

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

**AUDIT OF CPB GRANTS AWARDED TO THE
CENTER FOR ASIAN AMERICAN MEDIA, INC.
SAN FRANCISCO, CALIFORNIA
FOR THE PERIOD OCTOBER 1, 2007 – JANUARY 31, 2010**

AUDIT REPORT NUMBER APT1004-1104

March 31, 2011



for **Kenneth A. Konz**
Inspector General



Corporation
for Public
Broadcasting

Office of Inspector General

Date: March 31, 2011

To: Joseph Tovares, Senior Vice President, Diversity and Innovation
Steven Altman, Senior Vice President, Business Affairs

From: 
for Kenneth A. Konz, Inspector General

Subject: Audit of CPB Grants Awarded to the Center for Asian America Media, Inc., San Francisco, California for the Period October 1, 2007 – January 31, 2010, Audit Report Number APT1004-1104

We have audited the accompanying financial grant reports (Exhibits B-G) for the Center for Asian American Media (CAAM) as of January 31, 2010. The objectives of our audit were to determine whether: financial reports fairly present Corporation of Public Broadcasting (CPB) grant revenues and expenditures; costs were incurred in accordance with grant requirements; and CAAM complied with applicable provisions of the Public Broadcasting Act.

In our opinion, except for the following items of noncompliance the CAAM financial grant reports referred to above present fairly, in all material respects, the CPB grant activities as of March 31, 2010, in compliance with grant agreement and statutory requirements.

- Questioned cost of \$95,000 related to not returning funds de-obligated from CPB grants that had lapsed;
- Sub-recipient reporting of CPB expenditures;
- Reporting ancillary revenues to CPB; and
- Establishing adequate internal controls over financial and media department operations to ensure compliance with CPB grant requirements.

Additionally, we found opportunities to restructure future CAAM grant agreement terms to provide more accountability over CAAM grant activities by requiring CAAM to report interest earned on all CPB funds. Such action will provide improved accountability over the availability of CPB funds.

In response to the draft report, CAAM management generally agreed to take corrective actions. They discussed the following actions they have already implemented, as well as, others that are underway:

- Changing grant reporting format – to include in its reports to CPB a list of grants in negotiations, de-obligations and re-grants, as well as new commitments.
- Integrating finance department and programs department reporting – all sub-recipient contracts and project progress will be reviewed by the finance department. All financial reports will be cross-checked with program staff.
- Instituted annual communications with grantees to obtain ancillary income reports. These reports will then be summarized and submitted to CPB annually.
- Modifying grant agreements with new sub-recipient reporting requirements – a revised contract template for grantees will be submitted to CPB for review by May 31, 2011.
- Establishing written policies & procedures, including separation of duties, control measures, and oversight, are currently being developed. A completed manual will be submitted to CPB by July 1, 2011.

CAAM' complete response to the draft report is attached in Exhibit I.

Based on CAAM's response to the draft report, we consider recommendation 5 resolved and closed; recommendations 3 and 4 resolved, but open pending CPB management's acceptance of CAAM's corrective actions; and recommendations 1, 2, and 6 unresolved.

In accordance with CPB audit resolution procedures, CPB management is responsible for determining the corrective actions to be taken. Please provide us with a written response to our findings and recommendations 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.

We performed this audit based on the Office of Inspector General's (OIG) Annual Plan, to perform reviews of a cross-section of stations and organizations comprising the public broadcasting system. We performed our audit in accordance with *Government Auditing Standards*. Our Scope and Methodology is discussed in detail in Exhibit A.

BACKGROUND

In 1988, Congress mandated the creation of a service dedicated to independently produced programming that takes creative risks, sparks public dialogue, and gives voice to underserved communities. Since 1990, as required by the Public Broadcasting Act of 1967, CPB has funded an independent television production service. CAAM is one of five minority public broadcasting consortia designated by CPB to fund public television programs produced by independent producers and independent production entities. As required by law, these funds are to be used to expand diversity and promote innovation in programming available to public broadcasting.

CAAM was incorporated on December 12, 1980 and began operations in San Francisco, California. CAAM, formerly known as the National Asian American Telecommunications Association (NAATA), has grown into the largest organization dedicated to the advancement of Asian Americans in independent media, specifically, in the areas of television, filmmaking, and digital media. CAAM provides funding and support for provocative and engaging Asian American film and media projects from independent producers, and presents their innovative work on public television.

Since launching the groundbreaking Asian American anthology series “Silk Screen” on PBS in 1982, CAAM continues to bring award-winning works to millions of viewers nationwide. Between 2007 and 2009, CAAM programming won 11 awards and honors, including four Henry Hampton Awards, one National Emmy Award, three Regional Emmy Awards, one Columbia DuPont Journalism Award, one Peabody Award, and one Academy Award nomination. CAAM films have won numerous film festival awards e.g., Silverdocs, Berlin, Al Jazeera, San Francisco International Film Festival, and the San Francisco International Asian American Film Festival.

