

CORPORATION FOR PUBLIC BROADCASTING

OFFICE OF INSPECTOR GENERAL

**AUDIT OF COMMUNITY SERVICE AND OTHER SELECTED GRANTS
AT KENTUCKY AUTHORITY FOR EDUCATIONAL TELEVISION, INC.,
KET-TV, LEXINGTON, KENTUCKY
FOR THE PERIOD JULY 1, 2013 THROUGH JUNE 30, 2015**

REPORT NO. AST1510-1606

June 9, 2016

[This page is intentionally left blank]



Background

We performed this examination based on our annual audit plan objective to audit multiple TV and/or radio stations.

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

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

[Listing of OIG Reports](#)

Audit of Community Service and Other Selected Grants at Kentucky Authority for Educational Television, Inc., KET-TV, Lexington, Kentucky for the Period July 1, 2013 through June 30, 2015

What We Found

KET overstated NFFS on its 2014 AFR by \$223,728 because it did not exclude:

Overstated NFFS resulted in excess CSG payments of \$29,575

- Federal funds of \$175,450; and
- exchange transaction payments of \$48,278 from ineligible sources, a for-profit business and a public broadcasting entity.

The station agreed with our finding and has instituted corrective actions. CPB Management will make the final determination on our finding and recommendations.

What We Recommend

That CPB take the following actions:

- require KET to submit a revised FY 2014 AFR eliminating ineligible revenues and identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines; and
- recover \$29,575 of excess CSG payments made to KET in FY 2016 based on the NFFS reported on its FY 2014 AFR.



Corporation
for Public
Broadcasting

Office of Inspector General

Date: June 9, 2016

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

Enclosed please find our final report, which contains our finding and recommendations. CPB officials must make a final management decision on the finding and recommendations in accordance with established audit resolution procedures.

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

We will post this report to the Office of Inspector General's website as required by the Inspector General Act of 1978, as amended. Please refer any public inquiries about this report to our website or our office.

Enclosure

TABLE OF CONTENTS

Executive Summary.....	1
Background	1
Results of Audit	2
Finding and Recommendations	3
Overstated NFFS	3
Exhibits	
A — CPB Payments to KET	6
B — KET TV Annual Financial Reports	7
C — KET TV Summary of Non-Federal Financial Support.....	11
D — Scope and Methodology.....	12
E — KET Response.....	13

EXECUTIVE SUMMARY

We have completed an examination of the Corporation for Public Broadcasting (CPB) Community Service and other selected grants at Kentucky Authority for Educational Television (KET) for the period July 1, 2013 through June 30, 2015. Our objectives were to examine KET's certifications of compliance with CPB grant terms to: a) claim Non-Federal Financial Support (NFFS) on its Annual Financial Reports (AFRs) in accordance with CPB Financial Reporting Guidelines (Guidelines); b) expend grant funds in accordance with grant agreement requirements; and c) comply with the Certification of Eligibility requirements and the statutory provisions of the Communications Act of 1934, as amended (Act).

Based on our examination, we found that KET complied with grant and Communications Act requirements, except for overstated NFFS of \$223,728 that resulted in potential CSG overpayments of \$29,575 in FY 2016. We have reported the overpayments as funds put to better use.

We recommend that CPB require KET management to submit a revised FY 2014 AFR eliminating \$223,728 of ineligible revenues, identify the corrective actions and controls it will implement to ensure future compliance, and repay \$29,575 in excess 2016 CSG payments.

In response to the draft report, KET agreed with our finding and recommendations and has taken corrective actions to ensure future compliance with NFFS guidelines. KET's written response to the draft report is included in Exhibit E.

We performed this examination based on the Office of Inspector General's (OIG) annual audit plan objective to audit multiple TV and/or radio stations. We conducted our examination in accordance with *Government Auditing Standards* for attestation examination engagements. Our scope and methodology is discussed in Exhibit D.

This report presents the conclusions of the OIG and the finding does not necessarily represent CPB's final position on the issues. While we have made recommendations we believe would be appropriate to resolve the finding, CPB officials will make final determinations on our finding and recommendations in accordance with established CPB audit resolution procedures. Based on KET's response to the draft report, we consider the recommendations resolved but open pending CPB's final management decision addressing our recommendations and tracking KET's corrective actions to implementation.

BACKGROUND

The Kentucky General Assembly created the Kentucky Authority for Educational Television in 1962. KET began operations on September 23, 1968, broadcasting on weekdays during school hours. By 2002, KET studios in Lexington and Louisville were broadcasting 24 hours a day, seven days a week.

