CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF INSPECTOR GENERAL

AUDIT OF COMMUNITY SERVICE AND OTHER GRANTS AT WTTW, CHICAGO, ILLINOIS FOR THE PERIOD JULY 1, 2015 THROUGH JUNE 30, 2017

REPORT NO. AST1804-1809

September 26, 2018

Office of Inspector General
Corporation for Public Broadcasting

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Report in Brief

Audit of Community Service and Other Grants at WTTW, Chicago, Illinois, for the period July 1, 2015 through June 30, 2017

Why We Did This Audit

We performed this examination based on our Annual Plan to audit a number of public television and radio stations.

Our objectives were to examine WTTW's certifications of compliance with Corporation for Public Broadcasting (CPB) grant terms to: a) claim Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFR) in accordance with CPB Financial Reporting Guidelines; b) expend Community Service Grant (CSG) and other grant funds in accordance with grant agreement requirements; and c) comply with the Certification of Eligibility requirements and the statutory provisions of the Communications Act of 1934, as amended. The amount of NFFS a station reports to CPB affects the amount of CPB funding the station receives.

Send all inquiries to our office at (202) 879-9669 or email OIGemail@cpb.org or visit www.cpb.org/oig

Listing of OIG Reports

What We Found

Overstated NFFS of $5,558,152, resulting in potential CSG overpayments of $659,226 in 2018 and 2019.

Based on our audit we found that WTTW:

- overstated NFFS by $5,558,152 which resulted in potential FY 2018 and FY 2019 CSG overpayments of $659,226 which we will report as funds put to better use;
- was not in full compliance with Act requirements for open meetings and documenting reasons for closed meetings; and
- claimed American Graduate production grant costs that were not supported, resulting in questioned costs of $2,497, and was not in full compliance with production grant requirements.

In response to our draft report the station did not agree with most of our overstated NFFS and Act noncompliance findings. WTTW did agree with our production grant findings and said it would take corrective actions. CPB management will make the final determination on our findings and recommendations.

What We Recommend

That CPB:

a) recover the potential CSG overpayments of $659,226;
b) ensure WTTW's FY 2018 AFR excludes the presenting station/production services payments received in FY 2018;
c) require WTTW to fully comply with open meeting requirements;
d) recover $2,497 in questioned American Graduate grant costs;
e) require WTTW to correct its indirect cost rate on its American Creed financial reports and update its subcontracts to include CPB audit access; and
f) require WTTW to identify the corrective actions it will implement to ensure future compliance with these various NFFS, open meetings, and other grant requirements.

cpb
Corporation
for Public
Broadcasting

Office of Inspector General

Date: September 26, 2018

To: Jackie J. Livesay, Vice President, Compliance
Ted Krichels, Sr. Vice President, System Development and Media Strategy
Debra Sanchez, Sr. Vice President, Education and Children's Content Operations
Maja Mrkoci, Sr. Vice President, Television and Content Innovation

From: Mary Mitchelson, Inspector General Mary Mitchelson

Subject: Audit of Community Service and Other Grants at WTTW, Chicago, Illinois, for the period July 1, 2015 through June 30,2017. Report No. AST1804-1809

Enclosed please find our final report which includes WTTW's response to our draft report as Exhibit G. CPB officials must make a final determination on the findings and recommendations in accordance with established audit resolution procedures.

We request that you provide us with a draft written response to our findings and recommendations within 90 days of the final report. We will review your proposed actions and provide our feedback before you issue a final management decision, which is due within 180 days of the final report. For corrective actions planned but not completed by the response date, please provide specific milestone dates so that we can track the implementation of corrective actions needed to close the audit recommendations.

We performed our audit in accordance with the *Government Auditing Standards*. We will post this report to the Office of Inspector General's website and appropriate congressional committees as required by the Inspector General Act of 1978, as amended. Please refer any public inquiries about this report to our website or our office.

Enclosure

cc: Lori Gilbert, Chair, CPB Board of Directors
Bruce M. Ramer, Chair, CPB Audit and Finance Committee
U.S. Senate Committee on Homeland Security and Governmental Affairs
U.S. House of Representatives Committee on Oversight and Government Reform
U.S. Senate Committee on Commerce, Science and Transportation
U.S. House of Representatives Energy and Commerce Committee
U.S. Senate Committee on Appropriations
U.S. Senate Labor-HHS-Education Appropriations Subcommittee
U.S. House of Representatives Committee on Appropriations
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EXECUTIVE SUMMARY

The Office of Inspector General (OIG) has completed an audit of the Corporation for Public Broadcasting (CPB) Community Service Grants (CSG) and other grants[1] awarded to WTTW, licensed to Windows to the World Communications, Inc. (WWCI) for the period July 1, 2015 through June 30, 2017. Our objectives were to examine WTTW's certifications of compliance with CPB grant terms to: a) claim Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFRs) in accordance with CPB Financial Reporting Guidelines (Guidelines); b) expend CSG and other grant funds in accordance with grant agreement requirements; and c) comply with the Certification of Eligibility requirements and the statutory provisions of the Communications Act of 1934, as amended (Act).

Based on our audit we found that WTTW:

- overstated NFFS by $5,558,152 for ineligible payment sources, in-kind donations, contribution recipient and source, and understated membership-premium exclusions, which resulted in potential fiscal year (FY) 2018 and FY 2019 CSG overpayments of $659,226, which we will report as funds put to better use;
- was not in full compliance with Act requirements for open meetings and documenting reasons for closed meetings; and
- claimed production grant costs that were not supported, resulting in questioned costs of $2,497 and was not in full compliance with production grant requirements.

We recommend that CPB: a) recover the potential CSG overpayments of $659,226; b) ensure WTTW's FY 2018 AFR excludes the presenting station/production services payments received in FY 2018; c) require WTTW to fully comply with open meeting requirements; d) recover $2,497 in questioned American Graduate grant costs; e) require WTTW to correct its indirect cost rate on its American Creed financial reports and update its subcontracts to include CPB audit access; and f) require WTTW to identify the corrective actions it will implement to ensure future compliance with these various NFFS reporting, open meetings and other grant requirements.

In response to the draft report, WTTW disagreed with most of our findings for overstated NFFS and noncompliance with open meetings requirements of the Act. The station agreed with our production grant questioned costs and noncompliance findings, indicating it would take corrective action. WTTW's written response to the draft report is attached in Exhibit G.

This report presents the conclusions of the OIG and the findings reported do not necessarily represent CPB's final position on these issues. While we have made recommendations, we believe would be appropriate to resolve these findings, CPB officials will make final determinations on our findings and recommendations in accordance with established CPB audit resolution procedures. Based on WTTW's response to the draft report, we consider our

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[1] CPB other grants included CSG supplemental grants (Interconnection and Universal) and production grants (American Graduate and the American Creed).

recommendations one through five unresolved and recommendations six through eight resolved but open pending CPB's final management decision accepting WTTW's corrective actions and recovery of questioned costs.

We performed this audit based on the OIG's annual plan. We conducted our examination in accordance with *Government Auditing Standards* for attestation engagements. Our scope and methodology is discussed in Exhibit F.

Finally, under Other Matters we discuss the need for policy guidance on how a community station should report endowment revenues it receives from its licensee on its AFR.

BACKGROUND

WTTW is a division of and licensed to WWCI, a not-for-profit entity.[2] WTTW is a public TV and national TV production center. The station's Local Content and Service report states "WTTW is committed to presenting the very best in cultural, nature, science, public affairs, and children's programming to Chicago and beyond its four distinct channels and online at wttw.com." WTTW's four main channels are: WTTW11 HD; WTTW Prime; WTTW PBS Kids 24/7; and WTTW Create/WORLD.

The station's website (wttw.com) highlights its mission; presents its programming schedule; showcases its new and current productions and presentations and contains information about membership and benefits, station operations, annual community and financial reports, upcoming events, and Community Advisory Board (CAB) and WWCI Board of Trustees meetings.

CPB's Community Service Grant Program

The Act provides that specific percentages of the appropriated funds CPB receives annually from the United States Treasury must be allocated and distributed to licensees and permittees of public TV and radio stations. After funds are designated as either TV or radio funds, they are placed in the appropriate CSG grant pool for distribution to eligible stations. TV funds can be distributed only to TV stations and radio funds must go to radio stations.

CPB awards annual CSG grants to public television and radio stations based in part on the amount of NFFS claimed by all stations on their AFRs. The CSG calculation process starts with separate amounts appropriated for the television and radio CSG pools adjusted by base and supplemental grants. 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/radio stations. The IRR is then multiplied by the station's total amount of adjusted 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 FY's CSG amount. For example, CPB used the NFFS claimed by WTTW on its FY 2014 AFR to determine the amount of the CSG the station received in FY 2016.

[2] WWCI also owns and operates WFMT radio as a commercial non-CSG eligible station.

Other CPB Grants

During our audit period WTTW had two active CPB grants, one for American Graduate Engagement (to broadcast and promote national and local content and support community efforts to tackle issues impacting communities related to the dropout crises in American high schools) and the other for American Creed program production (to produce a one hour documentary for primetime broadcast on PBS that asks which ideals we as a nation hold in common via an investigation into the idea of a unifying American Creed).

As shown in Exhibit A, during our audit period WTTW received CSG, Interconnection, Universal, and other grant funds totaling $7,790,668 from CPB for FYs 2016 and 2017. The station reported NFFS of $31,936,719 in FY 2016 and $27,403,900 in FY 2017 as presented in Exhibit C. WTTW's audited financial statements for the two FYs we audited reported operating revenues of $40,360,250 in FY 2016 and $34,132,095 in FY 2017. WTTW's FY begins July 1 and ends on June 30.

RESULTS OF REVIEW

In our opinion, except for the noncompliance issues described below, WTTW has complied with the requirements in the following paragraph for the FY 2016 and 2017 CSGs and other grants that we examined.

