

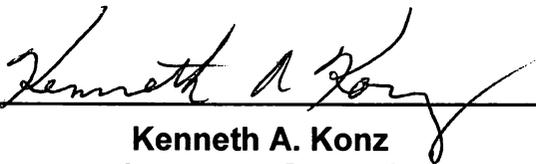
**CORPORATION FOR PUBLIC BROADCASTING**

**OFFICE OF INSPECTOR GENERAL**

**FOLLOW-UP EXAMINATION OF  
RGV EDUCATIONAL BROADCASTING, INC.,  
CORRECTIVE ACTIONS TO COMPLY WITH  
CPB GRANT REQUIREMENTS,  
FOR THE PERIOD JULY 1, 2009 – JUNE 30, 2010**

**AUDIT REPORT NO. ASJ1104-1106**

**September 30, 2011**

  
\_\_\_\_\_  
**Kenneth A. Konz  
Inspector General**

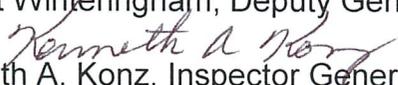


Corporation  
for Public  
Broadcasting

Office of Inspector General

Date: September 30, 2011

To: Robert Winteringham, Deputy General Counsel

From:   
Kenneth A. Konz, Inspector General

Subject: Follow-up Examination of RGV Educational Broadcasting, Inc. Corrective Actions to Comply with CPB Grant Requirements for the Period July 1, 2009 – June 30, 2010, Report No. ASJ1104-1106

At the request of Corporation for Public Broadcasting (CPB) officials we conducted a follow-up examination of RGV Educational Broadcasting, Incorporated (RGV), licensee of KMBH TV & FM, corrective actions to ensure compliance with CPB grant agreement requirements. The objectives of our examination were to determine compliance with: Community Service Grant (CSG) and other CPB grant agreement terms, Certification of Eligibility requirements, Communications Act requirements, and CPB's Financial Reporting Guidelines for reporting Non-Federal Financial Support (NFFS) for the period July 1, 2009 through June 30, 2010.

Based upon our examination, we found RGV did not comply with CPB's Financial Reporting Guidelines to fully report digital revenues received. Digital revenues of \$1,130,144 were not reported on the Annual Financial Reports (AFR) for FYs 2004-2010. While RGV did not fully report digital funds received, it had no effect on reported NFFS. However, the lack of revenue reporting did not provide the required accountability required by CPB's CSG grant agreements.

Further, we found that RGV did not fully comply with stated corrective actions and Communications Act requirements to maintain copies of required financial and Equal Employment Opportunity (EEO) reports at the station for public inspection. Finally, our examination identified weaknesses in:

- accounting recordkeeping and internal controls; and
- governance and oversight practices to ensure corrective actions were fully implemented on prior audit findings, as well as, complied with CPB and statutory requirements.

We performed our examination in accordance with *Government Auditing Standards* for attestation engagements. Our scope and methodology is discussed in Exhibit A.

Based on RGV's response to the draft report we revised our finding on NFFS Reporting and recommendations 1a and 1b. RGV's new General Manager stated his commitment to comply with CPB's requirements and outlined corrective actions addressing financial matters, Communications Act requirements, and governance issues. Generally, RGV has agreed to take corrective actions to address our recommendations. RGV's written response to the draft report is attached in Exhibit H.

This report presents the conclusions of the Office of Inspector General (OIG). The findings and recommendations contained in this report do not represent CPB management's final position on these matters. CPB management will make final management decisions on the recommendations in this report in accordance with CPB's audit resolution procedures.

In accordance with CPB audit resolution procedures, CPB management is responsible for determining the corrective actions to be taken. Based on RGV's response to the draft report, we consider recommendation 6 resolved and closed. We also consider recommendations 1a, 3, and 7b resolved but open pending a decision by CPB to accept RGV's corrective actions. Finally, we consider recommendations 1b, 2, 4, 5, and 7a unresolved, pending a CPB management decision.

## **BACKGROUND**

RGV Educational Broadcasting, Inc. is a nonprofit corporation, founded on September 19, 1983 in Brownsville, Texas, under the auspices of the Catholic Diocese of Brownsville to serve the communities of the Rio Grande Valley with Educational TV and Radio programming.

The Articles of Incorporation of RGV Educational Broadcasting, Inc. states that there is one class of membership and the sole member of the corporation is the Bishop or Administrator of the Roman Catholic Diocese of Brownsville, Texas. The Board of Directors (Board) consists of seven members selected by the Bishop to serve on the Board to oversee KMBH-TV and KMBH-FM radio operations. The station's President & Chief Executive Officer (CEO) manages the daily operations of the television and radio stations.

KMBH-TV signed on the air in October of 1985 supplying the Rio Grande Valley with Public Broadcasting Service (PBS) programming. KMBH-FM radio started broadcasting in April 1991 and began airing National Public Radio (NPR) programming in June of the same year.

RGV operates KMBH-TV 38, KMBH-FM 88.9, and KHID-FM 88.1 as non-commercial entities supplying Public Broadcasting to the Rio Grande Valley. RGV Educational Broadcasting's mission is to provide high-quality, educational, cultural and informational programming to the valley, and is located in Harlingen, Texas.

CPB awards annual CSG grants based on the total NFFS reported by all stations on their AFRs. The CSG calculation process starts with separate amounts appropriated for the television and radio CSG pools adjusted by the base grant, distance, and local service grant

amounts. The funds that remain are called the Incentive Grant Pools, one is for television and the other is for radio. The Incentive Rate of Return (IRR) is calculated by dividing the Incentive Grant Pools by the total amount of NFFS claimed by all television and radio stations in the system. The IRR is then multiplied by the station's reported 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 fiscal year's CSG award amount. CPB will use the NFFS claimed on KMBH's FY 2010 AFRs to determine the amount of its FY 2012 CSG awards to KMBH.

During FY 2010 CPB paid RGV \$1,069,235 in grant funds. These grant payments are itemized by grant type in Exhibit B. RGV's AFRs for FY 2010 TV and Radio are presented in Exhibits C and E. NFFS summaries for TV and Radio are presented in Exhibits D and F. RGV's FY 2010 financial statement audit reported total revenues of \$1,594,006 with functional expenses of \$1,809,334.

The 2009 OIG audit<sup>1</sup> of RGV's FY 2007-2008 operations found significant noncompliance with Communications Act requirements. Specifically, RGV did not: 1) maintain an operating Community Advisory Board (CAB); 2) make available required financial and EEO information for public inspection; and 3) establish written policies on the station's practices for complying with donor lists and political activities restriction requirements.

CPB's management decision resolving the audit report's recommendations found the station's conduct egregious. They cited the station's long period of noncompliance with CAB requirements, while annually certifying it was in compliance with all CPB requirements when applying for new grants. CPB stated that given the seriousness of RGV's misconduct, any future noncompliance by the station would be subject to CSG forfeitures retroactively applied to the violations in the 2009 audit. Further, CPB management required RGV to demonstrate its compliance on an ongoing basis. Finally, CPB requested the OIG to conduct a follow-up audit to assess RGV's compliance.

Since the 2009 audit, RGV has experienced multiple changes in station leadership. In April 2010 the local media reported that RGV's long standing President & CEO of fourteen years was reassigned by the Diocese to a full-time parish ministry. The President was replaced by the former station engineer on an acting basis. Subsequently, in November 2010, the Board appointed him to the permanent position of President & CEO. Following his appointment, he eliminated the accounting department and hired the National Educational Telecommunications Association (NETA) to perform the station's accounting functions. The CEO also asked NETA to find a new independent public accountant (IPA) to conduct the FY 2010 financial statements audit.

Most recently, in March 2011 the new President resigned. The Board then appointed the Underwriting Manager/Marketing Director as Acting Team Leader. During our audit fieldwork the Acting Team Leader managed the daily operations of the station. RGV hired a new President & CEO in June 2011.

---

<sup>1</sup> Audit of CPB Grants Awarded to RGV Educational Broadcasting, Inc., KMBH-TV & FM, Harlingen, Texas, for Fiscal Years 2007 and 2008, Report No. APJ902-909, Issued September 30, 2009.

## **RESULTS OF REVIEW**

We examined management's assertions of compliance with CPB's Community Service Grant (CSG) and other CPB grant agreement terms, Certification of Eligibility requirements, Communications Act requirements, and CPB's Financial Reporting Guidelines for claiming NFFS for the period ending June 30, 2010. Management is responsible for RGV's compliance with those requirements. Our responsibility is to express an opinion on management's assertions about its compliance based on our examination.

Our examination was conducted in accordance with the *Government Auditing Standards*, for attestation engagements, and accordingly included examining, on a test basis, evidence of RGV's compliance with those requirements and performing such other procedures as we considered necessary. We believe that our examination provides a reasonable basis for our opinion.

