



April 21, 2016

VIA ELECTRONIC MAIL AND HARDCOPY TO FOLLOW

Mr. Paul Hitchcock  
General Manager  
Morehead State Public Radio  
WMKY-FM  
132 Breckinridge Hall - UPO Box 903  
Morehead State University  
Morehead, KY 40351-1689

RE: Audit of CPB Radio Restricted Fund Expenditures, Communications Act, Transparency, and Discrete Accounting Requirements at Selected Grantees for Fiscal Year 2014 - Report No. ACR1506-1508, dated September 29, 2015

Dear Mr. Hitchcock:

The Corporation for Public Broadcasting's (CPB) Office of the Inspector General (OIG) completed its audit of WMKY-FM (WMKY) and nine other stations that received the Community Service Grants (CSG) referenced above. The objectives of the audit were to determine whether these grantees: (a) spent CPB restricted funds on national programming; (b) discretely accounted for CPB revenues and expenditures in their accounting systems; (c) complied with the Communications Act (Act) requirements for open meetings, open financial records, Community Advisory Board (CAB), equal employment opportunity reporting, donor lists and political activities prohibitions; and (d) complied with website transparency requirements in the General Provisions and Eligibility Criteria (General Provisions).

CPB is pleased to note that the OIG found that WMKY and the other stations properly spent CPB restricted funds on national programming and related activities, and generally complied with the Communications Act and the transparency and discrete accounting requirements, with some exceptions.

Below are the OIG findings that involve WMKY and CPB's determinations.

**I. OIG Recommendations 1 and 2:** Instructions (General Provisions) & AFR (Communications Act)

The OIG found that WMKY did not make its annual financial report<sup>1</sup> (AFR) available to the public for review, pursuant to the Communications Act Requirements for Community Service Grant Recipients<sup>2</sup> (CSG Requirements). To meet this requirement, the OIG recognized that WMKY has placed a copy of its AFR in its public file<sup>3</sup>.

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<sup>1</sup> Page 6 of the audit report.

<sup>2</sup> May 2015 edition.

<sup>3</sup> Page 7 of the audit report.

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The OIG also found that WMKY did not post instructions explaining how the public could obtain a copy of its AFR<sup>4</sup>, required by the General Provisions. The OIG indicates this issue has been remedied<sup>5</sup>.

The OIG requires that WMKY:

- A. provide documentation of the corrective actions implemented and those planned with an estimated completion date, and that CPB evaluate their adequacy; and
- B. identify internal controls instituted (e.g., documenting that the requirement was met) to ensure future compliance with open financial records.

CPB Determination: With regard to the instructions, we are currently reviewing this requirement and anticipate removing it from the General Provisions. Consequently, it would be unfair to assess a non-compliance penalty or require WMKY to take further action. CPB considers this matter resolved and closed.

WMKY's correspondence addresses the steps it has taken to make its AFR available to the general public<sup>6</sup>. CPB accepts this as identifying the internal controls WMKY has instituted to ensure its future compliance.

Stations that fail to comply with the CSG Requirements are subject to a fine of \$5,000 for each finding, pursuant to the CSG Non-compliance Policy<sup>7</sup>. Recognizing the prompt actions WMKY undertook to become compliant, the fact that WMKY made the other two categories of financial information available, and has non-federal financial support that slightly exceeds \$500,000, CPB is assessing a reduced penalty of \$1,000 against WMKY for failing to make its AFR available.

Action: WMKY must pay the \$1,000 penalty to CPB within 60 days of the date of this correspondence.

## II. **OIG Recommendation 3:** Transparency Requirements (General Provisions)

The Transparency section of the General Provisions has a list of nine items that stations must post on their website. The OIG found that WMKY failed to post one of these items, i.e. instructions explaining how the public may obtain a copy of its financial reports.

CPB Determination: This issue has been addressed in Section I above.

Action: No further action required of WMKY.

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<sup>4</sup> Page 6 of the audit report.