We examined WTTW's management's assertions of compliance with CPB grant requirements: a) CSG Certification of Eligibility; b) CSG and other grant Legal Agreements; and c) AFR Signature Page. The CSG Certification of Eligibility includes WTTWs compliance with AFR/NFFS reporting in accordance with CPB's Guidelines; Act requirements for open meetings, open financial records, CAB, Equal Employment Opportunity (EEO) reporting, donor lists; and discrete accounting 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 about WTTW's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on WTTW's compliance with specified requirements.

Our audit found that WTTW:

- overstated NFFS by $5,558,152 which resulted in potential FY 2018 and FY 2019 CSG overpayments of $659,226, which we will report as funds put to better use;
- was not in full compliance with Act requirements for open meetings and documenting reasons for closed meetings; and
- claimed production grant costs that were not supported, resulting in questioned costs of $2,497, and was not in full compliance with production grant requirements.

Other Matters

Under Other Matters we discuss the need for policy guidance on how a community station should report endowment revenues it receives from its licensee on its AFR. This matter does not require corrective action for this audit.

FINDINGS AND RECOMMENDATIONS

OVERSTATED NFFS

Our audit found $5,558,152 in overstated NFFS ($3,180,364 in FY 2016 and $2,377,788 in FY 2017) reported on WTTW's AFRs. As a result, CPB made CSG overpayments of $377,208 in FY 2018 and would make potential overpayments of $282,018 in FY 2019, potentially resulting in total overpayments of $659,226. We classified the overpayments as funds put to better use for reporting purposes, because the funds overpaid to WTTW could have been distributed to other public broadcasting entities. The following table summarizes our audit findings and is followed by a separate discussion of each issue. This table is also presented in detail in Exhibit D.

Summary of Overstated NFFS

	Overstated NFFS		
Conditions	**FY 2016**	**FY 2017**	**Total**
Ineligible Payment Sources	$2,387,996	$1,528,491	$3,916,487
Membership Premium Exclusions	732,167	557,742	1,289,909
Ineligible Contribution Recipient	40,000	210,505	250,505
Ineligible In-Kind Donations	20,201	80,559	100,760
Ineligible Contribution Source (PBS)	0	491	491
Total Overstated NFFS	**$3,180,364**	**$2,377,788**	**$5,558,152**
IRR FY 2018*	0.118605164	0.118605164	
CSG Overpayment FY 2018 and FY 2019	***$377,208***	***$282,018***	***$659,226***

** We calculated the potential CSG overpayments resulting from the FY 2017 overstated NFFS using the FY 2018 IRR because the FY 2019 IRR is not yet available.*

a) Ineligible Payment Sources

WTTW reported payments of $3,916,487 in FY 2016 and FY 2017 that did not meet the source criteria for NFFS, i.e. received from state/local government or educational institution, as follows:

- $3,575,644 in production fees and licensing rights; and
- $340,843 in production/presenting fees/production reimbursement expenses.

CPB classifies revenues as either a contribution or payment for NFFS reporting purposes.

> NFFS begins with revenues reported in the financial statements, but not all revenue is NFFS … But in terms of the NFFS criteria, revenue is divided into two distinct categories: contributions and payments. With the exception of the recipient criteria (see Sec. 2.3), the criteria for contributions are not the same as the criteria for payments … A **payment,** on the other hand, is a reciprocal transfer (i.e., an exchange transaction) of cash or other assets in which each party receives and sacrifices approximately equal value.

Guidelines, Section 2.2 – Contributions vs. Payments.

> Source Criteria – The universe of eligible sources for contributions is relatively large: any source except the federal government or another public broadcasting entity, while the universe of eligible sources for payments in exchange transactions is relatively small: only eligible sources are state and local governments and educational institutions.

Guidelines, Section 2.3.2 Interpretations NFFS Criteria.

CPB guidance also clarifies that presenting station fees represent an exchange transaction (a payment) not a contribution and therefore the presenting station fee is ineligible as NFFS.

> <u>Presenting Station Fees for Introducing Programs into Public Broadcasting Distribution</u>
>
> A public broadcasting entity sometimes charges a independent program producer a fee for introducing a program into distribution among public broadcasters by acting, for example, as a "presenting station" in the PBS National Program Service. Regardless whether such fee is charged directly to and paid directly by, the independent program producer, or is simply retained by the public broadcasting entity from assets that the public broadcaster may have solicited or received from third-party underwriters on the program producer's behalf, the fee that is received or retained for introducing the program into the public broadcasting distribution represents an exchange transaction, and not a contribution. Therefore, the "Presenting Station" fee is ineligible for NFFS.

Guidelines Section 2.3.2 Interpretations NFFS Criteria.

The station claimed $3,916,487 in underwriting NFFS from contractual agreements it had with different organizations that included for-profit companies and not-for-profit entities. Station officials considered the production and/or presenting station fee payments as underwriting contributions and stated it was not a reciprocal transfer of cash whereby WTTW and the funder received equal value. Because WTTW did not consider these transactions payments, it did not identify that the sources were ineligible for NFFS purposes.

We discuss WTTW's rationale for claiming the fees as underwriting and OIG analysis of the contractual arrangements in more detail below. WTTW received:

- $3,575,644 in payments from its co-producers for the production of a 20-episode music performance series and licensing and PBS distribution of it as a national broadcast production. Station officials said that the co-producers were the major funding source for this music performance production project and that the production could not have been produced without them. However, this agreement did not identify that these payments were a contribution. Specifically, these payments included $700,000 in co-production/presenting type fees as well as licensing and merchandising rights.

- $250,843 from a local foundation that underwrote a local awards program, yet the station did not provide OIG with a contract to support the underwriting claim. We received invoices that stated payment was for production "out-of-pocket" expenses (payment for services an exchange transaction). WTTW said there was no contract between the organizations because they had a long-time trusted relationship. The foundation selects teachers for awards and WTTW has been producing the awards program for 32 years.
- $70,000 from the producer of a show for PBS distribution. The station said its responsibilities included presenting station services but said the funds received were not a fee for service payment.
- $20,000 from a local music school that funded a local music school performance which included artists from the school and was partially filmed at the school. The agreement stated these fees paid for the taping, production, and local broadcasting of the program (payment for services is an exchange transaction).

We also identified $40,000 from a third-party individual funder who underwrote a production in which WTTW was co-producer with another entity. The funding agreement included production fees paid to WTTW for its service, however WTTW deferred this portion of the revenue until FY 2018 which was not in our scope. The station should exclude the $40,000 payment on its FY 2018 AFR.

WTTW management did not agree that these funding sources should be excluded from NFFS because it said they were underwriting contributions. Further, WTTW said that, especially for the music performance series co-production, the co-producers really did not receive any additional benefit that would constitute payment for services. WTTW officials said music performance productions are unique because there is no editorial direction from the funder and the music rights are regulated by the industry. Therefore, this is not a typical co-production contract. WTTW said that its co-producers were the only funders and essentially underwrote the series.

WTTW further said although the contract granted licensing rights, the complications in obtaining those rights to exploit the audio programs would still require additional permissions from the specific music rights holders, not WTTW. Therefore, WTTW did not believe the funder was receiving reciprocal value. OIG's review of the contract found that WTTW[3] granted the co-producers rights and license to use the broadcast name trademark in the manufacture, sale, broadcast, transmission and distribution of audio and audiovisual works embodying the series. The contract also stated that the co-producers agreed to supply and WTTW agreed to purchase DVDs and CDs to market to key market stations.

Our review of these contracts identified that WTTW performed services as described on WTTW's website for TV production and presenting services for local and national public media

[3] The contract is between WWCI (the station's licensee) and the co-producers of the series.

distribution.[4] Funding for these services are considered payments per CPB guidance and the funding sources did not meet the criteria for NFFS eligibility. Further, PBS has specific language and descriptions as to who is eligible for underwriting credits; a program producer though a funder is not allowed an underwriting credit.

We determined WTTW overclaimed $3,916,487 in ineligible contract payments on its FY 2016 and FY 2017 AFRs, resulting in potential CSG overpayments of $464,516.

b) Membership Premium Exclusions

WTTW reported the cost of premiums rather than the Fair Market Value (FMV) of the premiums as required. Instructions for AFR line 10.1 membership premium exclusions provides guidance. As a result, the station overstated NFFS by $1,289,909 as shown in the table below:

Understated Membership-Premium Exclusions

AFR FY	WTTW FMV capped at max contribution	FMV Premium reported on AFR line 10.1	FMV Premium versus cost reported = overstated NFFS
FY 2016	$2,151,108	$1,418,941	$732,167
FY 2017	1,642,416	1,084,674	557,742
Total Overstated NFFS	**$3,793,524**	**$2,503,615**	**$1,289,909**

CPB Guidelines require stations to exclude from NFFS the Fair Market Value (FMV) of high-end premiums that are not of insubstantial value.

> Grantees frequently provide "thank you gifts" (a.k.a. "premiums") in exchange for membership contributions. The Internal Revenue Service describes a quid pro quo contribution as a payment a donor makes to a charity partly as a contribution and partly for goods and services (i.e., premiums) … The IRS issues guidance … in instances where the premium is not of insubstantial value ... For CPB's purposes the portion of the payment that is not considered a contribution by the IRS may not be included as NFFS.

Guidelines, AFR line 10.1 NFFS Exclusion.

The station reported the costs of its premiums on its AFRs because it said these amounts were in its general ledger and audited financial statements, and the FMV provided to the donors for tax purposes from its Team Approach system were not audited. Further, WTTW stated that "its pledge team responsible for estimating premium FMVs have been historically conservative. Some of these values, especially for DVDs, appear high given the current market. The DVD market has changed, and DVDs aren't selling for what they did even a year ago." Station management added that "it would immediately have its pledge team perform a more reasonable review of premium FMVs and it would use those amounts on its AFR report in FY 2018."

