

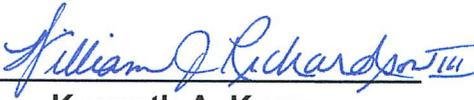
**CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF INSPECTOR GENERAL**

**SURVEY OF PUBLIC BROADCASTING STATIONS'
ACCOUNTING FOR CPB GRANTS AND COMPLIANCE
WITH COMMUNICATIONS ACT REQUIREMENTS**

FISCAL YEARS 2007 AND 2008

SURVEY REPORT NO. ECJ905-1105

March 31, 2011



for **Kenneth A. Konz**
Inspector General

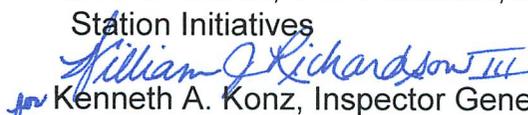


Corporation
for Public
Broadcasting

Office of Inspector General

Date: March 31, 2011

To: Mark Erstling, Senior Vice President, System Development and
Media Strategy
Bruce Theriault, Senior Vice President, Radio
Kevin E. Martin, Vice President, Station Grants and Television
Station Initiatives

From: *for*  Kenneth A. Konz, Inspector General

Subject: Survey of Public Broadcasting Stations' Accounting for CPB Grants
and Compliance with Communications Act Requirements
Fiscal Years 2007 and 2008, Survey Report No. ECJ905-1105

We have completed a survey of 29 public broadcasting station licensees responsible for 17 public television and 23 public radio stations that received Corporation for Public Broadcasting (CPB) grants. We reviewed their accounting records to determine how the CPB grants were managed and tested station compliance with the requirements of the Communications Act of 1934, as amended (the Act) for fiscal years (FY) 2007 and 2008. The specific objectives of this survey were to assess whether stations were:

- Discretely accounting for the receipt and expenditure of CPB grant and contract funds;
- Following federal regulations for the proper recording and reporting on federal funds provided by CPB for the Ready To Learn (RTL) program; and
- Appropriately documenting compliance with statutory provisions and CPB requirements related to open meetings, open financial records, Community Advisory Board (CAB), Equal Employment Opportunity (EEO), and donor list and political activities restrictions.

We identified unacceptably high levels of non-compliance with the Radio Community Service Grant (CSG) General Provisions and Eligibility Criteria requirement to maintain discrete accounting for CSG funds. More than half of the 29 licensees reviewed (15 or 52 percent) did not maintain discrete accounting records for how their stations expended CSG funds. Stations routinely identified and separated the various CPB grants received in their revenue accounts, but had not established separate CPB

expense tracking to link expenditures against CPB revenues. For the separate radio and television station Annual Financial Reports (AFR) surveyed, 8 of 23 radio stations (35 percent) did not report CPB restricted portion of their CSG on their AFR, and 2 of the 17 television stations (12 percent) did not report the Interconnection Grant on their AFR even though the AFR contains separate lines for these funds. In addition, five television stations in our survey received Distance Service Grants. However, three stations improperly included them as part of the Community Service Grant on their AFR as opposed to reporting them under "Other CPB Funds" on their AFR. We could not determine whether one station included the grant on their AFR and the fifth station correctly included the grant in the "Other CPB Funds" category on their AFR.

We were often told that the Radio/Television CSG funds were used to pay the stations' NPR or PBS dues and the managers did not see the point to separately account for the CPB grant funds. However, we were not able to trace the CPB grant funds through the accounting system and were not able to independently verify what expenses were paid from the CPB grant funds. We were also unable to determine whether the CPB grant funds were expended during the grant spending period, or expended for their intended purposes. We found that there was no account code linking CPB funds received and expenses paid. We had to rely on the oral assertions of station officials that NPR or PBS payments were made with their CPB funds.

We also found that 25 of the 29 licensees (86 percent) were not in compliance with one or more of the statutory provisions of the Act regarding open meetings of its Board of Directors (BOD) or CAB, making financial records available to the public, and complying with EEO requirements to make information available to the public. In addition, we found that 24 of the 29 licensees (83 percent) had not documented one or more of their policies/operating procedures explaining how they complied with the five requirements of the Act.

While management officials at the public radio and television stations surveyed annually certified that they were in compliance with these requirements, our survey found that they were not always in compliance with the financial recordkeeping and Communications Act requirements. The May 2009 amendments to the federal False Claims Act make continuing non-compliance with Communications Act and certification requirements considerably more significant because station officials can now be penalized for their continuing false certifications.

Additionally, we found that the independent public accountant (IPA) for 8 of the 29 licensees (28 percent) the independent public accountant (IPA) who audited their stations' financial statements and attested to the accuracy of the CPB Annual Financial Report (AFR) did not test for compliance with the CPB requirements for claiming Non-Federal Financial Support (NFFS). We identified four additional cases where the IPA was not independent to render an opinion because they prepared the AFR that they attested was correct (three licensees) or made an error in preparing the AFR (one licensee).

The lack of discrete accounting for CPB funds by station grantees, inaccurate AFR reporting of CPB funds received, and concerns over the reliability of IPA attestations and AFR certifications made to CPB create vulnerabilities. These issues coupled with CPB's practice not to require grantees to report CSG expenditures to CPB, limited CPB oversight mechanisms. The lack of an integrated system to track and oversee grantees CPB financial information on a grant basis hindered CPB's ability to maximize oversight efforts. These factors prevent CPB from effectively overseeing the use of CPB funds to ensure CPB grant funds were spent within grant periods, final CPB costs were accurately reported, and unused CPB funds were refunded to CPB.

