Public Broadcasting
5200 Campanile Drive
San Diego State University
San Diego, CA 92182-5400

619-594-1515
FAX: 619-594-3812
www.kpbs.org

March 15, 2018

VIA ELECTRONIC MAIL AND HARDCOPY TO FOLLOW

Jackie Livesay
Assistant General Counsel & Vice President, Compliance
Corporation for Public Broadcasting
Office of Inspector General
401 9th Street, NW
Washington, DC 20004-2129

Tom Karlo
General Manager

Dear Ms. Livesay:

Thank you for your letter of February 21, 2018 notifying KPBS-TV and KPBS-FM (collectively "KPBS" or the "Stations") of CPB management's determination regarding the Office of Inspector General's ("OIG's) limited scope audit of KPBS, as reported in OIG Audit Report No. ACJ1706-1708. As indicated in prior communications, KPBS will be returning to CPB $123,706 in overpaid community service grant ("CSG") funds that resulted from inadvertently misreported indirect administrative support ("IAS") revenue on the Fiscal Year 2016 annual financial reports ("AFRs") for KPBS-TV and KPBS-FM.

KPBS has a long history of compliance with the terms of all CPB grants and fully cooperated during the OIG audit process that resulted in the above referenced Report. We believe imposing a penalty on the Stations in this instance sends the wrong message to institutional licensees and the public broadcasting system regarding compliance, audit process and full and transparent cooperation. KPBS worked closely with the OIG in good faith to confirm errors were promptly corrected, and the Stations went beyond OIG's findings to improve its processes and ensure accurate IAS and NFFS reporting. In fact, the February 21, 2018 letter favorably notes KPBS's cooperation during the audit. The imposition of a penalty punishes KPBS for its cooperation and diligence in resolving the OIG's concerns. And, as further discussed below, we respectfully request that CPB management reconsider its decision to impose a penalty on KPBS.

We also ask CPB to extend the deadline for KPBS to review the accuracy of its AFRs for Fiscal Years 2014 and 2015 and report back to CPB on the results of such a review. The February 21, 2018 letter stated KPBS would be required to submit this report within 45 days. Given the complexity of what CPB is demanding KPBS undertake, it is not reasonable for the Stations to conduct a thorough review for 2 years in only 45 days.

In addition, while KPBS has always submitted AFRs to CPB in good faith and believe the AFRs were accurate to the best of our knowledge, we are hesitant to provide a report of a 2014 and 2015 review without a full understanding of the consequences of the submission. Clearly, if KPBS's review determined it overstated NFFS it would return such overpayment. Accordingly, we further request, in the spirit of fairness and transparency, that CPB assure KPBS in writing that such review will not result in additional liability regarding potential forfeitures beyond appropriate repayment of any CSG overpayments.

As further support for our position, CPB's posted Non-compliance Policy lists 11 factors CPB management may use to adjust forfeiture amounts when imposing penalties. The February 21, 2018 letter unfortunately does not discuss any of these adjusting factors in assessing the 10% penalty. Instead, the letter states "[w]e 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." The letter does not explain and is silent as to why KPBS's cooperation was not considered by CPB to mitigate its forfeiture calculation. CPB's Non-compliance Policy allows it to use factors such as "[w]hether the recipient acted in good faith, voluntarily disclosed its non-compliance, and has a history of compliance" and "[w]hether the recipient implemented substantive corrective action once the non-compliance was disclosed to ensure future compliance" in calculating whether a forfeiture is appropriate, and in what amount. KPBS clearly acted in accordance with these factors, and it appears CPB did not give credit to KPBS for such actions.

Also, we believe CPB's imposition of the 10% penalty on KPBS is not consistent with the way CPB resolved other similar OIG Audit Reports. OIG Audit Report No. ASR1606-1703 found the University of Pennsylvania overstated its non-Federal financial support for WXPN-FM, in part due to the miscalculation of IAS. CPB management did not impose a forfeiture in addition to requiring the repayment of the CSG overpayment.

Finally, we bring to your attention the February 21, 2018 letter declined to resolve the OIG's final recommendation in OIG Audit Report No. ACJ1706-1708, which was directed at CPB itself. In the Report, the OIG recommended CPB management undertake a number of actions to clarify its AFR Schedule B Guidelines for calculating IAS so CSG grantee stations, like KPBS, have a clear understanding of CPB's requirements in this regard. The February 21, 2018 letter did not respond to this recommendation. Instead, it asserted CPB would respond separately and apparently privately. KPBS believes it is unfair for CPB management to impose a forfeiture on the Stations when its own Inspector General found CPB's guidance did not sufficiently advise stations about how to properly calculate IAS.

Due to the lack of clarity in CPB's guidance on this issue, on page 4 of our response to the Draft Audit Report (which is attached hereto), KPBS observed:

> ... because of the current lack of clarity in CPB's guidance in calculating IAS, the Stations would certainly hope that any changes to the requirements for calculating IAS and to Schedule B reporting would be applied prospectively. Given the Draft Report's findings regarding this issue, a retroactive revision of reporting requirements would unfairly penalize institutional CSG recipient stations for past mistakes caused by the current lack of clarity in CPB's guidance.