According to its website, "KET's mission is to make Kentucky a better place and strengthen its communities by educating, inspiring, informing and connecting its citizens through the power of public media." KET views itself as the most trusted, preeminent source of high-quality educational and public media to meet the diverse needs of Kentucky. KET serves ten television

markets, including Cincinnati, Ohio; Charleston/Huntington, West Virginia; Evansville, Indiana; and Nashville and Knoxville, Tennessee. Broadcast and educational services originate from KET's facility in Lexington. KET also operates a production facility in Frankfort as well as a studio and community outreach office in Louisville.

According to its website, KET is Kentucky's largest classroom, serving more than one million people each week via television, on line, and mobile applications. Its services include national public broadcast programming and programming serving local needs such as Comment on Kentucky, Kentucky Collectibles, and Kentucky Life. Educational services include components for those through high school and for adults. KET's website has information on the station's history, programming and scheduling, open meetings, and access to financial records.

Community Service Grants

CPB awards annual CSGs to public television and radio 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 KET on its FY 2013 AFR to determine the amount of the CSG the station received in FY 2015.

During our audit period, KET received \$6,474,749 from CPB for CSG, Distance Service, and Interconnection grants as itemized in Exhibit A. The station reported NFFS of \$18,229,585 in FY 2014 and \$20,465,358 in FY 2015 per Exhibits B and C. KET's audited financial statements for the two FYs reported operating revenues and net non-operating revenues totaling \$25,411,480 in FY 2014 and \$29,597,079 in FY 2015. KET's fiscal year begins July 1 and ends on June 30.

Other CPB Grants

In addition to the CSG funding, KET received \$541,737 in Fast Forward, American Graduate, Ready to Learn, and Spectrum CPB grants, which increases the total payments for all CPB grants to \$7,016,486, as shown in Exhibit A. Activities under the Fast Forward, American Graduate and Spectrum grants were scheduled for completion after our audit fieldwork. For the Ready to Learn grant, KET completed the project and CPB made a final payment.

RESULTS OF AUDIT

In our opinion, except for the noncompliance issues described below, KET has complied with the requirements in the following paragraph for the FY 2014 and 2015 TV CSGs and the other selected grants we examined.

We examined management's assertions of compliance with CPB grant requirements: a) CSG Certification of Eligibility; b) CSG Legal Agreement; c) AFR Signature Page; and d) the Final

and Interim Financial Reports for the other selected projects we examined. The CSG Certification of Eligibility includes KET’s compliance with AFR/NFFS reporting in accordance with CPB’s Guidelines; Communication Act requirements for open meetings, open financial records, Community Advisory Board (CAB), Equal Employment Opportunity (EEO) reporting, and donor lists; and discrete accounting requirements. Our responsibility is to express an opinion on management’s assertions about its compliance based on our examination.

Our examination was conducted in accordance with the *Government Auditing Standards* for attestation examination engagements and, accordingly, included examining, on a test basis, evidence about KET’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. However, it does not provide a legal determination on KET’s compliance with specified requirements.

Our examination disclosed instances of noncompliance with NFFS financial reporting requirements. KET overstated its NFFS by \$223,728 that resulted in CSG overpayments of \$29,575 in FY 2016, which we reported as funds put to better use.

FINDING AND RECOMMENDATIONS

OVERSTATED NFFS

Our examination found \$223,728 in overstated NFFS on KET’s FY 2014 TV AFR as presented in the following table. As a result, CPB made CSG overpayments of \$29,575¹ to KET in FY 2016. We classified this amount as funds put to better use for reporting purposes, because the funds overpaid to KET could have been distributed to other public broadcasting entities.

Ineligible NFFS

Ineligible Sources	Overstated FY 2014 NFFS	CSG Overpayment
Federal Funds	\$175,450	\$23,193
Ineligible Payment Sources	48,278	6,382
Total	\$223,728	\$29,575

This overstatement of NFFS occurred because KET management did not exclude federal funds from the NFFS it reported on the 2014 AFR. In addition, the station erroneously included exchange transaction payments it received from for-profit businesses and a public broadcasting entity (PBE) as eligible sources for NFFS. KET reported more than \$38.5 million of NFFS revenue on its 2014 and 2015 AFRs. The \$223,728 of overstated NFFS is one percent of the NFFS KET reported to CPB in FY 2014 and appeared to be caused by inadvertent errors. During our onsite work, KET took corrective action to address our finding and ensured similar issues were not reported on its FY 2015 AFR. As a result, we did not find any overstated NFFS on KET’s FY2015 AFR. Further discussion of our finding is presented below.

¹ Based on applying CPB’s FY 2016 TV Incentive Rate of Return (13.21933376 %).