In response to the draft report, CPB management stated that they take compliance matters very seriously, and embrace the fundamental concerns outlined in the draft report. The results from the survey indicate that more work may be needed to ensure grantee compliance. They stated that as a matter of course they have been proactive in using various means to communicate to grantees the importance of complying with Act requirements.

They stated that in addition to considering the recommendations proposed by the OIG, CPB is examining the practicality and potential effectiveness of expanded compliance training or curriculum targeting station chief executives and anyone who is responsible for compliance with CPB requirements. CPB is also developing a policy that would impose financial penalties on stations found to be non-compliant with the Act, the CSG General Provisions, or the Financial Reporting Guidelines.

CPB management also stated that over the past few years, CPB has taken strong and focused action to more thoroughly educate all stations regarding their responsibilities with respect to compliance. To that end, CPB has:

- increased the number and quality of training sessions and resources available to grantees;
- directly communicated the importance of understanding and complying with the terms of their grants as outlined in the General Provisions to grantee executives and other station representatives responsible for compliance; and
- restructured and rewritten the Financial Reporting Guidelines and CSG General Provisions and Eligibility Criteria used by the grantees for greater clarity, ease of reference, and comprehension.

CPB management also stated that when specific instances of non-compliance have been discovered, either by CPB or the OIG, CPB has addressed them directly with the station. This has included employing punitive measures such as recovering CSG dollars, withholding CSG payments, and, in three recent cases, terminating a station's participation in the CSG program.

CPB management's response is attached in Exhibit B. As stated above, CPB management generally agreed with our findings and presented their proposals for implementing our recommendations. Based on CPB management's response to the draft report, we consider recommendations 1 through 8 resolved but open pending CPB's accomplishment of their various system enhancements to improve both CPB and grantee accountability over the receipt and expenditure of CPB grant funds. Based on management response, recommendation 9 remains unresolved until more specificity is provided by CPB on its plans for developing an enhanced internal grant-tracking system.

In accordance with CPB audit resolution procedures, CPB management is responsible for determining the corrective actions to be taken on the recommendations. 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 corrective actions will be completed.

This survey was conducted in accordance with the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency's *Quality Standards for Inspections*, dated January 2005. Our survey was performed during the period August 2009 through May 2010. A full discussion of our scope and methodology is provided in Exhibit A.

BACKGROUND

CPB's issuance of grants to public broadcasting stations whether community service, interconnection, digital, federal Ready-To-Learn, or other CPB grants is conditioned on grantees complying with specific grants terms and conditions, as well as, eligibility requirements including requirements contained in CPB provisions of the Act. Further, there are specific federal accounting and reporting requirements for the 13 licensees in our sample that received federal Ready-To-Learn grants administered by CPB. The terms and conditions for CPB grant eligibility and the Act requirements are specific and detailed and include many aspects of station operations. They range from the minimum signal strength and number of hours "on air" to specific grant accounting requirements and requirements for open meetings, open financial records, EEO, and donor lists.

However, stations that are owned and operated by a state, a political or special purpose subdivision of a state, or a public agency are not required to have a CAB. Further, meetings of a university BOD that do not "relate to public broadcasting," do not fall within the requirements of the open meeting section of the Act. A total of 18 licensees in our survey were not subject to the CAB requirements and possibly open meeting requirements.

Station executives and their independent public accountants formally communicate with CPB using the Integrated System Information System (ISIS). ISIS is a web-based

portal that stations use annually to complete their CSG legal forms and AFR for electronic submission to CPB. The AFR is used to collect station revenue and expense information in a standardized format for each fiscal year. Stations are required to report all revenue and expense information and reconcile this information to their audited financial statements. The AFR is used to identify revenues reported on the financial statements that qualify as NFFS. In addition, stations certify that they are in compliance with CPB requirements as part of the yearly grant application process. Non-compliance with these terms and conditions for eligibility and the provisions of the Act are grounds for termination of the CPB grant and return of the funds.

Over the last 10 years, the Office of Inspector General has audited 37 different public broadcasting stations and routinely reviewed compliance with the CPB grant terms and conditions for eligibility, as well as, compliance with requirements of the Act. Our audit results during the period September 1999 through March 2010 showed that station non-compliance with specific requirements of the Act ranged from 15 percent for either not establishing a CAB or having it meet regularly to 57 percent for not providing adequate advance notice of public meetings.

We initiated this survey to gain an understanding of the current level of compliance/non-compliance with the CPB grant terms and conditions for eligibility regarding grant accountability and compliance with the five specific requirements of the Act.

FINDINGS AND RECOMMENDATIONS

Lack of Discrete Accounting for CPB Grants

Our survey showed a high rate of non-compliance with CPB grant requirements for maintaining discrete accounting for the annual Community Service and Interconnection Grants awarded to public broadcasting stations. This included maintaining discrete accounting for the restricted portion of the Radio CSG and the Television Interconnection Grant. We found that 15 of 29 licensees (52 percent) did not maintain discrete accounting records for how their stations expended these grant funds. At the station level, 19 radio and 9 television stations did not maintain discrete accounting records for their CSG or Interconnection grant expenditures.