[4] WTTW website states its national production programs and series are distributed by PBS, American Public Television, the National Educational Telecommunications Association, and others.

WTTW management further said that it believes in most cases that the cost of premiums approximates FMV.

As a result of using cost instead of FMV, the station undervalued the premiums, and overreported NFFS totaling $1,289,909 in FY 2016 and FY 2017, resulting in potential CSG overpayments of $152,990.

c) Ineligible Contribution Recipient

The station reported $250,505 in contributions designated for its commercial radio station as TV contributions. The total included funds that should have been allocated to its commercial radio station when the contribution was made without restriction to either TV or radio.

CPB Guidelines define its recipient criterion as:

> The recipient criterion is the same for both contributions and payments: the recipient must be a public broadcasting entity on behalf of a public broadcasting station or stations.

Guidelines, Section 2.3.2 Interpretations.

The Guidelines also require that stations allocate revenues for joint licensees.[5]

> **Allocating Memberships for Joint Licensees**
>
> Grantees that have both radio and TV operations but for which the donor has not specified a beneficiary for their gift, must establish a methodology to allocate unrestricted membership revenues…

Guidelines, AFR line 10 Membership.

In addition, if a gift that would be on line 10 is greater than $1,000 the Guidelines indicate the donation should be on line 19.

> Line 19 - Gifts and Bequests from Major Donors
> Use this line to report gifts and bequests from major individual donors…rather than line 10…but use line 18…if the gift meets definition of line 18.

The Guidelines also state that for capital fund contributions from individuals the amounts should be reported on AFR line 18 and, if unrestricted, allocated based on some reasonable basis and supported by documentation.[6]

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[5] The Guidelines reference proper allocation of contributions that benefit joint licensee operations. Although there is not a specific reference for a commercial radio station and public broadcasting station that have a joint licensee, the intent is equitable allocation of unrestricted funds to each station benefiting from contribution to the joint entity.
[6] The Guidelines for AFR line 18 reference the allocation of unrestricted capital contribution between line 18A (facilities and equipment) and line 18B (other). The intent is equitable allocation of capital campaign funds based on a reasonable allocation method in line with the manner in which the funds were solicited.

> …For NFFS reporting purposes, a restriction may be either explicitly applied by the donor or it may be considered implicitly applied based on how the capital campaign funds were solicited….
>
> For those funds that do not have explicit donor restrictions… In the absence of such documentation the grantee will be required to divide the capital campaign funds evenly between the different projects listed in the campaign promotional materials…

We questioned $250,505 for five of the 35 transactions tested totaling $7,830,431 where the station received contributions from major donors, capital campaign and special events donors that were either restricted to its radio station or the pledges and checks were made payable to the benefit of both the TV and radio station or not specifically restricted to TV. Station development management stated that if the donation amount was not specifically allocated or restricted the station had an internal policy to allocate 80 percent to TV and 20 percent to radio. Further, a development official stated that these funds were an unrestricted gift and supported the entire organization, WWCI. Further station officials said it sometimes credits the entire gift to WTTW or WFMT, because WWCI is a non-profit organization and the gifts are unrestricted. Therefore, it said the $250,505 in unrestricted contributions was properly allocated to WTTW.

Specifically, the five donations that should not have been allocated 100 percent to WTTW consisted of:

- $20,505 from a donation that was clearly intended for its radio licensee, and the station agreed it should have been reclassified to the radio station's revenue accounts and should not have been included in WTTW's revenues or on its AFR;
- $208,000 of $1,040,000 received from two donors who pledged funds for planned-giving and capital campaign purposes for both stations and wrote checks payable to both WTTW and WFMT radio (20 percent allocation of total was ineligible); and
- $22,000 of $110,000 in special event gala donations from two donors that was solicited as supporting the entire organization, and 20 percent of the donation should have been allocated to radio since it was not specifically restricted to WTTW.

WTTW did not have a formal written policy for allocating contributions from joint fundraising events and campaigns, and it did not consistently apply its informal method to unrestricted donations to WTTW. Station management said going forward it would document its policy for splitting or crediting contributions to clearly indicate the amount credited to WTTW and/or WFMT. As a result of our testing, the $250,505 in overstated NFFS from contributions that should have been allocated to its other division, WFMT, a non-CSG recipient, resulted in a potential CSG overpayment of $29,711.

d) Ineligible In-kind Trades

We found $100,760 in overstated NFFS as well as incomplete documentation for four of the six in-kind trades we tested. (During our fieldwork WTTW received corrected donor statements for these trades, and we accepted some of these in-kind donations as eligible NFFS, but not the full amount WTTW reported on its AFR.) We identified the following ineligible in-kind trades:

- $84,000 for the exchange portion of trade for internet ads;
- $10,260 for net donor valuation less than reported; and
- $6,500 for in-kind donation used for a fundraising thank you event.

CPB Guidelines have several criteria for reporting in-kind contributions as NFFS and state:

> In order to satisfy CPB's documentation requirement the documentation must originate from the donor and it must contain the following elements: …
>
> - A description of the goods or services donated
> - The date of the donation
> - The value of the donated goods or services and the method of valuation (e.g. lawyer's hourly rate x hours worked)
> - Explicit statement of the donor's intent to donate or trade the goods or services
> - Signature, name, and title of the donor or donor's representative

Guidelines, Section 2.6.4 – Documentation Criteria for In-Kind Contributions.

> …If the grantee provides underwriters/sponsors or donors with anything other than underwriting credits (e.g., production services or studio time, etc.), the transaction is considered an *exchange* or *partial exchange transaction*. In such instances, the grantee may only include the net contribution as NFFS assuming the grantee receives greater value than what it gives…

Guidelines, Section 2.6.5 – Underwriting Trade and Sponsorship Agreements for In-kind Contributions.

> …Further, by definition advertising is an exchange transaction which does not satisfy the NFFS purpose criteria for payments, and is not eligible to be included as NFFS…

Guidelines, Section 2.5.2 Advertising and Underwriting.

The station reported its barter revenue (in-kind trades) based on the value of the underwriting spots it ran, which may or may not equal the donor's value of the donated in-kind contributions. The station provided OIG with donor valuation documentation, but for four of the six in-kind donations tested, the donors valued their contribution at the TV spot rate card value and not their own valuation of the goods provided.

During our audit fieldwork, the station requested that the donors revise their donation form to correct the valuation to the correct donor value. After receiving the corrected donation certification valuations, OIG allowed the donor contribution amount as eligible NFFS. However, one donation was used for a fundraising event and a partial donation was an exchange transaction for internet advertising, both were ineligible for NFFS.

Station management said it agreed that it should have omitted the in-kind donations traded for internet advertising because these are considered exchange transactions. The station acknowledged it had some documentation errors but still considered the NFFS reported as allowable.

As a result of claiming $100,760 of ineligible in-kind trades as NFFS the station received a potential CSG overpayment of $11,951.

e) Ineligible Contribution Source

The station reported $491 in royalty contributions from PBS that were for Direct Broadcast Satellite (DBS) distribution which is ineligible as NFFS per CPB policy.

Guidelines, Part 3, Line 2C – CPB identifies distributions from PBS National Satellite Service as revenues to be reported on AFR line 2C and excluded from NFFS. Such funds should not be reported on AFR line 15C PBS pass-through royalties. They are considered PBS funds for NFFS purposes.

> Source Criteria – The universe of eligible sources for contributions is relatively large: any source except the federal government or another public broadcasting entity, while the universe of eligible sources for payments in exchange transactions is relatively small: only eligible sources are state and local governments and educational institutions.

Guidelines Section 2.3.2 Interpretations NFFS Criteria.

WTTW was not aware that the PBS royalties it claimed as NFFS for Direct Broadcast Satellite services were ineligible as NFFS and stated it rarely receives this type of payment from PBS. The potential CSG overpayment is $58, and the station said it would correct in its future reporting.

Overall, WTTW officials stated that they recognize NFFS that is allowable and any increases in NFFS has an adverse effect on its PBS dues costs. The higher NFFS results in PBS dues greater than CSG revenue the station would receive[7]. Therefore, they would seek to reduce NFFS whenever possible.

In summary, based on our audit we identified ineligible revenues of $5,558,152 claimed as NFFS, resulting in potential CSG overpayments of $659,226 in FY 2018 and FY 2019. We report the $659,226 overpayment as funds put to better use. See Exhibit D.

Recommendations

[7] The station provided us with a PBS dues calculation showing the result of a $100,000 NFFS reduction, which would result in its PBS dues for FY 2018 being reduced $12,157. However, the additional CSG from the $100,000 would have been $11,861. Therefore the net cost to WTTW for an additional $100,000 in NFFS would be $297. WTTW explained that because it receives a higher population weight as a major market station, its PBS dues are higher than the benefit it receives from the CSG.

We recommend that CPB management take the following actions:

1) recover the potential CSG overpayment of $659,226;
2) require WTTW to identify the corrective actions and controls it will implement to ensure future compliance; and
3) ensure WTTW's FY 2018 AFR excludes the presenting station/production services payments received in FY 2018.

WTTW Response

WTTW's response to the draft report formalized its prior response to our preliminary findings which we addressed in the body of our report.[8] WTTW's response disagreed with the overstated NFFS findings for ineligible payment sources, contribution recipient (WFMT), and in-kind trades. WTTW agreed that it had reported membership premium exclusions on its AFR at cost instead of FMV and included DBS royalties from PBS as NFFS in error. Station officials believe its contracts for production and distribution of television programs are underwriting contributions and not payments and are eligible as NFFS. WTTW also stated that its parent company is a not for profit organization and any gifts it received that are not specifically restricted can be allocated to either WTTW or WFMT at management's discretion. WTTW believes the amounts credited to WTTW were proper. The station believes its in-kind trades were valid trade transactions for NFFS even though not all were properly documented. The station reiterated that its goal is to follow CPB Guidelines and that increases in NFFS have an adverse effect on its PBS dues costs, therefore it would not include ineligible revenues as NFFS.