The primary work of CAAM is to provide financial support and services for independent programming that serves public broadcasting with both documentaries and narrative films, while pursuing cultural, ethnic communities and geographic diversity in its allocation of resources. In addition, CAAM houses an educational catalog including more than 250 titles, constituting the country’s largest collection of Asian American films and videos for educational distribution. CAAM’s award-winning documentaries, personal stories, dramas and experimental works reflect the rich history and diversity of Asian people in the United States and globally.

CAAM is governed by a 16-member board of directors, which includes media executives, academics, entrepreneurs, investment banking professionals, media arts and community leaders, as well as, independent filmmakers. CAAM has a major role in developing independent projects for public television, and currently delivers 8 to 14 hours of

independently produced programs to public television each year, which is a significant percentage of the Asian American independent work supported by CPB.

Since 1990 CAAM has received almost \$20 million from CPB to fund independent productions in order to provide independent producers increased access to the public television system, and bring innovative programming to the American people. The most recent CPB grants to CAAM for FY 2008-FY 2010 included an operations and separate production components.

CPB GRANTS AWARDED TO CAAM FOR FY2008-2010 ACTIVITIES

<i><u>Fiscal Year</u></i>	<i><u>Operations Grant</u></i>	<i><u>Production Grant</u></i>	<i><u>Total Award</u></i>
2008	\$605,000 ¹	\$636,363	\$1,241,363
2009	235,000 ²	686,363	921,363
2010	<u>555,000</u>	<u>954,545</u>	<u>1,509,545</u>
<i>Totals</i>	<i><u>\$1,395,000</u></i>	<i><u>\$2,277,571</u></i>	<i><u>\$3,672,271</u></i>

In analyzing these operations and production grants on a fiscal basis, we identified that in FY 2008 \$354,000 of \$1,241,363 (29 percent) in total CPB funding was budgeted for programming from independent producers (Exhibits B and E). In FY 2009, \$330,000 of \$921,363 (36 percent) was budgeted for programming (Exhibits C and F) and in FY 2010 \$472,000 of \$1,509,545 (29 percent) was budgeted for programming (Exhibits D and G).

CPB's funding to CAAM in FY 2008 represented 44 percent of the total revenues reported on their financial statements, and for FY 2009 CPB funding represented 59 percent of their total revenues.

¹ Grant extended six months to end on March 31, 2009.

² Grant period reduced to six months ending on September 30, 2009.

RESULTS OF REVIEW

We have audited the accompanying CAAM financial grant reports (Exhibits B-G) as of January 31, 2010. These financial reports are the responsibility of CAAM's management. Our responsibility is to express an opinion on these financial reports based on our audit.

We conducted our audit in accordance with auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial reports presented are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts reported to CPB and compliance with grant agreement and statutory requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, except for the following items of noncompliance, the financial grant reports referred to above present fairly, in all material respects, the CPB grant activities of CAAM as of January 31, 2010, in compliance with grant agreements and statutory requirements.

- Questioned cost of \$95,000 related to not returning funds de-obligated from CPB grants that had lapsed;
- Sub-recipient reporting of CPB expenditures;
- Reporting ancillary revenues to CPB; and
- Establishing adequate internal controls over financial and media department operations to ensure compliance with CPB grant requirements.

We also found opportunities to restructure future CAAM grant agreement terms to provide more accountability over CAAM grant activities by requiring CAAM to report interest earned on all CPB funds. Such action will provide improved accountability over the availability of CPB funds.

FINDINGS AND RECOMMENDATIONS

Returning De-obligated Grant Funds to CPB

Our review of production licensing agreements identified that CAAM did not return production funds de-obligated from projects after the CPB grant term had expired, as required by its grant agreement. Instead, CAAM recommitted these funds to complete more recent productions. CAAM's FY 2009 records identified \$95,000 in de-obligations for five productions. By not returning these de-obligated funds, CAAM increased their available funding for other productions without CPB's full knowledge and approval before the grant period expired. This did not provide CPB the opportunity to decide how best to utilize these funds to address current CPB priorities.

The FY 2008 production grant agreement Section II paragraph 1 established the period of the grant from October 1, 2007 through September 30, 2010. This same paragraph stated that . . . "no production funding shall be provided to CAAM hereunder that is not committed by CAAM to a third party within the period October 1, 2007 through September 30, 2009." CPB officials clarified these grant terms by explaining that CAAM had three years to report expenditures incurred under the agreement, but had only two years to commit funds under the agreement. The FY 2009 production grant had similar requirements to commit grant funds within two years by September 30, 2010.

