



Corporation  
for Public  
Broadcasting

November 2, 2010

Mr. William Cosme  
Station Manager  
KABF 88.3 FM  
2101 S. Main Street  
Little Rock, AR 72206

Subject: Examination of Arkansas Broadcasting Foundation, Inc., Licensee of KABF-FM, Little Rock, Arkansas, for Fiscal Year 2007, Report No. ECR907-1003

Dear Mr. Cosme,

The Corporation for Public Broadcasting's (CPB) Office of the Inspector General (OIG) has completed its examination of the Community Service Grants (CSG) and Internet Service Acquisition Grant (ISA) awarded to Arkansas Broadcasting Foundation licensee of KABF-FM (KABF) for fiscal year 2007. The OIG presented its findings in detail in its revised audit report dated August 17, 2010. This letter outlines the conclusions of CPB Management with regard to those findings.

### **CSG Program Participation Determination**

CPB Management concludes that KABF has consistently demonstrated egregious behavior over the period of time covered by the OIG Report, and its failure to exhibit substantive corrective actions in response to the OIG Report, is justification to terminate KABF from participation in the CSG program immediately. Given the extent of the violations, and the current state of KABF's management, CPB Management has no confidence that the existing circumstances can be resolved in a timely manner. We have concluded that it would not be prudent in regards to CPB's fiduciary responsibility to put further CSG funds at risk under these circumstances. Therefore, CPB is removing KABF, licensed to Arkansas Broadcasting Foundation, Inc., from the CSG program effective October 1, 2010 (FY11).

This termination will remain in effect for a period of no fewer than three years, until October 1, 2014. To be readmitted to the CSG program KABF must demonstrate to the satisfaction of CPB that the violations have been fully corrected and that it is in full compliance with all remedial provisions of such final determination. Specifically, before KABF can be considered for readmission to the CSG program it must show compliance with each of the recommendations delineated in this report. The due dates for all required deliverables will be indicated in the forthcoming Corrective Action Letter. KABF's application for re-admittance to the CSG program, and the required deliverables, must be submitted by May 31 of the year for which it is requesting consideration (e.g. May 31, 2013 is the deadline for re-admittance to the FY 2014 CSG program, which begins on October 1, 2013). KABF may apply for re-admittance only if the CSG program is open to new applicants at the time of application.

## OIG Audit Findings

In addition to the egregious behavior, the OIG Audit Report specifically identified the following issues:

- KABF spent \$34,962 in restricted CSG funds on unallowable activities.
- KABF had questionable expenses of \$9,631 for the ISA grant and \$5,364 for the CSG.
- KABF was overpaid \$2,997 for undocumented underwriting contributions of \$48,097.
- KABF did not practice discrete accounting of its CSG revenues and expenditures.
- KABF was not in compliance with the open meetings, open financial records, and Community Advisory Board requirements of the Communications Act of 1934, as amended.

## OIG Audit Recommendations and CPB Determination

1. *We recommend that CPB determine whether the current governance mechanisms are adequate and the licensee has instituted sufficient corrective actions to continue as a CPB grant recipient.*

### **CPB Determination:**

Regarding OIG recommendation 1, it is CPB's determination that KABF's Board of Directors (Board) has demonstrated egregious neglect in its oversight of the station's finances and operations with respect to the CSG General Provisions. In its May 28, 2010 response to the OIG's Draft Report, KABF failed to establish that it has taken any substantive actions to correct the violations outlined in the OIG's report. Consequently, CPB has determined that KABF is removed from participation in the CSG program, effective immediately (i.e., October 1, 2010)

2. *We recommend that CPB require KABF to:*
  - a. *Ensure the new bookkeeping service receives the necessary training in non-profit accounting and CPB requirements to accurately record and report on the financial activities of KABF.*
  - b. *Ensure the new bookkeeping service provides KABF management and its Board with the necessary financial reports to manage its resources against budgets and obtains KABF's approval of all financial transactions.*
  - c. *Establish payment authorization controls to ensure CPB funds are only expended on allowable activities.*
  - d. *Establish internal controls over the AFR preparation to ensure only allowable contributions are reported as NFFS, ensuring that exchange transactions are identified and evaluated to claim only the value received that exceeded the value given as NFFS.*
  - e. *Discontinue the practice of having its IPA prepare its AFR. Station officials are responsible for preparing the AFR and the station's IPA is responsible for independently attesting to its accuracy.*
  - f. *Explain how the Board will assure that the station is in full compliance with the Communications Act requirements for open meetings, open financial records, CAB, EEO, and donor list requirements before the licensee makes its annual certification to CPB.*

**CPB Determination:**

Regarding OIG recommendations **2.a. and 2.b.**, CPB agrees that KABF should employ qualified staff and outside contractors, but will leave it to KABF management to determine the quality of the staff and or contractors it employs. Furthermore, the management of KABF's non-CSG resources and its budgets are internal affairs of the station of which CPB has no oversight.

