRN Support	1,566,411.89	1,445,719.22	120,692.67		4,426,561.60	-	4,426,561.60
7	2014-15	9680	WLRN Support	1,403,329.27	1,333,800.00	69,529.27		4,500,000.00	3,000,000.00	7,500,000.00
8	2015-16	9680	WLRN Support	1,458,402.79	1,360,519.33	97,883.46		4,500,000.00	-	4,500,000.00
9	2016-17	9680	WLRN Support	1,607,853.29	1,258,703.64	349,149.65		4,500,000.00	-	4,500,000.00

ATTACHMENT A - WLRN Lease Receipts

Audit of Community Service Grants at WLRN TV/FM Licensed to The School Board of Miami-Dade County, Florida for the Period July 1, 2013 through June 30, 2015

Report No. ASJ1705-1803

The lease agreement between the School Board and Clearwire Spectrum Holdings that WLRN attached to its response is not included in this Exhibit but is available upon request.

Contact our office at:

202.879.9669

or

Corporation for Public Broadcasting
Office of Inspector General
401 Ninth Street, NW
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