Our examination found noncompliance with CPB's Financial Reporting Guidelines to fully report digital revenues on its AFRs. In total digital revenues of \$1,130,414 were not reported on the AFRs during FYs 2004-2010.

Further, we found that RGV did not fully comply with stated corrective actions and Communications Act requirements to maintain copies of required financial and EEO reports at the station for public inspection.

Finally, our examination identified weaknesses in:

- accounting recordkeeping and internal controls; and
- governance and oversight practices to ensure corrective actions were fully implemented on prior audit findings, as well as, complied with CPB and statutory requirements.

In our opinion, except for the findings referenced above, RGV has complied with CPB's Certification of Eligibility requirements, Communication Act requirements, and CPB's Financial Reporting Guidelines for claiming NFFS. Given the management transitions RGV has experienced, the issues of noncompliance reported, and RGV's planned corrective actions CPB needs to decide whether RGV's governance structure provides adequate oversight of station activities to meet statutory requirements of the Public Broadcasting Act and CPB grant agreement terms.

## FINDINGS AND RECOMMENDATIONS

### NFFS Reporting

Our review of the television 2010 AFR found that digital grant revenues of only \$137,864 were reported, while RGV received \$399,522 during the fiscal year. Further, we found that since the inception of the digital conversion grant programs in 2004, these were the only digital revenues reported to CPB. Since 2004 RGV has received \$1,343,600 in digital grant funds from CPB/PBS. Our detailed analysis of RGV revenues is presented in Exhibit G and identified under-reported public broadcasting revenues of \$1,130,144 for FYs 2004-2010. These grant revenues were reflected in the audited financial statements under temporarily restricted net assets, but were not reported on the AFRs submitted to CPB. While these revenues were not reported, they had no effect on reported NFFS.

Section 2 of CPB's Financial Reporting Guidelines requires all revenue and support recognized in audited financial statements must be reported on the AFR. Further, CPB Financial Reporting Guidelines require digital revenues to be reported on the AFR, Schedule A, Line 2B, to provide complete accountability over public broadcasting revenues received.

Based on NETA's research of prior year's accounting practices, presented in Exhibit H, during FYs 2004-2009 RGV consistently recognized income contingent upon the purchase and installation of equipment specified in the digital grant agreements, treating the grant funds as exchange transactions. NETA said that the grant funds should have been treated as a contribution per Financial Accounting Standards 116. NETA identified that a total of \$1,152,058<sup>2</sup> in digital funds were not reported on the AFR. They further explained that the grant revenues were recognized in the temporarily restricted revenue in the audited financial statements but were not included on the AFRs.

As background, RGV received the following digital grants from CPB during the period 2004-2010. The first two grants were administered by PBS with funding provided by CPB.

### **CPB Digital Funding Grants**

| <b>Project Title</b>                  | <b>Date</b> | <b>Amount</b>      | <b>Net Payments</b> |
|---------------------------------------|-------------|--------------------|---------------------|
| KMBH – DDF Round 4 - Transmission     | 2/25/04     | \$276,396          | \$162,359           |
| KMBH - DDF Round 4.2 – Master Control | 10/5/04     | 500,000            | 500,000             |
| KMBH – DDF Round 6 – Master Control   | 4/12/05     | 500,000            | 482,856             |
| FY06 KHID-FM Digital Conversion Grant | 10/25/06    | 95,521             | 95,521              |
| FY06 KMBH-FM Digital Conversion Grant | 10/25/06    | 92,864             | 92,864              |
| Supplemental DTV Trans Grants 2009    | 5/12/09     | 10,000             | 10,000              |
| <b>Total</b>                          |             | <b>\$1,474,781</b> | <b>\$1,343,600</b>  |

Because of the elimination of the RGV accounting department in 2010, we were not able to initially determine how RGV recognized digital revenues over the life of these grants. The 2009 audited financial statements indicated that digital revenues were deferred, but we did

---

<sup>2</sup> The \$21,905 difference between the under-reported public broadcasting revenues presented in Exhibit G and NETA total represents a refund that RGV made on the DDF Round 4 digital grant.

not receive an explanation from RGV officials when digital grant funds were actually recognized in the financial statements or on the AFRs, until we received RGV's response to the draft audit report.

### **Recommendations**

- 1) We recommend that CPB management:
  - a) require RGV officials to institute appropriate controls to ensure future revenues are properly reported in the financial statements and on the AFRs, appropriately reporting all public broadcasting revenues on Schedule A, Line 2; and
  - b) consider requiring RGV to submit revised AFRs for FYs 2009-2010 to fully account for digital revenues released from temporarily restricted assets with the changes made by RGV in its financial statement reporting.

### **Management Response**

In response to the draft report's recommendations RGV stated that according to NETA's research and analysis RGV:

- does not owe a refund to CPB;
- digital revenues received during FYs 2010, 2004 and 2005 were recognized in the accounting system; and
- RGV's financial statements were prepared in accordance with recognized accounting standards and GAAP by a certified public accountant using the exchange method of accounting, going forward RGV will use the contribution method, and RGV does not need to restate its financial statements.

Further, in response to recommendation 1a listed above, RGV stated that it has adequate financial controls in place, has agreed to switch from the exchange method to the contribution method of accounting, and hired NETA to do its accounting and prepare its financial reports.

RGV did not respond to recommendation 1b listed above because this is a new recommendation added to the final report.

### **OIG Review and Comment**

Based on RGV's response, we revised this finding, Exhibit G, and changed the recommendations contained in the draft report. Based on NETA's research, we specifically eliminated that portion on the finding dealing with CPB over-payments. As a result, we consider recommendation 1a resolved but open pending CPB's acceptance of RGV's actions to rely on NETA to change accounting methods and prepare required CPB financial reports.

Recommendation 1b was added to the final report so RGV did not have the opportunity to respond to this recommendation. This recommendation is unresolved pending CPB's final management decision.

### **Communications Act Corrective Actions Not Fully Implemented**

Our examination found that RGV had not fully implemented all of its agreed to corrective actions for the 2009 OIG audit report to ensure the station fully complied with Communications Act requirements. We found that RGV did not have all the required financial and EEO reports for FY 2010 readily available at the station or on its web site. This was contrary to RGV's agreement to implement corrective actions to resolve the OIG's 2009 audit recommendations.

In response to the 2009 OIG audit, RGV agreed to take corrective actions to comply with all Communications Act requirements. RGV's response stated that financial and EEO information were posted to its website. Further, RGV agreed to include paper copies of the CPB EEO and the Annual Financial Reports in the files available to the public. We found that RGV took appropriate corrective actions on the other Communications Act recommendations. These actions included maintaining an operating Community Advisory Board, as well as, establishing and implementing written operating policies for its CAB, reporting EEO information, and Donor List and Political Activities restrictions.

RGV management officials certified its full compliance with the Communications Act requirements on December 20, 2010 in applying for its 2011 CSG grants. The lack of available financial and EEO information are statutory violations. This is the second time over the last two years the station has been in violation of the Act for not having financial and EEO information readily available to the public in accordance with statutory and CPB requirements.

#### ***Financial and EEO Reports Not Available for Public Inspection***

Our review found that RGV did not have all of the required CPB financial reports and EEO information readily available at the station for review, as required by CPB guidelines. While RGV's audited financial statements and AFRs for a three year period (FYs 2007-2009) were available in its files and on its web site, the station had not included its FY 2010 audited financial statements or its FY 2010 AFR<sup>3</sup> in its files or on its web site. Additionally the station did not make available the financial reports submitted to CPB for other funding agreements, e.g., the Small Station Strategic Planning Grant, or the TV Digital Conversion Grants in the files. Finally, the station did not make the 2009 OIG audit report available for public inspection.

The station had the Federal Communication Commission's (FCC) EEO report available in its public file. However, the FCC EEO report did not present the information in the format

---

<sup>3</sup> Subsequent to our site visit the FY 2010 AFRs and audited financial statements were added to KMBH's website.

required by CPB. The required CPB EEO information was not readily available at the station. Further, current staff members were not familiar with how this information could be retrieved from its electronic SABS filing with CPB.

§ 396(k) (5) of the Act provides that funds may not be distributed to any public telecommunications entity that does not maintain for public examination the required financial reports. CPB addresses this requirement in its minimum compliance requirements by stating that the following documents must be made available for public inspection:

- a) Annual Financial Report (AFR) filed with CPB;
- b) Audited financial statements, and
- c) Information regarding finances submitted to CPB related to any funding agreement with CPB that requires a financial report.

Further, § 396(k) (11) of the Act established that funds may not be distributed to any public broadcast station, unless the annual EEO statistical report submitted to CPB is available to the public at the central office and at any location where more than five full-time employees are regularly assigned to work.

In response to our previous audit report, RGV officials stated that to reduce paperwork, they made information available about its station on its website. They stated that it also maintained a computer terminal in the public reference room where the public can access electronic copies of public file information and request copies to be printed. We found the station still maintains a computer terminal in the public reference room for the public's use, but the FY 2010 financial statement audit and AFR were not posted to its website to be retrieved electronically at the time of our site visit to the station.

