



September 14, 2020

VIA ELECTRONIC MAIL

Mr. Mark Contreras  
President and CEO  
Connecticut Public Broadcasting, Inc.  
1049 Asylum Avenue  
Hartford, CT 06105

Dear Mr. Contreras,

RE: Audit of Community Service and other Grants awarded to Connecticut Public Broadcasting, Inc., Hartford, Connecticut, for the Period July 1, 2016 through June 30, 2018, (Report No. ASJ1909-0002)

The audit referenced above concluded that Connecticut Public Broadcasting, Inc. (Connecticut) complied with its CSG Certification of Eligibility, the numerous provisions in the Communications Act of 1934, 47 U.S.C. §396, et sec. (Communications Act), the Corporation for Public Broadcasting's (CPB) Guidelines concerning non-federal financial support (NFFS), and the terms of its community service grants (CSG), as well as terms and conditions of American Graduate and New England News Collaborative (NENC) grants, with three exceptions. Namely, that there were errors in the amount of NFFS that Connecticut reported to CPB resulting in a CSG overpayment, that it did not maintain account codes for some expenses, and that it did not keep time records for some staff salaries.

The specific findings and CPB's determinations for Connecticut follow.

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

The audit found that Connecticut misreported its NFFS, resulting in a net overstatement as explained below.

##### **A. Membership Revenues Net of High-end Premiums**

CPB's Financial Reporting Guidelines (CPB's Guidelines) require CSG recipients to report as NFFS, membership revenues, net of high-end premiums<sup>1</sup>. The audit found that Connecticut understated the amount it reported for high-end premiums. Connecticut disagreed and explained that it followed IRS guidance for deducting business gifts.

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<sup>1</sup> Financial Reporting Guidelines, Part II, Section V. NFFS: Excluded Revenues, K. Premiums.

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However, since these are premiums and not business gifts, Connecticut should have applied IRS Publication 1771, as set forth in CPB’s Guidelines. Connecticut’s president and chief financial officer agreed with the same during our follow-up call on July 16, 2020.

Action: Connecticut must return \$34,930 in television CSG overpayments to CPB, as shown in the table below. However, instead of requiring Connecticut to return the entire radio CSG overpayment of \$11,022, we will offset that amount against the radio CSG underpayment described in paragraph D below, which reduces the radio overpayment to \$909.

The audit recommended that CPB require Connecticut to document the controls it would use to avoid this error in the future. However, based on Connecticut’s representations during our call, we require no further documentation.

Year	Radio		Television	
	NFFS Overstated	CSG Overpayment	NFFS Overstated	CSG Overpayment
2017	\$164,936	\$8,597	\$271,817	\$33,845
2018	\$48,396	\$2,425	\$9,194	\$1,085
Total	\$213,322	<b>\$11,022</b>	\$281,011	<b>\$34,930</b>

#### B. Contributions from Public Broadcasting Entities

CPB’s Guidelines exclude from NFFS funds provided by CPB or from any other public broadcasting entity<sup>1</sup>. The audit disallowed American Graduate grant funds that Connecticut reported as television NFFS because they were provided by CPB. Connecticut agreed with the finding and explained that it had inadvertently included the funds as NFFS. We agree.

Action: Connecticut must return the 2020 television CSG overpayment of \$7,080 to CPB as explained below.

The audit recommended that CPB require Connecticut to identify the corrective actions it will implement to ensure future compliance with these requirements. To avoid making this error again, Connecticut indicated that it would expand its monthly financial review process for all revenues received from CPB. Considering this and the size of the misreporting relative to the amounts audited, we will not require additional documentation.

#### C. Presenting Station Fees

CPB’s Guidelines exclude presenting station fees from NFFS, i.e., fees that stations receive for introducing programs into the public broadcasting television system on behalf of a

<sup>1</sup> Financial Reporting Guidelines, Part II. Contributions vs. Payments

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producer<sup>2</sup>. The audit found and Connecticut agreed that the presenting station fees it received are NFFS-ineligible, resulting in 2019 and 2020 television CSG overpayments of \$821 and \$6,254, respectively. We agree, and Connecticut must return the same to CPB.

Action: Connecticut must return the television CSG overpayment of \$7,075 to CPB as described below. The audit recommended that CPB require Connecticut to identify the corrective actions it will implement to ensure future compliance with these requirements. However, since Connecticut indicated that it would complete a detailed review of the sources of all fees paid to determine their NFFS eligibility, we will not require additional documentation.

#### D. Consolidated Financial Statement

In accordance with CPB's Guidelines, joint licensees that consolidate their radio and television stations' audited financial statements must also provide CPB with a supplemental schedule showing the methodology for apportioning NFFS revenues between the stations<sup>3</sup>. The audit found that Connecticut erroneously reported radio NFFS as television NFFS, resulting in television CSG overpayments of \$28,568. Connecticut agreed with the finding, as do we, and Connecticut must return the same to CPB.

