Corporation
for Public
Broadcasting

June 29, 2018

VIA ELECTRONIC MAIL, HARD COPY TO FOLLOW

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:

The audit, conducted by the Corporation for Public Broadcasting's (CPB) Office of Inspector General (OIG), found that WLRN's television and radio stations were compliant with the requirements of the Communications Act, CPB's CSG Agreement and Certification of Eligibility, the applicable grant terms and the discrete accounting requirement. We appreciate the attention WLRN has placed on compliance.

During the period audited, WLRN reported $33,530,085 in operating revenues, $25,051,692 in non-federal financial support (NFFS) and $3,514,768 in community service and interconnection grant funds, and the OIG identified an overpayment of $784,018 (attributed to the radio and television stations over a two-year period) in WLRN's community service grants (CSGs).

The report emphasizes the amount of NFFS overstated instead of the resulting CSG overpayments (i.e. the funds put to better use), which is the more relevant information. Thus, we have included those numbers in the table below.

The specific audit findings and CPB's determinations follow.

I. Recommendations 1 and 2

The OIG recommended that CPB recover the CSG overpayments of $784,018 (attributed to WLRN's television and radio stations over a two-year period) shown below and apply appropriate penalties in accordance with CPB's CSG Non-compliance Policy.

CSG Overpayments 2014 & 2015	
Category	Radio & TV
Lease Reimbursement	$281,515
Subsidies	$264,240
Premiums	$88,198
Pledge Write-offs	$36,370
Direct Expenses	$30,028
Overstated IAS	$28,808
Loss on Endowment	$27,697
Special Fundraising	$15,379
Funds from Public Broadcasting Entities	$8,360
Miami Herald Exchange Income	$1,836
Underwriting Pledge Write-offs	$861
Misc.	$726
Total	$784,018

CPB Determination: We agree with most of the OIG's findings, except for that concerning WLRN's indirect administrative support (IAS) calculation. WLRN agreed with all but the findings we have addressed below.

- Lease Reimbursement: We agree with the OIG's finding and reasoning behind disallowing WLRN to report tower lease revenues as NFFS. The funds were labeled as "lease reimbursement" on WLRN's financial reports and we cannot ignore this label which invalidates WLRN's argument that the funds were a general allocation. The revenues, therefore, are a payment for services (i.e. an exchange transaction) and explicitly excluded from NFFS under the Financial Reporting Guidelines, Sections 2.2 and 2.3.

- Subsidies: Stations may report as NFFS expenses its licensee incurs specifically for it under Section 2.3.2 of the Financial Reporting Guidelines. The OIG found that WLRN's licensee did not pay directly any parking or the other subsidized costs on WLRN's behalf. While we agree that there may be costs associated with parking and other subsidies, they may fall within the definition of indirect support, i.e. the portion of a licensee's general and administrative costs and facilities costs attributed to the station's operations (Section 2.7 of the Financial Reporting Guidelines). Therefore, we agree with the OIG's finding.

- IAS: The OIG found that WLRN made several errors in calculating its IAS and we agree. WLRN argued that it should not be penalized for the miscalculation because the OIG indicated that CPB's Guidelines should be customized for school department licensees, like WLRN. We disagree. The Guidelines were written purposefully so that they could be applied to either type of licensee. Additional evidence of their clarity is the fact that WLRN's indirect administrative support calculation resulted in a number that was quite close to that the OIG calculated.

- AV Technicians: WLRN argues that $1,525,030 i.e., all AV techs' salaries, were paid by WLRN's licensee, on its behalf. However, WLRN's licensee was able to show that only some AV tech work orders pertained to WLRN and most did not detail the number of hours each project required. The OIG found this documentation insufficient to support these costs and we agree. WLRN argues in the alternative that it should be entitled to report at least a portion of the tech's salaries as an in-kind contribution for instructional television and radio; however, the Financial Reporting Guidelines do not permit stations to report as NFFS in-kind contributions from institutional licensees. Nonetheless, WLRN may be allowed to include a portion of these salaries in its indirect administrative support calculation pursuant to Section 2.7 of the Financial Reporting Guidelines.

