



Corporation  
for Public  
Broadcasting

February 7, 2019

VIA ELECTRONIC MAIL AND HARD COPY TO FOLLOW

Mr. Bohdan Zachary  
Executive Director and General Manager  
Milwaukee PBS  
1036 North 8<sup>th</sup> Street  
Milwaukee, WI 53233

Dear Mr. Zachary,

RE: Audit of Community Service Grants at Milwaukee PBS, Milwaukee, Wisconsin,  
for the Period July 1, 2015 through June 30, 2017 (Report No. AST1805-1808)

The report referenced above had no findings concerning its audit of \$4,449,670 in community service grants (CSGs) awarded Milwaukee PBS (WMVS-TV) by the Corporation for Public Broadcasting (CPB). It concluded that the station generally complied with its Certification of Eligibility<sup>1</sup> (CSG Agreement) and the applicable provisions in the Communications Act of 1934, 47 U.S.C. §396, et sec. (Communications Act or Act), except for the open meeting requirement and discrete accounting requirement. Although there were several errors in reporting non-federal financial support (NFFS), when offset against the amounts underreported, they did not result in any grant overpayments.

The audit findings and CPB's determinations for them follow.

- I. Recommendations 1 & 2: The audit report identified the errors summarized in the table below which we have addressed individually.

Category	FY 2016 Misstated NFFS	FY 2017 Misstated NFFS	Total	CSG Over/Under Payment
Overstated IAS <sup>2</sup>	\$189,387	\$202,096	\$391,483	\$47,626
Unallowable NFFS	\$13,792	\$23,956	\$37,748	\$4,619
Understated Appropriations	(\$21,515)	(\$350,475)	(\$371,990)	(\$46,191)
Overstated Premium Adjustments	(\$223,777)	\$0	(\$223,777)	(\$26,541)
<b>Net Misstated NFFS</b>	<b>(\$42,113)</b>	<b>(\$124,423)</b>	<b>(\$166,536)</b>	<b>(\$20,487)</b>

<sup>1</sup>AKA CSG Agreement and Certification of Eligibility.

<sup>2</sup> Indirect administrative support.

- A. **Overstated IAS:** When calculating IAS, only those cost groups that provide an essential and continuous benefit to the station may be reported as NFFS pursuant to the Financial Reporting Guidelines<sup>3</sup> (Guidelines). The report found that WMVS-TV included the following costs groups that did not meet these criteria: alumni relations, college events, and student accounts. WMVS-TV agreed with the finding regarding alumni relations and argued that it receives the required benefit for the other cost groups. For college events, WMVS-TV explained that it collaborated with the college on events; however, the events were university events that did not provide an essential and/or continuous benefit to the station. As for the student accounts cost pool, its main responsibility is to process financial aid for students attending the university. WMVS-TV argued that the payment processing the student accounts handled for its multi-day auction, constitutes an essential and continuous benefit amounting to approximately \$100,000 per year. Neither CPB nor the report recognizes this argument. Moreover, the report found that this amount was not consistent with the level of services provided and recommends that CPB obtain from WMVS-TV a description of the corrective actions and controls it has implemented to protect against similar errors going forward; we concur.

WMVS-TV's IAS was also overstated for two additional reasons. It inadvertently failed to include a late audit adjustment made by its licensee, resulting in an understatement of the licensee's net direct activities, overstating IAS by \$10,008. Finally, instead of using the licensee's current square footage number, WMVS-TV applied a dated figure, overstating IAS by \$142,039. We and WMVS-TV agree with these findings that resulted in a CSG overpayment of \$47,626.

We adopted the CSG Non-compliance Policy to encourage stations to comply with the applicable provisions governing their CSG and the Communications Act. Failure to comply with these requirements which results in an overpayment of the recipient's CSG, subject the recipient to a penalty of ten percent of the amount of the overpayment, in addition to refunding the overpayment. In this case, there is a net CSG underpayment. Consequently, we will not assess a penalty against WMVS-TV nor will we refund any underpayments as WMVS-TV requested because we have endowed the CSGs for 2018 and 2019 pursuant to the Act.