Federal Funds

KET did not exclude federal funds totaling \$175,450 from the NFFS it reported to CPB in FY 2014. KET received the majority of the federal funds (\$162,680) in a grant from the state of Kentucky. This state grant was funded wholly by federal dollars and the grant agreement included a Catalog of Federal Domestic Assistance (CFDA) number identifying the federal funds. An additional \$9,620 of claimed NFFS resulted from sales of educational materials to organizations funded with federal dollars. The remaining \$3,150 was interest KET earned from federal grant funds it held in an interest bearing account.

CPB’s Guidelines provide that “By definition, the Act excludes all federal funds from being included as non-Federal financial support or “NFFS.”

Guidelines, Section 2.3.3 - Federal Funds, and Section 2.3.2 - Interpretations.

Ineligible Payments

KET reported payments of \$48,278 on its FY 2014 AFR that did not meet the source criteria for NFFS (i.e., received from state/local government or educational institution). The payments included:

Exchange Payments

Reason for Payment	Payment Amount
Rent for use of KET offices	\$15,900
Rent for tower leases	377
Accounting services	26,400
Insurance refund	5,207
Electric company refund	394
Total	\$48,278

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.

Guidelines, Section 2.2 – Contributions vs. Payments, and Section 2.3.2 Interpretations.

Because the revenues KET reported were from rents, fees for services, and refunds, i.e., exchange transactions, they are payments for NFFS purposes. In accordance with CPB Guidelines Section 2.3.2, to qualify as NFFS the source of these payments must be a state, local government, or educational institution. On the contrary, these transactions included payments from sources such as an insurance company and an electric company. We considered these sources ineligible for NFFS reporting in accordance with CPB Guidelines, Section 2.3.2.

Recommendations

We recommend CPB management take the following actions:

- 1) require KET to submit a revised FY 2014 AFR eliminating ineligible revenues and identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines; and
- 2) recover \$29,575 of excess CSG payments made to KET in FY 2016 based on the NFFS reported on its FY 2014 AFR.

KET Response

In response to our draft recommendations, KET agreed with our finding and recommendations and stated that corrective actions already taken, including requiring written confirmation of funding sources from granting organizations, should ensure compliance with NFFS guidelines in future periods.

OIG Review and Comment

KET's actions should help ensure that future AFRs comply with NFFS guidelines. Based on KET's response, we consider both recommendations resolved but open pending CPB's final management decision.

**CPB Grant Payments to KET TV
July 1, 2013 – June 30, 2015**

CPB Grants	Grant Budget	Amount Paid		Total Paid	Balance
		FY 2014	FY 2015		
CSG	\$5,587,800	\$2,606,714	\$2,981,086	\$5,587,800	0
Distance Service	783,200	391,600	391,600	783,200	0
Interconnection	103,749	49,818	53,931	103,749	0
Fast Forward	1,340,318	300,000	135,000	435,000	905,318
American Graduate	200,000	60,000	0	60,000	140,000
Ready to Learn	123,256	82	41,718	41,800	81,456
Spectrum	21,100	717	4,220	4,937	16,163
Totals	\$8,159,423	\$3,408,931	\$3,607,555	\$7,016,486	\$1,142,937

**KET TV Annual Financial Report
Years Ending June 30, 2014 and 2015**

Line	Description	FY 2014	FY 2015
	Schedule A,		
	Source of Income		
1	Amounts provided directly by federal government agencies	\$197,441	\$670,303
2	Amounts provided by Public Broadcasting Entities	3,228,479	3,962,171
2.A	CPB CSG	2,968,314	3,277,686
2.B	CPB - all other funds from CPB	249,676	633,997
2.C	PBS - all payments except copyright royalties and other pass-through payments	0	36,977
2.D	NPR - all payments except pass-through payments.	0	0
2.E	Public broadcasting stations - all payments	10,489	13,511
2.F	Other PBE funds	0	0
3	Local boards and departments of education or other local government or agency sources	380,640	182,669
4	State boards and departments of education or other state government or agency sources	12,970,218	14,121,402
5	State colleges and universities	71,147	99,848
6	Other state-supported colleges and universities	8,336	0
7	Private colleges and universities	15,060	30,742
8	Foundations and non-profit associations	843,994	943,203
8.1	NFFS Eligible	820,597	876,833
8.2	NFFS Ineligible	23,397	66,370
9	Business and Industry	1,058,552	1,107,456
9.1	NFFS Eligible	389,954	351,379
9.2	NFFS Ineligible	668,598	756,077
10	Membership and subscriptions	2,708,378	2,819,573
10.1	NFFS Exclusion - Fair Market value of premiums that are not of insubstantial value	557,224	551,533
10.2	NFFS Exclusion - Membership bad debt expense	0	0
11	Revenue from Friends groups less any revenue included on line 10	0	0
12	Subsidiaries and other activities unrelated to public broadcasting	10,444	193,430
	Form of Revenue		
13	Auction revenue	0	0
14	Special fundraising activities (net)	180,270	194,126
14A	Gross special fundraising revenues	321,489	344,556
15	Passive income	431,782	347,905
16	Gains and losses on investments, charitable trusts and gift annuities and sale of other assets (other than endowment funds)	1,117,486	167,906
17	Endowment revenue	952,460	199,660
18	Capital fund contributions from individuals	300,000	2,300,000
18A	Facilities and equipment (except funds received from federal or public broadcasting sources)	300,000	2,300,000
18B	Other	0	0
19	Gifts and bequests from major individual donors	651,711	1,599,824
20	Other Direct Revenue	51,620	(63,989)
21	Total Revenue	25,319,237	29,026,659