KPBS made this suggestion because of the inequity of retroactively imposing a methodology on stations acting under guidance the OIG recognized as requiring clarification. It is equally unfair for CPB management to now impose a forfeiture on KPBS's past good faith attempts to calculate IAS using inadequate CPB guidance.

In summary please be assured KPBS is proceeding in good faith, as it always has, to promptly resolve the outstanding matters. We ask CPB to (i) reconsider its decision to impose a penalty on KPBS; (ii) extend its deadline for KPBS to submit the report discussed in the February 21, 2018 letter to at least ninety (90) days from the date of this letter; and (iii) assure KPBS that submitting the 2014 and 2015 review results will not subject the Stations to any further CPB imposed punitive measures.

We look forward to working with you to resolve these matters in a fair, equitable and transparent way.

Sincerely,

Tom Karlo

Tom Karlo
General Manager

Attachment

CC: VIA ELECTRONIC MAIL

Agnes Wong Nickerson, Associate VP, Financial Operations, SDSU
Vince Petronzio, Associate General Manager, Business & Financial Affairs, KPBS
Michael Levy, Executive VP & COO, CPB
Steven Altman, Executive VP & Chief Policy & Business Affairs Officer, CPB
J Westwood Smithers, Jr., Senior VP & General Counsel, CPB
William Tayman, Jr., CFO & Treasurer, CPB
Mary Michelson, Inspector General, CPB
William Richardson, Deputy Inspector General, CPB
Erika Pulley-Hayes, VP, Radio, CPB
Greg Schnirring, VP, CSG & Station Initiatives, CPB
Nick Stromann, VP, Controller, CPB
Kate Arno, Director, TV CSG Policy & Review, CPB
Andrew Charnik, Director, Radio CSG Policy & Administration, CPB
Nadine Feaster, Director, Grants Administration, CPB

Public Broadcasting
5200 Campanile Drive
San Diego State University
San Diego, CA 92182-5400
619-594-1515
FAX: 619-594-3812
www.kpbs.org

September 15, 2017

Mr. William J. Richardson III
Deputy Inspector General
Corporation for Public Broadcasting
401 Ninth Street, NW
Washington, DC 20004-2129

KPBS

RE: Limited Scope Audit of Indirect Financial Support reported as Non-Federal Financial Support ("NFFS") at KPBS TV/Radio, San Diego State University for the period July 1, 2015 through June 30, 2016 Report No. ACJ1706-XXXX

Tom Karlo
General Manager

Dear Mr. Richardson,

Thank you for this opportunity to respond to the Office of Inspector General Draft Audit Report for the period indicated above. We worked closely with the Inspector General's Office staff and appreciate the thoroughness and professionalism of the audit, audit team, and accompanying communication.

The determination of Indirect Administrative Support ("IAS") for KPBS-TV and KPBS-FM (the "Stations") is a relatively in-depth process and involves incorporating elements of support from California State University ("CSU"), San Diego State University ("University") and the San Diego State University Research Foundation ("Foundation") into the indirect financial support calculation.

We understand the ultimate financial impact of the audit findings is the potential overpayment to the Stations of $125,789 in Fiscal Year 2018, which when compared to the 2017 aggregate Community Service Grant ("CSG") payments of $3,290,000, represents approximately 3.8% of the grant total. We further understand the potential CSG overpayments discussed in the Draft Report have not yet been paid to the Stations. As such, the recommended deductions discussed in the Draft Report would be used in calculating upcoming CSG payments to the Stations.

Stations management viewed this limited scope audit as an opportunity to work closely with the IG team to conduct a detailed review of our internal process and procedures, which the Stations have consistently followed for many years. Although the findings identify a potential overpayment, we appreciate the acknowledgement that the Stations generally complied with pertinent CPB requirements. Therefore, our response below focuses on the NFFS overstatement resulting from the miscalculation of IAS (before application of the Incentive Rates of Return to determine the CSG payment impact) as provided in the "Overstated IAS NFFS" table on page 4 of the Draft Report.

For your convenience, we have organized our discussion of the Draft Report findings according to the Schedule B reporting categories included in the Stations' Annual Financial Reports ("AFRs") and summarized in the Table of Overstated IAS NFFS on page 4 of the Draft Report and the finding referred to in the Draft Report as "Other Matters".

Station Management Response to Specific Draft Report Findings

(1) Total institutional costs benefiting station $276,854

This adjustment resulted primarily from the inclusion of a University cost pool that, upon detailed analysis, was determined to not provide benefit to the Stations. Therefore, Station management agrees with this finding and has updated its procedures and financial models accordingly.

