Corporation
for Public
Broadcasting

September 15, 2016

VIA ELECTRONIC MAIL AND HARDCOPY TO FOLLOW

Mr. Douglas Price
President & Chief Executive Officer
Rocky Mountain Public Broadcasting Network, Inc.
1089 Bannock Street
Denver, CO 80204-9972

RE: Audit of Community Service and Other Selected Grants at Rocky Mountain Public Broadcasting Network, Inc., KRMA-TV/KUVO-FM, Denver, Colorado for the Period July 1, 2013 through June 30, 2015, Report No. ASJ1601-1605

Dear Mr. Price:

Following completion of an OIG audit, the Corporation for Public Broadcasting (CPB) is responsible for implementing the appropriate corrective actions to resolve findings and address recommendations identified by the audit. The captioned audit found that KRMA-TV (KRMA) and KUVO-FM (KUVO) overstated non-federal financial support (NFFS) by 7%[1], misallocated $11,233 of $951,519 in costs through June 2015 between two discretionary grants CPB awarded the licensee, and the audit further revealed that the stations were partially out of compliance with one of the five categories of the Communications Act requirements addressed in CPB's Communications Act Compliance booklet[2]. Following are the specific audit findings and CPB's determinations for each.

I. **OIG Recommendations 1 and 2**: NFFS

The audit found that both stations overstated their NFFS in 2014, resulting in a $183,367[3] overpayment of their $1.9 million combined community service grant (CSG) award[4], as shown in the table below. The error was primarily due to the stations' failure to exclude the fair market value of membership premiums from donor contributions as required by the Financial Reporting Guidelines[5]. The remaining errors resulted from reporting NFFS revenues from sources the Guidelines disallow.

[1] $1,456,302 / $23,670,921.
[2] Effective June 1, 2016, replacing the Communications Act Certification Requirements for CSG Recipients.
[3] KRMA's portion is $176,285 and KUVO's is $7,082.
[4] Fiscal year 2016.
[5] May, 2015.

Ineligible NFFS	2014 NFFS	CSG Overpayment
Membership Premiums	$1,404,912	$176,743
Payment Sources	$39,110	$5,170
In-kind Trades	$10,000	$1,322
Underwriting Contributions	$2,280	$132
Total	**$1,456,302**	**$183,367**

Because of these findings, the OIG recommends that CPB require the stations to:

1. revise their AFRs for 2014 consistent with the table above and identify the corrective actions and controls the licensee will implement to ensure future compliance with the Financial Reporting Guidelines; and

2. return to CPB their respective CSG overpayments which total $183,367.

In its response to these findings, the licensee explained that KRMA merged with KUVO on July 1, 2013, resulting in a temporary lapse in legal, accounting and other internal controls and processes. The licensee reports that it has made significant improvements in its reporting processes and internal controls, and it retained the National Education Telecommunications Association to review its 2014 AFR and prepare its 2015 AFR.

> CPB Determination: While licensee agrees that it should not have included presenting station fees and contributions from other public broadcasting entities in NFFS, it asks that CPB not recover the $176,743 associated with membership premiums. To support its opinion, licensee first argues that it had not fully evaluated the fair market value of the premiums its vendor[6] provided and believes the vendor overstated their value[7]. Because licensee did not provide any evidence to support that conclusion, we cannot accept this argument.
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> Licensee also argues that its informal inquiries to a few public broadcasting entities on reporting membership premiums revealed reporting inconsistencies among those stations. Licensee believes that these results demonstrate a need for more guidance on this subject. CPB disagrees because the Guidelines clearly explain that only the portion of a contribution that exceeds the fair market value of the premium the station provides to the contributor is eligible as NFFS revenue[8]. The Guidelines include a link to IRS guidance on this topic which includes an example pertaining to the cost of membership premiums of a hypothetical public broadcasting station, and CPB provides extensive training each year on NFFS and other CSG requirements, including on-line webinars available at no cost to stations.
>
> Licensee also argued that the overstated NFFS amount resulted in their paying additional PBS dues in excess of the amount of CSG payments they received from the overstated NFFS. CPB has reviewed its processes and believes that NFFS audit adjustments would be more accurate if reported as an adjustment in the stations' following year AFR instead of restating the AFR in the year audited. Therefore, the stations must report the $1,456,302 as a negative audit adjustment to NFFS on their 2015 AFR, instead of repaying CPB the $183,367.
>
> It is possible that this adjustment will result in either an over or under payment of the $183,367 because the incentive rate of return (IRR) changes from year to year. The licensee will be responsible for any shortfall in recovery by CPB and CPB will be responsible for returning any overpayment.

[6] Exhibit H of the audit report.
[7] Page 5 of the audit report.
[8] Line 10, Part II.

