



Corporation
for Public
Broadcasting

September 30, 2016

VIA ELECTRONIC MAIL AND HARDCOPY TO FOLLOW

Mr. James R. Pagliarini
President & Chief Executive Officer
Twin Cities Public Television, Inc.
172 East 4th Street
St. Paul, MN 55101

RE: Audit of Community Service and Other Selected Grants at Twin Cities Public Television, Inc., KTCA-TV, Saint Paul, Minnesota, for the Period September 1, 2013 through August 31, 2015, Report No. AST1603-1608

Dear Mr. Pagliarini:

This is to advise you of CPB's determination with respect to the captioned audit by the Office of Inspector General (OIG) and your August 17 response to the OIG. The audit found that KTCA included \$270,354 in revenue from ineligible sources in the \$41,998,931 in non-federal financial support (NFFS) it reported for purposes of calculating its Community Service Grant (CSG). Specifically, the overstated revenue was from payments received as consideration for licensing content and for services to a health care provider, both of which are exchange transactions that do not qualify as NFFS. The report otherwise found that KTCA complied with the Communications Act and CPB grant requirements. The ineligible revenue reported caused a \$10,239 overstatement of KTCA's \$3,074,856 CSG for fiscal year 2016 and a potential \$25,500 overstatement of its 2017 CSG. KTCA agreed with this finding and indicated that it has taken corrective actions to prevent classifying such revenues as NFFS.

The report recommends that CPB:

- require KTCA to identify the corrective actions and controls it will implement to ensure its future compliance with NFFS pursuant to the Financial Reporting Guidelines; and
- require KTCA to refund \$10,239 to CPB for the CSG overpayment and ensure that KTCA's CSG award for 2017 is based on the corrected NFFS amount for 2015.

Based on KTCA's corrective actions, the OIG considers its recommendations resolved but open pending CPB's final management determination.

CPB Determination: CPB agrees with the findings.

Action: CPB accepts the corrective actions that KTCA promptly implemented as evidence of its intent to ensure future compliance with the Communications Act and Financial Reporting Guidelines. With respect to refunding the \$10,239 overpayment, CPB recently revised its approach to correcting errors when stations improperly report revenues as NFFS on their Annual Financial Report (AFR). Therefore, instead of requiring KTCA to immediately return the \$10,239 overpayment to CPB, KTCA must correct the 2014 NFFS error by reducing its 2016 NFFS by \$77,452, using instructions that CPB will provide. This adjustment will result in either an over or under payment of the \$10,239 because the incentive rate of return (IRR) that is used to calculate NFFS changes each year. Therefore, KTCA will be responsible for any shortfall in recovery and CPB will be responsible for returning any overpayment to KTCA. Regarding the 2015 NFFS error, CPB will calculate KTCA's CSG after reducing its NFFS by \$192,902 to avoid an overpayment for 2017.

In addition, our CSG Non-compliance Policy imposes a penalty of 10% on any CSG overpayment. Accordingly, we are assessing a penalty of \$1,024 for the 2016 overpayment. As that policy also provides, the licensee must review its prior two years AFRs (fiscal years 2012 and 2013) to ensure that similar errors were not made. The licensee must report to CPB in writing the results of that review. Upon receipt of this information, CPB will determine if additional NFFS adjustments are required. The report must be signed by the Licensee Official and Head of Grantee and submitted to CPB along with the \$1,024 penalty within 60 days of the date of this correspondence. Please forward your AFR review to Kate Arno, Director, TV CSG Policy & Review, at: karno@cpb.org and send payment of the penalty to Nick Stromann, Vice President, Controller, Corporation for Public Broadcasting, 401 Ninth Street N.W., Washington, D.C. 20004-2129.

KTCA suggests that CPB study new sources of revenue in the digital landscape and determine if changes to the Financial Reporting Guidelines are warranted. It is important to note that the \$270,354 in reported revenue was ineligible under the Communications Act definition of NFFS. It is not, therefore, something CPB can change through its guidelines.

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

Best regards,



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

CC: VIA ELECTRONIC MAIL

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