CPB's *General Provisions and Eligibility Criteria for TV and Radio CSGs*, Section 10.B, Record Keeping and Audit Requirements, state:

All Recipients of CSG funds must satisfy the requirements of the Communications Act of 1934, as amended, 47 U.S.C. 396(l)(3)(B, C, and D). In general, these provisions set requirements for record-keeping and auditing and require that CPB or its representatives have access to financial records.

Furthermore, discrete accounting and proper documentation shall be maintained to support all CSG expenditures. All CSG expenditures must meet the test of allowability as stated throughout this document and as provided by all other CSG related documents and policies. CSG funds which cannot be accounted for because of recipient's failure to comply with this requirement may be subject to repayment to CPB. The recipient shall maintain such other records that CPB may require to facilitate an effective audit.

Likewise, the Interconnection Grant agreement signed by each grantee states:

The Interconnection Grant funds must be used to pay for interconnection and/or program distribution costs. All interconnection expenditures must be supported by documentation (invoices, contracts, bills of sale, check stubs, etc.). Such documentation must be retained in the files of the recipient for three years after the end of the expiration period, and must be made available for CPB review upon request. Expenditures that cannot be supported with documentation may be disallowed. Undocumented expenditures cannot be replaced with other station expenditures after the expenditure period ends. All disallowed expenditures are subject to refund to CPB.

In response to our inquiries about the lack of discrete accounting for CPB grant funds; the answer that we received most often from station managers was that all of the CPB CSGs and Interconnection Grants went to pay either the PBS or NPR bills. They saw no point in separating CPB expenditures from other station expenditures since they were all spent on public broadcasting activities. Had we traced these NPR or PBS

payments through the accounting system, we could not have independently verified that they were paid from CPB CSG (unrestricted and restricted) and interconnection grant funds because there was no account code linking CPB funds received and expenses paid. We had to rely on management's oral assertions that they expended the CPB funds on PBS and NPR billings.

CPB grant provisions require stations to maintain discrete accounting records for their CSG funds. This survey showed that stations generally were not maintaining discrete accounting records of CSG expenditures.

Recommendations

We recommend that CPB management:

- 1) reinforce the requirement that stations comply with CPB's discrete accounting requirements; and
- 2) consider programming ISIS to identify for CPB Grants Administration review a station's AFR that did not properly identify the restricted portion of the Radio CSG, Television Interconnection, Distance Service Grant or other specified CPB grants on their AFRs.

Management Response

For recommendation 1, CPB management stated that they agreed that reinforcing station compliance with the discrete accounting requirements was necessary. In addition to increasing its communication efforts to stations regarding this matter, they plan to incorporate a definition of its discrete accounting requirement in all General Provisions and Eligibility Criteria documents, i.e., requiring a unique general ledger code that identifies CSG funds and related expenditures.

For recommendation 2, CPB management stated that they understand the concern of this finding and will explore how best to ensure the specified grants are reported correctly. They may address this through ISIS modifications to either add a flag or additional reporting lines to the AFR for specific revenue items.

OIG Review and Comments

Based on CPB's response, we consider recommendations 1 and 2 resolved but open pending receipt of documentation evidencing that they have completed the actions proposed in its response.

Non-Compliance with Communications Act and CPB Documentation Requirements

We identified that 26 of the 29 public broadcasting station licensees (90 percent) were not in complete compliance with one or more of the statutory provisions of the Act or CPB’s minimum compliance requirements. Additionally, 19 of the 29 licensees did not comply with requirements for either providing adequate advance notice of upcoming Board of Director or CAB meetings, or having financial or EEO records available for public review. Twenty four licensees were not in compliance with CPB’s minimum compliance requirements, because they had not documented one or more of their policies/operating procedures explaining how they complied with the various requirements of the Act.

Station managers frequently told us that they were not aware of the various Act requirements. When station grantees fail to comply with the statutory provisions of the Act and CPB’s minimum compliance requirements, the public is denied the transparency and openness of station operations envisioned by the Act.

The following table summarizes the non-compliance issues that we identified.

Requirements	Type of Licensee							
	Community		State & Local Gov.		University		Total ¹	
	#	%	#	%	#	%	#	%
Advance Notice of Board Meetings:								
BOD Not Properly Announced	4/9	44%	N/A	--	N/A	--	4/9	44%
CAB Not Properly Announced	1/9	11%	N/A	--	1/2	50%	2/11	18%
Financial Records Not Available	5/9	55%	2/4	50%	7/16	44%	14/29	48%
EEO Records Not Available	1/9	11%	3/4	75%	1/16	6%	5/29	17%
Procedures Not Documented	8/9	89%	4/4	100%	12/16	75%	24/29	83%

The Public Broadcasting Act prohibits the distribution of federally appropriated funds to the licensee of a public broadcasting station unless they comply with the open meetings, open financial records, EEO, as well as, donor lists and political activities requirements. To illustrate, for open meetings the law states:

Section 396(k)(4) of the Communications Act provides:

Funds may not be distributed pursuant to this subsection to the Public Broadcasting Service or National Public Radio (or any successor organization), or to the licensee or permittee of any public broadcast station, unless the governing body of any such organization, any committee of such governing body, or any advisory body of any such organization, holds open meetings preceded by reasonable notice to the public.

¹ Not all licensees were required to have a Board of Directors (BOD) or Community Advisory Board (CAB). State and local government licensees are not required to have a BOD or CAB. Meetings of university BODs that do not “relate to public broadcasting,” do not fall within the requirements of the open meeting section of the Act.

The Act contains similar requirements for open financial records and EEO reports.