When productions were completed under budget or commitments were canceled, CAAM de-obligated the unused funds and made them available for re-obligation under subsequent grants. Since it takes multiple years to complete a show, these de-obligations often took place after the 2-year grant term had lapsed. Our review identified five productions de-obligated in FY 2009 that were initially awarded CPB funds in FYs 2006-2007 (Exhibit H). These de-obligations occurred after the originating 2-year CPB grant agreement period had expired. Instead of returning these funds to CPB as required by the grant agreement, CAAM re-obligated them to more current productions under a later grant agreement. We questioned the de-obligated funds totaling \$95,000.

Recommendations

We recommend that CPB officials:

- 1) Enforce existing grant agreement terms and require CAAM to return program funds de-obligated after the 2-year grant term expires.
- 2) Recover \$95,000 in funds de-obligated from expired CPB grants.

CAAM Response

CAAM officials acknowledged that \$95,000 of grant funds were de-obligated and used to provide new productions grants to independent producers. Of these grant funds, however, \$50,000 (for the project entitled “The Buddha”) were re-obligated with the permission of CPB. When the producer of “The Buddha,” declined these funds late in contract negotiations, CAAM brought this to the attention of CPB’s Program Officer, initially through phone conversations in early November and an email exchange dated November 13, 2009. The Program Officer wanted to verify with CPB’s legal department CAAM’s ability to re-grant the funds. In an email dated November 18, 2009, she informed CAAM they were able to reallocate or re-grant the \$50,000. CAAM recommitted the funds and reported the de-obligation to CPB in its narrative for contract # 12077.

Regarding the \$45,000 for the four other projects listed on Exhibit H, CAAM said it erred in assuming “The Buddha” established a precedent and de-obligated the older commitments (due to failed contract negotiations), and re-granted the monies in the subsequent funding cycles. CAAM acknowledged it should have also informed CPB about these other de-obligations and ask for formal permission to re-grant them.

Regarding the recommendation to refund these monies, CAAM noted that although they failed to comply with the agreement in terms of obtaining prior approval, it did in fact reallocate these funds to other productions as is specified in its agreement.

OIG Review and Comment

Based on CAAM’s response we consider recommendations 1 and 2 unresolved. While the Program Officer said that CAAM “. . . can reflect that funds have decreased and either reallocate, or recommit the money to another project,” we do not believe “The Buddha” project should ever have been booked as a CPB expense in the first place, since according to CAAM’s e-mail “The Buddha” project’s producer never executed the grant agreement with CAAM. Without an executed agreement, CAAM did not have a legitimate basis to originally commit and expense CPB grant funds for this project. CAAM’s response further indicated that the remaining \$45,000 questioned for the other four projects shown on Exhibit H were de-obligated and recommitted after failed contract negotiations. As a result, both recommendations remain unresolved until CPB officials determine whether these were legitimate expenses and even subject to subsequent de-obligation and recommitment.

Further, while the Program Officer's e-mail granted CAAM approval to recommit the funds, we found no evidence that this matter was discussed internally within the Department of Diversity & Innovation to obtain senior executive level concurrence in accordance with CPB's De-obligation Policy, dated January 30, 2008.³ As a result, we suggest that CPB management clarify Program Officer's authority and ensure departmental and executive officials with delegated authority approve de-obligations and recommitments of grant funds.

Sub-recipient Reporting of CPB Expenditures

Our review of CAAM's sub-recipient agreement terms with independent producers identified that they did not require sub-recipients to report CPB expenditures or specified a format to report financial activities under the CAAM sub-recipient agreement. The lack of sub-recipient reporting of CPB expenditures separate from the total costs reported and the lack of standardized financial reporting against budgeted categories did not provide sufficient accountability over the use of CPB grant funds by sub-recipients.

CAAM sub-recipient agreements Section 15.3 required independent producers to account for CPB funds separately from other funding sources, as follows:

in accordance with Section 396 (l) (3) of the Communications Act of 1934, as amended, it shall keep for a period of three years following the completion of the Program, such records as may be reasonably necessary to fully disclose the amount and the disposition of the proceeds of this Agreement, and to fully disclose: (i) the total cost of the program, (ii) the Total CAAM Commitment, (iii) the amount and nature of that portion of the Program cost or packaging costs supplied by other sources, if any, and (iv) such other records as will facilitate an effective audit.

However, the sub-recipient agreement was silent on reporting CPB expenditures separately from total production costs to account for the expenditure of CPB funds by the sub-recipient. Further, the grant agreement only references a Final Financial Report to be submitted to CAAM as one of the sub-recipient's deliverables, but did not specify what information should be provided on it.

³ CPB De-obligation Policy states that when CPB elects not to fully exercise its de-obligation rights (and have the funds returned) the project officer shall document the reasonable basis for doing so and have it approved by the department's Senior Vice President. Any decision not to de-obligate amounts in excess of \$25,000 shall require the additional approval of CPB's Chief Operating Officer.

