



Corporation
for Public
Broadcasting

February 21, 2018

VIA ELECTRONIC MAIL AND HARDCOPY TO FOLLOW

Mr. Tom Karlo
General Manager
KPBS TV/FM
5200 Campanile Drive
San Diego, CA 92182

Dear Mr. Karlo,

RE: Limited Scope Audit of Indirect Administrative Support Reported as Non-Federal Financial Support at KPBS Television and Radio, San Diego State University, San Diego, California for the Period July 1, 2015 - June 30, 2016 (Report No. ACJ1706-1708)

This audit found that KPBS “generally complied with pertinent CPB requirements.” It also included a review of indirect administrative support that resulted in a \$123,706¹ overpayment of the station’s combined television and radio community service grants (CSG) totaling \$3,175,722. The specific audit findings and CPB’s determinations for them follow.

Recommendations 1 & 2: The OIG recommends that CPB recover the fiscal year (FY) 2018 CSG overpayments resulting from the errors below and compel KPBS to identify the corrective actions and controls it will implement to ensure its future compliance with our Financial Reporting Guidelines, specifically regarding non-federal financial support.

- Miscalculated its licensee’s net direct expenses;
- Included cost pools that did not benefit the station;
- Overstated the licensee’s net assignable square footage; and
- Included a fee KPBS paid to its licensee as a direct cost, which constitutes 60% of the overpayments.

CPB Determination: We agree with the finding that KPBS “generally complied with pertinent CPB requirements” and that it made the above listed reporting errors.

¹ The amounts in this letter are slightly different than those in the report, because the OIG used an estimated 2018 incentive rate of return was used to calculate the CSG.

Accordingly, we require that KPBS return \$123,706 (\$105,513 for television and \$18,193 for radio) to CPB by reducing its non-federal financial support on its FY 2017 annual financial reports (AFR). With this adjustment, CPB will recoup the overpayment from KPBS' FY 2019 CSG².

We adopted the CSG Non-compliance Policy to encourage stations to comply with the applicable provisions governing their CSG and the Communications Act of 1934, 47 U.S.C. §396, et sec. Failure to comply with these requirements which results in an overpayment of the recipient's CSG subjects the recipient to a penalty of ten percent of the amount of the overpayment, in addition to refunding the overpayment. Therefore, we are assessing a penalty of \$12,370 against KPBS for the reporting errors above. In addition, as permitted by the policy, CPB requires that KPBS review its records for the prior two years to ensure that similar errors were not made.

Regarding the recommendation that KPBS implement corrective actions and controls, based on our conversations with KPBS and its correspondence of December 19, 2017, we are confident that it understands the reporting requirements and has implemented the necessary actions and controls. Therefore, we will not require KPBS to provide us with any additional evidence of the same.

We appreciate KPBS' cooperation throughout the audit process and recognize the considerable staff it made available to respond to questions, the prompt action it took to implement new processes, the supplemental review that it initiated on its own and alerting us to an issue it discovered through that self-review.

Action: KPBS must review its FY 2014 and 2015 AFRs to ensure that it did not include support for management fees and utility costs from its licensee in its indirect and direct support and provide CPB with a detailed report explaining its results. The report must be signed by KPBS' general manager and licensee official. If any errors are discovered, we will calculate any CSG overpayment and require its return.

KPBS must provide CPB with the report and \$12,370 penalty within 45 days of the date of this correspondence. Please make the check payable to CPB and forward to the attention of Nick Stromann, Vice President, Controller, Corporation for Public Broadcasting, 401 Ninth Street N.W., Washington, D.C. 20004-2129. The report should be sent to Kate Arno, Director of TV CSG Policy and Review at karno@cpb.org. When KPBS files its 2017 AFRs with CPB, it must reduce its non-federal financial support by \$889,617 for television and \$343,625 for radio. When due, we will provide KPBS with instructions on how to make the adjustments.

Recommendation 3: The OIG recommended that CPB review and clarify the AFR Schedule B guidelines for the Basic Method to help institutional stations with varying and unique organizational structures apply guidance consistently in calculating their indirect administrative support NFFS to ensure there is an equitable distribution of CPB funds. Since this action is directed to CPB, we will provide the OIG with our response separately.

² Because the incentive rate of return varies each year, the 2019 calculations may produce a slight overpayment or underpayment. If so, an additional grant adjustment will occur to ensure the proper amount is recovered.

Other Matters: During the audit, the OIG identified federal work-study payments that were mistakenly included as non-federal financial support, resulting in a CSG overpayment of \$1,661 for FY 2018. It suggests that “KPBS work with CPB to address the potential overpayment.” We appreciate the suggestion and will discuss this issue with KPBS.

If you wish CPB to consider additional information relating to this matter, please provide the same in writing within 30 days of the date of this letter. Failing that, CPB will consider these determinations final and KPBS will be required to comply with the action set forth above. CPB reserves the right to take any other action CPB deems appropriate until these issues are resolved to CPB’s satisfaction.

Kind regards,



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

CC: VIA ELECTRONIC MAIL

Agnes Wong Nickerson, Associate Vice President, San Diego State University
Vince Petronzio, Associate General Manager, Business and Financial Affairs, KPBS
Michael Levy, Executive Vice President & Chief Operating Officer, CPB
Steven J. Altman, Executive Vice President & Chief Policy & Business Affairs Officer, CPB
J. Westwood Smithers, Jr., Senior Vice President & General Counsel, CPB
William P. Tayman, Jr., Chief Financial Officer & Treasurer, CPB
Mary Mitchelson, Inspector General, CPB
William J. Richardson, Deputy Inspector General, CPB
Erika Pulley-Hayes, Vice President, Radio, CPB
Greg Schnirring, Vice President, CSG & Station Initiatives, CPB
Nick Stromann, Vice President, Controller, CPB
Katherine Arno, Director, TV CSG Policy & Review, CPB
Andrew Charnik, Director, Radio CSG Policy & Administration, CPB
Nadine Feaster, Director, Grants Administration, CPB