

CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF INSPECTOR GENERAL

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

September 30, 2009

Survey Report No. EPT804-908


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SURVEY RESULTS

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

Based on our survey of grants awarded to PBS for television programming, children's educational programming, and media technologies,¹ we found that CPB's oversight of National Program Service (NPS) and Program Challenge Funds (PCF) individual television projects needs improvement to monitor the use of CPB funds to project completion and submission of a final financial report from project producers. Television programming under the NPS and 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 media technologies for Digital Distribution Funds (DDF), we found that CPB generally maintained adequate accountability over these funds.

Our survey found a lack of complete financial reporting by PBS on the use of NPS and PCF TV programming funds. This incomplete PBS reporting provided no assurance that CPB funds were fully used for intended purposes. As a result, we believe that CPB needs to take actions to obtain more complete financial information on CPB expenditures, so CPB can ensure itself that CPB funds have been fully accounted for. This information can help ensure CPB funds were fully used for intended purposes and financial information is available and accurate for annual television project planning purposes and reporting on national programming activities.

While, our survey found that CPB departments were generally following the CPB Contract Policy and CPB Funds – Custody, Obligation and Disbursement policies for procurement actions and payment processing, none of the CPB departments surveyed have formal written procedures for monitoring open projects and closing-out grants at their completion to provide complete accountability on CPB fund use on a project basis. The lack of standardized CPB oversight practices, coupled with a lack of discipline over PBS' financial reporting on the use of CPB television programming funds, created a gap in CPB's financial accountability on a project level basis.

Based on this survey work and resulting recommendations, we do not plan to perform any additional audit work. Our scope and methodology is presented in Exhibit L. This survey work was performed under the Generally Accepted Government Auditing Standards and fieldwork was performed during the period March 2008 through May 2008.

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.

A separate survey report will be issued to PBS on its accountability over CPB grant funds. That report will contain more detailed observations on PBS' recordkeeping and reporting not included in this report. CPB officials should consider that report's findings before responding to the draft findings and recommendations presented in this report.

In response to the draft report, CPB management provided their perspectives on their project level financial reporting needs, including ancillary income and interest earnings, and the business reasons for their decisions. CPB's response to the draft report is attached in Exhibit M. Based on management's response to the draft report the report's four recommendations remain unresolved.

In accordance with CPB audit resolution procedures, CPB management is responsible for determining the corrective actions to be taken on the recommendations. By statute CPB is required to make a final decision on the recommendations within 180 days of this final report.

BACKGROUND

CPB annually provides grants to PBS for TV programming for the NPS and the PCF programs. CPB supplements their NPS funding with Opportunity Fund monies. CPB funds educational programming with Ready to Learn (RTL), a U.S. Department of Education (DOE) grant. CPB funds system development and media technology activities with Digital Distribution Funds (DDF) and Next Generation Interconnection System (NGIS).

During Fiscal Years 2006-2007 CPB made grant/contract payments of \$66,617,486 and \$54,728,581, respectively to PBS, per Exhibit A. These grants/contracts can cover multiple years before completion of the projects funded by CPB. Exhibits B, C, D, and E contain CPB's financial commitments to the NPS and PCF TV programming. Exhibit F analyzes the use of Opportunity Funds for FYs 2005-2007 and identifies CPB funds available at PBS at the end of FY 2007. Exhibits G-K contains the financial information reported to CPB by PBS by TV programming funding source and by project during FYs 2006-2007.

The NPS funds received by PBS for TV programming are used to make initial payments to producers upon execution of their programming contracts with PBS. The balance of the funds was invested until such time as needed to make progress payments to producers. Interest and ancillary income earned on rights from program exploitation were used by PBS, (with CPB's concurrence) to fund future NPS programming projects.

PCF funding provided by CPB is based on PBS' negotiated program agreements with individual producers. When an agreement has been signed by the producer and PBS, the agreement is forwarded to CPB for their approval. At that time, CPB pays PBS for its 50 percent share of the program commitment to cover the programs cost. CPB and PBS in most instances do not fund 100 percent of a program's cost.

In September 2005, CPB entered into an agreement with 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 scope of work by DOE.

Congress authorized and appropriated funding to CPB for the transition from analog to digital technology for public broadcasting stations. CPB has allocated a portion of this 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 paid the stations directly with the DDF monies received from CPB. During our survey period CPB reimbursed PBS for these costs. These reimbursements were made when CPB received a certification from the station manager that their digital conversion had been completed and a copy of their equipment invoices.

Congress appropriated \$34,500,000 to CPB for the NGIS, to replace, refurbish, and/or upgrade the national public television interconnection system. In August 2005 CPB entered into an agreement with PBS, as the designated national entity for interconnection for public television stations, to replace, refurbish, and/or upgrade the interconnection system to provide high quality public telecommunications services to the community.

Per the NGIS agreement, CPB made disbursements on a quarterly basis to PBS and paid them \$33,391,200 during FY 2006. PBS in turn invested the funds. Earnings on this investment were reported to CPB on a quarterly basis and were required to be reinvested in the project for only allowable project costs.

FINDINGS AND RECOMMENDATIONS

CPB's Accountability for Funds Committed to NPS and PCF Projects Needs to Improve

Our survey found that CPB does not maintain adequate accountability over funds committed and expended for PBS's NPS and the PCF television projects. Specifically, we found that PBS's reporting of CPB NPS and PCF budgets, unexpended funds, ancillary revenues received, and investments earned was incomplete and not in full compliance with CPB grant agreement terms. Further, CPB did not ensure that PBS reported CPB project budgets and unexpended funds in accordance with the NPS agreement. Finally, CPB did not require PBS to submit a final report of a production's costs at the completion of each NPS project to ensure a final accounting of the use of CPB funds.

While we understand that CPB is required under the Public Broadcasting Act to provide programming funds to PBS and PBS is responsible for spending those funds on national programming, we believe CPB needs to better ensure that all CPB funds committed were spent for approved projects by receiving a final financial report of expenditures by each NPS project covered under the agreement. We believe such reporting will provide improved accountability and transparency for the \$56,020,000 paid to PBS for the FY 2006-2007 NPS projects. Such information can also facilitate CPB's future planning and external reporting on the use of CPB programming funds.

In addition to PBS not following the reporting requirements in the NPS agreement with CPB, PBS' agreements with independent producers did not identify that CPB funds were included in the agreement and had to be appropriately accounted for to ensure CPB funds were properly used. Further, the lack of CPB corporate policies and procedures addressing project officer responsibilities to monitor and account for the use of CPB funds to project closure created a gap in accountability on an individual project basis.

PBS Financial Reporting

PBS's Narrative Reports to CPB did not identify all CPB funded projects; the amount of unexpended CPB NPS, Opportunity, and current PCF funds; and CPB did not ensure this information was received to track the expenditure of CPB funds by project. Further, since PBS' reports only reported financial information on the programs for the current fiscal year, there was no reporting to CPB of the final costs incurred for NPS Basic and Supplemental (Opportunity Fund) projects carried-over from prior fiscal years, per Exhibits G-K.

Specifically, our survey found:

- PBS's NPS Narrative Reports submitted to CPB did not fully comply with CPB's reporting requirements in their grant agreement with PBS. PBS' reports only

