April 6, 2018

VIA ELECTRONIC MAIL

Ms. Mary Mitchelson
Inspector General
Corporation for Public Broadcasting
401 9th Street, N.W.
Washington, D.C. 20004

Dear Ms. Mitchelson,


The limited-scope audit report referenced above directed one recommendation to the Corporation for Public Broadcasting (CPB). It concluded that one of the factors contributing to the station’s misreporting was the lack of clarity in our Financial Reporting Guidelines. We disagree, and the report contradicts this conclusion, when it explains that the station had followed the same process for many years and “had no background information on how it applied” to our Guidelines. As a result, the errors cannot be attributed to our Guidelines. The remaining factors were attributed to the station’s processes.

The specific recommendation is set forth below.

Review and clarify the AFR [annual financial report] Schedule B guidelines [Financial Reporting Guidelines] for the Basic Method to help institutional stations with varying and unique organizational structures apply guidance consistently in calculating their IAS [indirect administrative support] NFFS [non-federal financial support] to ensure there is an equitable distribution of CPB funds by:

a) Ensuring Guidelines and AFR Schedule B workshops have complete and consistent instructions (i.e., Guideline instructions should also explain CPB’s required deductions, such as for fees paid to licensee, from AFR Schedule B NFFS Summary);

b) Defining the relationship between station net direct expenses and required deductions and the licensee net direct activities, to include crosswalks to reconcile the station’s direct costs to the licensee’s direct costs in licensee’s accounting records including any adjustments, and

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1 Page 9, Section entitled “Contributing Factors to Reporting Indirect Administrative Support”.
2 Page 10, first full paragraph.
c) Providing training on these clarifying instructions.

Regarding the recommendation that we customize our instructions to assist stations with “varying and unique organizational structures”, we do not believe this is necessary. Our Guidelines were thoughtfully written so that they may be applied equally to straightforward or complex organizational structures. Additionally, with 164 licensees using the basic method, creating customized rules for each would not be practical.

To ensure accurate reporting we included a provision in the Guidelines that requires each station’s indirect administrative support calculation be reviewed and attested to by its independent auditor when it submits that information to CPB. The underlying principles (e.g. costs may not be included as direct and indirect) are well-known to independent auditors. Nonetheless, most of the misreporting occurred when the station, admitting it had not reviewed the Guidelines in at least 15 years, failed to deduct a fee it paid for services i.e. reporting the same costs as direct and indirect.

While we welcome any suggestions to fine-tune the Guidelines, we believe that the Schedule B “Summary” line-item instructions are self-explanatory. We regularly update the Guidelines and our latest revisions were released in October 2017. Even so, we recognize that the basic methodology is complicated and are evaluating all appropriate methodologies for calculating indirect costs in an effort to improve the consistency and accuracy of reporting these costs.

Please let me know if you have any questions.

Kind regards,

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

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