Our review of selected sub-recipient Final Financial Reports identified 3 of 6 sub-recipients that reported project revenues and compared budgets to actual incurred costs. Two sub-recipients' did not report revenues or budget amounts by category, they only reported incurred costs by cost category. The last sub-recipient did not submit a final financial report and the grant production had been completed for more than a year. The lack of consistent reporting of the sub-recipient activities did not facilitate effective oversight by CAAM to identify CPB funds available for de-obligation or to consistently monitor spending by budgetary category.

Recommendation

- 3) We recommend that CPB officials require CAAM to modify sub-recipient agreement terms to require separate reporting of CPB expenditures by budgetary category, as well as, total production costs incurred. Additionally, the sub-recipient agreement should specify what information will be included in interim and final financial reports submitted to CAAM i.e., sources of revenue, budget amounts, and expenditures (CPB and total costs) by cost category.

CAAM Response

CAAM officials said that over the last six months, they have been working with its counsel to modify grant agreements with independent producers. They also said they will implement recommendation 3.

OIG Review and Comment

Based on CAAM's response, we consider recommendation 3 resolved but open pending receipt of documentation by CPB grant officials that sub-recipient agreements have been modified and CPB management accepts the agreement changes.

Reporting Ancillary Income and Interest Earnings

Our review found that CAAM did not certify to CPB that it had not received any ancillary income during our audit period, as required by the grant. Further, we identified that CAAM reported interest income for their FY 2008 Operations Grant of \$5,580 (Exhibit B), although they were not required to report this information under the terms of the CPB grant agreement.

Ancillary Income

Our review of CAAM revenues did not identify the receipt of any ancillary income during our audit period. Further, our review of CAAM deliverables provided to CPB did not identify that CAAM had certified that it had not received any ancillary income under CPB grant agreements.

Section V paragraph 13c of the FY 2009 production grant agreement states:

CAAM may satisfy its reporting requirement for any year in which there are no Gross Proceeds from the exercise of Subsidiary or Ancillary Rights by certifying to CPB in writing the absence of such Gross Proceeds.

CAAM officials stated they had received nominal ancillary income over the years, as they generally provided producers with small grants to finish up their productions, or funded larger budgeted productions with multiple funders. In addition, they stated that many of the productions had a short shelf life after original showings; therefore opportunities for earning ancillary income were minimal.

Interest Income

Our review identified that CAAM reported interest income from their FY 2008 Operations Grant of \$5,580, although they were not required to report this information under the terms of the CPB grant agreement. They did not report any interest earnings on the FY 2008 Production Grant or on any of the subsequent grants for FYs 2009-2010, although CAAM officials identified interest earnings of \$469 and \$483 on the FY 2009 and 2010 production grants in response to our inquiries about interest earnings. They also told us that the previously reported interest income of \$5,580 during FY 2008 was an error and they should have only reported \$726⁴.

The CPB operations and production grants were silent on reporting interest earnings, however, the production grants Section V paragraph 13d requires CAAM to pay CPB its share of the CAAM/CPB of ancillary income received from producers, plus the amount of any interest accrued on CPB's share of the ancillary income received.

⁴ The revised FY 2008 interest income information was provided to us in February 2011 and we did not have the opportunity to verify the accuracy of this information, as well as, the interest information for FYs 2009-2010.

Recommendations

We recommend that CPB officials:

- 4) require CAAM to annually certify in writing the absence of ancillary income for production grants; and
- 5) revise CPB operations and production grant terms to require the annual reporting of interest earned on CPB held funds (i.e., operations, production, and ancillary income).

CAAM Response

CAAM officials said the report was correct in identifying its failure to certify to CPB the gross proceeds from subsidiary or ancillary rights. They did not have this certification built into its reporting format, but have taken steps to address it. They said that they have been in touch with each of their producers and can state that none of the projects supported through these grants have generated revenues that approach the minimum threshold for ancillary income.

As interest earnings were not a contract requirement, CAAM officials said they did not segregate interest income based on funding sources. The \$5,580 of interest reported was organizational interest, and not specifically interest on CPB monies.

CAAM said CPB has changed their contract requirements for FY 2010-2011 and they are now segregating interest income.

OIG Review and Comment

Based on CAAM's response we consider recommendations 4 and 5 resolved. Recommendation 4 will remain open until CAAM either reports ancillary revenues received or certifies in writing that they have not received any ancillary revenues. Recommendation 5 is closed based on the execution of the current FY 2011-2013 production and operations agreement.

Establishing Adequate Internal Controls Over Financial and Media Department Operations

Our review of CAAM operating procedures for both financial and production operations identified reportable conditions on the lack of controls over accounting practices and the monitoring of sub-recipient productions. The lack of adequate internal controls creates vulnerabilities over financial accounting and reporting, as well as, performance of sub-recipients to meet the requirements of CPB grant agreements.