### **Recommendations**

We recommend that CPB:

- 2) financially sanction RGV for not fully implementing promised corrective actions to comply with Communications Act requirements; and
- 3) require RGV to fully comply with requirements to make financial (including OIG audit reports) and EEO information readily available to the public at the station by including the FY 2010 financial statement audit and 2009 OIG audit report on its website or in its file made available to the public at the station.

### **Management Response**

In response to recommendation 2, RGV states the OIG audit report provides no basis to financially sanction RGV under the Communications Act. RGV properly certified its compliance with Communications Act in December 2010. The OIG report cites two minor public file issues that do not rise to the level of a substantial and material compliance issue. The FCC EEO reports were available in the public inspection file and were posted prominently on KMBH's website. CPB's format for EEO reporting is by law merely

supplemental to the FCC EEO reports. RGV agrees to add the CPB format EEO reports to its files for public inspection. Regarding financial reports, the 2007-2009 reports were in the public file and on the website. The 2010 financial statements were not available on December 20, 2010, when RGV certified its eligibility to CPB.

In response to recommendation 3, the FY 2010 financial statement audit was posted to its website after it became available and during the current audit. RGV agreed to post the OIG audit report along with RGV's response.

### **OIG Review and Comment**

Based on RGV's response, we consider recommendations 2 unresolved pending CPB's management decision. This recommendation addressed CPB's management decision for the 2009 OIG audit report, where CPB stated that any future noncompliance with Communications Act requirements would be subject to CSG forfeitures retroactively applied to the violation in the 2009 audit.

Based on RGV's response, we consider recommendation 3 resolved, but open pending CPB acceptance of RGV's planned actions. CPB should ensure that RGV actions also include making other financial reports submitted to CPB available in its files for public inspection, e.g., the final financial reports submitted to CPB for the digital and other CPB grants.

### **Accounting Recordkeeping and Internal Controls**

Our review of FY 2010 financial activities found that RGV's financial records had to be reconstructed by NETA, when they took over accounting responsibilities in October 2010. Further, RGV's IPA issued a qualified opinion on the financial statements, because of the inadequacy of its accounting records over fixed assets. The IPA's report said they were unable to form an opinion regarding the amounts at which property and equipment and accumulated depreciation were recorded in the statement of financial position. The station did not have a record of fixed assets or a schedule of depreciation. Further, the IPA separately reported internal control weaknesses over equipment and property, payment authorizations, and payment documentation.

CPB's FY 2010 Television Community Service Grant General Provisions and Eligibility Criteria, Section 9, B. Record Keeping and Audit Requirements states:

All recipients of CSG funds must satisfy the requirements of the Communications Act of 1934, as amended, 47 U.S.C. 396(l) (30 (B, C, and D)). This federal law mandates record-keeping and auditing and requires CPB or its representatives have access to eligibility, operational, Communications Act (open meetings, open financial records, Community Advisory Board, EEO, and mail lists and political activities), and financial records...

Furthermore, discrete accounting and proper documentation shall be maintained to support all FY 2010 CSG revenues and expenditures. All CSG expenditures must meet the test of allowability as stated throughout this document and as provided by all other CSG-related documents of policies. CSG funds which cannot be accounted for because of recipient's failure to comply with this requirement may be subject to repayment to CPB. The recipient shall maintain such other records that CPB may require to facilitate an effective audit. CSG records must be retained for no less than three years after the end of the expenditure period.

When NETA took over the station's accounting responsibilities in October 2010, they could not find any records recording FY 2010 financial activities for the period July 2010 – October 2010. However, NETA was able to locate the source accounting documents for 2010, so they reconstructed RGV's financial statements from the source documents for the period July 1, 2009 – June 30, 2010 by entering the accounting transactions into NETA's accounting system.

The IPA also reported material weaknesses and significant deficiencies in internal controls, as follows:

- a lack of segregation of duties over accounting activities;
- the lack of a fixed asset schedule and capitalization policy;
- notes payable and interest expense were not accounted for properly;
- dual signature controls for disbursements over \$5,000 appear to have been circumvented;
- wire transfers did not require management approval and were not monitored;
- disbursement and revenue invoices, agreements and other supporting documentation was not readily located, including terminated employees personnel files;
- allowance for doubtful accounts were not routinely assessed by management and adjusted, as necessary; and
- a general lack of a standard and consistent disbursement approval process, including credit card approvals.

Our testing of FY 2010 accounting transactions confirmed the IPA's observations on the lack of supporting documentation and controls. Specifically, we noted the lack of documentation supporting employee expense reimbursements and the lack of controls over credit card use. While we determined that these items were not charged to CPB's grants, the weaknesses create an environment vulnerable to abuse.

We attribute these conditions to the changing executive leadership and a lack of adequate oversight of financial operations to ensure controls were in place and being followed by station personnel and adequate supporting documentation and records were retained to support financial activities. The lack of controls and retention of accounting records created vulnerabilities for abuse and/or loss of funds.

Since NETA took over accounting responsibilities they have instituted additional controls. NETA is located in South Carolina and has to rely on station personnel to collect

contributions and other revenues received by the station and deposit them in a local bank account. Additionally, NETA relies on station personnel to process vendor invoices and employee time cards. While we obtained a general understanding of some of these controls (cash receipts), we did not evaluate the effectiveness of the controls to address the vulnerabilities referenced above, since the controls were implemented subsequent to our examination period.

### **Recommendations**

We recommend that CPB require RGV officials to:

- 4) address control weaknesses identified by its IPA in conducting its FY 2010 financial statement audit;
- 5) provide CPB with documentation of RGV's corrective actions implemented in response to the IPA's report on internal controls; and
- 6) provide CPB with copies of any future management letters RGV receives from its IPA regarding internal control weakness.

### **Management Response**

In response to recommendation 4, RGV stated that it has consistently used a certified public accountant to prepare its financial statements in accordance with GAAP. RGV is adopting the accounting controls recommended by its new auditor. Further, RGV will use the contribution method of accounting in lieu of the exchange method, and prepare supplemental asset and depreciation schedules.

In response to recommendation 5, RGV stated that NETA analyzed and reconciled the prior years' financial reports. Further, RGV's auditor will follow-up on his prior accounting recommendations during his current audit.

In response to recommendation 6, RGV stated it did not expect to receive any future letters regarding internal control weaknesses; however, if RGV receives such a letter, it will provide CPB with a copy.

### **OIG Review and Comment**

Based on RGV's response, we consider recommendations 4 and 5 unresolved until RGV prepares a schedule of fixed assets and depreciation, as well as, identifies how using NETA's accounting services addresses the internal controls weaknesses identified during its FY 2009 financial statement audit.

Based on RGV's response, we consider recommendation 6 resolved and closed.

## **Governance**

Since CPB issued its management decision in January 2010 addressing the 2009 OIG audit recommendations, station operations have been in a state of flux. As discussed in our background section, executive leadership at the station has changed three times over the last 14 months. The accounting department was eliminated in October of 2010 and station personnel were not familiar with Communication Act responsibilities regarding making financial and EEO information available to the public, so agreed to corrective actions were not fully implemented by RGV. Further, we did not identify any oversight mechanisms used by the Board to ensure CPB statutory and grant requirements were followed at the station's operational level.

Further, our examination found serious issues related to:

- accounting recordkeeping, the FY 2010 accounting records had to be reconstructed from source documents following the elimination of the accounting department in 2010;
- CPB/PBS digital payments were not fully recognized as revenues in the accounting system and accurately reported to CPB on the AFR;
- IPA issued a qualified opinion on the financial statements because of the lack of fixed asset records; and
- IPA reported material weaknesses and significant deficiencies in internal controls.

Collectively, these matters raise concerns over the ability of the station to comply with CPB requirements and be a responsible grant recipient going forward.

In 2007 the IRS announced a set of voluntary guidelines, or "good governance practices," that the IRS recommends tax-exempt organizations use to help maintain regulatory compliance. These practices include:

- Mission Statement
- Code of Ethics
- Due Diligence
- Duty of Loyalty
- Transparency
- Fundraising Policy
- Financial Audits
- Compensation Practices
- Document Retention Policy

Issues identified in this report are addressed by three of these practices: transparency, financial audits, and document retention. Transparency practices address ensuring that the organization's tax form (Form 990), annual reports, and financial statements (including CPB financial reporting requirements) are complete and accurate, and made available to the public upon request. Financial audit practices address Board's responsibilities to oversee financial activities and address deficiencies as they arise through the establishment of an

audit committee. Document retention practices ensure records are maintained and retained to meet Federal, state, and other grantor requirements.