OIG Review and Comment

WTTW's response did not provide any additional information to warrant changing our findings. Regarding WTTW's previous response to the $3,575,644 in ineligible payment sources for the musical production payments claimed as underwriting NFFS, we note that this program is identified as a PBS program on PBS's website and production credit is given to the co-producers and WTTW. In addition, WTTW is given presenting station credit. Further, the co-producers for this music series that WTTW claims are its underwriters identify this musical performance program series as one of its audiovisual services that it provides to its clients (e.g., artists performing in the series) and states it is one of its television assets. The audiovisual services are part of the co-producer's commitment to help its clients monetize their music rights and includes commissioning new video programming and offers audiovisual rights management. The co-producer exercised its non-exclusive right and license to use the program trademark on DVDs and CDs manufactured and distributed in connection with the audio and audiovisual works embodying the program series. We noted from an internet search that some of the series productions were available for online purchase and were also listed as thank your gifts on WTTW and other PBE websites. The co-producers and WTTW are credited for the production

[8] WTTW's response has minor differences in overstated NFFS amounts due to changes we made to our draft report. Specifically, from our preliminary finding amounts, we excluded $40,000 in ineligible payments that were deferred until 2018 and included $3,600 for in-kind net donor valuation errors that we reported due to a transposition error, which we corrected in our draft report.

and the co-producer is listed as the distributor on the DVDs and CDs, thus demonstrating the use of the rights and license it acquired in the production agreement with WTTW, and not supporting WTTW's claim that the fees received from the agreement are underwriting contributions.

Station management explained that it typically considers the station's web advertising as ineligible NFFS and properly excludes it on its AFR. In its response the station stated that the exchange portion of the trade for internet ads was valued at the donor's market value for rent in exchange for underwriting announcements determined by WTTW's rate card. We agree that the donor properly valued its donation based on the market rent, but that this donation was used for internet ads which WTTW defines as advertising. Therefore, it is an exchange transaction and not an underwriting contribution. We allowed the rent trade donations totaling $351,600 from this same donor for TV broadcast spot underwriting, which were considered contributions and eligible for NFFS.

Based on WTTW's response we consider recommendations one through three unresolved pending CPB's final management decision.

COMMUNICATIONS ACT COMPLIANCE

Open Meetings

WTTW did not fully comply with open meetings requirements of the Act:

- WTTW did not conduct open meetings for its committees of the board of directors; and
- the reasons for the closed meetings were not always made available to the public.

The term "meeting" is defined in Section 397 of the Act as "the deliberations of at least the number of members of a governing or advisory body, or any committee thereof, required to take action on behalf of such body or committee where such deliberations determine or result in the joint conduct or disposition of the governing or advisory body's business, or the committee's business, as the case may be, but only to the extent that such deliberations relate to public broadcasting."

For open meetings, Section 396(k)(4) of the Act states:

> Funds may not be distributed pursuant to this subsection … to the licensee or permittee of any public broadcast station, unless the governing body of any such organization, any committee of such governing body, or any advisory body of any such organization, holds open meetings preceded by reasonable notice to the public.
>
> All persons shall be permitted to attend any meeting of the board, or any such committee or body, and no person shall be required, as a condition to attendance at any such meeting, to register such person's name or to provide any other information … If any such meeting is closed pursuant to the provisions of this paragraph, the organization

involved shall thereafter (within a reasonable period of time) make available to the public a written statement containing an explanation of the reasons for closing the meeting.

Further, CPB Act certification requirements issued June 2016 define the minimum specific actions to meet this compliance as follows:

I.B. Open Meetings: Meetings that must be open to the public include, but are not limited to, the following (collectively Open Meetings):

1. board meetings;
2. board committee meetings; and
3. community advisory board (CAB) meetings.

I.C. Prerequisites for a "Meeting": In order for a gathering of board, committee or CAB members to constitute a meeting under the Act, the following are necessary:

1. the presence of a quorum; and
2. deliberations that determine or result in the joint conduct or disposition of business related to public broadcasting.

Note that deliberations do not require any formal action or vote. Any discussion of public broadcasting issues that may influence the opinions of members makes it a meeting….

I.E. Notice of Open Meetings: The act requires stations to provide the public with reasonable advance notice of an Open Meeting…

CPB Act Requirements, June 2016, Section I Open Meetings.

The Act and CPB provide allowable reasons for a meeting to be closed.

II.A. Governing Legislation: The Communication Act provides as follows:
Nothing contained in this paragraph shall be construed to prevent any such board, committee, or body from holding closed sessions to consider matters relating to individual employees, proprietary information, litigation and other matters requiring the confidential advice of counsel, commercial or financial information obtained from a person on a privileged or confidential basis, or the purchase of property or services whenever the premature exposure of such a purchase would compromise the business interests of any such organization.

II.B. When may a meeting be closed…

II.C. Closed Meeting Documentation: The Act requires stations to document and make available to the public specific reason(s) for closing a meeting within a reasonable time after the meeting. CPB also requires that the written statement be made available for inspection, either at the CSG recipients central office or posted on its station website, within 10 days after each closed meeting.

CPB Act Requirements, June 2016, Section II Closed Meetings.

The station held 37 meetings during our audit period, 19 of them were board committee meetings that were all closed to the public. The station provided advance notice of its open meetings for its eight quarterly board and ten CAB meetings. The 19 closed committee meetings represented 51 percent of all the meetings held as shown in the table below.

Summary of Meetings

Meeting Type	Meeting held	Advance Notice Open Meeting	Closed Meetings	Closed meeting reasons not made available to public
Board of Trustees	8	8	2*	0
Board Committees	19	0	19	4
CAB[9]	10	10	0	n/a
Total	**37**	**18**	**19**	**4**

**Executive session of full board meeting not considered a separate meeting.*

The station provided us with minutes for its meetings and website notices for the reasons it closed meetings and we identified the following:

- The station held committee meetings for its standing committees of the board that were not open to the public.
- The station felt that these committees all dealt with proprietary and confidential financial information and were considered closed meetings.
- The station posted the notice for the reasons for closing its committee meetings on its website for 15 of 19 meetings held.
- In addition, we identified four additional board committee meetings listed on the station's website for which we did not receive copies of the minutes and were unable to assess whether they would be subject to open or closed meeting requirements.

In our review of the 19 closed committee meeting notices and minutes, we noted that the station gave the same reason for all of its closed meetings, after it provided a general statement on what was discussed at each meeting. For example, for its Community Engagement Committee meeting on January 26, 2017, its notice stated, "a community engagement meeting was held to review WTTW engagement efforts and proprietary and confidential financial information was discussed." For a Finance Committee meeting on June 22, 2016, it stated, "a finance committee meeting was held to review year-to-date FY 16 financial results, FY 16 forecast adjustments, revenue and project planning, campaign fundraising results, staffing and employee issues, and proprietary and confidential financial information was discussed."

[9] The station was inconsistent in its method of providing advance notice for its CAB meetings. It usually broadcasted the advance notice on air as well as posting the next meeting notice on its website. However, we noted it gave only 5 days advance notice on air for CAB meetings instead of the CPB-required 7 days. In our review of some of the historical website postings, it appeared that the station had missed a few advance notices. The CAB meeting minutes were also posted on its website, and these minutes did provide notice of the next meeting, but we could not ascertain for all of the CAB meetings minutes if the notice was posted 7 days in advance. Overall, the station has methods that provide CAB open meeting notices, but occasionally one method did not meet CPB guidance compliance requirements.

All the notices included the statement "and proprietary and confidential financial information was discussed." However, in our review of the community engagement minutes, we did not conclude that meeting discussions included proprietary or confidential financial information pursuant to the Act requirement for allowable reasons for closing a meeting. And further, we noted that only 4 of the 15 committee board minutes we reviewed specifically stated the reasons for closing the meetings and included the statement that "proprietary and confidential financial information was discussed."

The Act and CPB requirements intend for CSG grantee meetings be open and transparent to the public to the greatest extent possible. We concluded at least part of most of the committee meeting discussions did not meet the requirements for a closed meeting and should have been open to the public. Further, advance notice should have been made for these committee meetings. If any portion were properly closed, pursuant to Act requirements, the station should have posted or made available of the reasons for closing.

The station did not agree with our finding and said it provided all advance notices as required for the board and CAB and that all its committee meetings included discussion involving confidential and proprietary information. A station official stated the nature of the committees are free flowing and it would be a challenge to stop and start the meeting every time a confidential item came up. WTTW said it would expand committee minutes to include the nature of the confidentiality but did not agree that these meetings should be open.

Closed Meetings

The station did not document or make available to the public the specific reasons for closing four of its committee meetings either on its website or in its meeting minutes. We also identified some periods from archived web postings where reasons for closed meeting were not made available to the public in a timely manner.

The station was not fully compliant with the Act and CPB requirements, and the public was not made aware of committee meetings of the board in advance or reasons why meetings or portions of a meeting were closed.

Recommendations

We recommend that CPB management take the following actions to require WTTW to:

4) fully comply with open meeting requirements; and
5) identify what corrective actions it will implement to ensure future compliance with Act requirements.

WTTW Response

WTTW officials did not agree with our findings that it did not comply with open meetings requirements for its board committee meetings. They assert that the station properly closed its committee meetings and provided a summary of all its closed meetings on its website on a timely basis. The station stated in its response that it would expand its committee meeting minutes to include additional information, including the nature of the confidential and proprietary information, as well as document why the meeting was closed.