CPB concurs with OIG recommendation **2.c.** and will require KABF to demonstrate it has the appropriate payment authorization controls by providing a copy of KABF's audit management letter for no less than three consecutive fiscal years in which KABF is a CSG grantee.

CPB concurs with OIG recommendation **2.d.** and will require KABF to comply by providing documentation outlining the internal controls KABF has established for AFR preparation to ensure only allowable contributions are reported as NFFS.

CPB concurs with OIG recommendation **2.e.** and will require KABF to comply by providing a copy of the policy regarding its AFR preparation, including the role of the Independent Public Accountant (IPA).

Regarding OIG recommendation **2.f.**, due to the egregious neglect demonstrated by KABF's Board of Directors (Board), CPB will require the Board to provide documentation, signed by all current and active Board members, certifying that KABF is in compliance with all requirements of the Act for no less than three consecutive fiscal years in which KABF is a CSG grantee. This requirement is in addition to the deliverable required in response to recommendation **6.f.**

*3. We recommend that CPB management require KABF to:*

- a. Refund \$49,957 in questioned costs;*
- b. Establish controls over spending to ensure radio restricted funds are spent on qualified national programming;*
- c. Demonstrate that it has spent the FY 2008-2009 restricted portion of its CSGs on national programming or refund the restricted portion of these grants; and*
- d. Ensure future CPB administrative service costs, supplied by related parties, are supported by current agreements that establish the methods used to determine the rates charged to KABF, specify the services provided, and the reasonableness of the costs billed (i.e. rates were consistently applied to all clients and can be verified to current market rates).*

**CPB Determination:**

CPB concurs with OIG recommendation **3.a.** and will require KABF to refund \$49,957 in questioned CSG and ISA grant costs.

Regarding OIG recommendations **3.b. and 3.c.**, CPB will require KABF to comply by providing documentation that outlines KABF's internal controls to ensure radio restricted funds are expended on qualified national programming, as well as documentation showing all expenditures of KABF's restricted FY 2008 and, to date, 2009 CSGs.

CPB concurs with OIG recommendation **3.d.** and will require KABF to comply by providing a copy of its policy regarding invoices and documentation for related party transactions.

4. *We recommend that CPB management require KABF to:*
- a. *Submit a revised FY2007 AFR eliminating the unallowable underwriting contributions claimed as NFFS*
  - b. *Recover \$2,997 in excess FY2009 CSG payments made to KABF based on the FY2008 reported NFFS; and*
  - c. *Document corrective actions taken and controls instituted to ensure future compliance with CPB guidelines for documenting, recording, and reporting NFFS, including underwriting contributions*

**CPB Determination:**

CPB concurs with OIG recommendation 4.a. and will require KABF to submit a revised FY2007 AFR, eliminating unallowable underwriting contributions claimed as NFFS.

CPB concurs with OIG recommendation 4.b. and will require KABF to refund \$2,997 in excess CSG payments on terms to be determined.

CPB concurs with OIG recommendation 4.c. and will require KABF to provide CPB documentation that outlines KABF's internal controls for ensuring only allowable contributions are reported as NFFS and maintaining the necessary documentation to support all underwriting contributions.

5. *We recommend that CPB require KABF to:*
- a. *Comply with CPB's discrete accounting requirements and maintain sufficient financial records to facilitate an effective audit of CPB revenues and expenditures. Such records should discretely account for all CPB income, expenditures against grants awarded on a fiscal year basis and include tracking expenditures over the two year grant period, and identify grant cash balances at the end of the grant's fiscal year September 30<sup>th</sup>.*
  - b. *Reconstruct its accounting records for FY 2007-2010 to track CPB expenditures against CPB revenues on a fiscal year authorization basis and report to CPB whether all CSG funds were spent within the two year grant spending periods.*
  - c. *Annually report to CPB revenues received by grant (unrestricted and restricted), opening cash balances, expenditures, and ending cash balances as of September 30<sup>th</sup> of each year.*

**CPB Determination:**

CPB concurs with OIG recommendation 5.a. with respect to grants administered through the Community Service Grant Program. CPB will require that KABF provide documentation certifying that it has implemented appropriate accounting procedures that will facilitate the identification of all CPB CSG funds by revenues and expenditures and by fiscal year.