The Board has primarily relied on the station's President & CEO to oversee station operations without sufficient oversight mechanisms (e.g., accurate financial reporting to CPB and information on CPB grant compliance requirements) to enable the Board to independently judge that the station is operating in accordance with the Board's objectives and goals, as well as, all statutory and contractual obligations.

We discussed the digital revenue issues with the Board's Treasurer and the new President, as well as, the open records requirements during our audit. At the exit conference we again discussed these issues with the President, General Counsel, and representatives from NETA. They discussed the corrective actions taken and planned.

### **Recommendations**

7) We recommend that CPB:

- a) determine whether the current governance mechanisms at RGV are adequate and whether the licensee has instituted sufficient corrective actions to continue as a CPB grant recipient; and
- b) require RGV to explain how the Board will ensure itself in the future that the station is in full compliance with CPB's TV and Radio Community Service Grant – Certification of Eligibility statements annually provided to CPB in applying for new grants.

### **Management Response**

In response to recommendation 7a, RGV stated that its governance structure is typical of public broadcasting licensees where the Board selects and supervises management. The Board replaced the General Manager with a new General Manager. The transition process was time consuming and the follow-up audit occurred during this transition, which is now complete and the new General Manager started in June.

In response to recommendation 7b, RGV stated that the General Manager will review with the Board the annual CPB certification of eligibility and the checklist of compliance items that RGV must comply with to meet CPB grant requirements. The General Manager will continue to review RGV's financial statements with the Board. One Board member is a CPA and RGV will endeavor to ensure the Board includes at least one CPA.

### **OIG Review and Comment**

Based on RGV's response, we consider recommendation 7a unresolved pending CPB's management decision whether the actions taken by RGV are sufficient to ensure future compliance with all CPB grant requirements, including NFFS reporting, financial recordkeeping, and making financial and EEO records available for public inspection.

Based on RGV's response, we consider recommendation 7b resolved but open pending CPB's acceptance of RGV's planned actions to keep the Board informed on the station's compliance with CPB certification and financial reporting requirements.

## **SCOPE AND METHODOLOGY**

We conducted our audit in accordance with *Government Auditing Standards* for attestation examinations to determine compliance with: Community Service Grant (CSG) agreement terms, Certification of Eligibility requirements, Communications Act requirements, and CPB's Financial Reporting Guidelines for reporting NFFS for the 12 month period ending June 30, 2010. We performed our examination field work during the period April through May 2011.

In conducting our examination, we reviewed CPB's grant files and discussed the grants with CPB officials from the Office of Business Affairs, the Office of Television, and the Office of Radio. At RGV, we discussed the grants with the Administrative Assistant, the Acting Team Leader, the General Counsel, and NETA accounting officials.

We reconciled the financial data maintained by NETA in its accounting records by grant type to the expenses it reported to CPB on its AFR for both TV and Radio. We tested the accuracy of grant expenditures reported by performing financial reconciliations and comparisons to underlying accounting records and the audited financial statements to verify the accuracy of transactions recorded in the general ledger and reported on the AFR to CPB.

We also evaluated compliance with the grant agreement terms, in part, by testing a judgmental sample against supporting documentation maintained by NETA. We tested expenditures totaling \$1,015,796 of \$1,499,415 reported on the AFR, Schedule E. The transactions tested included a variety of expenditure types e.g., PBS and NPR among other suppliers of programming, programming and broadcast costs, payroll, and travel expenses.

We also reviewed documentation of RGV's compliance with applicable provisions of the Communications Act. Specifically, we reviewed RGV's public inspection files and other records to verify that it maintained all the information required by the Act, as well as, RGV's compliance with EEO grant agreement terms.

We gained an understanding of the internal controls over the preparation of cash receipts, payment authorizations, and payroll preparation to plan our substantive testing. We tested the AFR reports and reconciled them to the audited financial statements.

Further, to obtain reasonable assurance that financial reports submitted to CPB were free of material misstatements, we performed tests of compliance with certain provisions of law and grant agreement requirements, when noncompliance could have a direct and material effect on the AFR report. We tested revenues totaling \$1,084,204 of \$1,338,456 reported on the AFR, Schedule A. Based on the results of our FY 2010 revenue testing, we expanded our review of the reporting of digital revenues received and reported on the AFRs, Schedule A, Line 2B for the period 2004-2009 for both TV and Radio.

To assist in our audit planning and assure ourselves that we could rely on the work performed by RGV's IPA, we discussed and reviewed the IPA's internal control and fraud risk assessment working papers, as well as, its financial statement and attestation work.

**Schedule of CPB Payments to RGV  
For Community Service, Digital Conversion, Fiscal  
Stabilization and Small Station Strategic Planning Grants  
(July 1, 2009 – June 30, 2010)**

| <b>Payment Date</b> | <b>Grant Type</b>                | <b>Unrestricted</b> | <b>Restricted</b> | <b>Total</b>       |
|---------------------|----------------------------------|---------------------|-------------------|--------------------|
| 9/28/09             | Small Station Strategic Planning |                     | \$11,000          | \$11,000           |
| 11/18/09            | FY 10 TV Local Service           | \$110,828           |                   | 110,828            |
| 11/18/09            | FY 10 TV CSG                     | 269,316             |                   | 269,316            |
| 11/18/09            | FT 10 TV Interconnection         | 5,372               |                   | 5,372              |
| 11/18/09            | FY 10 Radio CSG Unrestricted     | 37,889              |                   | 37,889             |
| 11/18/09            | FY 10 Radio CSG Restricted       |                     | 13,528            | 13,528             |
| 1/13/10             | TV Fiscal Stabilization Grant    | 53,644              |                   | 53,644             |
| 1/13/10             | Radio Fiscal Stabilization Grant | 8,699               |                   | 8,699              |
| 1/25/10             | DDF Round 6                      |                     | 232,856           | 232,856            |
| 2/22/10             | FY 10 TV CSG                     | 269,315             |                   | 269,315            |
| 2/22/10             | FT 10 TV Interconnection         | 5,371               |                   | 5,371              |
| 2/22/10             | FY 10 Radio CSG Unrestricted     | 37,889              |                   | 37,889             |
| 2/22/10             | FY 10 Radio CSG Restricted       |                     | 13,528            | 13,528             |
|                     | <b>Total Grants</b>              | <b>\$798,323</b>    | <b>\$270,912</b>  | <b>\$1,069,235</b> |

**KMBH-TV Annual Financial Report  
Year Ending June 30, 2010**

| Line  | Description   | 2010               |
|-------|---|--------------------|
|       |   |                    |
|       | <b>Schedule A, Source of Income:</b>  |                    |
| 1.    | Amounts provided directly by federal government                                     | \$0                |
| 2.    | Amounts provided by Public Broadcasting Entities                                    | \$852,360          |
| 2.A.  | CPB-CSG   | 538,631            |
| 2.B.  | CPB-digital Project Grants  | 137,864            |
| 2.C.  | CPB-Restricted CSG  | 0                  |
| 2.D.  | CPB-TV Interconnection grants   | 10,743             |
| 2.E.  | CPB-all other funds   | 164,472            |
| 2.F.  | PBS   | 650                |
| 3.    | Local boards & departments of education or other local government or agency sources | 92,469             |
| 8.    | Foundation and nonprofit associations   | 190,120            |
| 9.    | Business and Industry   | 124,373            |
| 9a.   | How much of the revenue was received as underwriting?                               | 47,440             |
|       | Exclusions  | 76,933             |
| 10.   | Memberships and subscriptions   | 65,249             |
| 14.A. | Gross special fundraising activities  | 0                  |
| 15.   | Passive Income  | 2,765              |
| 15.A. | Interest and dividends  | 2,465              |
| 15.B. | Royalties   | 300                |
| 18.   | Capital fund contributions  | 0                  |
| 20.   | Other Direct Revenue  | 11,120             |
| 21.   | <b>Total Revenue</b>  | <b>\$1,338,456</b> |
|       |   |                    |
|       | <b>Adjustments to Revenue</b>   |                    |
| 22.   | Federal revenue   | \$0                |
| 23.   | Public broadcasting revenue   | 852,360            |
| 25.   | Other revenue on line 21  | 88,053             |
| 27.   | <b>Total Direct Nonfederal Financial Support</b>                                    | <b>\$398,043</b>   |
|       |   |                    |
|       | <b>Schedule C</b>   |                    |
| 1.    | Professional Services   | \$0                |
| 2.    | General Operational Services  | 3,250              |
| 3.    | Other Services  | 0                  |
| 4.    | Total in-kind contributions eligible as NFFS  | 3,250              |
| 5.    | In-kind contributions ineligible as NFFS  | 3,377              |
| 6.    | <b>Total in-kind contributions</b>  | <b>\$6,627</b>     |