OIG Review and Comment

The station's response addressed our finding regarding advance notice of its committee meetings that we concluded did not fully meet the allowable reasons for closing an entire meeting. The response did not, however, address the four closed committee meetings for which the station did not make closing reasons available to the public. Based on WTTW's response to our draft report, we consider recommendations four and five unresolved pending CPB's final management determination.

QUESTIONED COSTS – PRODUCTION GRANT NON-COMPLIANCE

Our audit found $2,497 in questioned production grant costs and noncompliance with grant terms and conditions for the CPB American Graduate and American Creed grants.

American Graduate Engagement Grant - CPB Grant No.15148

We identified $2,497 in questionable production grant costs on the CPB American Graduate Grant because reported costs were not supported by actual costs and an incorrect labor rate was applied to time charged to the grant, as shown in the table below:

Questioned American Graduate Grant Costs

CPB Grant No. 15148	Questioned Costs		
American Graduate	**Direct**	**Indirect**	**Total Questioned**
Unsupported Costs	$1,325	$111	$1,436
Producer Rate Overstated	979	82	1,061
Total Questioned Costs	**$2,304**	**$193**	**$2,497**

CPB grants include terms and conditions for authorized uses of funds and accurate grant reporting.

> F. Authorized Uses of CPB Funds. No Grantee may apply amounts received under a Grant to any purpose other than actual costs incurred in the performance of the Grant Project in accordance with its Budget.
>
> M. Inaccurate Reporting. In the event that CPB discovers any inaccuracies in reporting of financial information, or any improper use of funds provided by CPB, whether reported by Grantee or discovered during the course of the audit by the Office of Inspector General or otherwise, CPB may recover any overpayment, in addition to any other right and remedies CPB may have…

CPB's Terms and Conditions for Television, Radio and Other Media Production Grants, Section 4. Budget and Financial Reporting.

The station reconciled the financial report it certified and submitted to CPB by budget categories. The reconciliation reflected a variance in direct costs that were reported but not supported by costs in its general ledger. Station management said it did not have an explanation for the unsupported cost variance.

A station financial manager said that the associate producer rate was calculated similar to other rates such as the engineers and that lunch was a benefit to be included in the rate calculation. However, we determined that the station understated the base hours in the rate calculation, which effectively increased the standard billing rate by $4.18 per hour. The producer charged 234 hours in FY 2016 during our audit period tested, which resulted in OIG questioned costs of $1,061 (direct $979 plus indirect $82) for the project grant.

As a result of unreconciled costs and rate errors, WTTW was overpaid by $2,497 for the overstated American Graduate grant expenditures it reported.

American Creed Grant No. 34575 TVP

WTTW did not incur direct expenses on the American Creed grant during our audit period however, we identified the following grant noncompliance issues during our fieldwork:

- Co-production agreement did not include subcontractor CPB audit access clauses;
- Budgeted indirect costs were not supported by actual costs; and
- Indirect costs were budgeted on third party costs over $25,000, contrary to CPB's policy.

CPB's grant terms and conditions require grantees to allow CPB audit access and to calculate indirect costs based on CPB approved indirect cost rate methodologies.

> B. Subcontracts. A Grantee must include in any and all subcontracts or other delegation contracts a provision that will effectuate the Grantee's obligations to CPB. Any subcontracts or other delegation contracts must also allow CPB and the Comptroller General of the United States or their representative's access to and the right to examine and audit pertinent books, documents, papers and records of such contractor or assignee involving the Grant Project for three (3) years following the final disbursement by CPB under the Grant Agreement.
>
> C. Conditions Attached to CPB Funds. As a condition of the distribution of funds by CPB and to Grantee hereunder ("CPB Funds"), including funds distributed by Grantee to a delegee or subcontractor, Grantee shall include in any production agreement funded by Grantee with CPB Funds.
>
> > … iv) a provision requiring that Subgrantees provide for CPB audit rights, as well a requirement that sub-grantees to maintain their general ledger and other records in detail sufficient to account for project level activities and which will provide an audit

> trail enabling CPB to verify the investment of CPB funds in the approved expenses of particular funded projects …

CPB's Terms and Conditions for Television, Radio and Other Media Production Grants, Section 8. Delegation and Subcontracts.

CPB's Indirect Cost Policy requires a station to identify the method it uses for calculating indirect costs charged to CPB grants. WTTW reported that it was using CPB's Rate method.

> Method 3. Use the CPB Treatment to calculate an indirect cost rate ("CPB Rate"). This calculation must be based upon the organization's most recent annual financial statements reviewed by a public accounting firm…
>
> Under Method 3, the following apply: …
>
> b. The detailed expense accounts that comprise the cost pools of the CPB Rate calculation, as well as the direct cost accounts that comprise the allocation base, must be directly traceable to general ledger accounts that reconcile to the organization's financial statements…The departments, activities, projects, specific adjustments and any adjustments needed to arrive at each cost pool must be fully documented at the time the grant is negotiated.
>
> c. The CPB Rate in effect at the time that the Agreement is signed applies for the full term of the Agreement, provided that the grantee's actual costs have not decreased…
>
> <u>Third-Party costs</u>
>
> "Third-Party Costs" include the costs of any acquired content (in whole or in part) or the outsourced performance of any grant obligation or element of the project. With regard to charging indirect costs applied to Third-Party Costs.
>
> 1) The organization may elect to charge no indirect costs on the Third-Party Costs.
> 2) If organization has applied a FICR to the project, it is allowed to apply its indirect cost rate to a maximum of $25,000 in Third-Party Costs for each third party…
> 3) If the organization has applied a CPB Rate to the project, the organization may:
>   a. use the same approach as set forth for the Federal limit…or
>   b. Develop and apply a Custom Acquisition Rate ("CAR")…
>
> CPB Indirect Cost Policy – updated March 24, 2014.

A station financial manager stated that the station would revise future reports to CPB to reflect the correct indirect cost rate that was supported by its general ledger actual costs. The actual rate was 11.1 percent versus the budgeted rate of 15 percent. In addition, the station would address the indirect costs budgeted and claimed on the Third-Party costs and make corrections as required per CPB policy. OIG estimated that the revised rate would reduce CPB's grant amount by $37,445 and the total project budget by $211,444.

WTTW management stated that its co-production agreement includes audit access and rights to review its subcontractor/co-producer's records but agreed that it could amend its agreement to ensure it will be fully compliant with CPB's terms and conditions

WTTW was not fully compliant with grant terms and conditions and CPB's indirect cost policy, which resulted in CPB not having access to subcontractor records, project costs being overstated, and potential grant overpayments. WTTW agreed with our findings and said it would take corrective action.

Recommendations

We recommend that CPB management take the following actions:

6) recover the $2,497 in questioned American Graduate grant costs;
7) ensure WTTW corrects its indirect cost rate on its American Creed financial reports and updates its subcontracts to include CPB audit access; and
8) require WTTW to identify the corrective actions it will implement to ensure future compliance with all CPB grant agreements, including revising budget estimates.

WTTW Response

WTTW stated in its response that it agreed with our findings. The station said it would amend future agreements to allow CPB audit access and would adjust its indirect cost rate based on actual (vs budget) costs.

OIG Review and Comment

The station stated that it agreed with our findings but did not specifically address repaying the questioned costs or adjusting the indirect cost rate for third party costs. Based on WTTW's response, we consider recommendations six, seven, and eight resolved pending CPB's final management determination accepting WTTW's corrective actions and recovery of questioned costs.

OTHER MATTERS

During our audit, we found that WTTW reported an annual appropriation from endowments[10] from its licensee WWCI on AFR line 8 for NFFS received from foundations and nonprofit associations. In FY 2016 the station reported a net endowment transfer of $1,077,452 on AFR Line 8.1.E - "Other income eligible as NFFS" and in FY 2017 $1,014,441 on Line 8.1.B –

[10] Per footnote 13 of WWCI's FY 2017 AFS, "WWCI's endowment consists of twelve individual funds and includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments." These board designated funds are referred to by management as Quasi-endowment funds.

Grants and contributions other than underwriting." WWCI, the licensee, is primarily a public broadcasting entity (PBE), and CPB requires funds from PBEs to be reported on AFR Line 2.F and deducted from NFFS.

WWCI is a nonprofit entity defined in its annual financial statement as the owner and operator of WTTW, a public TV station and media production center and WFMT, a commercial FM fine arts radio station and production center and distributor. WWCI is primarily engaged in the production, acquisition, distribution and dissemination of educational and cultural TV programs, which by CPB's definition would be a PBE. The majority of its revenues are generated from WTTW. Therefore, reporting the endowment transfer from a nonprofit when the licensee meets the definition of a PBE is misleading. However, because the actual source of the funds was determined to be from WWCI's quasi endowment funds set up with the proceeds from the sale of a magazine in the 1980s and other WTTW restricted endowments, the funds would be allowable NFFS as long as they were not previously reported as endowment contributions or interest and dividends on the stations AFR.

WWCI's board annually approves an operating transfer from the endowments calculated based on a spending rate times the FMV of its endowment funds in line with its managed investment returns. In FY 2016 and FY 2017, the board approved a 4 percent operating transfer. OIG calculated that WWCI's actual interest and dividends on these funds approximated the operating transfer. We note that the transfer should not include realized and unrealized gains, which are not eligible for NFFS per AFR line 17 C and 17 D and are automatically deducted on AFR line 27 F. OIG requested but did not receive a specific reconciliation of endowment earnings to the operating transfer and AFR reporting from the station.

WTTW records its portion of the transfer as revenue from the annual endowment appropriation and expenses the portion related to its WTTW restricted endowments. It deducts the WTTW portion from the amount reported on the AFR because it already included the WTTW restricted interest and dividends as actual earnings in its financial statement and on AFR line 17, "Endowment revenue." WTTW did not include the contribution to principal or endowment earnings for the quasi endowment as revenue or NFFS. Therefore, it did not double count the NFFS.