Section I paragraph 3 of both the CPB operations and production grant agreements states:

CAAM ... shall perform according to CAAM's own methods of work and shall be in exclusive charge and control of the work and responsible for its proper completion;

Based on our review and discussions with management, we identified that CAAM does not have written policies and procedures to govern accounting practices to ensure proper authorization and recording of transactions, as well as, its media staff's responsibilities to monitor sub-recipient agreements with independent producers. Further, CAAM's independent public accountant (IPA) identified in their management letter significant deficiencies⁵ in monitoring controls over cash receipts and a material⁶ weakness over monitoring revenues and expenses related to the National Minority Consortia. This resulted in a material adjustment to grant revenues and related expenses, and changed the total of temporarily restricted grant funds received, released, and remaining during FY 2008. Additionally, the IPA's FY 2009 management letter again identified significant deficiencies in festival ticket sales, information on independent contractors, and write-off actions on expired grants.

During our audit we noted a control design weakness in management's monitoring of accounting operations related to the coding and approval of transactions to be recorded in the general ledger. We found a number of vendor invoices, American Express billing statements, and check request transactions, that lacked approvals and general ledger

⁵ A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected by internal controls.

⁶ A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by internal controls.

account codes. Without this documentation we have no assurance that the proper expense codes and departments were being charged in the accounting system.

Additionally, we noted a lack of segregation of duties over payment requests and check signing authority. In our testing we found that the Business Manager approved payment requests submitted by the Media Director, who also had check signatory authority. While the Business Manager approved the payment and the Director of Finance prepared the check for signature it was returned to the Media Director for check signature, instead of having the Executive Director sign the check. This lack of segregation of duties represents a significant internal control weakness and creates vulnerabilities for abuse. While we recognize the small staff size hampers having acceptable segregation of duties between these responsibilities, in this situation the risks can be minimized by having the Executive Director sign all checks for payment requests initiated by the Media Director.

The Media department's CAAM Policy for Panelists contains written policies and procedures for the review and evaluation of producers' production projects, approved by CAAM's Board of Directors. Specifically, CAAM has written guidance on funding goals, instructions outlining panelist's review responsibilities, and evaluation forms to document proposal evaluation scores. Awards decisions are made by CAAM staff (Executive Director, Director of Programs, and Media Fund Director) after receiving the independent reviewers' recommendations; a final list is presented to the CAAM Board of Directors for approval.

However, we noted that the media department does not have written policies and procedures for monitoring sub-recipient agreements with independent producers to ensure projects are completed timely and within budgets to meet CAAM goals. We were told that new staff members work with the person they are replacing to learn their job responsibilities. However, the lack of written policies and procedures for future reference can lead to confusion regarding processes needed to prepare producer contract documents, monitor contract deliverables, and provide support to the producers.

Recommendation

- 6) We recommend that CPB officials require CAAM to establish written policies and procedures for accounting practices, including appropriate internal controls with separation duties addressing disbursement requests and check signing, as well as, the media department's oversight of sub-recipient agreements with independent producers.

CAAM Response

CAAM officials said that since 2009 they have been reviewing and updating its financial systems and procedures in phases. They began by transitioning to a more suitable and robust accounting software in early 2009. Additionally, they developed a new chart of accounts that better suited the increasing complexities of various grant requirements. The next phase of changes is in financial procedures. They are currently testing and finalizing its procedures before documenting them in a procedures manual. Procedures and practices are being vetted by its IPA. The IPA's current management letter has concluded that CAAM does not have significant deficiencies in internal controls. The particular "significant deficiency in monitoring controls" found in their audit report of 2007-2008 was corrected the following year.

In the 2007-2008 audit report, the IPA noted a "material adjustment" in revenue and not a material weakness in our overall internal control system. The material adjustment was a result of a misunderstanding about National Minority Consortia monies that were pooled together for an election project in 2008. As a member of the consortia, CAAM officials said it acted as the project lead and performed the accounting. The IPA mistakenly believed CAAM was the financial agent rather than the project lead. As a result, the IPA determined that the monies for the project were not income but a liability owed to the other agencies. CAAM had originally listed the monies as Temporarily Restricted funds because the project was not completed at the end of the fiscal year. The IPA felt that this was a material adjustment and not a material deficiency, as it was a one-time arrangement with NMC partners.

In regards to the lack of segregation of duties over payment requests and check signing, CAAM said they are working towards changing its policies and procedures manual to improve controls.

CAAM officials said that staff in its Media Fund department were monitoring sub-recipients/grantees' projects. Payments to grantees were made only when deliverables were met; exceptions were at the discretion of either the Program Director or the Executive Director. This procedure was followed and enforced. However, CAAM agreed that the lack of written procedures could lead to confusion, particularly if there's a staff change. CAAM also agreed with the recommendation to establish written policies and procedures and this manual was currently being developed.

