

CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF INSPECTOR GENERAL

**EXAMINATION OF COMMUNITY SERVICE AND
OTHER SELECTED GRANTS AT
ST. LOUIS REGIONAL PUBLIC MEDIA, INC.,
KETC-TV, ST. LOUIS, MO
FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2014**

REPORT NO. AST1502-1507

August 31, 2015



Corporation
for Public
Broadcasting

Office of Inspector General

Date: August 31, 2015

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

From: Mary Mitchelson, Inspector General 

Subject: Examination of Community Service and Other Selected Grants at St. Louis
Regional Public Media, Inc., KETC-TV, St. Louis, MO for the Period
July 1, 2012 through June 30, 2014, Report No. AST1502-1507

We have completed an examination of the Corporation for Public Broadcasting (CPB) Community Service Grants (CSG) and other selected grant activity at St. Louis Regional Public Media, Inc. (KETC) for the period July 1, 2012 through June 30, 2014.¹ Our objectives were to examine KETC's certifications of compliance with CPB grant terms to: a) claim Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFR) in accordance with CPB Financial Reporting Guidelines (Guidelines); b) expend CSG and other grant funds in accordance with grant agreement requirements; c) comply with the Certification of Eligibility (Eligibility) requirements and the statutory provisions of the Communications Act of 1934, as amended (the Act); and d) evaluate the adequacy of the framework used to carry out the American Graduate Initiative activities.

Based on our examination we found:

- overstated NFFS of \$191,901 that resulted in potential CSG overpayments of \$25,870 (\$17,666 in 2015 payments and potential overpayments of \$8,204 in 2016²), which we reported as funds put to better use;
- questioned production expenditures of \$422,539 for noncompliance with budget and financial reporting requirements under the American Graduate grants; and
- noncompliance with open meetings and Community Advisory Board (CAB) statutory requirements and grant transparency and diversity terms.

Further, we concluded that KETC had established an adequate framework to carry-out the American Graduate Initiative program activities as Executive Producer under CPB grant #15057.

¹Our examination includes grants active 7/1/2012 through 6/30/2014 that had terms from 5/1/2011 through 4/30/2016 and CSG expenditure periods from 10/1/2012 through 9/30/2015.

²We based our calculations on CPB's fiscal year (FY) 2015 Incentive Rate of Return for TV per Exhibit E as FY 2016 rates have not been determined as of the date of this report.

More specifically, we found that the station overstated NFFS by \$191,901 because it included certain payments that were ineligible exchange transactions, reported federal funds, and applied its underwriting rates rather than the donors' valuations of certain in-kind trades that resulted in potential CSG overpayments of \$25,870. We also questioned \$422,539 in costs the station reported to CPB, because those costs, while largely supported by its general ledger, were not supported in the budget categories approved in the grant. Thus, CPB lacked accurate information on the types of grant costs the station was incurring. With regard to the Act and CPB requirements, we found that the station was not in complete compliance with open meeting, CAB, transparency, and diversity requirements. We also found it lacked policies for complying with these requirements, although it developed them during our audit.

We recommend CPB management take the following actions:

- require KETC to submit revised FYs 2013 and 2014 AFRs, Schedules A and C, eliminating ineligible revenues of \$191,901 and recover \$25,870 in estimated excess CSG payments for FYs 2015 and 2016;
- recover \$422,539 in questioned costs for costs misclassified to budget categories or not supported in the general ledger accounts by budget category;
- require KETC to comply with open meeting and CAB requirements; and
- require KETC to establish diversity goals and comply with all transparency requirements by posting required information to its website.

In response to the draft report, KETC did not agree with our finding dealing with overstated NFFS for \$118,818 in technical services payments, and our recommendation requiring CPB to recover questioned costs of \$422,539. It also asserted that it had established a CAB in accordance with CPB requirements. However, KETC did agree with \$73,083 in overstated NFFS for payments, contributions and in-kind trades. KETC agreed with our findings dealing with the open meetings requirements of the Communication Act and with transparency requirements and is taking corrective action. KETC's written response to the draft is presented in Exhibit I.

This report presents the conclusions of OIG and the findings reported do not necessarily represent CPB's final position on these issues. This report contains recommendations OIG believes would be appropriate to resolve these findings. CPB officials will make final determinations on the reported findings in accordance with established CPB audit resolution procedures. Based on KETC's response to the draft report, we consider recommendations 1, 2, 3 and 5c unresolved, and recommendations 4a, 4b, 5a, 5b, 5d, 5e and 5f resolved but open, pending CPB's management decision resolving our recommendations and tracking KETC's corrective action to implementation.

We performed this examination based on the Office of Inspector General's (OIG) annual audit plan objective to perform reviews of a cross-section of stations and organizations in the public broadcasting system. We conducted our examination in accordance with *Government Auditing Standards* for attestation engagements. Our scope and methodology is discussed in Exhibit H.

BACKGROUND

KETC's³ website states its mission is "bringing St. Louis together as we connect our region to the world and the world to St. Louis." KETC operates KETC TV channel 9, a public TV station and PBS affiliate, as well as four digital video channels, a website (ninenet.org) and social media technologies in the greater St. Louis region, surrounding counties, and the south central Illinois region. The station also develops content and engages the community in conversations and activities to create awareness and impact around important issues, and it operates the for-profit production subsidiary Video Nine.

KETC's website highlights its history, presents its programming schedule, provides content and video on demand services, contains information about membership and benefits, sponsorships and foundation support, and provides a local community calendar of upcoming events and activities. Some highlights include:

KETC/Channel 9 was conceived by the St. Louis Community as an innovative means to provide public education and dialogue on topics that affected civic life. The station went on air in 1954 and currently produces local programs on public affairs and arts and culture in the community. The station broadcasts PBS and other national programming along with its own local programs. The station reaches 100 counties in Missouri and Illinois and extends its reach beyond broadcast through multiple interactive websites.

KETC actively engages its region on important issues, particularly on education, healthcare, the environment, entrepreneurship and the arts.

CPB awards annual CSG grants to public television stations based 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 distance and local service grants and the amount of the base 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 reported 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 KETC on its FY 2011 AFR to determine the CSG amount the station received in FY 2013.

During our examination period KETC received \$3,708,484 from CPB for various grants as itemized in Exhibit A. KETC reported NFFS of \$5,042,100 in FY 2013 and \$5,265,733 in FY 2014 per Exhibit C. KETC's audited financial statements for the two FYs reported revenues of \$10,656,167 in FY 2013 and \$14,237,456 in FY 2014. KETC's FY begins July 1 and ends on June 30.

In addition to providing the CSG funds to KETC, during our examination period, CPB made additional payments for other project grants as presented in Exhibit A. These grants were

³ KETC does business as Nine Network of Public Media.

awarded for the American Graduate: Let's Make It Happen Initiative (the Initiative) as, Initiative Manager and Community Hub Station (Hub), Town Hall Manager, and Executive Producer. A financial summary of these grant awards is presented in Exhibit D.

The American Graduate Initiative is a multi-year public media initiative to help communities address the dropout crisis. The American Graduate grants fund the station as the lead Hub and manager of the Initiative to coordinate Initiative activities in regional public media Hub communities where the dropout crisis is most acute. The grants fund content leadership and production, branding and promotion, community engagement and impact assessments, website and social media management, and creating funding resources for Hub sustainability.

RESULTS OF REVIEW

In our opinion, except for the noncompliance issues described below, KETC has complied with the requirements for the FY 2013 and 2014 TV CSGs (Exhibit B) and the American Graduate Initiative projects (Exhibit D, D-1, D-2, D-3).

We examined KETC's management's assertions of compliance with CPB grant requirements: a) CSG Certification of Eligibility; b) CSG Legal Agreement; c) AFR Signature Page; and d) Certification of Final Financial Accounting for the American Graduate projects. The CSG Certification of Eligibility includes KETC's compliance with AFR/NFFS reporting in accordance with CPB's Financial Reporting Guidelines; Communication Act requirements for open meetings, open financial records, CAB, EEO reporting, and donor lists; and discrete accounting requirements. Additionally, we evaluated management's plans for establishing an adequate framework to meet grant objectives as the American Graduate Initiative Executive Producer. Management is responsible for compliance with those 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 KETC'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 KETC's compliance with specified requirements.

Our examination disclosed the following issues of noncompliance with NFFS financial reporting requirements, CPB grant agreement requirements, and Communications Act and Eligibility requirements:

- overstated NFFS of \$191,901 that resulted in potential CSG overpayments of \$25,870 (\$17,666 overpaid in 2015 and potential overpayments of \$8,204 in 2016) reported as funds put to better use;
- questioned production costs of \$422,539 for noncompliance with budget and financial reporting requirements under the American Graduate grants; and

- noncompliance with open meetings and CAB statutory requirements and grant transparency and diversity terms.

FINDINGS AND RECOMMENDATIONS

OVERSTATED NFFS

Our examination found \$191,901 in overstated NFFS on KETC’s FYs 2013 and 2014 AFRs as presented in the following table and detailed in Exhibit E. As a result, CPB may make CSG overpayments of \$25,870 to KETC (\$17,666 overpaid in FY 2015 and a potential CSG overpayment of \$8,204 in FY 2016). We classified this amount as funds put to better use for reporting purposes, because the funds overpaid to KETC could have been distributed to other public broadcasting entities.

Ineligible NFFS Categories	FY 2013 NFFS	FY 2014 NFFS	Total NFFS⁴	Potential CSG Overpayment
Payment sources do not qualify	\$115,818	\$20,890	\$136,708	\$18,429
Contribution source ineligible		39,964	39,964	5,387
Unqualified in-kind trades	15,229		15,229	2,053
Total	\$131,047	\$60,854	\$191,901	\$25,870

This overstatement of NFFS occurred because KETC management considered exchange payment revenues from a non-profit organization as an eligible source for NFFS, because the organization’s membership included degree granting higher education institutions as well as local school district government entities. For the other payments, the station did not separately identify the exchange amounts associated with underwriting contributions from unqualified sources, and therefore did not exclude these amounts on its AFRs. In addition, management was not aware that a contribution from an underwriter was partially funded with federal funds, therefore it did not exclude the federal funds portion on its AFRs. Finally, for the unqualified in-kind trades, the station valued the contribution at the station’s underwriting rate and not at the donor’s customary rate.

Further discussion on our findings is presented below.

Payments Reported as NFFS

KETC reported payments of \$136,708 that did not meet the source criteria for NFFS, i.e. received from state/local government or educational institution, as follows:

- \$118,818 in fees for programming/technical services;
- \$14,790 in underwriting facilitation fees; and
- \$3,100 in magazine advertisements.

⁴ This overstatement represents 1.9 percent of the total KETC claimed of \$10,307,833 as NFFS during our examination period.

KETC reported fees of \$118,818 for technical services provided to a non-profit dedicated cable TV channel, which provides courses for college credit and a variety of other educational and cultural programs, as other income eligible as NFFS on AFR line 8.1.E (income sources from foundations and non-profit associations). Additionally, the station included its fees of \$14,790 as underwriting revenue for facilitating underwriting contracts between a foundation underwriter and other PBS stations and corporate sponsorship fees of \$3,100 for advertisements in Nine Magazine, the station's membership magazine.

CPB Guidelines differentiate the criteria for each revenue form (contribution or a payment) and its eligibility as NFFS and define the eligible source criteria for each.

Revenues, eligible as NFFS take the form of either a contribution or a payment. 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.

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. Educational institutions are defined as degree-granting institutions.

Guidelines, Section 2.2 – Contributions vs. Payments, Section 2.3.2 Interpretations NFFS Criteria.

Because the revenues from fees were for services, i.e., an exchange transaction, they are payments for NFFS purposes and, to qualify as NFFS, the source must be a state or local government or educational institution. CPB considers “educational institutions” to be degree granting entities and these sources are not, nor are they state or local governments. Therefore, these payments are not eligible as NFFS.

The station maintains that the purpose and source of the payment for technical services meets CPB's requirements for NFFS eligibility, as this source provides educational programming and represents members that include higher education institutions and other government entities. The station did not provide additional support to show the non-profit organization (Exhibit E/Donor A) was the legal representative acting as agent for the educational institutions or government agencies. Without evidence to the contrary, we concluded the source is a non-profit organization and not an educational institution or state or local government agency. It is not an eligible source for NFFS.