OIG does not consider this condition to be a significant reporting issue because after our analysis we determined that the source of the funds was from endowment earnings (dividends and interest) that were not previously reported as NFFS. However, we question whether these funds should be reported on AFR line 8 as a contribution from foundations and nonprofits. WTTW's reporting of the annual appropriation is similar to a university or government station receiving an appropriation from its licensee, for which CPB provides reporting guidance. Because there is no CPB guidance on how to report this type of transfer for a community licensee, we believe that the station should report the appropriation transfer on the AFR based on the original source of the funds, endowment earnings on AFR line 17 and that CPB should consider providing additional guidance for reporting such endowment appropriation transfers.

EXHIBIT A

CPB GRANT PAYMENTS TO WTTW
July 1, 2015 through June 30, 2017

CPB Grant	FY 2016	FY 2017	Total
Community Service Grant	$3,511,349	$4,008,153	$7,519,502
Interconnection	64,396	75,798	140,194
Universal Service		4,941	4,941
Total WTTW - TV	**$ 3,575,745**	**$4,088,892**	**$7,664,637**
Other Grants			
American Graduate No. 15148	$100,000	$26,031	$ 126,031
Total Other Grants	**$100,000**	**$26,031**	**$ 126,031**
Total CPB Grants	**$3,675,745**	**$4,114,923**	**$7,790,668**

EXHIBIT B

WTTW Annual Financial Reports

Line	Description	2016	2017
	Schedule A		
	Source of Income		
1	Amounts provided directly by federal government agencies	$1,726,514	$1,714
	A. Grants for facilities and other capital purposes	0	0
	B. Department of Education	1,726,514	0
	C. Department of Health and Human Services	0	0
	D. National Endowment for the Arts and Humanities	0	0
	E. National Science Foundation	0	0
	F. Other Federal Funds	0	1,714
2	Amounts provided by Public Broadcasting Entities	4,056,052	4,380,781
	A. CPB - Community Service Grants	3,575,745	4,088,892
	B. CPB - all other funds from CPB	72,031	0
	C. PBS - all payments except copyright royalties and other pass through payments.	383,146	285,997
	D. NPR - all payments except pass-through payments	0	0
	E. Public broadcasting stations - all payments	20,130	5,300
	F. Other PBE funds	5,000	592
3	Local boards and departments of education or other local government or agency sources	0	6,404
3.1	NFFS Eligible	0	6,404
	A. Program and production underwriting	0	6,329
	B. Grants and contributions other than underwriting	0	75
3.2	NFFS Ineligible	0	0
4	State boards and departments of education or other state government or agency sources	11,612	28,880
4.1	NFFS Eligible	11,612	28,880
	A. Program and production underwriting	11,612	28,880
5	State colleges and universities	70,014	66,375
5.1	NFFS Eligible	0	0
	A. Program and production underwriting	0	0
	C. Appropriations from the licensee	0	0
5.2	NFFS Ineligible	70,014	66,375
	A. Rental income	66,375	66,375
	C. Licensing fees (not royalties-see instructions for Line15)	3,570	0
	E. Other income ineligible for NFFS inclusion	69	0
6	Other state-supported colleges and universities	4,746	4,873
6.1	NFFS Eligible	0	651
	A. Program and production underwriting	0	651
6.2	NFFS Ineligible	4,746	4,222
	E. Other income ineligible for NFFS inclusion	4,746	4,222
7	Private colleges and universities	295,693	168,439
7.1	NFFS Eligible	164,217	164,459
	A. Program and production underwriting	164,217	163,459
	B. Grants and contributions other than underwriting	0	1,000
7.2	NFFS Ineligible	131,476	3,980
	B. Fees for services	131,476	0
	E. Other income ineligible for NFFS inclusion	$0	$3,980

EXHIBIT B (CONTINUED)

Line	Description	2016	2017
8	Foundations and nonprofit associations	$4,311,339	$3,572,748
8.1	NFFS Eligible	4,204,056	3,470,457
	A. Program and production underwriting	2,391,105	2,102,654
	B. Grants and contributions other than underwriting	735,499	1,367,803
	E. Other income eligible as NFFS (specify)	1,077,452	0
8.2	NFFS Ineligible	107,283	102,291
	B. Fees for services	77,538	72,834
	C. Licensing fees (not royalties-see instructions for Line 15)	0	1,985
	E. Other income ineligible for NFFS inclusion	29,745	27,472
9	Business and Industry	4,589,598	3,915,660
9.1	NFFS Eligible	4,098,205	3,375,755
	A. Program and production underwriting	4,061,832	3,328,947
	B. Grants and contributions other than underwriting	34,216	44,300
	E. Other income eligible as NFFS (specify)	2,157	2,508
9.2	NFFS Ineligible	491,393	539,905
	B. Fees for services	266,440	350,128
	C. Licensing fees (not royalties-see instructions for Line15)	124,976	86,199
	E. Other income ineligible for NFFS inclusion	99,977	103,578
10	Memberships and subscriptions	14,802,046	14,750,613
10.1	NFFS Exclusion – Fair market value of premiums that are not of insubstantial value	1,418,941	1,084,674
	Form of Revenue		
14	Special fundraising activities - net	869,223	934,873
	A. Gross special fundraising revenues	1,193,557	1,241,130
	B. Direct special fundraising expenses	324,334	306,257
15	Passive Income	247,190	180,097
	A. Interest and dividends (other than on endowment funds)	159,672	51,175
	B. Royalties	30,149	22,913
	C.PBS or NPR pass-through copyright royalties	57,369	106,009
16	Gains and losses on investments, charitable trusts and gift annuities and sale of other assets (other than endowment funds)	(134,853)	252,496
	A. Gains from sales of property and equipment (do not report losses)	5,309	(19,147)
	B. Realized gains/losses on investments (other than endowment funds)	(7,624)	57,588
	C. Unrealized gains/losses on investments and actual gains/losses on charitable trusts and gift annuities (other than endowment funds)	(132,538)	214,055
17	Endowment revenue	252,630	1,239,376
	A. Contributions to endowment principal		30,150
	B. Interest and dividends on endowment funds	146,528	169,060
	C. Realized net investments gains and losses on endowment funds (if this a negative amount add a hyphen, e.g. "-1,765")	232,294	241,114
	D. Unrealized net investments gains and losses on endowment funds (if this negative amount add a hyphen, e.g. "-1,765")	(126,192)	799,052
18	Capital fund contributions from individuals	6,571,706	2,958,402
	B. Other	6,571,706	2,958,402
19	Gifts and bequests from major individual donors	1,920,783	2,051,777
20	Other Direct Revenue	68,558	90,344
22	**Total Revenue** (Sum of lines 1 through 12, 13.A,14.A and 15 through 21)	**$39,987,185**	**$34,910,109**

EXHIBIT B (CONTINUED)

Line	Description	2016	2017
	Adjustments to Revenue		
23	Federal revenue from line 1.	$1,726,514	$1,714
24	Public broadcasting revenue from line 2.	4,056,052	4,380,781
25	Capital funds exclusion - TV (3.2D, 4.2D, 5.2D, 6.2D, 7.2D, 8.2D, 9.2D, 18A)	0	0
26	Revenue on line 20 not meeting the source, form, purpose, or recipient criteria	68,558	90,344
27	Other automatic subtractions from total revenue	2,519,436	3,400,366
	B. Special fundraising event expenses-limited to the lesser of lines 14a or 14 b	324,334	306,257
	C. Gains from sales of property and equipment-line 16a	5,309	(19,147)
	D. Realized gains/losses on investments (other than on endowment funds) -line 16b	(7,624)	57,588
	E. Unrealized investments and actual gains/losses (other than endowment funds) - line 16c	(132,538)	214,055
	F. Realized and unrealized net investment gains/losses on endowment funds - line 17c, line 17d	106,102	1,040,166
	G. Rental income (3.2A, 4.2A, 5.2A, 6.2A, 7.2A, 8.2A, 9.2A)	66,375	66,375
	H. Fees for services (3.2B, 4.2B, 5.2B, 6.2B, 7.2B, 8.2B 9.2B)	475,454	422,962
	I. Licensing Fees (3.2C,4.2C,5.2C,6.2C,7.2C,8.2C,9.2C)	128,546	88,184
	J. Other revenue ineligible as NFFS (3.2E,4.2E,5.2E,6.2E,7.2E,8.2E,9.2E)	134,537	139,252
	K. FMV of high-end premiums (Line 10.1)	1,418,941	1,084,674
28.	**Total Direct Non-Federal Financial Support**	**31,616,625**	**27,036,904**
2	GENERAL OPERATIONS SERVICES (must be eligible as NFFS)	215,700	219,900
	A. Annual rental value of space (studios, offices, or tower facilities)	215,700	219,900
3	OTHER SERVICES (must be eligible as NFFS)	104,394	147,096
	C. Local advertising	104,394	147,096
4	Total in-kind contributions-services and other assets eligible as NFFS (sum of lines 1 through 3), forwards to Line 3a. of the Summary of Nonfederal Financial Support	320,094	366,996
5	IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	93,870	95,790
	D. Fundraising related activities	93,870	95,790
6	Total in-kind contributions-services and other assets eligible as NFFS (sum of lines 4 plus line 5), forwards to Schedule F, line 1c. Must agree with in-kind contributions recognized as revenue in the AFS	413,964	462,786
	Schedule D		
7	IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	22,417	7,937
	c) TV only -property and equipment that includes new facilities (land and structures), expansion of existing facilities and acquisition of new equipment	22,417	7,937
8	Total in-kind contributions-property and equipment (line 6 plus line 7), forwards to Schedule F line 1d. Must agree with in-kind contributions recognized as revenue in the AFS.	$22,417	$7,937