**KMBH-TV Annual Financial Report  
Year Ending June 30, 2010**

| Line | Description  | 2010               |
|------|--|--------------------|
|      | <b>Schedule E, Expenses:</b>                             |                    |
|      | <b>Program Services</b>                                  |                    |
| 1    | Programming and production                               | \$592,089          |
| 2    | Broadcasting and engineering                             | 289,305            |
| 3    | Program information and promotion                        | 0                  |
|      | <b>Support Services</b>                                  |                    |
| 4    | Management and general                                   | 303,619            |
| 5    | Fund raising and membership development                  | 21,637             |
| 6    | Underwriting and grant solicitation                      | 5,133              |
| 7    | Depreciation and amortization                            | 287,632            |
| 8.   | <b>Total Expenses</b>                                    | <b>\$1,499,415</b> |
|      |  |                    |
|      | <b>Investment in Capital Assets</b>                      |                    |
| 9.   | Total capital assets purchased or donated                | \$0                |
|      | <b>Total expenses &amp; investment in capital assets</b> | <b>\$1,499,415</b> |
|      |  |                    |
|      | <b>Additional Information</b>                            |                    |
| 11.  | Total expenses (direct only)                             | \$1,495,438        |
| 12.  | Total expenses (indirect and in-kind)                    | 3,977              |
| 13.  | Investment in capital assets (direct only)               | 0                  |
| 14.  | Investment in capital assets (indirect and in-kind)      | 0                  |
|      |  |                    |
|      | <b>Schedule F<sup>4</sup></b>                            |                    |
| 1.   | Data from AFR  |                    |
| 1.a. | Schedule A   | \$1,586,239        |
| 1.b. | Schedule B   | 0                  |
| 1.c. | Schedule C   | 7,767              |
| 1.d. | Schedule D   | 0                  |
| 1.e. | <b>Total from AFR</b>                                    | <b>\$1,594,006</b> |

<sup>4</sup> Schedule F AFR totals includes KMBH-FM revenues.

**Summary of Non-Federal Financial Support 2010  
KMBH-TV**

**Certification by Head of Grantee and Independent Accountant's Report**

| <b>Line</b> | <b>Description</b>                                      | <b>2010</b>      |
|-------------|---|------------------|
|             |   |                  |
|             | <b><i>Summary of Non-Federal Financial Support:</i></b> |                  |
| 1           | Direct Revenue (Schedule A)                             | \$398,043        |
| 2           | Indirect Administrative (Schedule B)                    | 0                |
| 3           | In-Kind Contributions (Schedule C)                      |                  |
| 3a          | Services and Other Assets (Schedule C)                  | 3,250            |
| 3b          | Property and Equipment (Schedule D)                     | 0                |
| 4           | <b>Total Non-Federal Financial Support</b>              | <b>\$401,293</b> |

**KMBH-FM Annual Financial Report  
Year Ending June 30, 2010**

| Line  | Description   | 2010             |
|-------|---|------------------|
|       |   |                  |
|       | <b>Schedule A, Source of Income:</b>  |                  |
| 1.    | Amounts provided directly by federal government                                     | \$0              |
| 2.    | Amounts provided by Public Broadcasting Entities                                    | \$111,533        |
| 2.A.  | CPB-CSG   | 75,778           |
| 2.B.  | CPB-digital Project Grants  | 0                |
| 2.C.  | CPB-Restricted CSG  | 27,056           |
| 2.D.  | CPB-TV Interconnection grants   | 0                |
| 2.E.  | CPB-all other funds   | 8,699            |
| 2.F.  | PBS   | 0                |
| 3.    | Local boards & departments of education or other local government or agency sources | 0                |
| 8.    | Foundation and nonprofit associations   | 52,812           |
| 9.    | Business and Industry   | 58,318           |
| 9a.   | How much of the revenue was received as underwriting?                               | 58,318           |
|       | Exclusions  | 0                |
| 10.   | Memberships and subscriptions   | 24,298           |
| 14.A. | Gross special fundraising activities  | 0                |
| 15.   | Passive Income  | 822              |
| 15.A. | Interest and dividends  | 822              |
| 15.B. | Royalties   | 0                |
| 18.   | Capital fund contributions  | 0                |
| 20.   | Other Direct Revenue  | 0                |
| 21.   | <b>Total Revenue</b>  | <b>\$247,783</b> |
|       |   |                  |
|       | <b>Adjustments to Revenue</b>   |                  |
| 22.   | Federal revenue   | \$0              |
| 23.   | Public broadcasting revenue   | 111,533          |
| 25.   | Other revenue on line 21  | 0                |
| 27.   | <b>Total Direct Nonfederal Financial Support</b>                                    | <b>\$136,250</b> |
|       |   |                  |
|       | <b>Schedule C</b>   |                  |
| 1.    | Professional Services   | \$0              |
| 2.    | General Operational Services  | 0                |
| 3.    | Other Services  | 0                |
| 4.    | Total in-kind contributions eligible as NFFS  | \$0              |
| 5.    | In-kind contributions ineligible as NFFS  | 1,140            |
| 6.    | <b>Total in-kind contributions</b>  | <b>\$1,140</b>   |

**KMBH-FM Annual Financial Report  
Year Ending June 30, 2010**

| <b>Line</b> | <b>Description</b>                                       | <b>2010</b>      |
|-------------|--|------------------|
|             |  |                  |
|             | <b>Schedule E, Expenses:</b>                             |                  |
|             | <b>Program Services</b>                                  |                  |
| 1.          | Programming and production                               | \$126,296        |
| 2.          | Broadcasting and engineering                             | 38,434           |
| 3.          | Program information and promotion                        | 0                |
|             | <b>Support Services</b>                                  |                  |
| 4.          | Management and general <sup>5</sup>                      | 142,885          |
| 5.          | Fund raising and membership development                  | 1,842            |
| 6.          | Underwriting and grant solicitation                      | 461              |
| 7.          | Depreciation and amortization                            | 24,197           |
| 8..         | <b>Total Expenses</b>                                    | <b>\$334,115</b> |
|             |  |                  |
|             | <b>Investment in Capital Assets</b>                      |                  |
| 9.          | Total capital assets purchased or donated                | \$0              |
|             | <b>Total expenses &amp; investment in capital assets</b> | <b>\$334,115</b> |
|             |  |                  |
|             | <b>Additional Information</b>                            |                  |
| 11.         | Total expenses (direct only)                             | \$332,975        |
| 12.         | Total expenses (indirect and in-kind)                    | 1,140            |
| 13.         | Investment in capital assets (direct only)               | 0                |
| 14.         | Investment in capital assets (indirect and in-kind)      | 0                |

<sup>5</sup>Management and general expense total includes duplicate depreciation expenses of \$24,197, separately reported on line 7.

**Summary of Non-Federal Financial Support 2010  
KMBH-FM**

**Certification by Head of Grantee and Independent Accountant's Report**

| <b>Line</b> | <b>Description</b>                                      | <b>2010</b>      |
|-------------|---|------------------|
|             |   |                  |
|             | <b><i>Summary of Non-Federal Financial Support:</i></b> |                  |
| 1           | Direct Revenue (Schedule A)                             | \$136,250        |
| 2           | Indirect Administrative (Schedule B)                    | 0                |
| 3           | In-Kind Contributions (Schedule C)                      |                  |
| 3a          | Services and Other Assets (Schedule C)                  | 0                |
| 3b          | Property and Equipment (Schedule D)                     | 0                |
| 4           | <b>Total Non-Federal Financial Support</b>              | <b>\$136,250</b> |

