



Corporation
for Public
Broadcasting

September 22, 2016

VIA ELECTRONIC MAIL AND HARDCOPY TO FOLLOW

Ms. Shea Hopkins
President & Chief Executive Officer
Kentucky Educational Television
600 Cooper Drive
Lexington, KY 40502

RE: Audit of Community Service and Other Selected Grants at Kentucky Authority for Educational Television, Inc., KET-TV, Lexington, Kentucky, for the Period July 1, 2013 through June 30, 2015, Report No. AST1510-1606

Dear Ms. Hopkins:

Congratulations on the results of the audit by CPB's Office of Inspector General (OIG) with respect to KET's compliance with the Communications Act. We are pleased to see that there were no reported findings of non-compliance resulting from the review of:

- expenditures of four grants the Corporation for Public Broadcasting (CPB) awarded to the station, and
- \$20,465,358 in non-federal financial support (NFFS) reported for 2015.

There was what the report characterizes as an "inadvertent error" in \$18,229,585 reported as NFFS for 2014, resulting in an overstatement of your \$6,474,749 community service grant (CSG) by \$29,575. Considering the level of NFFS raised by your station and the wide range of topics covered by the audit, overall we believe that these are impressive results. The detailed findings and our management determination follow.

With regard to the CSG overstatement of \$29,575, the report indicates that the error resulted from the station including in NFFS \$175,450 in federal funds and \$48,278 from other ineligible sources. KET agrees with that finding and indicated that it has taken corrective actions, requiring written confirmation of funding sources from the granting organizations. It will also revise its financial documentation to provide more details about the revenue sources. Based on these assurances, the OIG considers both its recommendations resolved but open pending CPB's final management determination. The report recommends that CPB:

- A. require KET revise its fiscal year 2014 annual financial report, reducing NFFS by \$223,728 and identify the corrective actions and controls the station's licensee will implement to ensure future compliance with CPB's Financial Reporting Guidelines; and
- B. require KET to return to CPB \$29,575, the amount of its CSG overpayment resulting from erroneously including \$223,728 in NFFS.

CPB Determination: CPB agrees with most of these findings. However, our Financial Reporting Guidelines intentionally allow stations to include in NFFS interest from any source of income. It does not exempt interest earned on federal funds. Accordingly, we believe it would be unfair to prohibit KET from including \$3,150 in interest earned on federal funds in its NFFS. As a result we find that KET erroneously reported \$220,578 in NFFS from federal and other ineligible sources, resulting in a CSG overpayment of \$29,159.

Action: CPB has recently revised its approach to correcting errors when stations improperly report information on their annual financial report. Therefore, instead of requiring KET to return the overpayment to CPB, and considering that KET has already submitted its 2015 annual financial report to CPB, KET must correct the error by reducing its 2016 NFFS by \$220,578. KET will be required to make the reduction on its 2016 annual financial report based on instructions CPB will provide. This adjustment will result in either an over or under payment of the \$29,159 because the incentive rate of return (IRR) changes each year. The licensee will be responsible for any shortfall in recovery and CPB will be responsible for returning any overpayment to KET.

Under our CSG Non-compliance Policy, CPB would normally impose a penalty of 10% on any CSG overpayment. However, considering the amount is quite small in relation to the \$38,694,943 million in NFFS that the station successfully raised and that the reporting error was inadvertent, we believe that imposing a penalty would be unfair. Based on additional information we received from the OIG, we understand that the federally sourced funds included erroneously in NFFS was limited to 2014 and 2015. Therefore, we believe that requiring the station to review its prior two years financial reports for similar errors is not appropriate. Additionally, we accept the corrective actions that the licensee promptly implemented as evidence of its ability to ensure future compliance with the Financial Reporting Guidelines, and require no further action of KET or its licensee.

If you have any additional information you would like us to consider, please provide it in writing within 30 days of the date of this letter. Otherwise, we will consider these determinations final, and the licensee and KET will be required to comply with the remedial measures noted above. If that does not occur, CPB may withhold payment of the pending CSG payment and to take any other action we deem appropriate until these issues are resolved to our satisfaction.

We appreciate the work that Kentucky Educational Television does in support of public media and again compliment you on achieving impressive audit results in light of the wide range of topics and dollars covered by this audit.

Best,



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

CC: VIA ELECTRONIC MAIL
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