Action: WMVS-TV must provide CPB with a description of the corrective actions and controls it has implemented to ensure that only costs providing an essential and continuous benefit to the station are included in its IAS calculation. The description must be signed by the station's head of grantee and licensee official and provided to CPB within 45 days of the date of this correspondence. Considering the number and type of errors involved in this audit, we also require that the individual from WMVS-TV who is responsible for reporting NFFS to CPB, attend one of our live on-line webinars by November 1, 2019 or attend CPB's sessions addressing NFFS and the Guidelines at the Public Media Business Association's conference in May 2019.

- B. **Unallowable NFFS:** The Guidelines provide that advertising agency fees may not be reported as NFFS, unless received directly or constructively. It also provides that any underwriting donation must be reduced by the value of anything a station provides the underwriter, other than underwriting credit<sup>4</sup>. The report found, and WMVS-TV does not dispute, that it improperly included \$26,549 in advertising agency fees as NFFS. It also found that WMVS-TV did not make the necessary reduction of \$11,199 for goods and/or services it provided in exchange to the underwriter. WMVS-TV argued that the value to the underwriter was nominal and consequently, should not be deducted. Since the Guidelines do not include such a provision, we disagree. Together the resulting CSG overpayment is \$4,619; however, we will not assess a

<sup>3</sup> Part III, AFR and FSR Line Item Instructions, Section 6 – Schedule B – Indirect Administrative Support, Line 2c.1.

<sup>4</sup> Part I, NFFS Guiding Principles and Policy, Section 2.5.2. – Advertising and Underwriting.

penalty as explained above. To ensure proper reporting going forward, the report recommends that CPB obtain a description of the corrective actions and controls it has implemented to ensure that underwriting donations are reduced by the value of anything a station provides the underwriter, other than underwriting credits, and that underwriting revenues are reported net of agency fees. We agree.

Action: Within 45 days of the date of this correspondence, WMVS-TV must provide CPB with a description of the corrective actions and controls it has implemented to avoid misreporting underwriting revenues. The document must be signed by the station's head of grantee and licensee official.

- C. Understated Appropriations: The Guidelines provide that a station may report as NFFS an appropriation from an educational institution the year in which it is received, provided the funds are for a service directly related to producing, developing or delivering educational or instructional television or radio programming. Further, the Guidelines explicitly prohibit a television station from reporting revenues it receives to acquire capital assets as NFFS<sup>5</sup>. Consistent with these requirements, the report found that WMVS-TV was entitled to report as NFFS the interest and principal to acquire programming paid on its behalf by its licensee; however, it determined that the methodology the station applied to calculate these payments was inaccurate. WMVS-TV agreed with the report, revised its methodology, and as a safeguard, it will prepare a debt service schedule annually<sup>6</sup>. Although these errors resulted in WMVS-TV's CSG being underpaid by \$46,191, CPB will not refund the amount to the station as explained above.

The report recommends that CPB require WMVS-TV to provide a description of the corrective action and controls it has implemented to ensure future compliance and that we consult with the station on its methodology concerning debt services, and we agree.

Action: WMVS-TV must provide CPB with a description of the corrective actions and controls it has implemented to avoid these errors going forward and a copy of its 2018 debt service schedule. The document must be signed by WMVS-TV's head of grantee and licensee official and provided to CPB within 45 days of the date of this correspondence.

- D. Overstated Premium Adjustments: Stations that provide donors with high-end premiums, must reduce the donations by the fair market value of the premiums, not to exceed zero, before reporting the net amount as NFFS, pursuant to the Guidelines<sup>7</sup>. The report indicates that WMVS-TV aggregated its donations deducting the fair market value when that value exceeded the donation resulting in a \$223,777 NFFS understatement and a \$26,541 CSG underpayment. Further, the Guidelines require that stations comply with the Internal Revenue Service guidance which is consistent with this approach. Accordingly, we agree with the finding. As for the recommendation that CPB require WMVS-TV to provide documentation that explains the corrective actions and controls it has implemented to safeguard against similar reporting errors, we agree.

Action: WMVS-TV must provide CPB, within 45 days of the date of this correspondence, a written description of the corrective action and controls it has implemented, signed by its head of grantee and license official, to ensure future compliance with NFFS reporting requirements when deducting the value of high-end premiums.