Action: CPB will adjust the station's NFFS reported on their 2015 AFRs, which have already been submitted to CPB, by the amount of misreported 2014 NFFS. If the 2017 IRR is lower than that in 2016, CPB will invoice the licensee for the difference. Likewise, if the IRR results in an over-recovery, CPB will refund the difference to the stations. CPB accepts the corrective actions and controls the licensee has already implemented as evidence of the station's ability to ensure future compliance with the Financial Reporting Guidelines.

In addition, CPB's CSG Non-compliance Policy imposes a penalty of 10% on such a CSG overpayment. Accordingly, we are assessing a penalty of $18,337 against the licensee. As that policy also provides, we require the licensee review the stations' prior two years AFRs (fiscal years 2012 and 2013) to ensure that similar errors were not made. The licensee must report to CPB in writing the results of that review. Upon receipt of this information, CPB will determine if additional NFFS adjustments are required. The report must be signed by the station's general manager and licensee official and provided to CPB along with the $18,337 penalty within 60 days of the date of this correspondence.

II. **OIG Recommendation 3:** Production Grant Costs

CPB awarded the licensee two Energy Local Journalism Center (LJC) grants totaling $1.7 million. While the projects are not expected to reach completion until October and December of 2016, the OIG chose to audit their progress through June 30, 2015. The audit questioned $11,233 or 1.2% of the production costs because of a misallocation between these two grants.

The OIG considers this issue resolved but open, pending licensee's submission of the appropriate documents, and subject to CPB's approval.

CPB Determination: Licensee has provided CPB with revised financial reports for both grants to correct the $11,233 misallocation. Therefore CPB considers this issue resolved and closed.

Action: No further action is required of the licensee, KRMA or KUVO.

III. **OIG Recommendation 4:** Open Meetings

The audit found that the licensee provided the required notice of open board and CAB meetings, but it did not give advance notice or document the reasons for closing several meetings of board committees and executive sessions of the board, as required by the Communications Act and CPB's Communications Act Compliance. Before the audit was completed, the OIG recognized that licensee had given notice of these meetings by posting the appropriate information on the station's website and that it has developed a compliance checklist program[9]. The OIG also noted that KUVO did not broadcast quarterly on air announcements of the station's open meeting policies, recognizing that CPB no longer requires these announcements.

The OIG considers these issues resolved but open pending licensee's implementing the corrective actions and CPB's approval of the same.

CPB Determination: CPB's Grantee Non-compliance Policy establishes a penalty of $5,000 for each Communications Act violation committed by a CSG recipient. We appreciate licensee's prompt action to correct its process for giving advance notice and meeting the documentation

[9] Page 13 of the audit report.

requirements, and are impressed with the compliance program it has implemented. In light of these factors, CPB will reduce the penalty to $2,500.

Action: The licensee must remit to CPB $2,500 penalty for the compliance violations above, within 60 days of the date of this correspondence.

IV. OIG Recommendation 5: Schedule E Reporting

The OIG found that licensee did not identify and properly report as CPB funds $177,712 of LJC expenses in its 2014 television AFR Schedule E (lines 1-8C). These expenses were reported as non-CPB funds (lines 1-8D). The OIG considers this recommendation resolved but open pending the licensee's submission to and CPB's approval of KRMA's revised 2014 Schedule E.

CPB Determination: The licensee corrected this reporting error in its 2015 AFR. As the reporting error had no impact on determination of the licensee's CSG payments, and considering that the reporting error is well documented in this determination letter and the audit report, we believe the that the issue has been well disclosed to the public and we will not require KRMA to revise Schedule E.

Action: No further actions is required of the licensee, KRMA or KUVO.

Please forward the documentation to Katherine Arno, Director, TV CSG Policy & Review, CPB at: karno@cpb.org and send a check payable to CPB in the amount of $20,877 for the penalties to Nick Stromann, Vice President, Controller, Corporation for Public Broadcasting, 401 Ninth Street N.W., Washington, D.C. 20004-2129.

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 licensee, KRMA and KUVO will be required to comply with the actions set forth above. In the event any of these entities fails to comply with these actions, CPB reserves the right to withhold payment of the pending CSG payment and to take any other action CPB deems appropriate until these issues are resolved to CPB's satisfaction.

We appreciate the work that the Rocky Mountain Public Broadcasting Network does in support of public media and trust that we can resolve these issues cooperatively.

Kind regards,

Jackie Livesay

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

CC: VIA ELECTRONIC MAIL
Beth Flambures, Chief Financial Officer, Rocky Mountain Public Broadcasting Network
Marissa Johnson, Corporate Counsel, Rocky Mountain Public Broadcasting Network
David Leonard, Chairman of the Board, Rocky Mountain Public Broadcasting Network
Mary Mitchelson, Inspector General, CPB
William J. Richardson, Deputy Inspector General, CPB
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