Open Meetings

Our survey identified that 4 of 9 community licensees (44 percent) did not properly announce that their BOD meetings were open to the public. Two of the four did not inform the public that their meetings were open to the public, one station did not give notice of the meeting seven days in advance of the meeting and one station did not explain their open meeting policy on-air three consecutive days each calendar quarter. One of the four did not announce that their CAB meetings were open to the public. In addition, one private university licensee that had a CAB did not properly announce that their CAB meetings were open to the public. Not properly announcing that meetings of the BOD and CAB were open to the public did not provide the public with the transparency envisioned by the Act or CPB's guidelines.

The minimum compliance for "reasonable notice" as stated in CPB's explanation of the Act requires stations to "Give reasonable notice to the public of the fact, time and place of an open meeting at least one week (seven days) in advance of the scheduled date" CPB's explanation of the Act also requires stations to provide three types of notice.

1. Notice is placed in the "Legal Notices" or the radio and television schedules section of a local newspaper in general circulation in the station's coverage area; or, notice is available through a recorded announcement that is accessible on the station's phone system; or, notice is available through an announcement that is accessible on the station's web page; and
2. Notice is communicated by letter, e-mail, fax, phone, or in person to any individuals who have specifically requested that they be notified; and
3. The station makes on-air announcements on at least three consecutive days once during each calendar quarter that explain the station's open meeting policy and provides information about how the public can obtain information regarding specific dates, times, and locations.

Open Financial Records

Our survey showed that 14 of the 29 licensees (48 percent) did not fully comply with the statutory requirements of the Act for maintaining financial records available for public inspection. These licensees either did not have any of the required CPB documents readily available for public inspection (eight licensees) or did not have all the required documents available for public inspection (six licensees).

CPB addresses the open financial records requirement in its minimum compliance requirements by stating that the following documents must be made available for public inspection: a) Annual Financial Report (AFR) filed with CPB; b) audited financial statements, and c) other information regarding finances submitted to CPB related to any funding agreement with CPB that requires a financial report must be made available for public inspection.

Equal Employment Opportunity

Our survey showed that 5 of 29 licensees (17 percent) did not have readily available for public inspection copies of the station's employment statistical report filed with CPB. CPB guidelines suggest that the employment portion of the Station Activity Benchmarking study (SABS) or the Station Activities Survey (SAS) that identifies by race and sex the number of employees in eight listed job categories and the number job openings occurring during the year be made available for public inspection.

Documenting Implementing Policies and Procedures

The most common problem that we found when surveying public broadcasting station compliance with the Act was the lack of implementing policies and procedures describing how the station complied with the requirements of the Act. Twenty four of the 29 licensees were not in compliance with CPB's minimum requirements because they had not documented one or more of their policies/operating procedures explaining how they complied with the various requirements of the Act. While this is a significant rate of non-compliance with one of CPB's minimum compliance requirements, we were encouraged that as a result of this survey management at nine licensees (nine radio and four television stations) immediately began drafting the appropriate policies and procedures documents.

CPB provides guidance for developing implementing instructions for Communication Act requirements. Specifically, each recipient of a CPB station grant is required to develop documentation indicating the manner of compliance with requirements. These include requirements for holding open Board and CAB meetings and the methods used to give reasonable notice to the public; the types of financial records and EEO information made available for public inspection and the methods used to make them accessible; and the manner of compliance with the donor list and political activities requirements. The documentation shall be kept at a reasonable location by each station and made available to CPB, upon request, to determine the fact and extent of compliance.

These policies are essential to ensure compliance with the Act and to provide the public with information about how the station complies with these requirements. For example, the lack of a written policy on a station's open meeting procedures hinders the ability of the public to obtain information about upcoming dates, times, and locations of Board of Directors, CAB, and other meetings. Without written policies describing how a station complies with the open financial records and EEO requirements, the public cannot readily determine the type of records available for public inspection, the mechanisms for

obtaining and reproducing available records, as well as, any limitations on access to specific records.

* * * * *

Discussion with station officials about these requirements disclosed they were not always fully aware of the Act's requirements. CPB requires that each recipient of a CPB station grant certify its continued compliance with the Act. This annual certification is part of the *Certification of Eligibility* form that must be completed by each station when applying for a CSG.

Station officials in our survey completed these certifications affirmatively as part of the grant application and grant award process. These certifications indicated that the station complied with all Act requirements including, conducting open meetings, having open financial records, making EEO employment information available to the public, and documenting procedures for fulfilling Act requirements. The CSG Agreement also requires station managers to attest to their continuing compliance with the CSG General Provisions and Eligibility Criteria. We believe that the results of our survey demonstrate that these self-certification processes are not totally effective to ensure compliance with the requirements of the Act.

Station officials must take these certifications more seriously or they now risk violating the federal False Claims Act Amendments. In May 2009, when the federal False Claims Act was amended to include programs in which the federal government had a substantial interest, as a result, CPB grants came under its purview. This means that station officials who make false claims as part of the grant award process can be subjected to civil penalties of not more than \$10,000 for each false statement or certification made in connection with requesting a grant. We believe that this change in federal law is an acknowledgement and recognition of the seriousness of the certification process that CPB relies on when making grants.

Recommendations

We recommend CPB management:

- 3) Reinforce the requirement to fully comply with all requirements of the Act by including generic language from the Act in the CSG agreement stating that grant funds may not be distributed to the licensee of a public broadcasting station that is not in compliance with the requirements of the Act. Appropriate language discussing the penalties provided for under the federal False Claims Act Amendments should also be included in the discussion of the CPB requirements for compliance.