Because CPB distributes CSG funds in the year they are received, there are no funds from which to compensate Connecticut for its underreported radio NFFS. However, we can offset the overstated radio NFFS by the understated amount for each fiscal year reducing the radio CSG overpayments identified in paragraph A for 2020 to zero and for 2019 to \$909.

Action: Connecticut must return the radio CSG overpayment of \$909 and the television CSG overpayment of \$28,568 to CPB as described below.

The audit recommended that CPB require Connecticut to identify the corrective actions it will implement to ensure future compliance with these requirements. Connecticut indicated that it would implement multiple steps to ensure the accuracy of NFFS on its radio and television financial reports going forward, including reviewing its general ledger structure and modifying its practices for tracking foundation funding, which was the source of funding that was misreported. Considering Connecticut's proposed plan, we will not require additional documentation.

#### E. CSG Non-compliance Policy

CPB adopted the CSG Non-compliance Policy to encourage grantees 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 subjects the

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<sup>2</sup> Financial Reporting Guidelines, Part II, Section V. NFFS: Excluded Revenues, F. Presenting Station Fees

<sup>3</sup> Financial Reporting Guidelines, Part I, Financial Statements, D. Financial Statement Requirements

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recipient to a penalty of ten percent of the amount of the overpayment. Accordingly, CPB will assess a penalty of \$7,856 against Connecticut which must be provided to CPB within 45 days of the date of this correspondence.

Action: Connecticut must return \$78,562 to CPB, \$909 for the radio and \$77,653 for the television CSG overpayments. CPB will collect these amounts through an adjustment to Connecticut's 2021 CSG awards. In addition, Connecticut must provide the \$7,856 penalty to CPB within 45 days of the date of this correspondence.

## **II. Recommendations 3 and 4: Salary Expenses**

The audit found that Connecticut provided adequate documentation for 98 percent of the NENC grant project's \$1,313,820 personnel expenses. However, it did not document \$43,127 in personnel costs for a program manager and a financial administrator as the grant required. The audit recommended that CPB determine the reasonableness of or recover the undocumented salary expenses and require Connecticut to identify corrective actions to comply with CPB's time-keeping requirements.

In response to the audit, Connecticut indicated that the lack of documentation was an oversight and that the staff completed the necessary work which required significantly more than the budgeted hours. It also explained that it would implement a new control to ensure that all time-records are completed prior to finalizing the required financial and narrative reporting due to CPB.

We agree that Connecticut should have provided documentation for these two staff. However, considering the certification from Connecticut that the actual staff time exceeded the budgeted hours, Connecticut's compliance with the documentation requirements for 98 percent of the project, and CPB staff's review and approval of the budgeted costs, we have determined that the costs are reasonable and accurate and will not seek return of the funds. As for the additional documentation, we are confident that Connecticut understands CPB's time-keeping requirements, and we will not require it.

Action: No further action is required.

## **III. Recommendations 5 and 6: Recording Project Expenditures**

The terms and conditions governing the American Graduate and NENC grants, require that Connecticut's financial reports reconcile to its general ledger and that it maintain books and records sufficient to verify the project costs through an examination of its general ledger and other records. The audit indicated that Connecticut's approach did not permit it to "...perform an effective audit without the assistance of [Connecticut's] personnel". It recommended that CPB determine the reasonableness of or recover the questioned undocumented salary expense of \$43,127, require Connecticut to record labor expenses using a CPB project accounting code and require Connecticut to identify the corrective actions and controls it will implement to ensure future compliance with grant recordkeeping requirements.

Connecticut responded that while the expenses were not recorded in an account designated for CPB projects, it maintained Excel files which it thought met the grant terms.

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The reporting requirements in Section K of the terms and conditions are clear and the costs should have been reflected on Connecticut's general ledger. On a going forward basis, all expenses for a given CPB project must be recorded in a distinct accounting code in the general ledger. In accordance with the OIG's recommendation number 6, please identify corrective actions and controls to be implemented to ensure future compliance with grant recordkeeping requirements.

CPB's CSG Non-compliance Policy provides for a penalty of \$1,000 for each instance of non-compliance with the grant terms. Because the station properly recorded non-labor costs, in accordance with CPB's Non-compliance Policy, we will assess a reduced penalty of \$500 against Connecticut. The penalty must be provided to CPB within 45 days of the date of this correspondence.

Action: Connecticut must provide the \$500 penalty and submit a document describing corrective actions and controls to be implemented to ensure future compliance with grant recordkeeping requirements to CPB within 45 days of the date of this correspondence.

Within 45 days of the date of this correspondence, please forward a check in the amount of \$8,356 for the noncompliance penalty, payable to CPB, to the attention of Nick Stromann, Vice President, Controller, Corporation for Public Broadcasting, 401 Ninth Street N.W., Washington, D.C. 20004-2129.

If you wish CPB to consider additional information relating to this matter, please provide the same in writing within 30 days of the date of this letter. Otherwise, CPB will consider these determinations final and Connecticut must 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*

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

CC: VIA ELECTRONIC MAIL

Thomas Barnes, Chair, Board of Trustees, Connecticut Public Broadcasting, Inc.  
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