<sup>5</sup> Exhibit I of the audit report.

<sup>6</sup> Exhibit I of the audit report.

<sup>7</sup> Although CPB revised this Policy effective January 1, 2016, the penalty amount and its application are essentially the same.

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**III. OIG Recommendation 7: Discrete Accounting (General Provisions)**

The General Provisions require that stations use unique accounting codes to identify CPB funds – revenues and expenses, restricted and unrestricted. This allows an auditor to track those funds within the CSG recipient’s accounting system. Although the OIG found that WMKY established unique accounting codes, it was discovered that the station mistakenly reversed its reporting and identified restricted monies as unrestricted, and vice-versa<sup>8</sup>.

CPB Determination: WMKY admitted this error<sup>9</sup>, indicating it had made the necessary adjustments to its accounting system, and plans to participate in CPB’s online training. Accordingly, the OIG considers this matter resolved and closed. CPB agrees with the OIG’s findings.

Stations that fail to comply with the requirements in the General Provisions are assessed a penalty of \$1,000 for each finding, pursuant to the CSG Non-compliance Policy. Because WMKY had adopted the required accounting methodology and promptly corrected the error identified by the OIG, CPB believes it would be unfair to assess a penalty against WMKY.

Action: No further action required of WMKY.

**IV. OIG Recommendation 8: Schedule E CSG Funds**

The OIG found that WMKY spent its restricted CSG funds on allowed expenses; however, WMKY failed to report these expenses on Schedule E of its AFR. The OIG considers this matter resolved but open, pending CPB’s verification that WMKY has correctly reported restricted CSG expenditures on its 2015 AFR and revised its 2014 Schedule E. The OIG also recommends that CPB require WMKY to explain what internal controls it will institute to ensure accurate reporting in the future.

CPB Determination: WMKY admitted to making this error and indicated it had taken corrective action to ensure this error does not occur going forward<sup>10</sup>. Requiring WMKY to revise its 2014 Schedule E would have no impact on its CSG. Considering this and the fact that the OIG’s audit found WMKY spent its restricted CSG funds consistent with the General Provisions, CPB is unwilling to require the station to revise this Schedule E.

Action: Issuing a finding for this type of error is, in CPB’s opinion, unwarranted. CPB considers WMKY’s response more than sufficient and appreciates its plans to participate in CPB’s online training. No further action is required of WMKY.

Please make your check for the penalty of \$1,000 payable to CPB and forward to:

Nick Stromann  
Vice President, Controller  
Corporation for Public Broadcasting  
401 Ninth Street NW  
Washington, D.C. 20004-2129

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<sup>8</sup> Page 10 of the audit report.

<sup>9</sup> Exhibit I of the audit report.

<sup>10</sup> Exhibit I of the audit report.

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If you wish CPB to consider additional information relating to these determinations, please provide the same in writing within 30 days of the date of this correspondence. Failing that, CPB will consider these determinations final, and WMKY will be required to comply with the actions set forth above. In the event WMKY fails to comply with the required actions, CPB reserves the right to withhold payment of the pending CSG payment and to take any other action CPB deems appropriate until these issues are resolved to CPB's satisfaction.

We appreciate the work that WMKY does in support of public media and trust that we can resolve these issues cooperatively.

Kind regards,



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

CC: VIA ELECTRONIC MAIL

James Shaw, Vice President, University Advancement, Morehead State University  
Mary Mitchelson, Inspector General, CPB  
William J. Richardson, Deputy Inspector General, CPB  
Steven J. Altman, Executive Vice President and Chief Operating Officer, CPB  
J. Westwood Smithers, Jr., Senior Vice President & General Counsel, CPB  
William P. Tayman, Jr., Chief Financial Officer & Treasurer, CPB  
Ted Krichels, Senior Vice President, System Development & Media Strategy, CPB  
Bruce Theriault, Senior Vice President, Journalism and Radio, CPB  
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