**Exhibit G**

**Analysis of AFR Reporting and CPB Revenues Received**

| Source of Income                               | 2010               | 2009             | 2008             | 2007             | 2006             | 2005               | 2004             | Total              |
|--|--------------------|------------------|------------------|------------------|------------------|--------------------|------------------|--------------------|
| <b>AFR Information:</b>                        |                    |                  |                  |                  |                  |                    |                  |                    |
| 2.A. CPB-Community Service Grants (TV & Radio) | \$614,409          | \$573,076        | \$573,175        | \$591,573        | \$635,103        | \$686,410          | \$579,533        | <b>\$4,253,279</b> |
| 2.B. CPB-Digital Project Grants                | \$137,864          | \$0              | \$0              | \$0              | \$0              | \$0                | \$0              | <b>\$137,864</b>   |
| 2.C. CPB-Restricted Radio CSG                  | \$27,056           | \$20,904         | \$27,487         | \$28,662         | \$30,560         | \$0                | \$0              | <b>\$134,669</b>   |
| 2.D. CPB-TV Interconnection Grants             | \$10,743           | \$10,554         | \$10,629         | \$10,676         | \$11,061         | \$11,671           | \$10,368         | <b>\$75,702</b>    |
| 2.E. CPB-all other funds                       | \$173,171          | \$121,389        | \$149,948        | \$135,256        | \$106,159        | \$105,720          | \$141,650        | <b>\$933,293</b>   |
| <b>Total CPB Revenues Reported</b>             | <b>\$963,243</b>   | <b>\$725,923</b> | <b>\$761,239</b> | <b>\$766,167</b> | <b>\$782,883</b> | <b>\$803,801</b>   | <b>\$731,551</b> | <b>\$5,534,807</b> |
| <b>CPB &amp; PBS Digital Payments to KMBH:</b> |                    |                  |                  |                  |                  |                    |                  |                    |
| CPB All Grants                                 | \$1,069,235        | \$727,423        | \$849,424        | \$811,467        | \$826,783        | \$1,018,718        | \$699,552        | <b>\$6,002,602</b> |
| PBS Digital Grants (only)                      | \$166,666          | \$0              | \$0              | \$0              | \$0              | \$333,334          | \$184,254        | <b>\$684,254</b>   |
| <b>Total Payments</b>                          | <b>\$1,235,901</b> | <b>\$727,423</b> | <b>\$849,424</b> | <b>\$811,467</b> | <b>\$826,783</b> | <b>\$1,352,052</b> | <b>\$883,806</b> | <b>\$6,686,856</b> |
| <b>AFR Under-Reported per NETA Research</b>    | <b>\$272,658</b>   | <b>\$1,500</b>   | <b>\$88,185</b>  | <b>\$45,300</b>  | <b>\$43,900</b>  | <b>\$548,251</b>   | <b>\$152,255</b> | <b>\$1,152,049</b> |
| KMBH TV Refund on DDF 4 Grant                  | \$0                | \$0              | (\$21,905)       | \$0              | \$0              | \$0                | \$0              | (\$21,905)         |
| <b>Net Under-Reported Digital Revenues</b>     | <b>\$272,658</b>   | <b>\$1,500</b>   | <b>\$66,280</b>  | <b>\$45,300</b>  | <b>\$43,900</b>  | <b>\$548,251</b>   | <b>\$152,255</b> | <b>\$1,130,144</b> |

**RGV Educational Broadcasting, Inc.**

**KMBHDT-38/Public Radio 88 FM-HD (KMBH-FM 88.9/ KHID 88.1)  
PO Box 2147/ Harlingen, TX 78551 / Ph. 956-421-4111 / Fx. 956-421-4150  
[www.kmbh.org](http://www.kmbh.org)**

September 16, 2011

**William J Richardson III  
Deputy Inspector General  
Corporation for Public Broadcasting  
402 Ninth Street, NW  
Washington, DC 20004-2129**

**Re: Follow-Up Examination of RGV Educational Broadcasting, Inc.,**

Dear Mr. Richardson,

Thank you for your letter of August 8, 2011 and the attached draft follow-up audit report as well as your visit with us on September 13, 2011. As the new General Manager of the RGV stations, I am committed, along with my staff, to being responsive to CPB. We have carefully reviewed the draft audit report and we have had it reviewed by NETA, our independent auditor and our legal counsel. I am happy to share their input with CPB and receive further feedback from CPB in order to ensure that CPB concerns are addressed.

**Financial Matters**

I asked NETA and our independent auditor to review the financial matters discussed in the draft audit report. NETA provided me with an analysis that I am attaching as Attachment 1. The independent auditor also provided me with their comments that I am attaching as Attachment 2. Simply put, my understanding is that RGV reported CPB grant funds as they were spent and accounted for unspent funds as held in reserve under an exchange method of accounting. Going forward, RGV will report grant funds as received under the contribution method of accounting. Grant funds held in reserve were not reported as NFFS. Therefore, RGV does not owe a grant refund to CPB. I trust that CPB will review the information in Attachment 1 and let me know whether CPB still believes that a grant refund is owed to CPB.

With regard to the asset and depreciation schedules, we are working on those as part of our 2011 financial accounting work and I will be happy to share those with CPB as soon as they are completed.

**Communications Act Compliance Matters**

We reviewed with legal counsel the certification of eligibility that RGV executed on December 20, 2010. Legal counsel provided me with their advice regarding Communications Act compliance in a letter attached hereto as Attachment 3. Simply put, my understanding is that RGV properly certified its compliance with the Communications Act as of December 20, 2010. The draft audit notes that the FCC EEO reports were in our public file and on our website. While we will ensure that the CPB format EEO reports also are included, the CPB format reports are by law merely supplemental to the FCC EEO reports. The draft audit also notes that our financial information for 2007-2009 was in our public file and on our website. The 2010 financials were not available on December 20, 2010, and, therefore, the certification as to the public posting of financials was accurate at the time it was made.

**Management Transition**

The draft audit report expresses concern regarding the management transition at RGV. Our previous General Manager had been with the station for many years. It is understandable that it would take some time to replace him. It is unfortunate that the follow-up audit occurred during the transition period before I came on board. However, the management transition has now been completed. I will be more than happy to work with CPB to ensure that RGV addresses any remaining concerns regarding past fiscal years and any current concerns regarding fiscal year 2011.

**Response to Exit Conference Recommendations**

I am attaching as Attachment 4 an itemized response to the Exit Conference recommendations that you provided to us on September 13, 2011. I hope this response is complete, but if you need additional information, please do not hesitate to contact us.

Very truly yours,



**Robert M. Gutierrez, Jr**  
**General Manager**

**ATTACHMENT 1**

**NETA REPORT**

Attachment 1



September 8, 2011

RGV Educational Broadcasting, Inc.  
Attn: Mr. Robert Gutierrez  
P.O. Box 2147  
Harlingen, TX 78551

Dear Mr. Gutierrez:

NETA was retained by RGV Educational Broadcasting, Inc. ("RGV") in October 2010 to maintain accounting operations for RGV in addition to preparing the accounting for grant submissions to the Corporation for Public Broadcasting ("CPB"). We have reviewed the August 8, 2011 follow-up examination of RGV ("OIG Report"). The OIG Report states that it covers the 2010 fiscal year (July 1, 2009 to June 30, 2010). However, the OIG Report also discusses fiscal years 2004 and 2005 and 2007 to 2009. Accordingly, in order for NETA to respond to the OIG report NETA reviewed RGV accounting data for fiscal years 2004 through 2010.

During our review, we concluded that when RGV received grant awards, their initial entry was to record the entire contract by debiting accounts receivable and crediting deferred revenue. As capital purchases were made, RGV staff would debit deferred revenue and credit temporarily restricted. Based on this transaction, RGV staff treated funds from CPB as exchange transactions according to FASB. Going forward, NETA will ensure that the funds from CPB are treated as contributions for a specific purpose.

When RGV staff prepared the Annual Financial Report (AFR), RGV staff reported unrestricted assets per the annual financial audit. RGV excluded and did not report on the AFR the revenue recognized in temporarily restricted included in the annual financial audit report. RGV did not report these funds as NFFS on the AFRs.

Attached is an accounting report from NETA that shows the results of the NETA review. Our review determined that RGV does not owe CPB any additional funds due to the reporting of grant awards and NFFS on the AFRs.

Should you or CPB require additional information, please do not hesitate to contact us.

Very truly yours,

Anita Sims  
V.P. of Business and Finance

Enclosures

**CPB Grant and NFFS Reporting Response**

During our review, we sought to address the concerns expressed by the Corporation for Public Broadcasting (CPB) with regard to the recognition of funds distributed from CPB and the recognition of NFFS in the annual AFR. RGV consistently recognized income contingent upon the purchase and installation of the equipment specified in the grant agreements treating the grant funds as exchange transactions. In accordance with Financial Accounting Standards 116 these funds were to be treated as a contribution to adequately reflect the revenue received from Public Broadcasting entities. We understand that an exchange and a contribution transaction are difficult to determine at times.

RGV received payments totaling \$6,686,865 from CPB and other Public Broadcasting Entities which consisted of CPB and PBS (see Table 1).

We reviewed the AFR's to determine how the funds from Public Broadcasting Entities were reported. We noted that RGV reported \$5,534,807 (see Table 2) of the funds received from FY2004 – FY2010 on the AFR. This resulted in the grants reported on the AFR being less than the amount in Table 1 by a difference of \$1,152,058 (see Table 3). RGV correctly reported Community Service and Interconnection Grants on the correct lines within the AFR. Included on other lines within Schedule A Part 2, RGV report \$365,750 which consisted of additional funds from CPB such as travel, Ready To Learn (RTL), etc.

The funds received from Public Broadcasting Entities for fiscal years 2004 -2010 in the amount of \$1,152,058 were recognized as revenue in temporarily restricted (see Table 4) when the capital purchases were made and reported on the audited financial statements.

The grant revenue recognized in temporarily restricted revenue each fiscal year was not included on the AFR which caused part 2 of the AFR to be underreported. We did not identify funds from CPB reported in other areas of the AFR which would have constituted over reporting of NFFS which in turn would have caused an overpayment of CPB funds to RGV.