EXHIBIT B (CONTINUED)

Line	Description	2016	2017
TV	**Schedule E - EXPENSES**		
	PROGRAM SERVICES		
1	Programming and production	$14,117,448	$10,464,820
	A. TV CSG	3,511,349	4,013,094
	B. TV Interconnection	64,396	75,798
	C. Other CPB Funds	72,031	0
	D. All non-CPB Funds	10,469,672	6,375,928
2	Broadcasting and engineering	11,230,038	12,083,452
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	11,230,038	12,083,452
3	Program information and promotion	125,231	115,216
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	125,231	115,216
	SUPPORT SERVICES		
4	Management and general	4,185,004	4,310,797
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	4,185,004	4,310,797
5	Fundraising and membership development	7,533,649	7,040,697
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	7,533,649	7,040,697
6	Underwriting and grant solicitation	1,709,240	1,523,252
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	1,709,240	1,523,252
7	Depreciation and Amortization if not allocated	0	0
8	**Total Expenses (sum of lines 1 to 7) must agree with audited financial statements**	**38,900,610**	**35,538,234**
	A. Total TV CSG (sum of lines 1.A, 2.A, 3.A, 4.A, 5.A, 6.A, 7.A)	3,511,349	4,013,094
	B. Total TV Interconnection CSG (sum of lines 1.B, 2.B, 3.B, 4.B, 5.B, 6.B, 7.B)	64,396	75,798
	C. Total Other CPB Funds (sum of lines 1.C, 2.C, 3.C, 4.C, 5.C, 6.C, 7.C)	72,031	0
	D. Total All non-CPB Funds (sum of lines 1.D, 2.D, 3.D, 4.D, 5.D, 6.D, 7.D)	35,252,834	31,449,342
9	INVESTMENT IN CAPITAL ASSETS		
	Total capital assets purchased or donated	1,741,620	1,145,963
	a. Land and buildings	318,636	327,430
	b. Equipment	1,422,984	818,533
10	**Total expenses and investment in capital assets**	**$40,642,230**	**$36,684,197**

EXHIBIT C

WTTW Summary of Non-Federal Financial Support
For the Periods Ending June 30, 2016 and June 30, 2017
Certified by Head of Grantee and Independent Accountant's Report

Line	Description	FY 2016	FY 2017	Total
	Summary of Non-Federal Financial Support:			
1	Direct Revenue (Schedule A)	$31,616,625	$27,036,904	$58,653,529
2	Indirect Administrative (Schedule B)			
3	In-kind Contributions			
	a. Services and Other Assets (Schedule C)	320,094	366,996	687,090
	b. Property and Equipment (Schedule D)			
4	**Total Non-Federal Financial Support**	**$31,936,719**	**$27,403,900**	**$59,340,619**

EXHIBIT D

WTTW Overstated NFFS

		Overstated NFFS		Total
Conditions	**AFR line**	**FY 2016**	**FY 2017**	
Ineligible Payment Sources				
Source A	9.1A	$2,132,100	$1,443,544	$3,575,644
Source B	8.1A	165,896	84,947	250,843
Source C	9.1A	70,000	-	70,000
Source D	8.1A	20,000	-	20,000
Total Ineligible Payment Sources		**$2,387,996**	**$1,528,491**	**$3,916,487**
Membership Premium Exclusions	**10.1**	**$ 732,167**	**$557,742**	**$1,289,909**
Ineligible Recipient				
Major Donors				
Donor A	19	$ 0	$20,505	$ 20,505
Donor B	19	0	168,000	168,000
Capital Campaign				
Donor C	18B	40,000	0	40,000
Special Events				
Donor D	14	0	2,000	2,000
Donor E	14	0	20,000	20,000
Total Ineligible Contribution		**$40,000**	**$210,505**	**$250,505**
Ineligible In-kind Donation				
Barter A	AFR C	$42,000	$42,000	$84,000
Barter B	AFR C	-	27,680	27,680
Barter C	AFR C	(28,299)	10,879	(17,420)
Barter D	AFR C	6,500	-	6,500
Total Ineligible In-Kind Donation		**$20,201**	**$ 80,559**	**$100,760**
Ineligible Contribution Source				
PBS DBS Royalties	15C	$0	$491	$491
Total Ineligible Contribution Source		**$0**	**$491**	**$491**
Total Overstated NFFS		**$3,180,364**	**$2,377,788**	**$5,558,152**
IRR FY 2018		0.118605164	0.118605164	
CSG Overpayment*		***$377,208***	***$282,018***	***$659,226***

** We calculated the CSG overpayment using the FY 18 IRR for both years as the FY19 rate is not yet available.*

EXHIBIT E

American Graduate Engagement Grant – No. 15148
Final Financial Report and Questioned Costs
March 31, 2016

WTTW Reported				OIG
Budgeted Item	**Budget**	**Actual**	**$ Variance**	**Questioned Costs**
Revenues				
CPB*	$200,000	$160,000	$40,000	
Total Revenues	**$200,000**	**$160,000**	**$40,000**	
Expenses				
Production	$58,383	$54,684	$3,699	$1,074
Community Engagement Activities	25,446	28,708	(3,262)	131
Promotion	11,000	8,666	2,334	246
Staffing	80,471	73,433	7,038	
Research	1,000	-	1,000	
Evaluation	1,350	-	1,350	
Travel	5,350	6,124	(774)	853
Indirect Costs	17,000	14,416	2,584	193
Total Expenses	**$200,000**	**$186,031**	**$13,969**	**$2,497**

**Actual amount WTTW received from CPB at time of final report.*

EXHIBIT F

SCOPE AND METHODOLOGY

We performed an attestation examination to determine WTTW's compliance with CPB Guidelines, provisions of the Act, grant certification requirements, and other grant provisions. The scope of the audit included reviews and tests of the information reported by WTTW on its AFRs and final financial report that we reconciled to audited financial statements for the years ending June 30, 2016 and June 30, 2017; grant certifications of compliance with Act requirements; and certifications on its financial reports submitted to CPB.

We tested the allowability of NFFS claimed on WTTW's AFRs by performing financial reconciliations and comparisons to WTTW's underlying accounting records (general ledger) and the audited financial statements. We reviewed underwriting, grant agreements, capital campaign pledges, endowment transfers, and other documentation supporting revenues reported. Specifically, we reviewed NFFS revenue transactions totaling $8,667,988 of the $31,936,719 reported in FY 2016 and $ 8,781,755 of the $27,403,900 reported in FY 2017.

We reviewed the allowability of expenses WTTW charged to the CSGs received from CPB during FYs 2016 and 2017. To determine whether WTTW incurred CSG expenditures in accordance with grant terms, we reviewed 100 percent of the $7,664,637 of expenses incurred by WTTW during our audit period.[11] For these expenses, we reviewed supporting documentation, including invoices, proof of payments, and other documentation to support these expenses.

We also reviewed other production and engagement grant expenditures and compliance with grant requirements. We judgmentally selected transactions for FY 2016 grant expenditures for the American Graduate grant No. 15148 for compliance with grant requirements and reviewed indirect cost rates and other grant compliance terms for both American Graduate and American Creed grants.

We reviewed policies, records, and documents supporting the station's compliance with the Act's requirements to provide advance notice of public meetings; make financial and EEO information available to the public; and safeguard donor lists. We also reviewed WTTW'S website to determine its compliance with CPB's transparency requirements. Our procedures included interviewing station officials and its independent public accountant.

We gained an understanding of internal controls over the preparation of AFRs, revenue recognition, cash receipts, and cash disbursements. We also gained an understanding of WTTW's policies and procedures for compliance with certification of eligibility requirements, Communication Act, and CPB grant agreement terms for allowable costs. We used this information to assess risks and plan the nature and extent of our testing to conclude on our objectives.

[11] WTTW expends all CSG, Interconnection, and Universal grant awards on PBS dues, which are greater than the CSG awards.

We conducted fieldwork from March 5 through June 15, 2018. We performed our audit in accordance with the *Government Auditing Standards* for attestation examinations.

EXHIBIT G

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wttw | wfmt

Sandra Cordova Micek
President & CEO
smicek@wttw-wfmt.com

September 18, 2018

William J. Richardson III
Deputy Inspector General
Corporation for Public Broadcasting
Sent via email: brichardson@cpb.org

Dear Mr. Richardson,

This letter is to inform you that we have received and reviewed your draft audit report and transmittal letter. We are submitting this response to the draft report which we understand will be attached to your final report to CPB.

Our response from July remains unchanged and we are re-submitting it (attached) as an official submission. Should you have any questions please contact myself at (312) 218-1676/smicek@wttw-wfmt.com or our controller, [redacted].

Thank you,

Sandra Micek
President and CEO, WWCI, Inc.

July 5, 2018

WTTW TV – CPB OIG Audit - Preliminary Observations
WTTW Management Reply

I. OVERSTATED NFFS

a) Ineligible Payment Sources

WTTW reported payments of $3,956,487 in FY 2016 and FY 2017 that did not meet the source criteria for NFFS, i.e. received from state/local government or educational institution, as follows:

- $3,575,644 in production fees and licensing rights; and
- $380,843 in production/presenting fees/production reimbursement expenses.

WTTW Management Reply

WTTW believes each item is a contribution for the production and distribution of a television program.

[redacted] - $3,575,644 – WTTW's co-production agreement with [redacted], like all co-production and underwriting agreements, describes the program, in this case 20 episodes of [redacted], WTTW's music performance series. The agreement also describes each co-production partner's responsibilities. WTTW's responsibilities include presenting station services, but it's not a fee for service payment. WTTW owns the [redacted] trademark and has produced hundreds of episodes for PBS audiences dating back to the 1970's. The amount noted above was a contribution to support the [redacted] series production. It was not a reciprocal transfer of cash, whereby WTTW and [redacted] received approximate equal value. The majority of the contribution was used to fund the cost of production. The series is taped in WTTW's [redacted] Studio on the WTTW Chicago campus, with WTTW technical and production staff. WTTW receives PBS broadcast distribution rights, and the [redacted] series is distributed via PBS at no charge to PBS or member stations.