Additionally, the station received income from a foundation for an underwriting campaign that included underwriting for the station and other PBS stations. The foundation paid KETC directly for all the stations included in the underwriting campaign. KETC deducted its fee for arranging the underwriting placement for the other stations and remitted the net amount due to the participating stations. KETC recorded its revenue portion as underwriting, which included

the fees it received to place the underwriting with the other stations. This foundation (Exhibit E/Donor B) is not an educational institution or governmental agency, and therefore not an eligible source for payments as NFFS.

Finally, KETC usually excludes advertising revenues from NFFS. But, in the case of the agreement with a corporate sponsor (Exhibit E/Donor C), the contract did not separately price out the advertising fees and the station reported the entire contract as an underwriting contribution.

Ineligible payments totaled \$136,708 and will result in a CSG overpayment of \$18,429 (\$15,613 overpaid in FY 2015 CSG and potential overpayments of \$2,816 in FY 2016). See calculations in Exhibit E.

Contribution Source Ineligible

KETC claimed as NFFS \$49,955, of which \$39,964 was federal funds. The station had contracts with a local government agency that placed underwriting for a local non-profit. These contracts were partially funded by the federal Congestion Mitigation and Air Quality Improvement Program (CMAQ) grants to support U.S. Department of Transportation goals and were apportioned to the Illinois Department of Transportation (IDOT). CMAQ grants from IDOT require local government agencies to fund 20 percent of project costs, therefore 80 percent of the \$49,955 in contract funds, totaling \$39,964, were considered federal funds. “By definition, the Act excludes all federal funds from being included as NFFS.” Guidelines, Section 2.3.3.

The station was not aware that the contract included federal funds and therefore did not exclude the federal portion from NFFS. Ineligible contributions totaled \$39,964, and will result in potential CSG overpayments of \$5,387 in FY 2016. See calculations in Exhibit E.

Unqualified In-Kind Trades

We found \$15,229 in overstated NFFS for two in-kind trade donations and incomplete documentation for another trade. Specifically, we found two in-kind donations that were valued at the station’s underwriting rates and not at the value of the donated goods or services, contrary to the Guidelines. In addition, the station did not have the proper documentation to meet CPB requirements for the third trade, valued at \$34,430. During our fieldwork the donor for the third trade provided the documentation, and we accepted the in-kind donation as eligible NFFS.

CPB’s Guidelines stipulate valuation and documentation requirements for eligible in-kind donations as follows:

In the case of in-kind contributions, the donor’s usual and customary fees charged to a paying customer for equivalent goods and services must serve as the basis for determining fair value.

Section 2.6.3 - Valuation for In-Kind Contributions Included as NFFS.

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 donors intent to donate or trade the goods or services
- Signature, name and title of the donor or donor's representative

Section 2.6.4 – Documentation Criteria for In-Kind Contributions.

The station entered into two in-kind trade agreements with donors that were valued as 2 for 1, whereby the station provided underwriting for twice the value of the donated goods or services. The donors provided the station with invoices and letters stating the value of their donations and additionally noted that they had received underwriting valued at more than twice the value of the donated goods and services. The amount the station recorded as income and claimed as in-kind NFFS represented the value of the station's underwriting not the value of the actual donation received. The amount of revenue recorded that is greater than the actual donation received is ineligible as NFFS.

For the third trade tested, KETC had a signed trade agreement with an in-kind donor, but its trade underwriting staff was not aware of the additional CPB documentation requirements and did not obtain the required documentation from the donor until the OIG requested it for the audit. With appropriate documentation, this in-kind trade now meets eligibility requirements for NFFS.

Ineligible in-kind trade contributions totaled \$15,229, resulting in a CSG overpayment of \$2,053 in FY 2015. See calculations in Exhibit E.

Recommendations

We recommend CPB management take the following actions:

- 1) require KETC to submit revised AFRs eliminating ineligible revenues for FYs 2013 and 2014 and identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines; and
- 2) recover \$17,666 in excess CSG payments made to KETC in FY 2015 based on the FY 2013 reported NFFS and reduce FY 2016 CSG payments based on the revised FY 2014 AFR and recover the overpayment estimated as \$8,204.

KETC Response

In response to our draft recommendations, KETC acknowledged that it did not correctly report \$17,890 in payments and \$39,964 in contributions from ineligible sources, and \$15,229 in unqualified in-kind trades. Station management stated it is adopting processes to ensure its

future NFFS reporting includes only eligible sources and it properly values and documents its in-kind trades.

Station management did not agree with our finding that \$118,818 in fees for technical services were from an unqualified source. KETC stated that the source, which operates a non-profit cable TV channel and provides educational and instructional programming, is made up of and governed by degree-granting institutions in the metropolitan St. Louis area and therefore believes the funding from this source should be eligible for NFFS. The station also stated that if each degree-granting institution had individually paid KETC for the same services the funds would be eligible for NFFS, and that the station should not be penalized for these institutions aggregating resources into the non-profit TV channel, which can operate the cable channel in a more efficient manner.

OIG Review and Comment

Based on KETC’s response, we consider recommendations 1 and 2 unresolved pending CPB’s management decision. KETC’s response did not address submitting revised AFRs in recommendation 1 but did state it will adopt processes to ensure future agreements identify Federal sources of funds for exclusion and in-kind trades are properly valued. Pending agreement to submit revised AFRs, recommendation 1 remains unresolved.

Regarding recommendation 2, KETC acknowledged that \$73,083 of \$191,901 of our findings for overstated NFFS was due to ineligible payments and contribution sources and unqualified in-kind trades; however station management did not agree that \$118,818 in fees for technical services should be excluded from NFFS eligibility.

As discussed in our finding, the source for the technical service fees is a non-profit cable TV channel, which has an agreement with the station. Although KETC’s response provided information and a rationale for the non-profit’s eligibility as a qualified source for NFFS, KETC did not provide us with any agreements between the non-profit and its members. The station provided a listing of the non-profit’s Board of Directors, who primarily represented educational institutions; however, KETC did not provide additional information for us to conclude that only degree granting education institutions were represented. As a result, we have not changed our finding that the non-profit cable TV channel does not qualify as a source and recommendation 2 remains unresolved.

QUESTIONED COSTS

Our examination of the American Graduate grants found questioned costs of \$422,539 because they exceeded the general ledger costs that corresponded to the grant budgeted categories. We concluded that executive salary and fringe benefit costs were misclassified to other budget categories, which were underutilized, as summarized in the following table. Additionally, we found the station did not report all project costs as noted in Exhibit G.

Noncompliance	Exhibit F-1 Grant #14191	Exhibit F-2 Grant #14873	Exhibit F-3 Grant #15057	Total Questioned Costs
Misclassified Costs	\$288,603	\$93,809	\$40,127	\$422,539

Our budget category line item analysis of the questioned costs is presented in Exhibits F, F-1, F-2, and F-3.

Overall we found the station reported \$422,539 against approved grant budget line items in its interim and final financial reports that were not supported by incurred costs for these budget items as reported in its general ledger. To illustrate, on Grant #14191, KETC reported \$49,665 under core staffing for a content manager. However, the general ledger costs for personnel in this position showed only \$14,863⁵ in actual costs, resulting in a \$34,802 reported overstatement for this line item. Such reported overstatements occurred in most core staff budget line items, as shown in Exhibit F-1, except for top executives (e.g., Initiative Director and Project/Community Hub Director).

For further perspective, in Exhibit G we identify the differences between the CPB budgets, costs reported to CPB, and the general ledger account costs on all three projects to date. For the three grants audited KETC incurred \$73,205 more in costs than it reported to CPB. However, these costs were not within the budgetary limits of the approved budgets.

Under closed Grant #14191 the total cost reported to CPB exceeded the general ledger account totals for the project by \$54,474. However, the amounts reported by budget category were larger than the individual general ledger account totals, which accounts for the \$288,603 questioned (Exhibit F-1). Under closed Grant #14873 the general ledger account totals exceeded the costs reported to CPB by \$127,679; however the costs reported by budget category again exceeded the individual general ledger account totals by \$93,809 (Exhibit F-2). Finally, while the costs reported to CPB under open Grant #15057 agreed with the total general ledger account total, the costs reported by budget category exceeded the individual general ledger account totals by \$40,127 (Exhibit F-3).

In addition, the station did not report all project costs incurred for each budget line item, and therefore did not properly report all variances from the budget. Specifically, for Grant #14191, the Initiative Director's actual incurred time per the general ledger was 200 percent greater than reported for that budget category. The balance of his time was reported under other budget line item categories. This practice of reporting the Initiative Director's⁶ time under other labor categories occurred in each of the three grants audited.⁷

KETC also did not have an adequate reporting and review system to crosswalk or reconcile the incurred costs for the grants recorded in its general ledger to the amounts reported to CPB in KETC's interim and final certified financial reports.

CPB requires a budget from producer grantees, requires them to report against those budgets, and limits deviations from the budgets.

⁵We have included fringe benefits based on our calculation.

⁶ For Grant #15057, this budget category was classified as Executive in Charge. See Exhibit F-3.

⁷ Under Grant # 14873 it is not clear if all of the executives' time was fully reallocated to other budget categories, and may represent some of the \$127,679 in under-reported project costs.

The award of a Grant depends in part on the submission of an acceptable Budget. This section describes the specific budget responsibilities of a Grantee, including the provision of periodic updates and a final report about how the Grant money has been spent and how production and expenditures compare with the approved Budget. No Grantee may make changes to its Budget, or deviate from planned expenditures, except as set forth in this section or with the advance written consent of CPB.

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

The following budget and financial reporting subsections define the requirements:

D. Changes to the Budget. Once a Budget has been approved... the Grantee may make reallocations among Budget line items or categories (except those covering "above the line" salaries, equipment, and general administrative/overhead expenses) without CPB's approval so long as no such reallocation involves an increase or decrease in any single Budget category in excess of the greater of 25 percent of such category or \$5,000. CPB consent to an increase in Total Budget Cost will not signify an increase in the Grant. A Grantee may make no other changes to the overall Budget or individual line items without CPB's prior written approval. Each Grantee must specifically identify, report and explain any and all Budget reallocations in its interim and final financial accounting to CPB, as well as explain any allocations in excess of Grantee's discretion to make changes without CPB approval.

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.

G. Records. A Grantee must keep books, records, and accounts relating to the Grant and the Grant Project sufficient to:

- (i) enable CPB to verify all direct costs, overhead, and administrative allocations associated with the Grant Project;
- (ii) disclose fully the amount and use of the proceeds of the Grant, the Total Project Cost, and the amount and nature of any portion of the Total Project Costs supplied by sources other than CPB; and
- (iii) permit an effective audit.

K. Form of Financial Reports. All financial reports must

- (i) set forth the amounts originally provided in the Budget for each line item and the amounts expended under each line item to date;
- (ii) specifically identify and explain any variances in excess of the limits set forth in Section 4(D) hereof (both in dollars and percentages) from the Budget that exist or are expected;
- (iii) include a certification that the Grant Project can be completed on schedule and within the Budget or provide a detailed explanation setting forth the reasons why the Grant Project may not be completed on schedule or within the Budget.

While KETC had extensive and ongoing discussions with CPB about its budgets, KETC did not obtain approval from CPB for all budget reallocations, notably the reporting of the executive management's costs under other budget categories. As a result, KETC did not accurately report costs against approved budget categories and did not fully disclose the total project costs incurred for the grant projects.

As background, KETC set up two projects in its accounting system to account for CPB American Graduate grants. CPB grant costs were recorded in two discrete project accounts for either local (Hub) #927 or national (Initiative Manager) #928 expenditures per grant deliverables and budgets. The station has a timekeeping system to allocate employees' time to various projects and record their project time in the accounting general ledger system.

The station's grant management officials received monthly general ledger detail reports from accounting for costs incurred on the CPB grants. The general ledger costs were supported by timesheet and payroll distribution journal entries, expense reimbursement documentation, and vendor invoices. Grant management officials allocated the general ledger costs to various budget line items on interim and final financial reports submitted to CPB. However, not all costs reported were reconciled to supporting general ledger account costs.

These reported costs included executive management salaries, which were reallocated to several core staffing budget line items even though executive management had its own budget line item. The station did not request approval from CPB for these cost reallocations, as required by the grant terms. Further, some of the reallocated reported costs were reported against the Hub project budget but were incurred for the Initiative Manager project.⁸ Initially, the station did not provide sufficient records or a crosswalk from the general ledger to reports submitted to CPB. Upon OIG's request, station officials reconciled the reports.