**Internal Controls**

In October 2010, RGV retained NETA for accounting services. The NETA Business Center accomplishes the task of performing full accounting services through the use of an accounting software package by Sage Software named MAS500 and an Integrated Document Management (IDM) solution product named Doc-Link from Altec, Inc. that interfaces with MAS500. This interface provides us with the ability to create electronic copies of invoices and checks that can be stored, archived and retrieved with ease. The MAS500 software is a powerful multi-users accounting system that provides accounting software solution for mid sized to large companies. We currently use the MAS500 software to handle Accounts Payable, Accounts Receivable, General Ledger, Fixed Assets and Cash Management activity.

By RGV outsourcing their accounting services, this has aided management in strengthening and maintaining effective internal controls.

**Table 1**

|                     | <b>DDF 4.0<br/>(2/25/04)</b> | <b>DDF 4.2<br/>(10/04)</b> | <b>DDF 6.0<br/>(06/05)</b> | <b>CPB/PBS<br/>Other<br/>Payments</b> | <b>CPB CSG, IG LSG</b> | <b>Total</b> |
|---------------------|------------------------------|----------------------------|----------------------------|---------------------------------------|------------------------|--------------|
| <b>CPB Payments</b> |                              |                            |                            |                                       |                        |              |
| FY 04               | 184,264.00                   |                            |                            |                                       | 699,551.00             | 883,815.00   |
| FY 05               |                              | 333,334.00                 | 250,000.00                 | 10,000.00                             | 758,718.00             | 1,352,052.00 |
| FY 06               |                              |                            |                            | 57,360.00                             | 769,423.00             | 826,783.00   |
| FY 07               |                              |                            |                            | 71,800.00                             | 739,667.00             | 811,467.00   |
| FY 08               |                              |                            |                            | 125,185.00                            | 724,239.00             | 849,424.00   |
| FY 09               |                              |                            |                            | 13,000.00                             | 714,423.00             | 727,423.00   |
| FY 10               | -                            | 166,666.00                 | 232,856.00                 | 73,343.19                             | 763,036.00             | 1,235,901.19 |
|                     | 184,264.00                   | 500,000.00                 | 482,856.00                 | 350,688.19                            | 5,169,057.00           | 6,686,865.19 |

**Table 2**

|  | <u>2010</u>  | <u>2009</u>  | <u>2008</u>  | <u>2007</u>  | <u>2006</u>  | <u>2005</u>  | <u>2004</u>  | Total          |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|
| <b>Reconciliation to AFR</b>                         |              |              |              |              |              |              |              |                |
| <b>Sub-Total CPB Revenues Reported per Exhibit F</b> | \$ 963,243   | \$ 725,923   | \$ 761,239   | \$ 766,167   | \$ 782,883   | \$ 803,801   | \$ 731,551   | \$ 5,534,807   |
| <b>Total CPB Payments Per ISIS and client's G/L</b>  | \$ (763,036) | \$ (714,423) | \$ (724,239) | \$ (739,667) | \$ (769,423) | \$ (758,718) | \$ (699,551) | \$ (5,169,057) |
| <b>CPB Other Payments (per client's G/L)</b>         | \$ (200,207) | \$ (11,500)  | \$ (22,000)  | \$ (5,000)   | \$ (671)     | \$ (10,000)  |              | \$ (249,378)   |
| <b>RTL (per client's G/L)</b>                        | \$ -         | \$ -         | \$ (15,000)  | \$ (21,500)  | \$ (12,789)  | \$ (35,083)  | \$ (32,000)  | \$ (116,372)   |
|  | \$ (0)       | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ (0)         |

**Table 3**

|                              |              |
|------------------------------|--------------|
| <b>CPB Payments</b>          |              |
| CPB CSG, IG LSG              | \$ 5,169,057 |
| CPB/PBS Other Payments       | 350,688      |
| DDF 4.0(2/25/04)             | 184,264      |
| DDF 4.2(10/04)               | 500,000      |
| DDF 6.0(06/05)               | 482,856      |
| <b>Total CPB Payments</b>    | \$ 6,686,865 |
| <b>Total Reported on AFR</b> | (5,534,807)  |
| <b>AFR Underreported</b>     | \$ 1,152,058 |

**Table 4**

|   | Public<br>Telecommunications<br>Facilities Program<br>(PTFP) | DDF 4.0<br>(2/25/04) | DDF 4.2<br>(10/04) | DDF 6.0<br>(06/05) | CPB/PBS<br>Other<br>Payments | Total               |
|---|--|----------------------|--------------------|--------------------|------------------------------|---------------------|
| <i>Revenue Recognized in in Temp. Rest. :</i> |  |                      |                    |                    |                              |                     |
| FY 04   | -  | -                    | -                  | -                  | -                            | -                   |
| FY 05   |  | 53,211.24            |                    | 40,000.00          |                              | 93,211.24           |
| FY 06   | 77,281.00  | 149,159.94           | 239,717.10         | 223,716.29         |                              | 689,874.33          |
| FY 07   |  |                      | 183,002.00         | 96,626.00          | 188,384.00                   | 468,012.00          |
| FY 08   |  |                      | 63,822.00          | 15,253.00          |                              | 79,075.00           |
| FY 09   |  |                      |                    |                    | 10,000.00                    | 10,000.00           |
| FY 10   | -  | -                    | -                  | -                  | -                            | -                   |
| <b>Total Revenue Recognized</b>               | <b>77,281.00</b>   | <b>202,371.18</b>    | <b>486,541.10</b>  | <b>375,595.29</b>  | <b>198,384.00</b>            | <b>1,340,172.57</b> |

Note: Revenue recognized in temporarily restricted consisted of other funding external to CPB

**ATTACHMENT 2**  
**AUDITOR LETTER**



**KIRKLAND, THOMAS, WATSON & DYCHES, LLC**  
*Consultants & Certified Public Accountants*

Attachment 2

September 12, 2011

RGV Educational Broadcasting, Inc.  
Attn. Mr. Robert Gutierrez  
P.O. Box 2147  
Harlingen, TX 78551

Dear Mr. Gutierrez:

The purpose of this letter is to provide a status report with respect to the commencement of the audit of the Station's fiscal 2011 financial statements. It has been a pleasure discussing the Station's operations, current and historic financial condition and internal controls with you as well as with representatives of the National Educational Telecommunications Association ("NETA").

Thank you for indicating that you would be proactive in addressing the various observations and recommendations we reported with respect to the fiscal 2010 audit. You indicated that you take these matters seriously and have implemented changes that address these concerns.

I conversed with Mr. Walker, the Station's Treasurer. Mr. Walker requested that as part of our work, we assess the controls over the recording of revenue including determining if more could be done to enhance the monitoring of past due pledges so as to achieve improved collections. I informed him that we would honor his request. As part of our standard procedures, I inquired as to his knowledge of any fraud related matters involving the Station and he informed me that he was not aware of any such matters. Mr. Walker believes that the new Station management sets a "positive tone at the top." We both commented on the general improvement in the segregation of duties that a third party – NETA provides. Coupled with their knowledge of the industry and their ongoing experience in service to other stations, the benefits to be derived by the Station and its management team should aid in moving beyond some of the situations the Station has experienced.

I understand that NETA representatives have been working with Station management and staff in developing a detail schedule of fixed assets. We look forward to testing the schedule when it is completed. Thank you for forwarding the master control fixed asset schedule. I provided Albernel Jones of NETA with my comments regarding the schedule.

Mr. Robert Gutierrez  
RGV Educational Broadcasting, Inc.  
Page 2

Albernel informed me that she has spent a significant amount of time updating the Station's accounting records and she has already provided our staff with certain requested information. As you are aware, I met Mr. Bill Gillette several months ago to discuss the Corporation for Public Broadcasting's concerns with, among other things, the use of CPB funds during the digital conversion. And, I subsequently discussed the concerns with Bill Richardson and Bill Gillette. After much work, Albernel Jones believes that she has reconciled the accounts with respect to the funds.

We will be confirming with the Diocese their intent to continue supporting the Station financially. We will also request the Diocese to confirm the balances due them by the Station as well as other information. The confirmation process will also include confirmation of selected revenues, debt and bank balances.

We anticipate that the audit process will take several weeks to complete the basic procedures. We find that there are almost always lingering issues (such as confirmation of revenues from selected sources) to address during and especially near the end of the audit process.

Mr. Gutierrez, we look forward to working with you, your staff, the Station's governing body as well as the staff of NETA.