- 4) Develop a policy to:
 - a) reduce CSG funding for stations that violate provisions of the Act until compliance is achieved; and
 - b) suspend stations from the CSG program for repeat violations of the Act.
- 5) Work with the Office of Inspector General to develop guidance to expand the independent public accountants' attestation of the station's AFR to include testing of the station's compliance with the Communications Act requirements for open public meetings, open financial records, CAB, EEO, and donor lists and political activities.

Management Response

For recommendation 3, CPB management stated that they agreed to reinforce the requirement for full compliance, by including language from the Act in the CSG agreement. As part of its annual revision process to CPB's general eligibility criteria, CPB stated that they will strengthen the language regarding compliance with the provisions of the Act, to better communicate that compliance is required before CPB can release funds to a grantee. Further, since a false certification could result in a station being sued in Federal Court under the False Claims Act, CPB will include a reference to a station's potential liability under the False Claims Act in the language, as well.

For recommendation 4, CPB management stated that they agreed that stations must be held accountable. CPB is developing and will consult with the public broadcasting system on developing a policy that would impose financial penalties or suspension on a station found to be non-compliant with the Act.

For recommendation 5, CPB management stated that CPB welcomes the opportunity to work with the OIG on Recommendation 5 to developing additional guidance to independent public accountants to address compliance with Communications Act requirements within the scope of its attestation examination.

OIG Review and Comments

Based on CPB's response, we consider recommendations 3, 4, and 5 resolved but open pending receipt of documentation evidencing that they have strengthened the language in the general eligibility criteria regarding compliance with the Act, including potential financial penalties for non-compliance imposed by CPB and resulting from the provisions of the False Claims Act, as well as, expanded the scope of the IPA's attestation work to include Communications Act compliance.

Reliability of IPA Attestation Certifications

Our survey identified problems in 12 of 29 licensees' (41 percent) independent public accountants' (IPA) attestation work. We found that 8 of 29 IPAs' work did not conduct tests for compliance with the specific CPB criteria and requirements for claiming non-federal financial support (NFFS). We identified 4 additional cases where the IPA was not independent to render an opinion because they prepared the AFR (3 licensees) or made an error in preparing the AFR (1 licensee).

The law (47 U.S.C. Sec. 397(9)) defines NFFS. CPB provides additional policy restrictions for claiming revenue as NFFS in the Financial Reporting Guidelines (Guidelines). The IPA is to conduct an examination in accordance with attestation standards established by the American Institute of Certified Public Accountants, and examine, on a test basis, evidence that the station complied with the Guidelines for claiming NFFS.

During our interviews with the IPAs we were told that they had just completed their audit of the stations' financial statements and believed that they could base their attestation on the work performed for the financial statement audit. However, the requirements for claiming NFFS as contained in the CPB Guidelines are unique and must be used when attesting to the AFR. In addition, three IPAs assisted with the preparation of the AFRs that they then attested as complying, in all material respects, with the CPB requirements. Attesting to one's own work is a violation of professional independence requirements. Finally, we noted that one IPA did not identify a \$90,000 transposition error, involving the restricted portion of the radio CSG that appeared on the station's audited financial statements and AFR.

CPB relies on the IPAs to conduct attestation examinations of station AFRs in accordance with auditing standards and to provide CPB with assurance that claimed NFFS is accurate and complies with the Guidelines. Not testing for NFFS reporting compliance, the lack of independence, and not identifying inaccuracies in reporting do not provide CPB with the level of assurance anticipated by requiring an attestation examination be conducted and certified to CPB.

Recommendation

- 6) We recommend that CPB management work with the Office of Inspector General to develop agreed-upon-procedures for the IPA attestation examination of the AFR and to require that the IPA provide a separate report to CPB of exceptions identified during the attestation examination.

Management Response

For recommendation 6, CPB management stated that they will work with the OIG to develop procedures and reporting guidelines for attestation by IPAs. Additionally, they

stated they hope to develop alternative procedures that do not unduly add to the financial burden of stations in securing the appropriate attestation, with help from the public broadcasting system and perhaps the IPA community.

OIG Review and Comments

Based on CPB's response, we consider recommendations 6 resolved but open pending receipt of documentation evidencing enhanced attestation procedures and reporting guidelines addressing IPA responsibilities.

Grant Expenditure Reporting and Accountability Over CPB Funds

Our survey found a lack of discrete accounting for CPB funds by station grantees, inaccurate AFR reporting of CPB funds received, and concerns over the reliability of IPA attestations on the accuracy of AFR certifications made to CPB. These concerns coupled with CPB's practice not to require CSG grantees to report CSG expenditures to CPB, limited CPB oversight mechanisms, and the lack of an integrated system to track and oversee grantee CPB financial information on a grant basis hindered CPB's abilities to maximize oversight efforts. These factors prevent CPB from effectively overseeing the use of CPB funds to ensure CPB grant funds were spent within grant periods, final CPB costs were accurately reported, and unused CPB funds were refunded to CPB.

Reporting Grant Revenues and Expenditures

Our survey found inaccurate reporting of CPB grants received on AFRs. Further, CPB does not require that CSG, Interconnection, Distance Service, Local Service or Rural Listener Access Incentive Fund (RALIF) grant expenditures be reported to CPB on the AFR or in any other grant financial reporting format. CPB does require that programming, digital, Ready To Learn (RTL), and other grants/contracts submit a final financial report on grant/contract activities.

