



**CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF INSPECTOR GENERAL**

**AUDIT SURVEY OF THE PUBLIC BROADCASTING SERVICE'S
ACCOUNTABILITY OVER GRANTS AND CONTRACTS
AWARDED BY THE CORPORATION FOR PUBLIC BROADCASTING
FOR FY 2006-2007**

SURVEY REPORT NO. EPT805-907

SEPTEMBER 30, 2009



**Kenneth A. Konz
Inspector General**

SURVEY RESULTS

We have completed an audit survey of the Public Broadcasting Service's (PBS) accountability over grants and contracts awarded by the Corporation for Public Broadcasting (CPB) for Fiscal Years (FY) 2006-2007. The objective of this survey was to gain an understanding of PBS' accountability over grant and contract agreements with CPB and to track the use of CPB funds by funding source.

Based on our survey of grants and contracts awarded to PBS for television programming, children's educational programming, and media technologies,¹ we found that PBS' reporting of financial information for CPB funded individual television projects and recordkeeping needs improvement to provide complete project reporting and fully document project level recordkeeping. Television programming under the National Program Service (NPS) and Program Challenge Funds (PCF) totaled \$67.7 million, which was 56 percent of the \$121 million paid to PBS during FYs 2006-2007. For the \$18.3 million CPB provided to PBS for the federally funded Ready to Learn (RTL) children's programming and \$1.4 million for Digital Distribution Funds (DDF), we found that PBS generally maintained adequate accountability over these funds in separate cost center accounts.

For television programming, we found a lack of adequate financial reporting on a project basis to monitor the use of CPB's NPS and PCF funds to project completion. The NPS and PCF Narrative Reports submitted to CPB did not report CPB funds budgeted and unexpended by project, as required by the agreements. Further, NPS financial reports submitted to CPB only included current fiscal year projects and did not report payments for projects carried-over from prior fiscal years or final total payments for individual projects completed. Most of the NPS Supplemental (Opportunity Fund) projects were not included in PBS' Narrative Report submitted to CPB. PBS did not identify which televisions programs were funded with CPB ancillary revenues and investment earnings. Finally, our survey identified inaccuracies in reported project payments for 2 of 54 projects.

While PBS' accounting system recorded CPB commitments for the NPS and PCF programs in separate cost center accounts, the accounting system did not have a cost accounting component that accumulated all CPB fund activities on an individual project basis. The lack of such project level financial information prevented us from readily verifying the use of CPB funds on a project basis, without assistance from PBS officials.

Additionally, we found that PBS production agreements with producers did not provide adequate financial accountability (recordkeeping and reporting) over the use CPB funds. Such information would be needed to report final CPB project costs, particularly for the federal RTL program grants. Finally, CPB did not receive copies of NPS

¹ This report does not include the results of our review of PBS' accountability over the use of the Next Generation Interconnection System funds totaling \$33,391,200, per Exhibit A, as explained further in our Scope and Methodology, Exhibit L.

production agreements with producers to effectively monitor the use of CPB funds and track each CPB funded project to closure.

In response to the draft report, PBS officials generally agreed to the recommendations, if requested by CPB. PBS' response to the draft report is attached in Exhibit M. PBS' specific responses to each recommendation are presented in the body of the report.

This report presents the conclusions of the OIG. The findings and recommendations reported do not necessarily represent CPB's final position on these issues. Accordingly, this report contains recommendations the OIG believes would be appropriate to resolve these findings.

In accordance with CPB audit resolution procedures, CPB management is responsible for determining the corrective actions to be taken. Based on PBS' response to the draft report, we consider recommendations 1, 2, 3, 4, 5, 6, 7, and 9 unresolved pending a management decision by CPB. We consider recommendation 8 resolved, but open pending completion of an evaluation of PBS' funding holdback practices.

Final determinations on our recommendations will be made by CPB management. Accordingly, we are requesting that you provide us a written response to our findings and recommendation within 180 days of this final report. For corrective actions planned but not completed by the response date, please provide specific milestone dates when planned corrective actions will be completed.

Based on this survey work and resulting recommendations, we do not plan to perform any additional work at this time. Our scope and methodology is presented in Exhibit L. This survey work was performed under the *Government Auditing Standards* and fieldwork was initially performed during the period May 2008 through June 2008. Additional work was performed during March and April 2009.

BACKGROUND

CPB annually provides grants to PBS for television programming for the NPS and PCF programs. CPB supplemented their NPS funding with Opportunity Fund monies. CPB funded educational programming with CPB and federal RTL funds, from a U.S. Department of Education (DOE) grant. CPB funds system development and media technologies with DDF and the Next Generation Interconnection System (NGIS) funds.

During FYs 2006-2007 CPB made grant/contract payments of \$66,617,486 and \$54,728,581, respectively to PBS, per Exhibit A. Exhibits B-E contains CPB's financial commitments to the NPS and PCF television programming. Exhibit F analyzes the use of NPS Supplemental (Opportunity Funds) for FYs 2005-2007. Exhibits G-K contains the financial information reported to CPB by funding source and by project during FYs

2006-2007. These CPB commitments can cover multiple fiscal years before completion of the CPB funded projects.

The NPS funds received by PBS for television programming are used to make initial payments to producers upon execution of their programming agreements with PBS. The unused balances of the funds were invested by PBS until such time as needed to make progress payments to producers. Per the NPS Agreement, interest and ancillary income earned on rights from programs exploitation are to be used by PBS to fund NPS programming projects.

PCF funding received from CPB is based on PBS' negotiated production agreements with individual producers. Upon execution of the production agreement between all three parties, CPB issues a payment to PBS for its full share of the project's commitment. CPB and PBS generally do not fund 100 percent of a program's cost and the producer is responsible for raising any additional funds needed to complete the project. During FYs 2006-2007 CPB made PCF grant commitments of \$4,489,520 and \$12,766,731, respectively to PBS.

In September 2005, CPB entered into an agreement with the DOE to provide a RTL Content Development and Outreach/Awareness Campaign. These services were provided in two phases for \$34,500,000 during FYs 2006-2007. CPB correspondingly entered into a \$2,242,326 grant agreement with PBS to provide the Programming Services and Outreach/Awareness Services, as required under the DOE scope of work.

In August 2005 CPB entered into an agreement with PBS, as the designated national entity for the interconnection of public television stations, to replace, refurbish, and/or upgrade the interconnection system. Congress appropriated \$34,500,000 to CPB for the Next Generation Interconnection System (NGIS). Per the NGIS agreement, CPB made quarterly disbursements to PBS and paid PBS \$33,391,200 during FY 2006.

Congress authorized and appropriated funding for CPB to help pay for the transition from analog to digital technology by public broadcasting stations and the creation of the American Archives. CPB has allocated a portion of this federal appropriation to the DDF, to assist stations in converting to digital equipment to receive the new digital broadcast signal from PBS' NGIS. To pay for this conversion, PBS reimbursed the stations directly with the DDF monies received from CPB. CPB paid PBS \$1,433,883 during our survey period. CPB reimbursed PBS upon receipt of station invoices for their digital conversion costs and a certification by the station manager that their conversion had been completed.