Sincerely,



W. Dale Dyches, CPA, CFF

**ATTACHMENT 3**  
**FCC COUNSEL LETTER**

**CHADBOURNE  
& PARKE LLP**

**Attachment 3**

**James A. Stenger**  
direct tel (202) 974-5682

September 12, 2011

**Mr. Robert Gutierrez, General Manager**  
**RGV Educational Broadcasting, Inc.**  
**1701 Tennessee**  
**Harlingen, TX 78550**

**Re: OIG Report of August 8, 2011**

Dear Mr. Gutierrez:

RGV Educational Broadcasting, Inc. ("RGV") requested that we review the OIG Report dated August 8, 2011, and the RGV Certificate of Eligibility executed by RGV on December 20, 2010, in our capacity as FCC regulatory counsel to RGV. The Certification of Eligibility, Item H, certifies compliance with various Communications Act (the "Act") requirements, including public posting of EEO reports (Section 396(k)(11)) and financial information (Section 396(k)(5)). Based upon the findings in the OIG Report, the OIG should conclude that RGV correctly certified eligibility.<sup>1</sup>

**Public Posting of CPB EEO Reports**

The OIG found that the FCC EEO reports were in the KMBH public inspection file at the time of the audit.<sup>2</sup> In addition, the FCC EEO reports were posted on the KMBH website.<sup>3</sup>

<sup>1</sup> OIG Report at 1 and 6-7.

<sup>2</sup> OIG Report at 7.

<sup>3</sup> [www.kmbh.org](http://www.kmbh.org). The OIG Report notes that OIG reviewed the KMBH website (OIG Report at 6 and note 5) and the FCC EEO reports are prominently displayed at the top left. OIG also notes that KMBH provides a computer terminal in the public reference room. OIG Report at 7. Station public reference files may be maintained electronically so long as a computer terminal is made available to access the files. See 47 C.F.R. Section 73.3527(c). CPB Eligibility Certification, Items F and G, require compliance with the FCC EEO Rule (47 C.F.R. 73.2080) and RGV properly certified compliance as found in the OIG Report.



**CHADBOURNE  
& PARKE LLP**

Mr. Robert Gutierrez, General Manager -2-

September 12, 2011

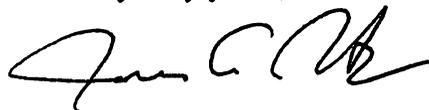
However, OIG notes that, "the FCC EEO Report did not present the information in the format required by CPB." OIG Report at 7. CPB Certification Item H refers to Section 396(k)(11) of the Act which requires grantees to file with CPB and make public an EEO statistical report that is, "consistent with the reports required by the [FCC]." Given that OIG found that RGV complied with the FCC EEO requirements and that any CPB requirements must be consistent therewith, OIG should conclude that RGV properly certified its EEO compliance. Nevertheless, we recommend that RGV request clarification from CPB with regard to the CPB statistical EEO reporting and posting requirements.

Posting of Audited Financial Information

The CPB Certification Item H also requires stations to certify that they make available to the public their annual financial statements and audit reports.<sup>4</sup> The OIG Report notes that, "RGV's audited financial statements and AFRs for a three year period (FYs 2007-2009) were available in its files and on its website."<sup>5</sup> The OIG Report further notes that, "[d]uring our fieldwork the FY 2010 AFRs were added to KMBH's website."<sup>6</sup> As a result, the OIG Report should conclude that RGV was in compliance with the requirements for posting of financial statements as of the time of the audit and that RGV properly certified compliance in December, 2010, based upon the financial information available at that time.

Should additional information be necessary in connection with this matter, please do not hesitate to contact the undersigned.

Very truly yours,



James A. Stenger

---

<sup>4</sup> The CPB Certification Item H contains multiple references, as noted above, and the relevant reference is Section 396(k)(5) of the Act.

<sup>5</sup> OIG Report at 6.

<sup>6</sup> OIG Report at note 5 (page 6).

**ATTACHMENT 4**  
**CPB EXIT CONFERENCE**

**RGV Exit Conference**

As discussed during our meeting on September 13, 2011, and as reflected in Attachments 1 to 3 of this letter, RGV has addressed and will continue to address all of CPB's recommendations.

**CPB Recommendations**

1) We recommend that CPB management require RGV officials to:

a. refund CSG overpayments of \$43,389 for FYs 2007-2009.

**RGV Response:** According to NETA's analysis in Attachment 1 of this response, RGV does not owe a refund to CPB as there were no overpayments.

b. research its accounting records to determine when digital revenues received during FYs 2010, 2004 and 2005 were recognized in its accounting system and provide documentation of the recognition;

**RGV Response:** NETA has researched the RGV financial statements and found that digital revenues were all recognized under the exchange method of accounting. The documentation consists of the RGV financial statements and NETA's analysis thereof in Attachment 1 of this response.

c. refund CSG overpayments estimated at \$54,582 for FYs 2010, 2004 and 2005, as appropriate after RGV's completes its research for FYs 2010, 2004 and 2005;

**RGV Response:** According to NETA's analysis in Attachment 1 to this response, RGV does not owe a refund to CPB as there were no overpayments.

d. restate its financial statements as appropriate for the fiscal years that revenues were materially under-reported;

**RGV Response:** The RGV financial statements were prepared in accordance with recognized accounting standards and principles ("GAAP") by a certified public accountant ("CPA"). The accountant used the exchange method of accounting. Going forward, RGV's accountants will use the contribution method. However, it should not be necessary to restate the earlier financials for several reasons. First, the method used is consistent with GAAP as applied by a

CPA. Second, CPB received these financials over many years without objection to the accounting method used therein. Third, preparation of accounting restatements would be costly and RGV respectfully suggests that its scarce resources are needed for broadcast service. And finally, NETA's analysis has already reconciled the accounts and demonstrated that no refund is due.

- e. institute appropriate controls to ensure future revenues are properly reported in the financial statements and on the AFRs, appropriately adjusting public broadcasting revenues on Schedule A, Line 2;

**RGV Response:** RGV has had adequate financial controls in place. RGV used a certified public accountant to prepare its financial statements and the certified public accountant prepared the financial statements in accordance with GAAP. The RGV agrees to switch from the exchange method to the contribution method on a going forward basis. In addition to the commitment to change the accounting method RGV is using NETA and its accounting software.

- 2) financially sanction RGV for not fully implementing promised corrective actions to comply with Communications Act requirements;

**RGV Response:** With all due respect, the OIG audit provides no basis to financially sanction RGV under the Communications Act. RGV properly certified its compliance with the Communications Act on December 10, 2010. The OIG Report cites two minor public file issues that do not rise to the level of a substantial and material compliance issue under the Communications Act. As to EEO Reports, the FCC EEO Reports were in the KMBH public inspection file and were posted in a prominent position on the KMBH website. CPB format EEO Reports are by law merely supplemental to the FCC EEO Reports. RGV has agreed to add the CPB format EEO Reports. As to the financial reports, the 2007-2009 reports were in the public file and on the website. The 2010 financials were not available on December 20, 2010, when the CPB eligibility certification was made.

- 3) require RGV to fully comply with requirements to make financial (including OIG audit reports) and EEO information readily available to the public at the station by including the FY 2010 financial statement audit and 2009 OIG audit report on its website or in its file available to the public at the station;

**RGV Response:** The FY 2010 Report was posted after it became available and while the auditor was present. RGV has agreed to post the OIG Audit reports along with RGV's response.

- 4) address control weaknesses identified by its IPA in conducting its FY 2010 financial statement audit;

**RGV Response:** RGV consistently used a certified public accountant to prepare its financial statements in accordance with GAAP accounting principles. Nevertheless, RGV is adopting the accounting procedures recommended by its new auditor. RGV will use the contribution method in lieu of the exchange method and will prepare supplemental asset and depreciation schedules. In addition, RGV is using NETA and NETA has additional helpful accounting software as described in NETA's statement in Attachment 1 to this response.

- 5) provide CPB with documentation of RGV's corrective actions implemented in response to the IPA's report on internal controls; and

**RGV Response:** NETA analyzed and reconciled prior year financial reports as shown in Attachment 1. The auditor has provided a letter indicating that the auditor will ensure that RGV follows the accounting methods recommended by the auditor as set forth in Attachment 2.

- 6) provide CPB with copies of any future management letters RGV receives from its IPA regarding internal control weakness;

**RGV Response:** RGV does not expect to receive any future letter from its new auditor regarding any internal control weaknesses. However, in the event that RGV receives any such letter, RGV will provide a copy to CPB.

- 7) We recommend that CPB:
  - a. determine whether the current governance mechanisms at RGV are adequate and whether the licensee has instituted sufficient corrective actions to continue as a CPB grant recipient; and

**RGV Response:** The RGV governance structure is typical of broadcast television and radio station licensees. The Board selects and supervises management. The Board replaced the General Manager with a new General Manager. The transition process was time consuming and the follow-up audit happened to occur during the transition process. The transition process is complete and the new General Manager is in place.

- b. require RGV to explain how the Board will ensure itself in the future that the station is in full compliance with CPB's TV and Radio Community Service Grant - Certification of Eligibility statements annually provided to CPB in applying for new grants.**

**RGV Response: The General Manager will review with the Board the annual CPB certification of eligibility and assist the Board to ensure that the checklist of items in the certification is reviewed by the Board and that RGV remains in compliance with CPB grant requirements. The General Manager also will continue to review with the Board the RGV financial statements. Currently, one Board member is a CPA and RGV will endeavor to ensure that the Board continues to include at least one CPA.**