The inconsistent treatment of grant financial reporting requirements does not provide a sufficient level of financial accountability over CPB grants. Further, it does not provide CPB with any financial information that CSG, Interconnection, Distance Service, Local Service, or RALIF grant funds were spent and used in accordance with grant terms.

The AFR provides specific lines for stations to show the amounts of the CSG, Digital Project, and Interconnection grants. It does not provide for a breakdown of other CPB grants a station received such as Local and Distance Service Grants. While reviewing station AFRs in the ISIS data base, we found that 8 of 23 radio stations in our survey (35 percent) did not separately list the restricted portion of the CSG on their AFR, and 2 of the 17 television stations in our survey (12 percent) did not separately list the Interconnection Grant on their AFR even though the AFR contains separate lines for these funds. In addition, five television stations received Distance Service Grants. However, three stations improperly included them as part of the Community Service Grant on their AFR as opposed to reporting them under "Other CPB Funds" on the AFR.

We could not determine whether one station included the grant on their AFR and the fifth station correctly included the grant in the “Other CPB Funds” category on their AFR.

Proper recognition of the receipt of the CSG, Interconnection, Local and Distance Service Grants is important because stations are responsible for identifying and tracking expenditures of these funds and, at the conclusion of each grant reporting period they must certify that the funds were spent in accordance with grant spending criteria.

We also found that many of the stations that received RTL project grants or digital conversion grants either did not report the grant on the AFR in the year it was awarded or reported only a portion of the grant in the year that it had been awarded. We identified 13 television stations in our survey that received either a RTL or a Ready-To-Lead-In-Literacy (RTLL) grant in FY 2007 or 2008. However, none of the 13 stations reported receiving any RTL or RTLL funds as revenue from CPB on their FY 2007 or 2008 AFRs.

We also identified 22 radio and television stations as having received a Digital Grant in FY 2007 or 2008. We found 7 stations did not report receiving any digital funds on their AFRs. Four station’s AFRs reported receiving less than the grant award amount and one station reported receiving more grant funds on its AFR than appeared in CPB’s records. Finally, 11 stations reported CPB grant funds on their AFRs when corresponding amounts did not appear in CPB’s records. From an oversight perspective, these differences identify potential items to be resolved with grantees to ensure the accuracy of the financial information reported to CPB.

CPB Oversight Mechanisms

Currently, CPB’s oversight of the CSG related grants is limited to a desk review of the financial statement audit report and the IPA’s AFR certification. The station’s financial statement audit provides aggregate expenditure information but no specifics on CPB grant expenditures. Further, the usability of this information is hampered by timing differences in the grantee’s fiscal year and CPB grant period. CPB’s oversight relies heavily on the IPA’s financial statement audit and the AFR attestation certification. As previously reported, our survey found that CPB should not put much reliance on the IPAs’ attestation certifications, because of limitations in the IPAs’ work.

Oversight of non-CSG grants/contracts (programming, digital, RTL grants, etc.) is provided by program office project officer review and Office of Business Affairs review. These grant agreements require grantees to submit periodic and final financial reports that present budget information and actual expenditures by cost categories. While these oversight activities enable CPB to identify budgetary over-runs, they do not require grantees to separately report CPB expenditures. CPB funds are generally comingled in these financial reports with other funding sources.

As previously referenced, there are also several timing differences that complicate CSG oversight activities. There are the differences between CPB’s grant payment schedule,

grant spending periods, and the reporting periods applicable to the various grants that CPB provides to recipients. Another complication in accounting for CPB funds received by grant recipients results from the different revenue recognition policies (deferred revenue policies) used by grant recipients. Finally, grant recipients make mistakes in reporting CPB grants received.

CPB's fiscal year covers the period from October 1st through September 30th. CPB does not require that station fiscal years agree with CPB's fiscal year. A station's fiscal year is established by the licensee's incorporation papers or the governmental unit's fiscal year. In our survey, all 40 stations had a July 1st through June 30th fiscal year. This timing difference can create variances between CPB's records of payments and stations' reporting of their fiscal year grant activities.

CPB grant periods further complicate the reporting of CPB revenues. The CSG is a two-year grant that CPB provides to stations every year, thus, at the station level, there is always an overlap of grant spending periods between the previous year's grant and the current year's grant. The Television Interconnection grant is a one-year grant provided annually. The Digital, RTL, and other grants can all have different grant periods of up to three or more years depending on their work scope. Similarly, depending on the type of grant and the contract terms; funds may be distributed to and expended by recipients early in the life of the project or near the end of a long grant spending period.

Further, in this environment, CPB grantees have demonstrated a variety of methods for reporting the receipt and expenditure of grant funds. Some may recognize the entire grant amount when the award is made even though they have not received or spent all the funds; and other recipients may wait to recognize revenue when they have incurred corresponding expenses.

CPB usually distributes one half of the fiscal year's CSG and Interconnection Grants in October and the second half the following March. These funds are shown on the AFR which stations are required to submit electronically to CPB within five months after the end of the station's fiscal year. The AFR presents the station's financial activities during the station's fiscal year. However, CPB's grant distribution process can be delayed if the AFR is not submitted timely or if CPB's AFR desk review function identifies problems with a station's current year AFR. If a grant payment is delayed into the station's next fiscal year; the station's reporting of that grant may also be delayed and will be reported in the following year's totals on its financial statements and AFR.