**KET TV Annual Financial Report
Years Ending June 30, 2014 and 2015**

Line	Description	FY 2014	FY 2015
	Adjustments to Revenue		
22	Federal revenue from line 1.	197,441	670,303
23	Public broadcasting revenue from line 2.	3,228,479	3,962,171
24	Capital funds exclusion	300,000	2,300,000
25	Revenue on line 20 not meeting the source, form, purpose, or recipient criteria	44,127	(63,989)
26	Other automatic subtractions from total revenue	3,406,732	1,792,138
	Total Adjustments to Revenue		
27	Total Direct Nonfederal Financial Support	18,142,458	20,366,036
	Schedule B		
1	Total support activity benefitting station	87,127	72,573
2	Occupancy value	0	0
3	Deductions: Fees paid to the licensee for overhead recovery, assessment, etc.	0	0
4	Deductions: Support shown on lines 1 and 2 in excess of revenue reported in financial statements.	0	0
5	Total Indirect Administrative Support (Forwards to line 2 of the Summary of Nonfederal Financial Support)	87,127	72,753
6	Institutional type code for licensee.	SG	SG
	Schedule C		
1	PROFESSIONAL SERVICES (must be eligible as NFFS)	0	26,569
2	GENERAL OPERATIONAL SERVICES (must be eligible as NFFS)	0	0
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	0	26,569
5	IN-KIND CONTRIBUTIONS INELIGIBLE AS NFFS	5,117	21,096
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.	5,117	47,665
	Schedule D	0	0
TV	Schedule E		
	PROGRAM SERVICES		
1	Programming and production	16,992,892	17,946,906
	A. TV CSG	2,079,517	2,075,920
	B. TV Interconnection	49,818	53,931
	C. Other CPB Funds	199,858	580,066
	D. All non-CPB Funds	14,663,699	15,236,989
2	Broadcasting and engineering	2,728,245	3,141,028
	A. TV CSG	9,034	22,382
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	2,719,211	3,118,646

Exhibit B (Continued)

**KET TV Annual Financial Report
Years Ending June 30, 2014 and 2015**

Line	Description	FY 2014	FY 2105
3	Program information and promotion	1,039,773	1,276,870
	A. TV CSG	425,503	482,288
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	614,270	794,582
	SUPPORT SERVICES		
4	Management and General	4,554,843	5,284,558
	A. TV CSG	554,839	666,112
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	4,000,004	4,618,446
5	Fund raising and membership development	995,906	1,033,911
	A. TV CSG	10,400	10,513
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CSB Funds	985,506	1,023,398
6	Underwriting and grant solicitation	10,918	15,568
	A. TV CSG	0	0
	B. TV Interconnection	0	0
	C. Other CPB Funds	0	0
	D. All non-CPB Funds	10,918	15,568
7	Depreciation and amortization	0	0
8	Total Expenses	26,322,577	28,698,841
	A. Total TV CSG	3,079,293	3,257,215
	B. Total TV Interconnection	49,818	53,931
	C. Total Other CPB Funds	199,858	580,066
	D. Total All non-CPB funds	22,993,608	24,807,629
	INVESTMENT IN CAPITAL ASSETS		
9	Total capital assets purchased or donated	312,924	1,495,684
9a	Land and buildings	160,784	129,495
9b	Equipment	152,140	1,366,189
9c	All other	0	0
10	Total expenses and investment in capital assets	26,635,501	30,194,525
11	Total expenses (direct only)	26,230,333	28,578,423
12	Total expenses (indirect and in-kind)	92,244	120,418
12	Investment in capital assets (direct only)	312,924	1,495,684
14	Investment in capital assets (indirect and in-kind)	0	0