CPB adopted the CSG Non-compliance Policy to encourage stations to comply with the applicable provisions governing their CSG and the Communications Act of 1934, 47 U.S.C. §396, et sec. Failure to comply with these requirements which result in an overpayment of the recipient's CSG subjects the recipient to a penalty of ten percent of the amount of the overpayment unless there are extenuating circumstances, in addition to refunding the overpayment. Nonetheless it is within CPB's sole discretion whether to assess a penalty and for several reasons we chose not to assess a penalty against WLRN in the earlier OIG evaluation of WLRN's underwriting revenues. Those reasons are detailed in the corresponding determination letter[1]. The errors in this audit resulted from the lack of internal controls necessary to ensure that the NFFS it reported to CPB was accurate, which are the same errors found in that evaluation, namely that WLRN:

- did not understand nor did it verify that the financial information it obtained from Friends was accurate;
- did not check the accuracy of the reports prepared by its consultant; and
- its independent auditor did not do a sufficient review of NFFS.

Therefore, we are assessing a penalty against WLRN of ten percent of the overpayment, $78,402.

Action: WLRN must send a check for $862,420 payable to CPB within 45 days of the date of this letter to the attention of Nick Stromann, Vice President, Controller, Corporation for Public Broadcasting, 401 Ninth Street N.W., Washington, D.C. 20004-2129.

II. Recommendation 3

OIG recommended that CPB require WLRN to identify the corrective actions and controls it will implement to ensure future compliance, to include at a minimum the following.

A. WLRN's licensee and independent accountant must have access to its fundraising organization's financial data to ensure the accuracy of its AFRs and compliance with CPB Guidelines including:

   - fair market value of high-end premium offsets;
   - membership pledge write-offs;
   - uncollected underwriting pledges;
   - exchange transaction adjustments;
   - funds received from public broadcasting entities;
   - special fundraising cost adjustments; and

[1] CPB management determination letter dated February 2, 2018 concerning the OIG's *Evaluation of WLRN's TV/FM's Restatement of Its Underwriting Revenue Split between Television and Radio for the Period July 1, 2007 through June 30, 2015 (Report No. ESJ1708-1710).*

- miscellaneous income that does not meet CPB's purpose and source criteria; and

B. WLRN must provide CPB with a copy of its written procedures or a copy of its agreement with its fundraising organization that identifies the internal controls it has implemented to ensure the accuracy of the information reported in its AFR.

CPB Determination: Since our determinations to the OIG's evaluation of WLRN's underwriting revenues addressed this issue, no further action is required.

Action: No further action is required of WLRN.

If you wish CPB to consider additional information relating to this matter, please provide the same in writing within 30 days of the date of this letter. Failing that, CPB will consider these determinations final and WLRN will be required to comply with the actions set forth above. CPB reserves the right to take any other action CPB deems appropriate until these issues are resolved to CPB's satisfaction.

Kind regards,

Jackie Livesay

Jackie J. Livesay
Assistant General Counsel &Vice President, Compliance

CC: VIA ELECTRONIC MAIL
Alberto Carvalho, Superintendent, Miami-Dade County Public School
Daisy Gonzalez-Diego, Chief Communications Officer, Miami-Dade County Public School
Mary Mitchelson, Inspector General, CPB
William J. Richardson, Deputy Inspector General, CPB
Michael Levy, Executive Vice President & Chief Operating Officer, CPB
Steven J. Altman, Executive Vice President & Chief Policy & Business Affairs Officer, CPB
J. Westwood Smithers, Jr., Senior Vice President & General Counsel, CPB
William P. Tayman, Jr., Chief Financial Officer & Treasurer, CPB
Ted Krichels, Senior Vice President, System Development & Media Strategy, CPB
Kathy Merritt, Senior Vice President, Journalism and Radio, CPB
Erika Pulley-Hayes, Vice President, Radio, CPB
Greg Schnirring, Vice President, CSG & Station Initiatives, CPB
Nick Stromann, Vice President, Controller, CPB
Katherine Arno, Director, TV CSG Policy & Review, CPB
Andrew Charnik, Director, Radio CSG Policy & Administration, CPB
Nadine Feaster, Director, Grants Administration, CPB