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<sup>5</sup> Part I, NFFS Guiding Principles and Policy, Section 2.4.1 – TV Grantees – Restriction on Contributions of Capital Assets.

<sup>6</sup> September 14, 2018 correspondence.

<sup>7</sup> Part III, AFR and FSR Line Item Instructions, Section 5, Line 10.1 – NFFS Exclusions – Fair Market Value of high-end Premiums That Are Not of Insubstantial Value.

- II. Recommendations 3 & 4: Stations must provide at least 7-days advance notice of any open meeting pursuant to the General Provisions and Eligibility Criteria<sup>8</sup> (General Provisions) and the CSG Agreement<sup>9</sup>. Out of the 44 open meetings, the report found that WMVS-TV gave insufficient notice on four occasions in 2016 but argued that the two-day advance notice it provided was appropriate because that is the state's required notice period. We disagree, as the General Provisions which govern the award, require 7-days advance notice.

For open meetings, the OIG took an additional step and found that WMVS-TV has complied with the notice requirements for each of the 13 open meetings it held in 2018, even though this period was outside the audit scope. Considering that there were no issues in 2017 and 2018 i.e., open meeting notice was given properly for 26 meetings, that WMVS-TV has demonstrated that it is well-informed of the notice requirements and that it has been attentive in complying with them, we will not require WMVS-TV to provide us with a written description of the controls it has in place to ensure compliance, as the report recommends, nor will we assess a penalty under the CSG Non-compliance Policy.

Action: No further action is required of WMVS-TV.

- III. Recommendation 5: The General Provisions<sup>10</sup> and the CSG Agreement require that stations comply with discrete accounting<sup>11</sup>, i.e., track CSG funding in separate general ledger accounts in the station's accounting system. The report indicated that WMVS-TV complied with this requirement for all CSG funding, except the portion of the CSG attributed to the Interconnection Grant and the Universal Service Support Grant. WMVS-TV contends that the Guidelines permit recipients to combine their CSG funds with non-CSG funds in general ledger accounts if the CSG transactions can be identified. We disagree as the requirement is clear. Accordingly, we require that WMVS-TV provide us with a description of the corrective actions and controls it implemented to ensure future compliance.

The CSG Non-compliance Policy provides for a penalty of \$1,000 for each instance of noncompliance with the General Provisions and CSG Agreement, which includes the discrete accounting requirement. Taking into consideration that WMVS-TV discretely accounted for all revenues and most expenditures, we will assess a reduced penalty of \$500 against WMVS-TV.

Action: Within 45 days of the date of this letter, WMVS-TV must provide CPB with a description of the corrective actions and controls it implemented to ensure future compliance with the discrete accounting requirements signed by its head of grantee and licensee official, and the \$500 penalty.

- IV. Other Matters: We will address the issues in the section entitled "other matters" separately, as they do not involve WMVS-TV.

For the \$500 penalty, please make a check payable to CPB and forward to the attention of Nick Stromann, Vice President, Controller, Corporation for Public Broadcasting, 401 Ninth Street N.W., Washington, D.C. 20004-2129, and forward the required documentation to Kate Arno, Director, TV Community Service Grant Policy and Review, at [karno@cpb.org](mailto:karno@cpb.org).

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<sup>8</sup> Section 2A, Communications Act Requirements – Open Meetings.

<sup>9</sup> Section IV A, Communications Act Compliance – Open Meetings.

<sup>10</sup> Section 3D, Recordkeeping Requirements – Discrete Accounting Requirement.

<sup>11</sup> Section 5D, Selected General Provisions Requirements – Discrete Accounting in CSG Agreement.

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Executive Director and General Manager  
Milwaukee PBS  
Page 5

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 WMVS-TV will be required to comply with the actions set forth above. CPB reserves the right to take any other action it deems appropriate until these issues are resolved to CPB's satisfaction.

Kind regards,



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

CC: VIA ELECTRONIC MAIL

Vicky Martin, President, Milwaukee Area Technical College District Board  
Michael Levy, Executive Vice President & Chief Operating Officer, CPB  
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