KETC's reconciliations reallocated actual general ledger costs to each budget line item per the grant in accordance with its budget and also included revised variance explanations. For grant #14191 the total reported costs were greater than the reconciled general ledger costs, and for grant #14873 the total reported costs were less than the reconciled general ledger costs. The station identified some salary costs that were recorded in the local project that should have been charged to the national project for grant #14191. These expenditures were reclassified to the proper project during the reconciliation process except for actual fringe benefits on salary reclassifications, which were not. After the reconciliation, the combined fringe benefits for both the local and national projects agreed in total to the amounts in the general ledger. We compared actual reconciled costs to the amounts reported to CPB. We questioned the difference between the budget line item amounts reported to CPB and the actual reconciled amounts recorded in the proper account category in the general ledger for each CPB approved budget line item

As previously mentioned, station management said it communicated with CPB on a regular basis regarding the grant budgets, budget variances, project status, and deliverables. Grant #14191 was amended for additional CPB requested work and later for a no-cost extension to complete all the deliverables. KETC provided correspondence showing the station requested an additional

⁸ CPB Grant #14191 specified separate reporting budgets for the Hub and Initiative Manager project activities.

budget adjustment on grant #14191 to transfer \$21,767 in budgeted amounts to the Initiative Director and the Project/Community Hub Director’s budget line items from the following budget line items: meeting facilitator; satellite content delivery; and printing. CPB did not issue a formal budget amendment for this budget adjustment but indicated approval next to the variance explanation on interim reports for the increase in reported directors’ costs. We did not question the \$21,767 transfer. CPB also noted that it was incurring the costs directly for the meeting facilitator.

In another budget discussion between the station and CPB, CPB noted that KETC had over-spent for both the Communications and Brand Managers budget categories and CPB would deal with the budget adjustment when the contract was amended for term and deliverable changes. These budget adjustments were never made, but CPB did note approval for the reported variance explanation on the financial reports. The reports showed overages for these budget categories but when reconciled to the general ledger, the actual costs for the Communications Manager was under-budget. To illustrate, the table below shows KETC reported a 201% over-budget variance for the Communications Manager budget category when actual general ledger costs show an 18% under-budget variance.

Budget Line Item Grant #14191	Budget Amount	Certified Final Costs reported to CPB 5/1/2011 - 4/30/2013	Budget Variance as Reported	% Budget Variance as Reported	Actual Costs Per General Ledger	Budget Variance to Actual Costs	% Budget Variance to Actual Costs
Communications Manager	\$13,410	\$40,323	\$26,913	201%	\$ 10,967	(\$2,443)	(18%)

The actual costs for both the Communications and Brand Managers budget categories were less than reported to CPB, therefore KETC overstated the project costs for these two budget categories.

Station management provided OIG with email correspondence to show its communications with CPB and further stated that: “KETC consistently reported its activities to CPB and regularly submitted the reports required by the grant agreements. These reports included budget variances, and to our knowledge, there has never been any question about the appropriateness of the grant expenditures. All funds were expended in furtherance of the grant objectives.”

CPB project grant files show correspondence on budget amendment requests and acknowledgement of review and approval of financial reports with variance explanations per respective budget line items and deliverables. CPB officials said the station kept them abreast of project activities and budget changes on a timely basis. Project file correspondence also showed CPB provided guidance to KETC to improve the format of reporting grant costs and variances. However, CPB officials could review and approve only what was reported to them, and the reports submitted did not reflect all the actual costs as they were incurred against the budgeted line items. As a result, the variance explanations did not accurately address all variances on the projects. When the projects were reconciled during our audit fieldwork, station management revised some variance amounts as well as the variance explanations.

To summarize, we questioned \$422,539 in reported costs, per Exhibit F. Station management communicated regularly with CPB management about the grant activities and provided the deliverables as required. However, based on KETC's financial reporting, CPB did not have complete financial information⁹ to assess the total costs incurred for the projects or the actual costs incurred for each budget line item. Further, CPB awarded the station a grant for the second phase of the initiative based on a budget proposal that was constructed along the same budgeting premise as the prior grant, i.e., limited time for executive management and more time for lower paid staff. In our review of this open grant (#15057) we found that executive management continues to devote more time to the project than budgeted, and its time is being reported under other budget categories.

Recommendations

We recommend CPB management:

- 3) recover \$422,539 (\$382,412 from closed grants and \$40,127 from active grant) in questioned CPB funds;
- 4) require KETC to:
 - a) adequately explain future budget modifications and obtain CPB's written approval to revise budget amounts in accordance with grant agreement terms; provide a reconciliation crosswalk for CPB funds to the station's general ledger accounts; and report variances and total project costs in accordance with terms; and
 - b) resubmit interim and final financial reports to accurately present actual costs for approved budget line items and identify the corrective actions and controls it will implement to ensure future compliance with grant reporting requirements.

KETC's Response

KETC's response strongly disagreed with recommendation 3 requiring CPB to recover questioned costs of \$422,539. The station believes forfeiture of the CPB funds would be excessively harsh and adversely impact KETC's ability to continue to lead the American Graduate project and achieve CPB's stated goals. The station also noted that it has been working with CPB on the current active grant to amend specific terms in the grant budget negating the recommendation to recover \$40,127 from this grant included in the \$422,539

KETC's response reiterated that its performance and expenses incurred were all in furtherance of the CPB grant objectives. Station management added that the draft report did not fully recognize the fluid nature of the projects and the work performed by KETC's key staff as the project evolved. KETC further said that CPB relied on KETC's senior leadership's expertise and that this leadership was a key factor in accomplishing the complex work. KETC also noted that it believed CPB had accepted its financial reporting because CPB issued timely payments to the station.

⁹ \$73,205 in costs was not reported to CPB, per Exhibit G.

KETC said that it incurred more costs than budgeted in the CPB grants; the balance was paid from station funds. The station said it had received approximately \$1.26 million from CPB and had incurred \$1.6 million on the project. This difference was more than the budget variance reported for KETC senior management of \$250,000. Therefore, station management does not agree that the questioned costs should be paid back to CPB.

KETC's response to recommendation 4a acknowledged that it needed to work more closely with CPB on future budget revisions and to obtain CPB's written approvals for budget modifications. KETC said this is now occurring with the active Executive Producer grant. KETC's response to recommendation 4b also acknowledged that its reporting process needs to be improved. It will resubmit interim and final financial reports on its closed grants to report actual costs for the approved budget line items, and identify actions and controls it is implementing to ensure compliance with CPB grant reporting requirements (e.g., evidence of its reconciliation processes).

OIG Review and Comments

Based on KETC's response, we consider recommendation 3 unresolved and recommendations 4a and 4b resolved, but open pending CPB's management decision.

While CPB and KETC may have been in constant communication about this project's work, CPB was not fully informed of the budget variances and the total costs incurred by the station on this project. KETC certified to CPB that the costs incurred on the grants were in accordance with the approved budget.

As we discussed in our finding, KETC reported most of its executive management time across various budget line items without a proper accounting of its actual executive management time spent on the project. As a result, CPB was not aware that executive management time was being charged against other staff budgeted line items. Further, executive management time was charged at a higher rate than budgeted for those labor categories. Finally, we found this condition in all three CPB grants audited, including the currently active Executive Producer grant. The grant terms provide for budget modifications with CPB approvals, however those approvals were not obtained. Our finding of questioned costs of \$422,539 remains unchanged, pending CPB's management decision resolving recommendation 3.

KETC's response to recommendations 4a and 4b outlined its planned corrective actions. Based on those planned actions, we consider both recommendations resolved but open, pending CPB's final management decision. CPB's management should track KETC's corrective actions to completion to ensure they have corrected the underlying causes.

COMMUNICATIONS ACT COMPLIANCE and CSG CERTIFICATION ELIGIBILITY

Our examination found that KETC did not fully comply with the statutory provisions of the Act or the CPB Certification Requirements for Station Grant Recipients (Certification Requirements), and the CSG TV General Provisions for Certification and Eligibility (General Provisions) in the following areas:

- open meetings requirements;
- establishing a CAB;
- open meetings and open financial records compliance documentation requirements; and
- 2014 TV General Provisions transparency and diversity requirements.

Open Meetings

During the examination period, the station did not provide the public seven-day advance notice of open meetings noting the date, time, and place of the meetings. Nor did it broadcast quarterly open meeting legal notices on air for three consecutive days explaining its open meeting policies and information about how to obtain notices of meetings. In addition, the station did not prepare a written statement to provide the public with reasons why meetings or parts of meetings were closed. The meetings or sessions that were closed typically involved the executive session portion of an open meeting. The reasons for the closed sessions were not included in the board minutes, and therefore we could not ascertain if the reasons met the statutory requirements for reasons for closing a meeting to the public.

Further, KETC did not provide minutes from all committee meetings it had to allow us to determine if meetings were open or closed or whether all committee meetings had quorums present so that the open meeting requirements would apply.

The Act requires that KETC's governing board, committees of the board, and the CAB hold open meetings and allow the public to attend. The Act and CPB also require that stations give the public reasonable notice of such meetings, make quarterly on-air announcements of the station's open meeting policies, and make available to the public the reasons for closing a meeting or part of a meeting.

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.

The Act, Sec. 396(k)4 – Open Meetings.

Further, CPB requirements define the minimum specific actions to meet this compliance as follows:

- 1) the public must be notified at least seven days prior to an open meeting as to the meeting, time and place;
- 2) the station must broadcast an announcement on air for three

consecutive days each quarter regarding the station's open meeting policy to include information about how the public can obtain information regarding specific dates, times and locations; and 3) the station must make available to the public a written statement containing the reasons for closing a meeting in accordance with statutory reasons for closing a meeting.

CPB Act requirements, Open Meetings Requirements, Section III., Minimum Compliance Requirements.

Because the station did not give proper notice to the public of open meetings and make available to the public the reasons for closing a meeting, KETC was not in compliance with the Act and CPB requirements.

KETC management was not fully aware of or did not properly interpret and implement the open meeting requirements as established by CPB's Communication Act certification requirements. The station did publish general notices in its Nine Membership Magazine and on its website stating that board meetings were open to the public and included a phone number to call for more information; however, dates, place, and times were not posted. Station management has since updated its website to list current and past board open meeting schedules with dates and times, and the station now broadcasts the quarterly open meeting policy notices.

The station said that only the executive sessions were closed to the public, and the reasons for closing these sessions met the statutory reasons. However, it was not aware of the requirement to make the reasons available to the public.

CAB

KETC's by-laws state that it is required to establish a CAB and defines its mission, make-up, and responsibilities. The station has not, however, established a CAB operating per its by-laws or the Act. Instead, the station has created six advisory groups, which do not review the station's programming goals, services, and policy decisions. In addition, these advisory groups do not advise the station's board with respect to whether programming and other policies meet the specialized educational and cultural needs of the community. Further, these advisory groups hold meetings that are not open to the public. Finally, the advisory groups are not completely independent of the governing board and are facilitated by station management. Therefore, the station does not have an operating CAB in compliance with the Act and its by-law policy.

The Act sets out specific requirements for a CAB.

(A) Funds may not be distributed pursuant to this subpart to any public broadcasting station ... unless such station establishes a community advisory board

(B) The board shall be permitted to review the programming goals established by the station, the services provided by the station, and the significant policy decisions rendered by the station ... The board shall advise the governing body of the station with respect to whether the programming and other policies of the station are meeting the specialized

educational and cultural needs of the communities serviced by the station, and may make such recommendations as it considers appropriate to meet such needs.

(C) The role of the board shall be solely advisory in nature ... In no case shall the board have any authority to exercise any control over the daily management or operation of the station

The Act, Sec. 396(k)8.

CPB requirements interpret the Act and also provide that the “law is not intended to preclude stations from establishing and maintaining other types of advisory bodies.” CPB Act requirements, CAB Requirements, Section II.B.2. Interpretations, Nature of the CAB.

Further, CPB minimum requirements define the activities a CAB must be allowed to perform:

1) Establish and follow its own schedule and agenda ...; 2) review the programing goals established by station; 3) review the community service provided by the stations; 4) review the impact on the community of the significant policy decisions rendered by the station; and 5) advise the governing board of the station whether the programming and other significant policies of the station are meeting the specialized educational and cultural needs of the communities served by the station.

CPB Act requirements, CAB Requirements, Section III. Minimum Compliance Requirements.