(2) Total physical plant support costs benefiting station $225,179

This adjustment resulted mainly from the inclusion of the University utilities cost pool in the support calculation. The University utilities cost pool should not have been in the calculation as the applicable costs were a direct cost funded by the University. Also, the elimination of Foundation property management expenses and square footage was essentially NFFS neutral to the Stations. Station management agrees with the findings and has updated its procedures, calculation details, and financial models accordingly.

(3) Fees paid to Foundation for overhead recovery $731,209

The Stations are licensed to the CSU Board of Trustees for the University and organized as a department of the University. The Foundation is a separately incorporated not-for-profit California auxiliary organization of the CSU, which under a service agreement between the University, the Foundation and the Stations, provides financial accounting and administrative support to the Stations.

This adjustment, representing 59% of the IAS questioned in the audit, is the largest single component of the audit findings. The adjustment resulted from inclusion of certain Foundation costs in the NFFS calculation while also including the 2016 direct payment made to the Foundation under the service agreement. Station management agrees, under the approach utilized, the service agreement fee directly paid to the Foundation should be deducted from the total NFFS reported and claimed on the AFR Schedule B Total section line 3. The Stations have updated procedures, general ledger coding and financial models accordingly.

(4) Other Matters - Federal Work Study payments of $16,253

The Stations agree that federal work-study payments should have been reported as federal funds and excluded from reported NFFS. We understand the potential overpayment to the Stations is $1,687. The Stations have updated their procedures as well as general ledger coding to segregate these amounts to ensure accurate future AFR reporting.

Station Management Response to Specific Draft Report Recommendations

For the sake of clarity, we will address each of the Draft Report's recommendations individually.

(1) Reduce the Station's FY 2018 CSG for potential overpayment of $125,789 or recover if paid for overstated AFRs Schedule B.

As discussed above, Station management agrees with the Draft Report's findings concerning overstated IAS and therefore also agrees with this recommendation. We further understand the potential grant overpayment has not yet been provided to the station, and as recommended would be included in the determination of a future CSG payment.

(2) Require the Stations to identify the corrective actions and controls it will implement to ensure future compliance with NFFS Guidelines.

The Stations agree with this recommendation and have already started implementing further controls to ensure accurate NFFS reporting. As a result of the audit findings, Station management has completed/or is in the process of:

1. Updating Station IAS procedures/methodology to correct the errors found as a result of this audit. This update includes modification of written procedures as well as revision of calculation templates, and will be completed and formalized prior to submission of the 2017 AFRs.

2. Preparing detailed reconciliations ("crosswalks") for tracing the Stations' net direct expenses to the Licensee's net direct activities per audited financial statements (Stations-Foundation-University-CSU). These crosswalks, along with the evaluation of Station benefit from applicable costs, will be incorporated in annual fiscal year end audit preparations beginning with the fiscal year ended June 30, 2017.

3. Documenting cost pools in greater detail and developing better cost pool analytics for year-to-year changes. These procedures will be formalized prior to the submission of the 2017 AFRs.

(3) 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 IAS NFFS to ensure there is an equitable distribution of CPB funds.

This recommendation is not directed at the Stations. Rather, the Draft Report recommends CPB management clarify its advice to institutional CSG recipients, such as the Stations, regarding the calculation of IAS for reporting on the AFR. Station management agrees CPB's guidance on the matters discussed in the Draft Report should be strengthened as the current advice contained in CPB's guidelines does not fully explain how institutional CSG recipients are to calculate IAS. Station management has consistently, and in good faith, attempted to calculate IAS based on CPB's instructions, but as the Draft Audit's findings demonstrate, the Stations' understanding has been hampered by a lack of clear guidance.

The calculation of IAS is complicated and every institution is unique in structure. As the Draft Report points out, we understand and support CPB's approach of providing latitude to an institutional CSG recipient in determining its IAS NFFS based on the reasonableness of the distribution of licensee's resources to actual benefit received by a station housed within the institutional licensee. We further confirm as a result of complexities in determining IAS as NFFS, such calculations must be computed by trained accountants. Given the history and evolution of IAS as NFFS, the Stations agree further clarification of AFR Schedule B guidelines are both necessary and would be highly appreciated.

However, because of the current lack of clarity in CPB's guidance in calculating IAS, the Stations would certainly hope that any changes to requirements for calculating IAS and to Schedule B reporting would be applied prospectively. Given the Draft Report's findings regarding this issue, a retroactive revision of reporting requirements would unfairly penalize institutional CSG recipient stations for past mistakes caused by the current lack of clarity in CPB's guidance.

Station management has consistently attempted to accurately report NFFS, as acknowledged by the Draft Report's finding that the Stations have generally complied with pertinent CSG requirements with the exception of the matters discussed above. While the Stations endeavored to comply with CPB's IAS calculation requirements, the lack of clarity contributed to the Stations miscalculations. Station management appreciates the Draft Report does not recommend any penalties on the Stations and further hopes CPB agrees with that approach.

Sincerely,

Tom Karlo

Tom Karlo

General Manager