Internal CPB Financial Information on Grant Awards and Expenditures

CPB's internal financial information on grants awarded and related expenditures is compartmentalized and not integrated to fully account for all grant expenditures by grantee. Financial activities over CSG and related grants² are handled by the Office of Grants Administration in conjunction with the Office of Radio, while all other grants and

² CSG related grants include Interconnection, Distance Service, Local Service and RALIF grants.

contracts are handled by various CPB program offices in conjunction with the Office of Business Affairs. Given CPB's limited oversight resources and decentralized grant oversight functions, a holistic system needs to be designed and implemented to provide better internal mechanisms to identify potential problems as they arise in the reporting of CPB grant expenditures.

CPB's various information systems for tracking grant activities are not electronically integrated to fully link CSG grant administration activities in ISIS with other CPB grant activities (e.g., programming and digital grants) in GIFTS for the same grant recipient. Cash payments to grantees are available from the Office of Budget and Finance, and should be available in both ISIS (CSG and CSG related grants) and GIFTS (programming, digital, and RTL grants, etc.). However, these systems are not electronically integrated with CPB's Great Plains accounting system to readily obtain CPB payment information recorded in the system. The ISIS system generates the authorized CSG and related grant payments, which are batched and forwarded to Budget and Finance for payment processing. CPB payment information is manually entered into GIFTS. The Contract Request Search (CRS) function can access Great Plains to identify CPB payments against specific grants/contracts in GIFTS, but cannot access CSG payment information. To conduct our survey we obtained grantee financial information from the Office of Budget and Finance, ISIS, as well as, the digital program office to ensure we identified all CPB grant information awarded to grantees in our survey.

Finally, none of these systems record grantee incurred CPB expenditures on a grant or any other basis. For non-CSG grants/contracts the project officers receive interim and final financial reports on each grant, which are retained in the project files. This information is used to process payments. However, these reports do not require that CPB grant funds be separately identified and reported. The costs reported generally include non-CPB expenditures.

To provide effective oversight, CPB officials need to account for all CPB funds awarded to a specific grantee and to track grantee expenditures by CPB grant. To facilitate better oversight and grant administration, information systems need to be integrated, streamlined, and fully account for all grant activities from procurement, grant/contact award, performance, and final reporting of deliverables (programmatic and costs).

Recommendations

We recommend CPB management:

- 7) Revise the Annual Financial Report to include a report of CSG, Interconnection, Distance Service, Local Service, RALIF, and other CPB grant expenditures by expense categories listed on Schedule E of the AFR.
- 8) Require CSG grantees to submit an annual grant report to CPB accounting for opening CPB cash balances, CPB grant revenues received, CPB expenditures,

and CPB ending cash balances. This report should separately identify funds by CPB grant type (i.e., CSG, CSG radio restricted, Interconnection, Distance Service, Local Service, RALIF, and other CPB grants) for the period October 1, 20XX – September 30, 20XX. This report should be reconcilable to the grantee's financial records and to its annual financial statement audit. Additionally, the report should identify final reports for grants closed during the reporting period. The accuracy of this report should be certified to the grantee's Chief Financial Officer and include a separation certification that CPB funds have not been expended on lobbying activities; reception or entertainment of public officials; and the other restrictions specified in the Television or Radio CSG General Provisions & Eligibility Criteria.

- 9) Establish a centralized data base to track all CPB grants/contracts (i.e., CSG, CSG related, and non-CSG) by recipient to account for grant awards, payments to recipients, grantee/contractor reported expenditures, and unexpended CPB funds on hand at September 30th of each year to facilitate CPB oversight and accountability on a grant basis.

Management Response

For recommendation 7, CPB management stated that they agreed with the intent of recommendation 7 and will examine the feasibility of using the AFR to accomplish the recommendation, as well as, alternative methods such as requiring the submission of separate reports to document the expenditure of these funds.

For recommendation 8, CPB management stated that they agreed with the intent of Recommendation 8 and we will work with the public broadcasting system to accomplish the goal of accounting for the actual use of all CPB funds. CPB already requires a separate certification that CSG funds have not been expended on lobbying or political activities. CPB agreed with the recommendation to amend the current certification to include all CPB funds.

For recommendation 9, CPB management stated that all CPB grants and contracts are recorded in Great Plains by recipient, grant number and grant type (i.e. CSG, TV Programming). The grant or contract amount is recorded as a liability and all payments to recipients are processed against the individual liability. This ensures that payments on a particular grant or contract cannot exceed the grant or contract amount. The balance on any given grant or contract can be determined at any point in time.

To facilitate CPB oversight and accountability on a grant basis, CPB is developing requirements for an enhanced internal grant-tracking system.

OIG Review and Comments

Based on CPB's response, we consider recommendations 7, 8, resolved but open pending receipt of documentation evidencing enhancements to Schedule E of the AFR that reports CPB grant expenditures by expense category. In addition, the creation of an annual report that encompasses the status of all CPB grant and expenditure activity that can be reconcilable to the grantee's financial records and to its annual financial statement audit will help improve CPB's ability to provide effective oversight of the funds provided to grantees.

Based on management response, recommendation 9 remains unresolved until more specificity is provided by CPB on its plans for developing an enhanced internal grant-tracking system to facilitate project officer's oversight of CPB grants.