Exhibit B (Continued)

**KET TV Annual Financial Report
Years Ending June 30, 2014 and 2015**

Line	Description	FY 2014	FY 2015
	Schedule F		
1	Data from AFR		
	Schedule A, Line 21	25,319,237	29,026,659
	Schedule B, Line 5	87,127	72,753
	Schedule C, Line 6	5,117	47,665
	Schedule D, Line 8	0	0
	Total from AFR	25,411,481	29,147,077

**Summary of Non-Federal Financial Support
For the Periods Ending June 30, 2014 and 2015
Certified by Head of Grantee and Independent Account's Report**

Line	Description	TV FY 2014	TV FY 2015	Total
	<i>Summary of Non-Federal Financial Support:</i>			
1	Direct Revenue (Schedule A)	\$18,142,458	\$20,366,036	\$38,508,494
2	Indirect Administrative (Schedule B)	87,127	72,753	159,880
	3a. In-Kind Contributions (Schedule C)		26,569	26,569
	3b. In-Kind Contributions (Schedule D)	0	0	0
4	Total Non-Federal Financial Support	\$18,229,585	\$20,465,358	\$38,694,943

Scope and Methodology

We performed an attestation examination to determine KET's compliance with CPB Financial Reporting Guidelines, provisions of the Communications Act, grant certification requirements, and other grant provisions. The scope of the audit 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, 2014 and June 30, 2015; grant certifications of compliance with Act requirements; and certifications on its financial reports submitted to CPB.

We tested the allowability of NFFS claimed on KET's 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 NFFS revenue transactions totaling \$14,274,013 of \$18,142,158 KET reported in FY 2014 and \$1,497,973 of \$20,366,036 reported in FY 2015.

We reviewed the allowability of expenses charged to KET Community Service, Distance Service, Interconnection, Ready to Learn, Fast Forward, American Graduate, and Spectrum grants. To determine whether expenditures were incurred in accordance with grant terms, we reviewed \$919,383 of the \$7,637,847 of expenses reported by KET. We reviewed supporting documentation, including employee timesheets, vendor invoices, purchase orders, and other documentation for judgmentally selected transactions. Of the total amount reviewed, \$28,837 involved transactions after FY 2015 that included Spectrum grant transactions.

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

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

We conducted fieldwork from October 26, 2015 through February 26, 2016. We performed our audit in accordance with the *Government Auditing Standards* for attestation examinations.



Kentucky Educational Television
Shae Hopkins
Executive Director & CEO

May 19, 2016

Mr. 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 of Kentucky Authority for Educational Television's (KET's) Community Service and Other Selected Grants for the period of July 1, 2013 through June 30, 2015. The Draft Report indicates that KET complied with Grant and Communications Act requirements and correctly reported over 99% of its claimed Non-Federal Financial Support (NFFS).

We agree with your observations that KET erred in reporting a small portion (less than 1%) of its NFFS calculation. Based on research conducted during the audit, the report found that KET mistakenly included funds that either retained their federal character or were improperly classified. The most significant portion of this error (\$162,680) related to one specific grant from the Kentucky Department of Adult Education (KDAE). As we now understand, KDAE utilizes different funding sources and classifications can change from year to year. As a result, KET has taken corrective measures and processes have been refined to ensure that the inadvertent error which occurred in FY14 did not, and will not, reoccur going forward.

In consultation with your auditors, KET personnel now require written confirmation of funding sources from granting organizations and independently research granting organizations structures and sources of funding. KET believes these measures are sufficient to ensure funds retaining their federal character are known to KET management. Additionally, revisions have been made to KET financial documentation and work papers to provide a more detailed breakdown of sources for use in KET's recordkeeping. KET would appreciate any additional recommendations and/or assurance from either the Office of Inspector General or CPB management that the measures instituted are sufficient to meet the CPB requirement in Section 2.3.3 of the Financial Reporting Guidelines that a Community Service Grant recipient confirm with an appropriator or grantor whether the funds in whole or part retain their federal character.

Mr. William J. Richardson III

Page 2

May 19, 2016

KET continually strives to improve our processes, including updating and educating our staff on interpretations and expectations related to the CPB reporting guidelines.

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

Best regards,

A handwritten signature in blue ink, appearing to read "Shae Hume".

C: Linda Hume, Senior Director, Finance and Administration

Ted Krichels, Senior vice President, System Development & Media Strategy, CPB

Debra Sanchez, Senior Vice President, Education & Children's Content Operations, CPB

Jackie J. Livesay, Vice President, Compliance, CPB