Station management developed its current CAB policy in FY 2015. It defines six focus group advisory bodies in the topic areas of arts, economy, education, environment, health, and science, to meet their interpretation of the Act requirement. This policy is not in accordance with its own board by-laws for its CAB or with the Act. The station’s new policy states: “these focus areas provide the foundation for all our work, ... are distinct and independent from Nine Network Board of Directors, ... but all reports are made available to the Board of Directors. The purpose of these advisory boards is to provide a vehicle for effective community input to the ... Board ... about programming, community service and impact on the community.” The station maintains that these focus groups are the most effective mechanism for the community to be heard and are in keeping with the spirit of the Act.

The six focus advisory groups do not directly report to the board and were initiated and are managed by station management. These focus groups follow a community impact model to align organizational resources with community needs. This includes awareness and need surveys and engagement with the various focus group communities to identify and create awareness around each focus group’s needs. Station management facilitates the conversations and meetings and develops some content around identified needs as well as new funding sources. Station management communicates to the board regarding the discussions and progress from each focus group’s meetings.

The Board's Governance Committee held discussions on how future board members could align with the six focus areas to create new funding sources and considered creating a non-voting advisory group to inform the boards' work in the six focus areas.

The Act does not preclude the station from forming other advisory committees, but as constituted the current advisory groups do not meet the statutory requirements for a CAB. Further, these focus group meetings were held by invitation and were not open to the public. One focus advisory group included a board member, and therefore does not appear to be independent.

Documenting Policies

The station did not have written policies documenting all of its Communications Act compliance practices during our examination period but subsequently developed policies in FY 2015 after we initiated the audit engagement.

CPB Certification Requirements explain the Act and require each station to develop documentation indicating the manner of compliance.

Each station, ... is to develop documentation indicating ... for example, the recognition of the open meeting provision by the relevant boards and committees, the procedure for the open meetings, the method used to give reasonable notice to the public, examples of notices of open meetings, examples of statements of explanation for closed meetings, and ... meetings. And, the type of records made available for public inspections ..., the mechanisms by which the records are made available ..., and any limitations placed on access to the file by the entity.

CPB Act requirements, Open Meetings, and Open Financial Records requirements, Section V. CPB procedures for compliance and certification.

The station did not have a compliance program with written policies and procedures for Communication Act requirements and indicated that staff operated on a status quo basis, doing what has always been done. These policies are important to establish controls to ensure compliance with the Act and provide the public with information about the station operations. KETC developed written policies as a result of our testing.

Transparency and Diversity

KETC did not comply with all diversity requirements for developing a diversity goal and posting information on its website until after commencement of this examination. Most of the requirements should have been posted to the website at the start of FY 2013, October 1, 2012. Currently, the station is not fully compliant with posting CAB information and Diversity Reports on its website, as required in CPB's General Provisions.

CPB has established General Provisions and Eligibility Criteria that govern the use of CSG funds and the eligibility of grantees to receive them. CPB requires grantees to annually certify their

understanding and compliance with all of the provisions. These provisions include operational requirements for grantees.

As of September 30, 2012, or before certification, each Grantee must have:
Established a formal goal of diversity in its workforce, management and boards, including CABs and governing boards...prepare and post to its website, no later than September 30, 2014, a brief statement.. that reflects...the elements of diversity

CPB's FY 2014 TV CSG General Provisions Section 5. E. Diversity of Staff and Board.

In addition, Transparency requirements, Part I, Section 5.F., list the information grantees must post on their websites, which includes but are not limited to:

- a list of station senior/executives ... and contact information;
- a list of the members of its Board of Directors;
- a list of the members of its CAB ...;
- the date, time, and place of all open meetings ...; and
- its annual report of hiring goals, guidelines, employee statistics and actions undertaken to satisfy its formal goal of diversity in the workplace.

Station officials did not have an adequate annual review system set up to comply with the changes in CSG eligibility criteria in the General Provisions; therefore it did not have all the transparency reporting on its website. Further, the station had not formalized its diversity planning goals as required.

In sum, the station was not in complete compliance with the Act. The public was not made aware of open meetings and reasons for closed meetings and not afforded the opportunity to directly report to the board on the specialized educational and cultural needs of the community. As a result, the station was not as transparent as CPB required.

Recommendations

5) We recommend CPB require KETC:

- a) to provide reasonable notice to the public for all board, committees and CAB open meetings;
- b) make available to the public a written explanation for why a meeting or part of a meeting was closed;
- c) establish a CAB in accordance with Act requirements;
- d) submit to CPB its newly written policies that explain how the station complies with open meetings and open financial records requirements to ensure the policies adequately meet CPB requirements;
- e) establish diversity goals and implement initiatives; and
- f) comply with all transparency requirements by posting required information to its website.

KETC's Response

Open Meetings

KETC agreed with our findings on giving adequate advance notice of public meetings and preparing written explanations for closing public meetings. It stated that it has adopted written policies and procedures to ensure compliance.

Community Advisory Board

KETC did not agree with the draft report's conclusion that KETC had not established a CAB in accordance with CPB's requirements. KETC reiterated that it has in fact established six advisory bodies that collectively function as a CAB and that each meets CPB's minimum requirements for a CAB. Station management stated the report finding was based on nomenclature as none of the six advisory bodies have been officially designated *the* CAB and found no requirement that the stations community advisory function was restricted to a single designated board.

Additionally KETC did not agree that its management facilitation of advisory body meetings and reporting to the board on the six advisory bodies' activities was in any way noncompliant with CPB requirements. Further, it did not agree that having a Board member in attendance at an advisory meeting was prohibited and referred to current CPB policy, which became effective after our audit period, May 1, 2015. Station management stated that management may facilitate the conversation between the advisory bodies and the governing board but the reports were from the advisory bodies.

Documenting Policies

KETC agreed with our finding that it did not have written policies documenting compliance with all of the Act requirements and developed policies during our audit fieldwork, however it disagreed that lack of policies during the audit period was cause for noncompliance with the Act based on its interpretation of CPB revised 2015 certification requirements.

Transparency and Diversity

KETC agreed that it did not fully comply with transparency requirements during the audit period and has since complied and updated its website to provide the required information and further stated that it was in the process of developing written documentation to demonstrate its compliance.

OIG Review and Comment

Based on KETC's response, we consider recommendations 5a, 5b, 5d, 5e, and 5f resolved, but open, pending CPB's management decision. We consider finding 5c unresolved, pending CPB management decision.

In its response to recommendation 5c, KETC stated that the six advisory groups were accomplishing the basic responsibility of a CAB, which is to review the station's programming goals, services, and policy decisions and advise the station's board whether programming and other policies are meeting the community's specialized educational and cultural needs. In response to our request during fieldwork for documentation supporting the groups' performance of these functions, KETC provided minutes or discussion notes of group meetings.

Our analysis of these meetings concluded that, with the possible exception of the environmental group, the meetings centered on ways to increase awareness of certain issues but did not involve a review of station goals, services, and policies or actions to advise the station as required by the Act and the station's by-laws. For example, the arts group meeting notes show its purpose was to come together as a network of partners in the arts community to share the story of Grand Center as a vibrant arts destination and to improve the impact of the arts in Grand Center, the neighborhood where the station is located. KETC provided no additional documentation with its response. Accordingly, we continue to maintain that KETC does not have a CAB in compliance with the Act and its by-laws. As a result, we have not changed our finding, and recommendation 5c remains unresolved.

KETC's response to recommendations 5a, 5b, 5d, 5e, and 5f outlined its planned corrective actions. Based on those planned actions, we consider these recommendations resolved but open, pending CPB's final management decision. CPB's management should track KETC's corrective actions to completion to ensure they have corrected the underlying causes.

**CPB Payments to KETC
July 1, 2012 – June 30, 2014**

CPB Grants	FY 2013	FY 2014	Total
TV			
Community Service Grants	\$1,442,371	\$1,174,616	\$2,616,987
Interconnection	\$29,163	\$22,473	\$51,636
Total	\$1,471,534	\$1,197,089	\$2,668,623
Other Grants			
American Graduate Initiative			
Initiative Manager and Community Hub - Grant #14191	\$192,347	\$97,514	\$289,861
Town Hall Manager - Grant #14873		\$250,000	\$250,000
Executive Producer - Grant #15057		\$500,000	\$500,000
Total Other Grants	\$192,347	\$847,514	\$1,039,861
Total TV and American Graduate Grants	\$1,663,881	\$2,044,603	\$3,708,484

KETC
Annual Financial Reports
Years Ending June 30, 2013 and 2014

Line	Description	FY 2013	FY 2014
	Schedule A,		
	Source of Income		
1	Amounts provided directly by federal government agencies	\$0	\$0
2	Amounts Provided by Public Broadcasting Entities	1,487,284	4,498,879
2.A	CPB-CSG	1,442,371	1,174,616
2.B	CPB - all other funds from CPB	29,163	3,224,532
2.C	PBS - all payments except copyright royalties and other pass-through payments	0	84,731
2.D	NPR- all payments except pass-through payments.	0	0
2.E	Public broadcasting stations - all payments	15,750	15,000
2.F	Other PBE funds	0	0
3	Local boards and departments of education or other local government or agency sources	0	0
4	State boards and departments of education or other state government or agency sources	26,760	208,186
5	State colleges and universities	0	0
6	Other state-supported colleges and universities	0	0
7	Private colleges and universities	0	0
8	Foundation and non-profit associations	2,014,116	1,211,361
8.1	NFFS Eligible	1,251,279	1,208,994
8.2	NFFS Ineligible	762,837	2,367
9	Business and Industry	1,521,975	1,661,228
9.1	NFFS Eligible	226,968	401,550
9.2	NFFS Ineligible	1,295,007	1,259,678
10	Membership and Subscription	2,967,032	3,203,160
10.1	NFFS Exclusion - Fair Market value of premiums	460,915	645,213
10.2	NFFS Exclusion - Membership bad debt expense	59,910	47,047
11	Revenue from Friends groups	0	0
12	Subsidiaries and other activities unrelated to public broadcasting	1,047,948	1,159,513
	Form of Revenue		
13	Auction revenue	0	0
14	Special fundraising activities (gross)	0	0
15	Passive income	215	9,123
16	Gains and losses on investments, charitable trusts and gift annuities and sale of other assets (other than endowment funds)	0	0
17	Endowment revenue	214,938	276,087
18	Capital contributions	601,828	958,042
18A	Facilities and equipment	250,000	958,100
18B	Other	351,828	(58)
19	Gifts and bequests from major individual donors	445,433	590,612
20	Other Direct Revenue	0	0
	Total Item 3-20	8,840,245	9,277,312
21	Total Revenue	\$10,327,529	\$13,776,191

KETC
Annual Financial Reports
Years Ending June 30, 2013 and 2014

Line	Description	FY 2013	FY 2014
	Adjustments to Revenue		
22	Federal revenue from line 1.	\$0	\$0
23	Public broadcasting revenue from line 2	1,487,284	4,498,879
24	Capital funds exclusions	1,000,000	958,100
25	Other revenue on line 21 not meeting the source, form, purpose, or recipient criteria to be included as NFFS	0	0
26	Other automatic subtractions from total revenue	2,844,472	3,098,566
	Total Adjustments to Revenue	5,331,756	8,555,545
27	Total Direct Nonfederal Financial Support	4,995,773	5,220,646
	Schedule C		
1	PROFESSIONAL SERVICES (must be eligible as NFFS)	0	0
2	GENERAL OPERATIONAL SERVICES (must be eligible as NFFS)	38,920	45,087
3	OTHER SERVICES (must be eligible as NFFS)	0	0
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	38,920	45,087
5	IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	282,311	416,187
6	Total in-kind contributions - services and other assets (line 4 plus line 5), forwards to Schedule F, line 1c. Must agree with in-kind contributions recognized as revenue in the AFS.	321,231	461,274
	Schedule D	7,407	0
TV	Schedule E		
	PROGRAM SERVICES		
1	Programming and production	3,236,312	3,168,507
A	TV CSG	1,442,371	1,174,616
B	TV Interconnection	0	0
C	Other CPB Funds	279,090	521,745
D	All non-CPB Funds	1,514,851	1,472,146
2	Broadcasting and engineering	2,864,999	2,798,478
A	TV CSG ¹⁰	2,835,836	0
B	TV Interconnection	29,163	22,473
C	Other CPB Funds	0	0
D	All non-CPB Funds	\$0	\$2,776,005

¹⁰ KETC misclassified on AFR for FY 2013 amount should be on line 2 D All non-CPB funds

Exhibit B (continued)