CAAM said they were continually reviewing financial and administrative procedures and making improvements in phases. They said its 2009-2010 audit found no significant deficiencies.

OIG Review and Comment

Based on CAAM's response we consider recommendation 6 to be unresolved until CAAM finalizes their current efforts to establish written procedures, as outlined in its response.

SCOPE AND METHODOLOGY

We conducted our audit in accordance with *Government Auditing Standards* (GAS) for financial audits to determine the accuracy of costs reported to CPB, that grant funds were spent in accordance with CPB grant agreement terms, and that CAAM complied with applicable provisions of the Public Broadcasting Act. We performed our audit field work during the period August through October 2010.

The scope of the audit included tests of the costs claimed by CAAM on active CPB production and operations grants during the period October 1, 2007 – March 31, 2010. Final and interim reports submitted to CPB as of March 31, 2010 are provided in Exhibits B through G.

In conducting our audit, we reviewed CPB's grant files and discussed the award and administration of the grants with CPB officials from the Office of Business Affairs and the Office of Television and Digital Video Content. At CAAM, we discussed the agreements with financial, production, and management officials. We also reconciled the financial data maintained by CAAM in its accounting records by grant to the expenses it reported to CPB.

We tested the accuracy of grant expenditures that CAAM claimed by performing financial reconciliations and comparisons to underlying accounting records and the audited financial statements to verify transactions recorded in the general ledger and reported to CPB on payment requests. We also evaluated compliance with the grant agreement terms, in part, by testing a judgmental sample of 251 expenditures for the grants reviewed, valued at \$1,154,886, against supporting documentation maintained by CAAM. The transactions tested included a variety of expenditure types such as, payroll, travel, producer contracts, and consulting fees. We also judgmentally selected eleven producer contracts for FYs 2008, 2009, and 2010 to review contract terms and conditions.

We also reviewed documentation of CAAM's compliance with the applicable provisions of the Public Broadcasting Act. Specifically, we reviewed CAAM's public inspection files to verify that it contained all the information required by the Act, as well as, CAAM's compliance with EEO grant agreement terms.

We gained an understanding of the internal controls over the preparation of the grant reports, cash receipts, and payment authorizations to plan our substantive testing.

Further, to obtain reasonable assurance that financial reports submitted to CPB were free of material misstatements, we performed tests of compliance with certain provisions of law and grant agreement requirements, when noncompliance could have a direct and material effect on the grant report amounts. To assist in our audit planning and assure ourselves that we could rely on the work performed by CAAM's independent public accountant (IPA), we discussed and reviewed the IPA's internal control and fraud risk assessment working papers, as well as, their financial statement work.

**Center for Asian American Media, Inc.
Report to the Corporation for Public Broadcasting
Operations FY 2008 Final Financial Report
For the 18 Months Ending 3/31/2009**

	CPB FY 08-09 Budget	Actual
Revenue:		
CPB Operations Grant*	\$605,000	\$605,000
Interest Income	0	5,580
Total Revenue	\$605,000	\$610,580
Expenses:		
Salaries, Taxes & Benefits	\$300,270	\$300,225
Accounting & Audit Fees	17,000	16,275
Bank Charges	7,500	7,941
Board Expenses	3,800	3,531
Books, Publications	800	854
Consultants	60,400	63,297
Copies/Xerox	500	485
Insurance	13,000	12,549
Legal	1,300	1,165
Mailing/Shipping	15,000	15,037
Miscellaneous	2,510	2,728
Organizational Dues & Fees	2,500	2,500
Patrol Service	8,000	8,000
Printing	13,600	13,600
Publicity & Marketing	23,000	23,000
Rent/Utilities	65,000	65,000
Rental of Meeting Rooms	1,700	1,700
Rental off Site Storage	8,200	8,200
Supplies, Equipment & Maintenance	20,000	20,000
Staff Training	2,000	1,783
Telephone/Fax	7,000	6,694
Travel	12,500	11,851
Website	25,000	24,165
Total Expenses	\$605,000	\$610,580

**Center for Asian American Media, Inc.
Report to the Corporation for Public Broadcasting
Operations FY 2009 Final Financial Report
For the Period April 1, 2009 Through 9/30/2009**

	CPB FY 2009 Budget	Actual
Revenue:		
CPB Operations Grant ⁷	\$0	\$0
Total Revenue	\$0	\$0
Expenses:		
Salaries, Taxes & Benefits	\$138,146	\$138,129
Accounting & Audit Fees	3,725	3,725
Bank Charges	6,500	6,695
Consultants	14,250	14,250
Insurance	6,600	6,605
Legal	2,500	2,437
Mailing/Shipping	2,300	2,349
Miscellaneous	1,500	1,527
Payroll Service	1,154	1,048
Printing	1,800	1,762
Publicity & Marketing	2,500	2,562
Rent/Utilities	29,000	29,038
Supplies, Equipment & Maintenance	6,200	6,169
Staff Training	6,200	6,169
Telephone/Fax	5,000	4,731
Travel	7,625	7,607
Total Expenses	\$235,000	\$235,000

⁷ CAAM's report did not include CPB operations grant revenues of \$235,000.