CPB does not concur with OIG recommendation 5.b. CPB believes that the deliverable required in response to recommendation 3.c. will sufficiently demonstrate whether or not KABF expended its restricted FY 2008 and 2009 CSG appropriately.

CPB does not concur with OIG recommendation 5.c. CPB relies on a grantee's independent auditor to verify the accuracy of grantee's financial records, including its CSG revenues and expenditures.

6. *We recommend that CPB require KABF management to fully comply with all requirements of the Act and provide CPB with documentation of its compliance with the following requirements over the next fiscal year.*
- a. *Improve recordkeeping of advance public meeting announcements for Board, CAB, and other committees established by the Board, placed on its website, or by other notice, so that announcement dates can be verified.*
  - b. *Make on-air announcements for at least three consecutive days once each calendar quarter that explain the station's open meeting policy and provide information on how the public can obtain information regarding specific dates, times, and locations of public meetings. Maintain documentation of station on-air announcements, including the dates and time of each announcement.*
  - c. *Maintain accurate and complete records of all public meetings, including minutes and agendas of the Board and CAB, as well as, reports the CAB provided to the Board.*
  - d. *Ensure an independent CAB has been established, meets regularly, and carries out its responsibilities to:*
    - i. *Review program goals;*
    - ii. *Review significant station policy decisions; and*
    - iii. *Advise the Board whether programming and other policies meet the specialized educational and cultural needs of the community.*
  - e. *Ensure required financial information is available at the station location for public inspection, as required by the Act CPB guidelines.*
  - f. *Establish written implementing policies on the station's practices for all of the Act's requirements, including open meetings, maintaining a functioning CAB, maintaining open financial records, reporting EEO information, and maintaining donor lists.*

**CPB Determination:**

CPB concurs with OIG recommendation **6.a.** and will require KABF to comply by providing copies of announcements placed on its website, or by other notice, for all Board, CAB, and other committee meetings, for no less than twelve consecutive calendar quarters.

CPB concurs with OIG recommendation **6.b.** and will require KABF to comply by providing CPB with copies of transcripts of announcements about open meetings aired, as well as the date and time of each airing for a period of time covering no less than twelve consecutive calendar quarters.

CPB concurs with OIG recommendations **6.c. and 6.d.** and will require KABF to comply by providing copies of its CAB's bylaws, meeting agendas, and CAB reports made to the Board for no less than twelve consecutive calendar quarters.

CPB concurs with OIG recommendation **6.e.** and will require KABF to provide copies of all EEO and financial information maintained in its public file for no less than twelve consecutive calendar quarters.

CPB concurs with OIG recommendation **6.f.** and will require KABF to provide copies of its policies on complying with the open meetings, CAB, open financial records, reporting EEO

information, and maintaining donor lists requirements of the Act. KABF will demonstrate that it has implemented these policies by providing the deliverable required in response to recommendation 2.f.

7. *We recommend that CPB consider establishing a policy to:*
- a. *Reduce CSG funding from stations who violate provisions of the Act until compliance is fully achieved; and*
  - b. *Suspend station from the CSG program for repeat violations of Act requirements.*

**CPB Determination:**

Regarding OIG recommendations 7.a. and 7.b., CPB Management will make a determination of penalties for false certifications at a later date. With respect to KABF, if the station is re-admitted to the CSG program, any noncompliance by the station going forward will be subject to CSG forfeitures retroactively applied to the violations cited in this audit. CPB management will require KABF to demonstrate its compliance on an ongoing basis, and will request the Office of Inspector General to do a follow up audit of KABF to assess compliance.

**Audit Resolution**

If you wish CPB to consider additional information relating to this matter, you may submit such information to us in writing within 30 days of the date of this letter. Failing that, CPB will consider this matter closed and will take the appropriate steps with Arkansas Broadcasting Foundation to ensure compliance with these decisions. If you would like further explanation of CPB management's decisions on any of these issues, please feel free to contact Kevin Martin, VP, System Development and Station Grants Administration, at (202)879-9640 or [kmartin@cpb.org](mailto:kmartin@cpb.org).

Sincerely,



Mark Erstling  
Senior Vice President, System Development and Media Strategies



Bruce Theriault  
Senior Vice President, Radio

cc: Vincent Curren, Executive Vice President & Chief Operating Officer  
West Smithers, Senior Vice President & General Counsel  
Robert Winteringham, Deputy General Counsel  
William P. Tayman, Jr., Chief Financial Officer  
Kevin E. Martin, Vice President, System Development and Station Grants Administration  
Greg Schnirring, Vice President, Radio  
Kenneth A. Konz, Inspector General, CPB  
William J. Richardson, Deputy Inspector General, CPB