KETC
Annual Financial Reports
Years Ending June 30, 2013 and 2014

Line	Description	FY 2013	FY 2014
3	Program information and promotion	\$998,874	\$1,175,783
A	TV CSG	0	0
B	TV Interconnection	0	0
C	Other CPB Funds	0	0
D	All non-CPB Funds	998,874	1,175,783
	SUPPORT SERVICES		
4	Management and general	1,033,368	1,024,416
A	TV CSG	0	0
B	TV Interconnection	0	0
C	Other CPB Funds	0	0
D	All non-CPB Funds	1,033,368	1,024,416
5	Fund raising and membership development	2,163,317	2,175,855
A	TV CSG	0	0
B	TV Interconnection	0	0
C	Other CPB Funds	0	0
D	All non-CPB Funds	2,163,317	2,175,855
6	Underwriting and grant solicitation	204,003	256,736
A	TV CSG	0	0
B	TV Interconnection	0	0
C	Other CPB Funds	0	0
D	All non-CPB Funds	204,003	256,736
7	Depreciation and Amortization (if not allocated)	0	0
8	Total Expenses (sum of lines 1 to 7) must agree with audited financial statements	\$10,500,873	\$10,599,775

**Summary of Non-Federal Financial Support
For the periods ending June 30, 2013 and 2014
Certified by Head of Grantee and Independent Account's Report**

Line	Description	TV FY 2013	TV FY 2014	Total
	<i>Summary of Non-Federal Financial Support:</i>			
1	Direct Revenue (Schedule A)	\$4,995,773	\$5,220,646	\$10,216,419
2	Indirect Administrative (Schedule B)	-	-	-
3a	In-Kind Contributions (Schedule C)	38,920	45,087	84,007
3b	In-Kind Contributions (Schedule D)	7,407	-	7,407
4	Total Non-Federal Financial Support	\$5,042,100	\$5,265,733	\$10,307,833

**CPB American Graduate Grants
Summary of Financial Reports to CPB**

Report Type	CPB Grant Number	Grant	Budget	Reported to CPB	Exhibit
Final	14191	American Graduate Initiative Manager and Community Hub	\$971,711	\$1,192,166	Exhibit D-1
Final	14873	American Graduate Town Hall Manager	\$289,454	\$293,241	Exhibit D-2
Interim	15057	American Graduate Initiative Executive Producer	\$2,901,326	\$197,026	Exhibit D-3
	Total		\$4,162,491	\$1,682,433	

**American Graduate Initiative Manager and Community Hub
Grant #14191 Final Financial Report**

Budget Line Item	Budget	Certified Final Costs reported to CPB 5/1/11 - 4/30/13
INITIATIVE MANAGER		
Core Staffing		
Initiative Director	\$45,778	\$61,917
Project/Community Hub Director	126,119	151,849
Project Manager	93,009	79,649
Content Manager	48,384	49,665
Digital Engagement Manager	28,980	29,704
Communications Manager	13,410	40,323
Brand Manager	10,098	33,539
Project Facilitator	16,000	-
Outcomes coach	40,000	56,031
Digital Media Advisor	4,000	4,000
Accounting Manager	6,730	6,732
Administrative Support	58,050	64,120
Interns (2)	28,000	51,703
Core Staffing total	518,558	540,551
Content		
On-Line editing in HD Suite (including audio)	12,000	11,100
Delivery to stations by satellite	5,000	-
Composition of Original Graphics	20,000	20,000
Content Total	37,000	31,100
Branding		
Production of Broadcast Funding Credit	5,000	5,000
Creation of Graphics Animation Package	4,800	4,800
Branding Total	9,800	9,800
Misc. Expenses		
Community Hub Assessment	30,000	36,000
Long Distance	10,000	6,108
Project Conference Calls/Web Meetings	10,000	5,022
Office Supplies	2,000	1,073
Printing	5,000	5,221
Insurance	3,000	2,791
Misc. Expenses Total	60,000	45,956
Travel (Nine travel to stations, to CPB, conference presentations, meetings)		
Airfare (20)	13,000	8,395
Lodging (80)	16,000	12,901
Ground Transportation (40)	2,000	2,475
Per Diem (80)	6,000	1,686
Travel Total	37,000	25,457
Subtotal		
Direct costs	662,358	652,864
General and Administrative*	99,354	112,771
TOTAL: INITIATIVE MANAGER	\$761,711	\$864,575

* No costs contained in this line are duplicative of other items in this Budget. Also these expenses can be directly attributed to identifiable costs.

**American Graduate Initiative Manager and Community Hub
Grant #14191 Final Financial Report**

Budget Line Item	Budget		Certified Final Costs reported to CPB 5/1/11 - 4/30/13
COMMUNITY HUB			
Core Staffing			
Initiative Director	\$20,760	IN-KIND	NOT IN BUDGET
Project /Community Hub Director	57,194	IN-KIND	NOT IN BUDGET
Project Manager	93,836		\$100,407
Community Engagement Manager	14,424		20,274
Content Manager	12,096		33,172
Nine Academy Manager	4,614		12,770
Digital Engagement Manager	9,660		25,631
Web Editor	4,001		14,047
Communications Manager	6,705		18,488
Brand Manager	5,049		16,202
Core Staffing Total (totals exclude in-kind)	150,384		240,991
Content			
On-line editing in HD Suite (on-air content creation-including Teacher Town Hall)	9,250		17,309
Production Cost (this is for any on-air content creation--including Teacher Town Hall--equipment, extraboards)	3,000		8,272
Nine Academy (10 classes/approx. 150 students--instructors, materials, equipment)	10,000		8,254
Content Total	22,250		33,835
Misc. Expenses			
Project Supplies	500		870
Printing	1,000		999
Food/Beverage for Meetings	5,000		6,637
Misc Expenses Total	6,500		8,506
Travel Nine travel to project meetings			
Airfare (3)	1,950		1,240
Lodging (5)	1,000		-
Ground Transportation (3)	150		290
Per Diem (5)	375		-
Travel total	3,475		1,530
Subtotal			
Direct Costs	182,609		284,862
General and Administrative*	27,391		42,729
TOTAL COMMUNITY HUB	\$210,000		\$327,591
Total Grant Budget	\$971,711		\$1,192,166

* No costs contained in this line are duplicative of other items in this Budget. Also these expenses can be directly attributed to identifiable costs.

Reported amounts to CPB included clerical errors in subtotals.

**American Graduate Initiative –Town Hall Manager
Grant #14873 Final Financial Report**

Budget Line item	Budget Amount	Certified Final Costs reported to CPB 8/1/2013 - 4/30/2014
Core Staffing		
Initiative Director	\$18,559	\$19,707
Project and Community Hub Director	18,127	22,936
Project Manager	9,455	13,333
Content Manager	13,104	12,391
Digital Engagement Manager	6,279	6,148
Communications Manager	8,717	8,190
Brand Manager	6,759	6,879
Evaluation Manager	14,035	20,026
Accounting Manager	8,076	8,960
Interns	15,600	17,851
Core Staffing Total	118,710	136,421
Content		
On-Line editing in HD Suite (including audio)	25,000	20,621
Creation of Infographic for Town Halls	20,000	20,000
Content Total	45,000	40,621
Branding		
Production of Broadcast Funding Credit	2,000	2,000
Creation of Graphics Animation Package	20,000	20,000
Branding Total	22,000	22,000
Misc. Expenses		
Community Hubs Assessment	10,000	11,024
Long Distance	1,000	1,818
Project Conference Calls/Web Meetings	2,000	1,630
Printing	10,000	3,026
Misc. Expenses Total	23,000	17,498
Travel		
Airfare	11,050	9,904
Lodging	3,400	4,420
Ground Transportation	1,700	1,070
Per Diem	5,100	1,393
Travel Total	21,250	16,787
Subtotal		
Direct Costs	229,960	233,253
General and Administrative (15%)	34,494	34,988
Subtotal	264,454	268,241
St. Louis Local Community Hub Town Hall	25,000	25,000
Grand Total	\$289,454	\$293,241

American Graduate Initiative Executive Producer Grant #15057 Interim Report

Budget Line Item	Budget Amount	Interim costs reported to CPB 4/1/2014 - 6/30/2014
Content Leadership		
Executive in Charge	\$111,384	\$13,923
Executive Producer	108,732	16,966
Content Director	175,032	21,879
Content Manager	112,528	-
Community Engagement Director	37,518	4,690
Accounting Manager	19,375	2,422
Administrative Support	85,488	10,686
Content Leadership Total	650,057	70,566
Content Production & Distribution		
Production Manager	64,771	8,096
Producer	47,736	5,967
Associate Producer	79,976	-
Digital Engagement Producer	46,332	5,792
Production Interns	124,800	6,841
Production crews	312,000	2,335
Post production	250,000	-
Production of Broadcast Funding Credits	20,000	-
Composition of Original Graphics	20,000	-
Creation of Animation Packages	25,000	-
Content Production Total	990,615	29,031
Content Evaluation		
Content Evaluation Director	140,348	17,544
Content Evaluation Associate	250,016	1,202
Contract evaluation services (surveys, software, database)	60,000	17,250
Content Evaluation Total	450,364	35,996
Station Relations		
Station Relations Manager for Communications	47,902	5,988
Station Relations Manager for Branding	36,067	4,508
Station Relations Manager for Development	46,878	5,860
Station Relations Associate	125,008	-
Collateral materials	20,000	-
Station Relations Total	275,856	16,356
Misc. Expenses		
Long Distance	13,000	1,339
Project Conference Calls/Web Meetings	13,000	1,205
Office Supplies	5,000	780
Printing	20,000	809
Misc. Expenses Total	51,000	4,133
Travel		
Airfare	26,000	6,743
Lodging	24,000	5,817
Ground Transportation	6,000	642
Per Diem	9,000	2,043
Travel Total	65,000	15,245
Peer Meetings (2) with Stations		
Food and Beverage/Room Costs/Meeting Facilitator	40,000	-
Peer Meetings Total	40,000	-
Subtotal		
Direct Costs	2,522,892	171,327
General and Administrative	378,434	25,699
Grand Total	\$2,901,326	\$197,026

KETC Overstated NFFS FY 2013 & FY 2014

# of Transactions	Questioned NFFS	FY 13	FY 14	Total
	Payments - Exchange transactions - Sources ineligible			
1	Donor A – Programming/Technical services	\$115,818	\$3,000	\$118,818
1	Donor B - Fees for other PBS Underwriting	\$0	\$14,790	\$14,790
1	Donor C - Magazine Ads (<i>Note 1</i>)	\$0	\$3,100	\$3,100
2	Total Payments ineligible for NFFS	\$115,818	\$20,890	\$136,708
*	CPB's FY 2015 Incentive Rate of Return	13.48%	13.48%	13.48%
	CSG overpayment	\$15,613	\$2,816	\$18,429
	Federal Funds - Contribution source ineligible			
1	Donor D - Underwriting (CMAQ grant 80% federal)	\$0	\$39,964	\$39,964
	Total contribution source ineligible for NFFS	\$0	\$39,964	\$39,964
*	CPB's FY 2015 Incentive Rate of Return	13.48%	13.48%	13.48%
	CSG overpayment	\$0	\$5,387	\$5,387
	In-Kind Trade - Ineligible			
1	Donor E (\$13,369 claimed as NFFS) (<i>Note 2</i>)	\$6,982	\$0	\$6,982
1	Donor F (\$14,775 claimed as NFFS) (<i>Note 3</i>)	\$8,247	\$0	\$8,247
2	Total in-kind trade ineligible for NFFS	\$15,229	\$0	\$15,229
*	CPB's FY 2015 Incentive Rate of Return	13.48%	13.48%	13.48%
	CSG overpayment	\$2,053	\$0	\$2,053
5	Total overstated NFFS	\$131,047	\$60,854	\$191,901
	*CPB FY 2015 Incentive Rate of Return (FY 2016 estimated at FY 2015 as rates not available)	13.48%	13.48%	13.48%
	Potential CSG Overpayment	\$17,666	\$8,204	\$25,870

OIG Notes:

Note 1) We calculated the rate for ads based on the rates the station charged to the Symphony for magazine ads.

Note 2) The station claimed as NFFS 75% of trade underwriting amount per donor letter acknowledging amount of underwriting received as \$17,835 not based on trade agreement underwriting amount of \$17,032, and excluded 25% as ineligible. Overstated amount equals claimed NFFS amount less 75% of actual donor valuation.

Note 3) The station's claimed amount is \$1,719 more than underwriting trade amount plus twice the value of actual donation value of \$6,528 to total \$8,247.