**Center for Asian American Media, Inc.
Report to the Corporation for Public Broadcasting
Operations FY 2010 Final Financial Report
For the 4 Months Ending 1/31/2010**

	CPB FY 2010 Budget	Actual
Revenue:		
CPB Operations Grant ⁸	\$0	\$0
Total Revenue	\$0	\$0
Expenses:		
Salaries, Taxes & Benefits	\$330,229	\$101,604
Accounting & Audit Fees	18,000	4,799
Board Expenses	4,000	1,155
Consultants	54,000	15,639
Dues & Finance Charges	10,000	1,611
Hospitality	4,000	1,253
Insurance	10,000	1,140
Mailing & Shipping	8,000	1,779
Miscellaneous Expense	2,000	746
Occupancy	58,800	18,757
Printing & Copying	5,000	77
Supplies & Equipment	22,971	4,792
Telephone & Internet	8,000	2,785
Travel & Conferences	20,000	1,784
Total Expenses	\$555,000	\$157,920

⁸ CAAM's report did not include CPB operations grant revenues of \$555,000.

**Center for Asian American Media, Inc.
Report to the Corporation for Public Broadcasting
Production FY 2008 Final Financial Report
For the 12 Months Ending 9/30/2008**

Revenues & Expenses	CPB Budget	Actual
CPB Revenue	\$636,363	\$459,907
Expenses:		
Salaries	\$149,514	\$149,514
Fringe Benefits	26,912	29,137
<i>Personnel Subtotal</i>	<i>\$176,426</i>	<i>\$178,651</i>
Media Fund Awards	\$354,000	\$349,544
Media Fund Expenses	\$27,937	\$29,502
Broadcast Expense	78,000	83,236
<i>Non-Salary Expense/Non Award</i>	<i>\$105,937</i>	<i>\$112,739</i>
Total Expenses	\$636,363	\$640,934

**Center for Asian American Media, Inc.
Report to the Corporation for Public Broadcasting
Production FY 2009 Final Financial Report
For the 12 Months Ending 9/30/2009**

Revenues & Expenses	CPB Budget	Actual
CPB Revenue ⁹		
Expenses:		
Salaries	\$173,804	\$173,804
Fringe Benefits	39,778	39,777
<i>Personnel Subtotal</i>	<i>\$213,582</i>	<i>\$213,581</i>
Media Fund Expenses	\$371,381	\$365,123
Broadcast Expense	80,350	79,978
Digital Media Expenses	21,050	21,152
Total Expenses	\$686,363	\$679,835

⁹ CAAM's report did not include CPB production revenues of \$686,363.

**Center for Asian American Media, Inc.
Report to the Corporation for Public Broadcasting
Production FY 2010 Final Financial Report
For the 4 Months Ending 1/31/2010**

Revenues & Expenses	CPB Budget	Actual
CPB Revenue	\$954,545	\$240,000
Expenses:		
Broadcast & Media Fund	\$862,833	\$214,045
Digital Media	91,712	32,057
Total Expenses	\$954,545	\$246,102

**Center for Asian American Media, Inc.
Productions with De-obligations
FY 2009 Activities**

Productions	Original Grant Year Funds	Award Amount	Year Grant Funds Expired	Amount De-obligated
1 And Thereafter	2006	\$10,000	2007	\$10,000
2 Beijing Taxi	2006	15,000	2007	15,000
3 Out of Status	2006	5,000	2007	5,000
4 The Buddha	2007	50,000	2008	50,000
5 A Song for Ourselves	2007	15,000	2008	15,000
Total FY 2009 De-obligations		\$95,000		\$95,000



March 22, 2011

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

Dear Mr. Richardson:

Attached please find our response to the draft audit report of CPB grants awarded to the Center for Asian American Media in fiscal years 2008-2010.

We thank you for the opportunity to respond to the report before it becomes final because we have additional information that we believe will clarify one of the key findings concerning the de-obligation of grant funds.

On the whole however, we appreciate the work of William Gillette in suggesting ways in which we can improve our contract compliance, and financial reporting, and for citing opportunities for restructuring future agreements to provide greater accountability of CPB funding.