[redacted] - $250,843 – WTTW has produced and broadcast [redacted] on WTTW for 33 years. [redacted] selects the award-winning educators, and contributes a portion of the production cost, equaling WTTW's out of pocket costs. The [redacted] contribution was not a reciprocal transfer of cash, and WTTW did not receive approximate equal value. We've worked with [redacted] for so long, and have a strong, trusting relationship, that a written co-production agreement has never been needed.

[redacted] - $130,000 – all of the items were contributions to support the production and distribution of the [redacted] on WTTW, [redacted] on WTTW and the public TV system. There was no reciprocal transfer of cash, and WTTW did not receive approximate equal value. WTTW's responsibilities include presenting station services for [redacted] and [redacted], but it was not a fee for service payment.

b) Membership Premium Exclusions

WTTW reported the cost of premiums not the Fair Market Value (FMV) as required for AFR line 10.1 membership premiums on its AFRs overstating NFFS by $1,289,909 as shown in the table below:

Understated Membership -Premium Exclusions

AFR FY	WTTW FMV capped at max contribution	FMV Premium reported on AFR line 10.1	FMV Premium versus cost reported = overstated NFFS
FY 2016	$2,151,108	$1,418,941	$732,167
FY 2017	1,642,417	1,084,674	557,743
Total	**$3,793,525**	**$2,503,615**	**$1,289,910**

WTTW Management Reply
WTTW's accounting system doesn't capture the FMV of membership premiums. The FMV is reported to each contributing member, and listed in our membership database. WTTW's accounting system ***does*** capture the cost of all membership premiums, and that cost was reported a reduction of NFFS in the CPB AFR. We believe in most cases the cost of a membership premium approximates FMV. We believe the FMV of most custom, only-available-on-WTTW membership premiums, are at best difficult, maybe impossible, to estimate, and not as supportable as cost. Our membership department uses similar products to determine premium FMV, and I believe they are appropriately conservative in estimating FMV of premiums, so as not to risk overstating the tax deductibility of a member's donation. While I believe premium cost is a better, and more supportable amount, WTTW will review the premium FMV determination process with our membership department, and will use FMV of premiums to reduce NFFS going forward.

Note that a higher NFFS ***costs*** WTTW. Higher NFFS results in PBS dues greater than CSG revenue. Every $100,000 of additional NFFS costs WTTW $297. See EX A. So if WTTW used premium FMV and reduced NFFS, WTTW would have ***saved*** $3,831. If our goal was to maximize our CSG, and reduce PBS dues, we would seek to reduce NFFS whenever possible. WTTW's goal is to follow the CPB Financial Reporting Guidelines.

c) Ineligible Contribution Recipient

The station reported $250,505 in contributions designated for its commercial radio station as TV contributions. The total included funds that should have been allocated to its commercial radio station when the contribution was made without designation to either TV or radio.

WTTW Management Reply
Window to the World Communications, Inc. (WWCI) is the 501c3 non-profit parent of divisions

WTTW, the non-commercial PBS station, and WFMT, our classical music station. WFMT is not a public radio station. Contribution made to WWCI, the non-profit parent, are tax deductible to the donor. The majority of the time, a donor's intent is clearly known, either because of the relationship, a donor's interest, or the intent is clearly indicated when the contribution is received. If WFMT is clearly noted as the donor's intent, we credit those donations to WFMT. On a small number of donations, usually from donors close to the organization, the intent is not always clearly noted. In cases where the intent isn't clearly noted, and the gift is unrestricted, we have an internal, unwritten, policy of splitting the gift 80/20 between WTTW and WFMT, or, because WWCI is the 501c3 non-profit, we sometimes credit 100% of the gift to WTTW or WFMT. We believe the $250,050 in unrestricted contributions noted above were properly credited. As noted above, higher NFFS results in PBS dues greater than CSG revenue. Every $100,000 of additional NFFS costs WTTW $297. See EX A. WTTW's goal is to follow the CPB Financial Reporting Guidelines.

Going forward, we will document our policy for splitting or crediting contributions, and will clearly indicate the amount credited to WTTW and/or WFMT.

d) Ineligible In-kind Trades

We found $97,160 in overstated NFFS as well as incomplete documentation (4 of 6) for the trades we tested. (During our fieldwork WTTW received corrected donor statements for these trades, and we accepted some of these in-kind donations as eligible NFFS, but not the full amount WTTW reported on its AFR):

- $84,000 for exchange portion of trade for internet ads;
- $6,500 for in-kind donation used for a fundraising thank you event; and
- $6,660 for net donor valuation less than reported.

WTTW Management Reply
The $84,000 for exchange portion of trade on wttw.com is with our transmitter and antenna landlord, [redacted]. The amount of underwriting provided on wttw.com is based on the market value discount of rent, determined by our landlord. The rate card is used to determine the number of underwriting announcements. We believe this is a valid exchange transaction for NFFS reporting purposes. And as noted above, higher NFFS results in PBS dues greater than CSG revenue. Every $100,000 of additional NFFS costs WTTW $297. See EX A. WTTW's goal is to follow the CPB Financial Reporting Guidelines.

We agree that we didn't satisfy the CPB Guidelines for documentation on the $6,500 in-kind donation, and $6,660 net donor valuation reduction, but we believe they were both valid exchange transactions for NFFS reporting purposes. And, as noted above, higher NFFS results in PBS dues greater than CSG revenue. Every $100,000 of additional NFFS costs WTTW $297. See EX A. WTTW's goal is to follow the CPB Financial Reporting Guidelines.

e) Ineligible Contribution Source

The station reported $491 in royalty contributions from PBS that were for Direct Broadcast Satellite (DBS) distribution which is ineligible as NFFS per CPB policy.

WTTW Management Reply
We agree. We don't normally receive DBS royalties from PBS, and we mistakenly classified this as NFFS.

II. COMMUNICATIONS ACT COMPLIANCE

Condition

Open Meetings

WTTW did not fully comply with open meetings requirements of the Act.

- WTTW did not conduct open meetings for its committees of the board of directors; and
- The reasons for the closed meetings were not always made available to the public.

WTTW Management Reply
WTTW regularly provides required, advance notice to all quarterly board of trustee and community advisory board meetings. Board committee meetings include discussion of confidential and proprietary information, such as planned major donor and underwriting solicitations and the amount of planned asks; recent gifts that many donors request not be publicly disclosed; production contract terms, fees and rights; investment performance by manager and potential fund management changes. We post a summary of all closed committee meetings on wttw.com on a timely basis. We will expand committee meeting minutes to include the nature of confidential and proprietary information being discussed, and document in the minutes why the meeting is closed

III. QUESTIONED COSTS – PRODUCTION GRANT NON-COMPLIANCE

Condition

American Graduate Engagement Grant -CPB Grant #15148

We identified $2,497 in questionable production grant costs on the CPB American Graduate Grant because reported costs were not supported by actual costs and an incorrect labor rate was applied to time charged to the grant, as shown in table below:

Questioned American Graduate Grant Costs

CPB Grant 15148	Questioned Costs		
American Graduate	**Direct Cost**	**Indirect**	**Total Questioned**
Unsupported Costs	$1,325	$111	$1,436
Producer rate overstated	979	82	1,061
Total Questioned Costs	**$2,304**	**$193**	**$2,497**

American Creed Grant #34575 TVP

WTTW did not incur direct expenses on the American Creed grant during our audit period however, we identified the following grant compliance issues during our fieldwork:

- Co-production agreement did not include subcontractor CPB audit access clauses;
- Budgeted indirect costs not supported by actual costs; and
- Indirect costs were budgeted on third party costs over $25,000 contrary to CPB's policy.

WTTW Management Reply

We agree. We will amend future co-production agreements to allow CPB audit access, and will adjust our indirect cost rate based on actual (vs budget) costs.

EXHIBIT A

WTTW
NFFS Effect
June, 2018

	FY 2018 Dues FINAL	**$100K NFFS Reduction**	**After $100K NFFS Reduction**	
Base Fee	$ 100,000		$ 100,000	
Population Served	10,018,818		10,018,818	
Total Full Service Population	359,854,076		359,854,076	
**Population Share %*	*2.78%*		*2.78%*	
Population Share $	**$ 1,356,228**		**$ 1,356,228**	
Net NFFS Generated	$ 30,294,683	(100,000)	$ 30,194,683	
Total Net Full Service Station NFFS	$ 868,845,974	(100,000)	$868,745,974	
**NFFS Share %*	*3.49%*		3.48%	
NFFS Share $	**$ 3,963,261**		3,951,134	
rounding	**$ 30**			
Total Dues	$ 5,419,519		$ 5,407,362	$ 12,157 *dues savings for every $100K of NFFS*

Percentages are rounded for presentation purposes (for FY 2018 Dues FINAL calculation).

FY 2018 PBS Dues Formula

Base Fee	100,000	100,000
Total PBS Dues	162,400,000	162,400,000
NFFS weight	70%	70%
WTTW NFFS Share	3.49%	3.48%
WTTW NFFS related Dues	3,967,432	3,951,134
Population weight	0.3	
WTTW Population Share	2.78%	
WTTW Population related Dues	1,354,416	
Total PBS Dues, Per Formula	5,421,848	
Rounding	(2,329)	
FY 2018 Dues **FINAL**	5,419,519	

FY 17 CSG IRR	11.8605%	
Addl NFFS	$ 100,000	
	$ 11,861	*addl CSG for every $100K of NFFS*
	$ (297)	*net cost of every $100K of NFFS*