CPB American Graduate Initiative Grants Questioned Reported Costs

Report Type	CPB Grant Number	Grant	Term	Budget	Reported to CPB	Questioned Reported Costs	Exhibit
Final	14191	American Graduate Initiative Manager and Community Hub	5/1/2011-4/30/2013	\$971,711	\$1,192,166	\$288,603	Exhibit F-1
Final	14873	American Graduate Town Hall Manager	8/1/2013 - 4/30/2014	\$289,454	\$293,241	\$93,809	Exhibit F-2
Total closed Grants				\$1,261,164	\$1,485,407	\$382,412	
Interim Active Grant	15057	American Graduate Initiative Executive Producer	4/1/2014 - 4/30/2016	\$2,901,326	\$197,026	\$40,127	Exhibit F-3
	Total			\$4,162,491	\$1,682,433	\$422,539	

Questioned Reported Costs – CPB Grant #14191

STATION PREPARED BUDGET		REPORTED	ACTUAL	OIG ANALYSIS		
Budget Line Item	Budget Amount	Certified Final Costs reported to CPB 5/1/2011 - 4/30/2013	Reconciled General Ledger costs with fringe allocation (Note 1)	Reporting Variance Amount	Reporting Variance %	Questioned Reported Costs
INITIATIVE MANAGER BUDGET						
Core Staffing						
Initiative Director	\$45,778	\$61,917	\$186,056	\$124,139	200%	
Project/Community Hub Director	126,119	151,849	172,974	21,125	14%	
Project Manager	93,009	79,649	80,054	405	1%	
Content Manager	48,384	49,665	14,863	(34,802)	(70%)	(34,802)
Digital Engagement Manager	28,980	29,704	10,026	(19,678)	(66%)	(19,678)
Communications Manager	13,410	40,323	10,967	(29,356)	(73%)	(29,356)
Brand Manager	10,098	33,539	25,293	(8,246)	(25%)	(8,246)
Project Facilitator	16,000	-	-	-		
Outcomes coach	40,000	56,031	52,725	(3,306)	(6%)	(3,306)
Digital Media Advisor	4,000	4,000	4,405	405	10%	
Accounting Manager	6,730	6,732	6,109	(623)	(9%)	(623)
Administrative Support	58,050	64,120	47,184	(16,936)	(26%)	(16,936)
Interns (2)	28,000	51,703	36,261	(15,442)	(30%)	(15,442)
Core Staffing Total (Note 3)	518,558	629,232	646,918	17,686	3%	(128,388)
Content						
On-Line editing in HD Suite (including audio)	12,000	11,100	8,136	(2,964)	(27%)	(2,964)
Delivery to stations by satellite	5,000	-	613	613		
Composition of Original Graphics (Note 2)	20,000	20,000	in staffing above	(20,000)	(100%)	(20,000)
Content Total	37,000	31,100	8,749	(22,351)	(72%)	(22,964)
Branding (Note 2)						
Production of Broadcast Funding Credit	5,000	5,000	in staffing above	(5,000)	(100%)	(5,000)
Creation of Graphics Animation Package	4,800	4,800	in staffing above	(4,800)	(100%)	(4,800)
Branding Total	9,800	9,800	-	(9,800)	(100%)	(9,800)
Misc. Expenses						
Community Hub Assessment (Note 2)	30,000	36,000	in staffing above	(36,000)	(100%)	(36,000)
Long Distance	10,000	6,108	6,004	(104)	(2%)	(104)
Project Conference Calls/Web Meetings	10,000	5,022	2,008	(3,014)	(60%)	(3,014)
Office Supplies	2,000	1,073	4,248	3,175	296%	3,175
Printing	5,000	5,221	4,719	(502)	(10%)	(502)
Insurance	3,000	2,791	-		0%	(2,791)
Misc. Expenses Total (Note 3)	\$60,000	\$56,215	\$16,979	(\$36,445)	(65%)	(\$39,236)

Exhibit F-1 (continued)

Questioned Reported Costs – CPB Grant #14191

STATION PREPARED BUDGET		REPORTED	ACTUAL	OIG ANALYSIS		
Budget Line Item	Budget Amount	Certified Final Costs reported to CPB 5/1/2011 - 4/30/2013	Reconciled General Ledger costs with fringe allocation (Note 1)	Reporting Variance Amount	Reporting Variance %	Questioned Reported Costs
Travel (Nine travel to stations, to CPB, conference presentations, meetings)						
Airfare (20)	\$13,000	\$8,395	\$9,706	\$1,311	16%	
Lodging (80)	16,000	12,901	13,215	314	2%	
Ground Transportation (40)	2,000	2,475	3,253	778	31%	
Per Diem (80)	6,000	1,686	3,144	1,458	86%	
Travel Total	37,000	25,457	29,318	3,861	15%	-
Subtotal						
Direct costs (note 3)	662,358	751,804	701,964	(47,049)	(6%)	(200,388)
General and Administrative*	99,354	112,771	105,295	(7,057)	(6%)	(30,058)
Total Initiative Manager	\$761,711	\$864,575	\$807,259	(\$54,106)	(7%)	(\$230,447)
COMMUNITY HUB BUDGET						
Core Staffing						
Initiative Director (<i>IN-KIND</i>)	20,760	NOT IN BUDGET				
Project and Community Hub Director (<i>IN-KIND</i>)	57,194	NOT IN BUDGET				
Project Manager	93,836	100,407	99,041	(1,366)	(1%)	(1,366)
Community Engagement Manager	14,424	20,274	27,326	7,052	35%	
Content Manager	12,096	33,172	50,282	17,110	52%	
Nine Academy Manager	4,614	12,770	21,719	8,949	70%	
Digital Engagement Manager	9,660	25,631	16,769	(8,862)	(35%)	(8,862)
Web Editor	4,001	14,047	104	(13,943)	(99%)	(13,943)
Communications Manager	6,705	18,488	6,558	(11,930)	(65%)	(11,930)
Brand Manager	5,049	16,202	16,398	196	1%	
Core Staffing Total (totals exclude in-kind)	150,384	240,991	238,197	(2,794)	(1%)	(36,100)
Content						
On-Line editing in HD Suite (on-air content creation-including Teacher Town Hall)	9,250	17,309	3,356	(13,953)	(81%)	(13,953)
Production Cost (this is for any on-air content creation--including Teacher Town Hall--equipment, extraboards)	3,000	8,272	21,509	13,237	160%	
Nine Academy (10 classes/approx. 150 students--instructors, materials, equipment)	10,000	8,254	9,757	1,503	18%	
Content Total	\$22,250	\$33,835	\$34,622	\$787	2%	(\$13,953)

Exhibit F-1 (continued)

Questioned Reported Costs – CPB Grant #14191

STATION PREPARED BUDGET		REPORTED	ACTUAL	OIG ANALYSIS		
Budget Line Item	Budget Amount	Certified Final Costs reported to CPB 5/1/2011 - 4/30/2013	Reconciled General Ledger costs with fringe allocation (Note 1)	Reporting Variance Amount	Reporting Variance %	Questioned Reported Costs
Misc. Expenses						
Project Supplies	\$500	\$870	\$788	(\$82)	(9%)	(\$82)
Printing	1,000	999	2,984	1,985	199%	
Food/Beverage for Meetings	5,000	6,637	9,647	3,010	45%	
Misc. Expenses Total	6,500	8,506	13,419	4,913	58%	(82)
Travel (Nine travel to project meetings)						
Airfare (3)	1,950	1,240	1,095	(145)	(12%)	(145)
Lodging (5)	1,000	-	-	-		
Ground Transportation (3)	150	290	-	(290)	(100%)	(290)
Per Diem (5)	375	-	-	-		
Travel total	3,475	1,530	1,095	(435)	(28%)	(435)
Subtotal						
Direct Costs	182,609	284,862	287,333	2,471	1%	(50,570)
General and Administrative*	27,391	42,729	43,100	371	1%	(7,586)
Total Community Hub	\$210,000	327,591	\$330,433	\$2,842	1%	(\$58,156)
Total Grant Budget	\$971,711	\$1,192,166	\$1,137,692	(\$54,474)	(5%)	(\$288,603)
In-Kind not to be charged to CPB project budget	77,953		42,848			
Total Project Budget cost for KETC	\$1,049,664		\$1,180,540			

* No costs contained in this line are duplicative of other items in this Budget. Also, these expenses can be directly attributed to identifiable costs.

OIG Notes:

Note 1) The fringe benefits are allocated based on the fringe benefits reported in the GL.

Note 2) Allowance budget line items for personnel related expenditures were reconciled and included in core staffing actuals. The allowances were to cover content and branding expenses for up front one-time costs and Hub assessments and included non-executive staff time. The station reported amounts to CPB for core staffing and allowance items combined exceeded actual general ledger supported payroll expenses.

Note 3) Report submitted to CPB subtotals and totals do not add up correctly, line items are correct. OIG corrected for analysis.

Questioned Reported Costs – CPB Grant #14873

STATION PREPARED BUDGET		REPORTED	ACTUAL	OIG ANALYSIS		
Budget Line Item	Budget Amount	Certified Final Costs reported to CPB 8/1/2013 - 4/30/2014	Reconciled General Ledger costs with fringe allocation (Note 1)	Reporting Variance Amount	Reporting Variance %	Questioned Reported Costs
Core Staffing						
Initiative Director	\$18,559	\$19,707	\$66,206	\$46,499	236%	
Project and Community Hub Director	18,127	22,936	57,613	34,677	151%	
Project Manager	9,455	13,333	59,879	46,546	349%	
Content Manager	13,104	12,391	22,739	10,348	84%	
Digital Engagement Manager	6,279	6,148	6,770	622	10%	
Communications Manager	8,717	8,190	3,682	(4,508)	(55%)	(4,508)
Brand Manager	6,759	6,879	4,926	(1,953)	(28%)	(1,953)
Evaluation Manager	14,035	20,026	48,322	28,296	141%	
Accounting Manager	8,076	8,960	-	(8,960)	(100%)	(8,960)
Interns	15,600	17,851	31,452	13,601	76%	
Fringe Benefits (\$47,918)			ALLOCATED			
Core Staffing Total	118,710	136,421	301,588	165,167	121%	(15,421)
Content						
On-Line editing in HD Suite (including audio)	25,000	20,621	2,635	(17,986)	(87%)	(17,986)
Creation of Infographic for Town Halls	20,000	20,000	shows up in staff time above -	(20,000)	(100%)	(20,000)
Content Total	45,000	40,621	2,635	(37,986)	(94%)	(37,986)
Branding						
Production of Broadcast Funding Credit	2,000	2,000	shows up in staff time above	(2,000)	(100%)	(2,000)
Creation of Graphics Animation Package	20,000	20,000	shows up in staff time above	(20,000)	(100%)	(20,000)
Branding Total	22,000	22,000		(22,000)	(100%)	(22,000)
Misc. Expenses						
Community Hubs Assessment	10,000	11,024	13,116	2,092	19%	
Long Distance	1,000	1,818	1,711	(107)	(6%)	(107)
Project Conference Calls/Web Meetings	2,000	1,630	1,010	(620)	(38%)	(620)
Printing	10,000	3,026	945	(2,081)	(69%)	(2,081)
Misc. Expenses Total	\$23,000	\$17,498	\$16,782	(\$716)	(4%)	(\$2,808)

Exhibit F-2 (continued)

Questioned Reported Costs – CPB Grant #14873

STATION PREPARED BUDGET		REPORTED	ACTUAL	OIG ANALYSIS		
Budget Line Item	Budget Amount	Certified Final Costs reported to CPB 8/1/2013 - 4/30/2014	Reconciled General Ledger costs with fringe allocation (Note 1)	Reporting Variance Amount	Reporting Variance %	Questioned Reported Costs
Travel						
Airfare	\$11,050	\$9,904	\$6,036	(\$3,868)	(39%)	(\$3,868)
Lodging	3,400	4,420	4,399	(21)	0%	(21)
Ground Transportation	1,700	1,070	861	(209)	(20%)	(209)
Per Diem (GL reclass offset other travel)	5,100	1,393	2,133	740	53%	740
Travel Total	21,250	16,787	13,249	(3,358)	(20%)	(3,358)
Subtotal						
Direct Costs	229,960	233,253	334,434	101,181	43%	(81,573)
General and Administrative (15%)	34,494	34,988	50,165	15,177	43%	(12,236)
Subtotal	264,454	268,241	384,599	116,358	43%	(93,809)
St. Louis Local Community Hub Town Hall	25,000	25,000	36,321	11,321	45%	
Grand Total	\$289,454	\$293,241	\$420,920	\$127,679	44%	(\$93,809)

OIG Notes:

Note 1) The fringe allocation was applied based on reconciled incurred General Ledger Fringe Benefits amount of \$47,918 to core staffing salaries \$253,667 = 18.89%.