Sincerely,

Stephen Gong
Executive Director

Cc: Kar Yin Tham
Lui Gonzales

**Center for Asian American Media
Response to Draft Audit Report**

De-obligated Grant Funds

We acknowledge the finding that \$95,000 of grant funds were de-obligated and used to provide new productions grants to independent producers. Of these grant funds, however, \$50,000 (for the project entitled "The Buddha") were re-obligated with the permission of CPB. When the producer of "The Buddha," David Grubin, declined these funds late in contract negotiations, we brought this to the attention of CPB. Through phone conversations in early November and an email exchange dated November 13, 2009, we notified our Program Officer, Angela Palmer, of the change. She wanted to verify with CPB's legal department of our ability to re-grant the funds. In an email dated November 18, 2009, she informed us that we were able to reallocate or re-grant the funds. Subsequently, we re-granted the \$50,000. The de-obligation of funds was also reported in our narrative for contract # 12077.

As for the \$45,000 originally intended for the four projects listed in Attachment H, we erred in assuming this precedent and de-obligated the older commitments (due to failed contract negotiations), and re-granted the monies in the subsequent funding cycles. In retrospect, we should have formally informed CPB about the other de-obligations and asked for formal permission to re-grant them.

Regarding the recommendation these monies be returned, we wish to point out that although we failed to comply with the agreement in terms of prior approval for our action, we did in fact reallocate these funds to other productions as is specified in our agreement.

Sub-recipient reporting of CPB Expenditure

Over the last six months, CAAM has been working with our counsel to modify grant agreements with independent producers. Given this finding, we will implement recommendations stated on page 8 of the Inspector General's draft audit report.

Reporting of Ancillary Income

The report is correct in identifying our failure to certify to CPB the Gross Proceeds from Subsidiary or Ancillary Rights. We did not have this built into our reporting format, but have taken steps to address this. That said, we have been in touch with each of the producers and can state that none of the projects supported through these grants have generated revenue that approaches the minimum threshold for ancillary income.

Reporting of Interest Income

As interest earnings were not a contract requirement, CAAM did not segregate interest income based on funding sources. The interest amount of \$5,580 reported and cited on page 9 of the audit report was organizational interest, and not specifically interest on CPB monies.

CPB has changed their contract requirements for FY 2010-2011 and CAAM is now segregating interest income.

Internal Controls Over Financial and Media Departments

Since 2009, CAAM has been reviewing and updating financial systems and procedures in phases. We began by transitioning to a more suitable and robust accounting software in early 2009. Along with that, we developed a new chart of accounts that better suited the increasing complexities of various grant requirements. The next phase of changes is in financial procedures. We are currently testing and finalizing our procedures before documenting them in a procedures manual. Procedures and practices are vetted by our IPA firm (Independent Public Accountant) and they have concluded that we do not have significant deficiencies in internal controls. The particular “significant deficiency in monitoring controls” found in their audit report of 2007-2008 was corrected the following year.

In the audit report of 2007-2008, the IPA noted a “material adjustment” in revenue and not a material weakness in our overall internal control system. The material adjustment was a result of a misunderstanding about National Minority Consortia monies that were pooled together for an election project in 2008. As a member of the consortia, we acted as the project lead and performed the accounting. The IPA mistook the role we played as financial agent rather than as project lead and determined that the monies for the project were not income but rather a liability that we owe to the other agencies. We had originally listed it as Temporarily Restricted funds because the project was not completed at the end of our fiscal year. The IPA felt that this was a material adjustment and not a material deficiency as it was a one-time arrangement with NMC partners.

In regards to the lack of segregation of duties over payment requests and check signing, we are working towards changes in our policies and procedures manual to address this.

Staff in our Media Fund department are monitoring sub-recipients/grantees’ projects. Payments to grantees are made only when deliverables are met. Exceptions are at the discretion of either the Program Director or the Executive Director. This procedure is followed and enforced. However, we agree that the lack of written procedures could lead to confusion, particularly if there’s a staff change. We agree with the recommendation to establish written policies and procedures. This manual is currently being developed.

Exhibit I

As mentioned, we are continually reviewing financial and administrative procedures and making improvements in phases. We are happy to report that there were no significant deficiencies found in the audit of 2009-2010 (Copy of Management Letter attached).

Current improvements and plans

This audit process has been helpful in identifying key areas of improvement and for clarifying procedures that we were planning on instituting. Here is a list of changes that we've already implemented as well as others that are underway:

1. Grant reporting format – we will include in our reports to CPB a list of grants in negotiations, de-obligations and re-grants, as well as new commitments.
2. Integration of finance department and programs department reporting – all sub-recipient contracts and project progress will be reviewed by the finance department. All financial reports will be cross-checked with program staff.
3. Instituted annual communication to grantees to obtain ancillary income reports. These results will then be summarized and submitted to CPB annually.
4. Modifying grant agreements with new sub-recipient reporting requirements – a revised contract template for grantees will be submitted to CPB for review by May 31, 2011.
5. Written policies & procedures, including separation of duties, control measures, and oversight, is currently being developed. A completed manual will be submitted to CPB by July 1, 2011.