Note 2) Reported subtotals did not foot.

Questioned Reported Costs – CPB Grant #15057

STATION PREPARED BUDGET		REPORTED	ACTUAL	OIG ANALYSIS		
Budget Line Item	Budget	Interim Expenses 4/1/2014 - 6/30/2014	Reconciled General Ledger(GL) costs with fringe allocation (Note 1)	Reporting Variance Amount	Reporting Variance %	Questioned Reported Costs
Content Leadership						
Executive in Charge	\$111,384	\$13,923	\$25,142	\$11,219	81%	
Executive Producer	108,732	16,966	31,493	14,527	86%	
Content Director	175,032	21,879	15,023	(6,856)	(31%)	(6,856)
Content Manager	112,528	-	-	-		
Community Engagement Director	37,518	4,690	-	(4,690)	(100%)	(4,690)
Accounting Manager	19,375	2,422	1,046	(1,376)	(57%)	(1,376)
Administrative Support	85,488	10,686	8,402	(2,284)	(21%)	(2,284)
Content Leadership Total	650,057	70,566	81,106	10,540	15%	(15,206)
Content Production & Distribution						
Production Manager	64,771	8,096	7,523	(573)	(7%)	(573)
Producer	47,736	5,967	9,253	3,286	55%	
Associate Producer	79,976	-	3,466	3,466		
Digital Engagement Producer	46,332	5,792	-	(5,792)	(100%)	(5,792)
Production Interns	124,800	6,841	3,323	(3,518)	(51%)	
Production crews	312,000	2,335	7,163	4,828	207%	
Post production	250,000	-	58	58		
<i>Production of Broadcast Funding Credits</i>	20,000	-	-	-		
<i>Composition of Original Graphics</i>	20,000	-	-	-		
<i>Creation of Animation Packages</i>	25,000	-	-	-		
Content Production Total	990,615	29,031	30,785	1,754	6%	(6,365)
Content Evaluation						
Content Evaluation Director	140,348	17,544	18,630	1,086	6%	
Content Evaluation Associate	250,016	1,202	-	(1,202)	(100%)	(1,202)
Contract evaluation services (surveys, software, database)	60,000	17,250	17,250	-	0%	
Content Evaluation Total	450,364	35,996	35,880	(116)	0%	(1,202)

Exhibit F-3 (continued)

Questioned Reported Costs – CPB Grant #15057

STATION PREPARED BUDGET		REPORTED	ACTUAL	OIG ANALYSIS		
Budget Line Item	Budget	Interim Expenses 4/1/2014 - 6/30/2014	Reconciled General Ledger(GL) costs with fringe allocation (Note 1)	Reporting Variance Amount	Reporting Variance %	Questioned Reported Costs
Station Relations						
Station Relations Manager for Communications	\$47,902	\$5,988	\$796	(\$5,192)	(87%)	(\$5,192)
Station Relations Manager for Branding	36,067	4,508	3,017	(1,491)	(33%)	(1,491)
Station Relations Manager for Development	46,878	5,860	-	(5,860)	(100%)	(5,860)
Station Relations Associate	125,008	-	-	-		
Collateral materials	20,000	-	-	-		
Station Relations Total	275,856	16,356	3,812	(12,544)	(77%)	(12,544)
Fringe Benefits						
<i>Fringe benefits for staff</i>		<i>allocated above</i>	424	424		424
Misc. Expenses						
Long Distance	13,000	1,339	293	(1,046)	(78%)	
Project Conference Calls/Web Meetings	13,000	1,205	375	(830)	(69%)	
Office Supplies	5,000	780	660	(120)	(15%)	
Printing	20,000	809	808	(1)	0%	
Misc. Expenses Total	51,000	4,133	2,136	(1,997)	(48%)	
Travel						
Airfare	26,000	6,743	6,743	(0)	0%	
Lodging	24,000	5,817	4,726	(1,091)	(19%)	
Ground Transportation	6,000	642	628	(14)	(2%)	
Per Diem	9,000	2,043	2,394	351	17%	
<i>Conference Registrations</i>	Not budgeted		2,694	2,694		
Travel Total	65,000	15,245	17,184	1,939	13%	
Peer Meetings (2) with Stations						
Food and Beverage/Room Costs/Meeting Facilitator	40,000	-	-	-		
Peer Meetings Total	\$40,000	-	-	-		
Subtotal						
Direct Costs	2,522,892	171,327	171,327	0	0%	(34,893)
General and Administrative	378,434	25,699	25,699	0	0%	(5,234)
Grand Total	\$2,901,326	\$197,026	\$197,026	\$0	0%	(\$40,127)

OIG Note:

Note 1) We allocated fringe benefits based on actual fringe benefits recorded in KETC general ledgers for American Graduate grants.

KETC Budget and Reporting Summary for CPB American Graduate Grants

Grant	CPB Budget	Reported to CPB	Recorded in General Ledger plus Indirect	Difference between Reported and Recorded in General Ledger
Final #14191	\$971,711	\$1,192,166	\$1,137,692	\$54,474
Final #14873	\$289,454	\$293,241	\$420,920	(\$127,679)
Interim #15057 ¹¹	\$2,901,326	\$197,026	\$197,026	\$0
Totals	\$4,162,491	\$1,682,433	\$1,755,638	(\$73,205)

¹¹ Grant #15057 was amended in March 2015 and increased to \$3,295,966. The amounts in the chart reflect the first interim report as of 6/30/14.

Scope and Methodology

We performed an examination to determine KETC's compliance with CPB Financial Reporting Guidelines, provisions of the Communications Act, grant certification requirements, and other grant provisions. The scope of the examination included reviews and tests of the information reported by the station on its AFR and reconciled to audited financial statements for the years ending June 30, 2013 and June 30, 2014, grant certifications of compliance with Act requirements, and certifications of Final Financial Report submitted to CPB.

We tested the allowability of NFFS claimed on KETC's TV AFRs by performing financial reconciliations and comparisons to underlying accounting records (general ledger) and the audited financial statements. We reviewed underwriting and grant agreements and other documentation supporting revenues reported. Specifically, we reviewed 25 NFFS revenue transactions totaling \$1,557,008 of 5,042,100 in FY 2013 and 33 NFFS revenue transactions totaling \$2,006,106 of \$5,265,733 in FY 2014.

We reviewed the allowability of expenses charged to selected CPB grants (CSG, TV and Interconnection, and the American Graduate Initiative Manager and Community Hub project). To determine that expenditures were incurred in accordance with the grant terms, we reviewed \$2,616,987 of \$2,668,623 expenses (98 percent)¹² reported on the CPB CSG grants in FYs 2013 and FY 2014 and \$203,329 of \$1,032,137 (19.7 percent) of direct American Graduate costs for grant #14191 reported in FYs 2011, 2012 and 2013. We reviewed payroll and time reports, vendor invoices, and other documentation supporting expenditures tested. We reviewed general ledger detail expenditures and reconciliations for all American Grants reported in FYs 2011, 2012, 2013 and 2014.

We reviewed corporate policies, records, and documents supporting the station's compliance with the Act requirements to: provide advance notice of public meetings; make financial and EEO information available to the public; operate a CAB; and provide documents supporting compliance with donor lists and political activities prohibitions. We also reviewed the station's website and policies to determine its compliance with CPB's new eligibility transparency requirements. We also evaluated KETC's framework to carry out the American Graduate initiative as Executive Producer. Our procedures included interviewing station officials and its independent public accountant.

We gained an understanding of internal controls over the preparation of AFRs, cash receipts, and cash disbursements. We also gained an understanding of KETC's policies and procedures for compliance with certification of eligibility requirements, Communications 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.

Our fieldwork was conducted from January 2015 through April 2015. Our examination was performed in accordance with the *Government Auditing Standards* for attestation engagements.

¹² KETC expends all CSG funds (excluding Interconnection) on PBS dues and programming expenses.

July 27, 2015

William J. Richardson III
Deputy Inspector General
Corporation for Public Broadcasting
Office of Inspector General
401 9th Street, NW
Washington, DC 20004-2129

Dear Mr. Richardson:

Thank you for the opportunity to respond to the Draft Audit Report. While we agree with some of the criticisms made in the Draft Report, and are taking corrective actions in response, we would like to use the majority of this opportunity to address the recommendations and criticisms that we feel are either not correct or are inappropriate under the circumstances. We will address each recommendation that is made in the Draft Report in the order each appears. For your convenience, our responses will be grouped together by topic in the same manner as in the Draft Report.

Non-Federal Financial Support (“NFFS”) Calculation:

Draft Report Recommendations:

We recommend CPB management take the following actions:

- 1) require KETC to submit revised AFRs eliminating ineligible revenues for FYs 2013 and 2014 and identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines; and
- 2) recover \$17,666 in excess CSG payments made to KETC in FY 2015 based on the FY 2013 reported NFFS and reduce FY 2016 CSG payments based on the revised FY 2014 AFR and recover the overpayment estimated as \$8,204.

Response:

The Draft Report states that the questioned NFFS comes from several categories: payment sources that do not qualify as NFFS; contributions from ineligible sources; and unqualified in-kind trades. KETC does not dispute the criticisms regarding the contributions containing ineligible source of funds (the Federal Government) and the in-kind trades. While it is no excuse, KETC was not aware that some of its contracts with local agencies were partially funded by Federal grants, and as such, the Federal portion of those grants was not properly excluded from the reported NFFS. KETC will adopt processes to ensure future contracts properly identify funds from Federal sources so they can be excluded from NFFS reporting. Further, KETC will adopt further processes to ensure that KETC properly values and documents in-kind trades.

However, while we agree that KETC did not properly exclude underwriting facilitation fees and some magazine advertisements from NFFS, KETC disagrees with the Draft Report’s conclusion that it should

exclude from NFFS the entire amount in fees KETC received for technical services provided by the non-profit cable channel operated by the Higher Education Consortium of Metropolitan St. Louis ("HEC").

As the Draft Report points out, Section 2.2 of the Corporation for Public Broadcasting's ("CPB's") Financial Reporting Guidelines states that a payment may only be counted as NFFS when it meets very limited source criteria. Specifically, the Guidelines state that, for payments to count as NFFS, the "...only eligible sources are state and local governments and educational institutions. Educational institutions are defined as degree-granting institutions."

HEC operates a non-profit cable channel that provides educational programming. HEC is made up of and governed by degree-granting institutions in the metropolitan St. Louis area. As such, KETC believes the funding from HEC should count toward NFFS because HEC is made up of degree granting institutions that have joined resources in furtherance of their educational mission.

Clearly, if the degree-granting institutions that make up HEC individually paid fees directly to KETC for the same services, the payments would count as NFFS. KETC does not believe that it should be penalized for aggregating resources into HEC, which can operate the cable channel in a more efficient manner. This is especially true because the nature of the fees, i.e. payment to KETC to provide technical services related to distributing programming, do not change if they are paid to KETC by HEC or by its member institutions.

CPB has consistently encouraged its grantees to be more efficient and collaborative. It runs counter-intuitive to allow the payments to qualify as NFFS if KETC contracted with the institutions individually but not when they collaborate to more efficiently provide educational services.

Costs Related to American Graduate Grants:

Draft Report Recommendations:

We recommend CPB management:

- 3) recover \$422,539 (\$382,412 from closed grants and \$40,127 from active grant) in questioned CPB funds;
- 4) require KETC to:
 - a) adequately explain future budget modifications and obtain CPB's written approval to revise budget amounts in accordance with grant agreement terms; provide a reconciliation crosswalk for CPB funds to the station's general ledger accounts; and report variances and total project costs in accordance with terms; and
 - b) resubmit interim and final financial reports to accurately present actual costs for approved budget line items and identify the corrective actions and controls it will implement to ensure future compliance with grant reporting requirements.

Response:

KETC will work more closely with CPB going forward with future budget modifications and obtain written approvals whenever called for by a grant agreement or when CPB feels it is appropriate. Indeed, this is already occurring with the current Executive Producer grant. However, KETC

disagrees with the recommendation that CPB management require KETC return the grant funds that are questioned by Recommendation 3 in the Draft Report. KETC will be more diligent in ensuring that reports to CPB reconcile with its general ledger and has made those changes to our process, but that does not negate the work that KETC accomplished on behalf of CPB. Forfeiture of the funds, which KETC used to successfully accomplish the grant's goals, seems to KETC to be disproportionately and excessively harsh.

Nowhere does the Draft Report indicate (or even suggest) that the expenses were not made in furtherance of grant objectives. CPB management has expressed that it was, and is currently, fully satisfied with KETC's performance in carrying out the grants' goals, which have been constantly evolving due to the groundbreaking nature of American Graduate. The Draft Report does not dispute that KETC successfully achieved and exceeded CPB's goals in creating and managing the American Graduate initiative. KETC's role as the initiative's managing and coordinating station was both dynamic and nationally unprecedented. KETC's work in carrying out these grants added clear value to local communities and proved the importance of public media in bettering lives locally and nationally.

The Draft Report does not fully recognize, and therefore appropriately acknowledge, the fluid nature and immense scope of the projects for which the grants were given, the changing timeline, and KETC's role in leading the American Graduate initiative. The very nature of the work KETC undertook under these grants required KETC to shift its focus and adjust the budget over time. KETC's key staff performed new and different functions based on the evolving nature of the work, resulting in variations in scope and timing of categorical services.

While it is unfortunate that KETC and CPB were unable to construct and maintain a formal contract modification program that kept pace with the actual changes in program design and implementation, KETC and CPB were in frequent and regular contact regarding the work that KETC was undertaking on behalf of the grants. Under the terms of the grants, KETC was also required to periodically issue narrative and financial reports to CPB. In turn, CPB was required to relinquish payments to KETC upon acceptance of the reports. As such, because CPB was issuing payments to KETC in a timely manner, and KETC was frequently communicating, KETC believed that CPB had accepted and approved of the reports. On occasion, CPB asked questions about reports or requested that inaccuracies be corrected. KETC always complied with such requests. Given this constant contact between CPB and KETC, KETC always acted in good faith in carrying out its duties and believed that it was acting with CPB's consent (notwithstanding the failure to confirm same by appropriate amendments to the funding contract).

Although KETC never exceeded its total budget under the grants, due to this fast moving work and the unprecedented nature of the work, KETC's system of reconciliation did not keep pace. As such, we have now made improvements to this process so that there is a reconciliation crosswalk for CPB funds to KETC's general ledger accounts to prevent such a situation from repeating itself. KETC has applied this process to the current CPB grant, and we are amending our financial reporting using this reconciliation crosswalk. KETC is also actively working with CPB to amend specific items in the current budget so the recommendation to recover \$40,127 from the active grant is not appropriate.

The audit was helpful in illustrating the specific aspects of our process that needed to be improved. KETC has taken this learning and improved our reconciliation processes at every level of the organization. We will follow up with CPB to provide an outline documenting these specific process

improvements and safeguards. As requested, KETC will resubmit interim and final financial reports from the closed grants to accurately present actual costs for approved budget line items and identify the corrective actions and controls that have been implemented and will implement to ensure future compliance with grant reporting requirements.

While the Draft Report focuses on criticisms about individual line items varying within the budget, it does not criticize KETC for charging expenses to the grants that were outside the scope of the grants' objectives. To the contrary, it focuses on budgetary variances resulting from which employee(s) accomplished specified tasks identified within the project budget, and the fact that there was significantly greater senior staff time expended than provided for in the budget without corresponding amendments. In other words, the Draft Report criticizes budget variances based not on the tasks themselves, but rather the failure to have amended the budget each time these dynamic and innovatively designed tasks expanded (or contracted) and the resulting changes required in appropriate staffing to get the job done on a timely and fully satisfactory basis. In many respects these are distinctions without a difference in carrying out the grants' objectives. Furthermore, CPB relied on the expertise and leadership of these higher paid personnel as a key driver for accomplishing this complex work.

Finally, KETC believes it is important to underscore that it was only compensated in the aggregate for the amount that was budgeted, although the ledger indicates that in order to successfully achieve the goals of this work, KETC expended significant additional dollars. These funds were provided by KETC and were not compensated by CPB. Specifically, over the period of May 2011 through March 2014, the period covered by the American Graduate Initiative Manager, Community Hub, and Town Halls grants, KETC received a total of some \$1.26 million from CPB for this American Graduate work. As supported by the general ledger, KETC incurred a total of approximately \$1.6 million in costs over the commensurate time period. As the Draft Report points out, KETC's expenditures were directly related to the successful implementation of each of these grants. To the criticism of certain key executive salaries charged to the grants being well in excess of budgeted amounts, we would point out that even if the budget variance of some \$250,000 was subtracted from the aggregate \$1.6 million, the result is still an expenditure of \$1.35 million, which exceeded by roughly \$100,000 the \$1.26 million received from CPB for the specified grants. In addition, during the interim three-month period of May through July of 2013, in good faith and as the Town Halls grant was moving through the approval process inside CPB, KETC incurred additional uncompensated costs of \$125,000 in order to maintain the required staffing and resources to successfully manage the Town Halls grant. Therefore, we believe it is highly inequitable to recommend that the questioned budget costs be returned to CPB when KETC, acting in good faith, accomplished what CPB intended. The funds were used for, and successfully accomplished, their intended purposes.

The Draft Report's recommendation that CPB recover the questioned grant amounts does not accomplish anything except injuring KETC's continuing ability to perform grant activities and current operations, which in turn would be injurious to participating stations. CPB has expressed satisfaction with KETC's performance and KETC has met or exceeded CPB's expectations under the grants. As such, CPB has seen an impressive return on the investment.

Returning the funds would materially and adversely impact KETC's ability to continue to lead peer stations in new ways of engaging their communities and help lead the country in developing new models of engagement that deliver on the narrative of the essential nature of public media.

Communications Act Compliance and CSG Certification Eligibility:

Draft Report Recommendations:

5) We recommend CPB require KETC:

- a) to provide reasonable notice to the public for all board, committees and CAB open meetings;
- b) make available to the public a written explanation for why a meeting or part of a meeting was closed;
- c) establish a CAB in accordance with Act requirements;
- d) submit to CPB its newly written policies that explain how the station complies with open meetings and open financial records requirements to ensure the policies adequately meet CPB requirements;
- e) establish diversity goals and implement initiatives; and
- f) comply with all transparency requirements by posting required information to its website.

Response:

The Draft Report makes these recommendations based on criticisms about KETC's compliance in four areas: (1) open meetings requirements; (2) community advisory board requirements; (3) written policies concerning the requirements in the public broadcasting provisions of the Communications Act of 1934, as amended; and (4) recently added requirements concerning diversity goals and transparency contained in the CSG General Provisions and Eligibility Criteria. We will address each of these in turn.

Open Meetings:

KETC agrees with the criticism that it was not complying with CPB's Certification Requirements concerning giving adequate notice of open meetings for its governing body, committees of its governing body or its community advisory boards ("CABs"), as well as not properly making written explanations regarding closed meeting sessions publicly available. KETC has since adopted written policies and procedures to ensure compliance with these requirements and will work with CPB management to meet any documentation requirements they may require in response to the final version of the Audit Report.

Community Advisory Board:

We disagree with the Draft Report's conclusion that KETC has not maintained a CAB that meets CPB's requirements. As the Draft Report recognizes, KETC maintains six advisory bodies that function as CABs in six different topic areas that KETC has identified as critical to the mission and goals of our organization and its responsibility to the communities it serves. Collectively, they meet the minimum requirements as described in CPB's "Communications Act Certification Requirements for Community Service Grant Recipients" document (the "Certification Requirements"). CPB issued its current Certification Requirements in May 2015. On page 1, the May 2015 Certification Requirements document states: "This document replaces the previous 'Certification Requirements for Station Grant Recipients,' issued in 2004." There is no effective date in the May 2015 Certification Requirements to indicate the new document takes effect at a different time. As such, we can only conclude that the May 2015 document was immediately effective and is now controlling.

While we recognize that none of the six advisory bodies (or all of them collectively) has been officially designated *the* CAB, we hesitate to believe the root of the Draft Report's criticism on our community advisory structure is based solely on nomenclature. There is no requirement that a station's community advisory mechanism be restricted to a single designated board. The six advisory bodies serve the same functions, make decisions and offer advice independently of management, and meet regularly. The six advisory bodies meet CPB's requirements for a CAB's responsibilities listed on pages 10-11 of the Certification Requirements. They advise station management and our governing board about: (1) the station's programming goals; (2) the service provided by the station; (3) significant policy decisions rendered by the station; and (4) whether the station's programming and other significant policy decisions are meeting the specialized educational and cultural needs of the communities served by KETC.

The Draft Report's first criticism of KETC's six advisory body structure is that they do not report directly to the governing board because station management communicates to the governing board about the advisory bodies' discussions, and conclusions. While the Certification Requirements state a CAB must "advise"/report to the governing board, it does not state that a CAB must report directly to the governing board (or that advice and recommendations of the CAB communicated to the governing board by management are ineffective or inappropriate in any manner). As such, our advisory body reporting structure does not violate CPB's requirements. There is no allegation in the Draft Report that station management altered advisory body opinions or failed to communicate advisory body advice to the governing board. As such, we believe the requirement is being met. Station management may facilitate the conversation between our six advisory bodies and the governing board, but the six advisory bodies nonetheless make reports to the governing board and further function to advise the governing board as required by the Certification Requirements.

Second, the Draft Report criticizes our community advisory structure for having station management facilitate advisory body discussions and meetings. However, CPB's Certification Requirements do not prohibit management involvement in structuring or facilitating advisory body meetings. On page 10 of the Certification Requirements, under "CAB's Responsibilities," the Certification Requirements state that "[a] CAB may establish and follow its own schedule and agenda." (Emphasis added.) This language is permissive, not mandatory. Moreover, the Draft Report did not find that station management stifled any discussions or influenced the advisory bodies in any way. As such, station management assisting an advisory body with meeting organization did not violate the Certification Requirements.

Next, the Draft Report mentions the fact that the advisory body meetings were not properly open to the public. While this is a valid criticism, this criticism is not a violation of the CAB requirement. This observation is a repeat of the aforementioned criticism of KETC's compliance with the open meetings requirement, with which we agree as stated above.

Finally, the Draft Report criticizes our community advisory structure for having a governing board member included in one advisory body. Again, there is nothing in the Certification Requirements that prohibits the inclusion of a board member at a CAB meeting. The Report does not allege that the board member influenced the discussion or otherwise compromised the body's independence. Earlier incarnations of CPB's Certification Requirements included language saying that CABs should not include board or staff members in anything other than an administrative or ex-officio capacity. However, CPB has removed this language from the current Certification Requirements. In any event, there is nothing

presented in the Draft Report to show that this governing board member was acting inappropriately or not present in an administrative or ex-officio way. As such, the mere presence of one board member on one advisory body does not violate the provisions in CPB's Certification Requirements.

Written Policies:

The Draft Report criticizes KETC for not having written policies documenting compliance with all of the Communication Act requirements. We agree that it is a "best practice" to develop policies and procedures to ensure compliance with CPB grant requirements. Since the time KETC was audited, and as the Draft Report acknowledges, the station has developed written compliance policies. However, we disagree that the lack of written policies independently constitutes a violation of CPB's requirements. Page 1 of CPB's Certification Requirements states:

Stations may therefore find it helpful to develop procedures for documenting their compliance with each requirement. Such procedures would support consistency in a station's compliance, the accuracy in its annual certification to CPB, and evidence that may be useful to demonstrate compliance in the event of a station audit.

This language does not require written policies. Instead, it encourages such documentation as a means for evidencing compliance. The lack of a written policy is not, in itself, a violation of the requirements of the Act. Certainly, the Draft Report makes many observations about KETC's practices as they relate to compliance with CPB's requirements. As such, the documentation maintained by KETC was sufficient to facilitate the audit, as is also demonstrated by the fact that the Draft Report did not conclude that the auditor was unable to ascertain the station's practices due to a lack of documentation.

Transparency and Diversity Requirements:

KETC agrees with the criticism that it did not fully comply with the General Provisions' diversity requirement when this audit commenced. Similarly, at the time of the audit, the station had not placed all of the information that is required by the transparency requirement on the KETC website. KETC is now in the process of rectifying these issues and is developing written documentation to demonstrate compliance. We will work with CPB to provide any necessary information to evidence current compliance.

Again, thank you for this opportunity to comment on the Draft Report. We appreciate the hard work that has gone into this process. Please feel free to contact us if you have any questions or would like further information.

Sincerely,



Jack Galmiche
President and CEO
Nine Network of Public Media



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