OTHER MATTERS

Stations Voluntarily Established Community Advisory Boards

We identified that 9 of the 18 state or local government licensees in our survey had a CAB or an equivalent group of individuals that effectively performed the same function for their stations; even though they were not required to comply with this requirement of the Act. The Act stipulates that all public broadcasting stations, other than stations which are owned and operated by a state, a political or special purpose subdivision of a state, or a public agency, must establish a CAB.

The Act provides that the role of the CAB is advisory in nature. It stipulates that the CAB shall advise the governing body of the station and therefore must be distinct from and independent of the governing body. The purpose of the advisory board is to provide a vehicle for effective community input to the station's governing body about station programming, community service and impact on the community from the station's major policy decisions. Congress believed that CABs would assist the stations to develop programs and policies that address the specific needs of the communities that they serve. However, we have found that the governing bodies of public radio and television stations licensed to state universities and government agencies are often not routinely involved in the management and oversight of their stations. Thus, lacking an involved governing body and CAB; there is little opportunity for community input regarding the operations of the station.

The fact that 9 of the 18 State and local government licensees in our survey have taken the initiative to formally establish an advisory body to provide station management with feedback to help improve the operations of their stations is a positive factor contributing to the successful accomplishment of their missions and the overall mission of public broadcasting.

Scope and Methodology

We conducted a survey of 29 CPB licensees (17 television and 23 radio stations who received 40 CSGs) including included 9 community licensees, 4 state and local government licensees, and 16 university licensees; of which 2 were private universities. Our review included a cross-section of licensees from across the system including: five from California, five from Illinois, six from New York, five from North Carolina, six from Virginia, and two from Wisconsin. We conducted this survey to develop a better understanding of grantee accounting practices for CPB grants and to evaluate compliance with the Communications Act requirements for open meetings, open financial records, maintaining a CAB, EEO and, donor list and political activities.

At each station, we interviewed officials and accounting staff about their management processes and accounting controls for CPB grants and compliance with Communications Act requirements. Our procedures included gaining an understanding of the stations' accounting systems and their reporting of financial transactions for Fiscal Years (FY) 2007 and 2008 on their AFRs. To assure ourselves that stations were accurately recording and reporting the receipt and expenditure of CPB grant funds; we traced these various amounts that the stations received through their revenue and expense journals to final grant reports. We also focused on the proper accounting treatment for Federal grants received by the stations. We determined whether grantees discretely accounted for CPB revenues and expenditures by CPB grant type, including the use of radio restricted funds and television interconnection grants.

We gained an understanding of the stations' internal controls over the preparation of CPB AFR and reviewed a small sample of underwriting and in-kind revenues for compliance with CPB Financial Reporting Guidelines. We also interviewed the independent public accountants for each of the grantees and reviewed applicable working papers they prepared on internal controls, risk assessment, fraud considerations, and testing performed in support of their attestation examination opinion rendered on the AFR.

We reviewed records and documents supporting the stations' compliance with the Communications Act requirements to establish and conduct meetings of the Board of Directors and CAB and to properly provide advance notice of those meetings to the public, where applicable, financial and EEO information made available to the public, and documentation supporting compliance with donor lists and political activities prohibitions.

Our survey was conducted in accordance with the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency *Quality Standards for Inspections*, dated January 2005. Our survey field work was performed during the period August 2009 through May 2010.



TO: Ken Konz, Inspector General

FROM: Bruce Theriault, Senior Vice President, Radio *BAJ*
Mark Erstling, Senior Vice President, System Development and Media Strategy *ME*

DATE: March 24, 2011

SUBJECT: CPB Response to the Draft Report of the OIG Survey of Public Broadcasting Stations' Accounting for CPB Grants and Compliance with Communications Act Requirements

CPB takes compliance matters very seriously, and we embrace the fundamental concerns outlined in the Draft Report. The results from the survey indicate that more work may be needed to ensure grantee compliance. As a matter of course CPB is proactive in using various means to communicate to grantees the importance of full compliance with the Communications Act ("the Act") requirements that stations certify annually.

In addition to considering the recommendations proposed by your office in the Draft Report, CPB is examining the practicality and potential effectiveness of expanded compliance training or curriculum targeting the Head of Grantee and anyone who is primarily in charge of station compliance of CPB requirements. Also, CPB is developing a policy that would impose financial penalties on stations found to be non-compliant with the Act, the CSG General Provisions or the Financial Reporting Guidelines.

Over the past few years, CPB has taken strong and focused action to more thoroughly educate all stations regarding their responsibilities with respect to compliance. To that end, CPB has:

- increased the number and quality of training sessions and resources available to grantees;
- directly communicated the importance of understanding and complying with the terms of their grants as outlined in the General Provisions to grantee executives and other station representatives responsible for compliance;
- restructured and rewritten key documents used by the grantees for greater clarity, ease of reference, and comprehension, including:
 - the Financial Reporting Guidelines which instruct grantees and their independent accountants on how to prepare and attest to their Annual Financial Report or Annual Financial Summary Report and comply with Non-Federal Financial Support requirements; and
 - the CSG General Provisions and Eligibility Criteria, which are now available on the cpb.org homepage and in the Get Help section of ISIS.

When specific instances of non-compliance have been discovered, either by CPB or the OIG, CPB has addressed them directly with the station. This has included employing punitive measures such as recovering CSG dollars, withholding CSG payments, and, in three recent cases, terminating a station's participation in the CSG program.

In general, the recommendations in the Survey Report offer useful suggestions for ways to improve station compliance. The following section provides CPB management's specific responses to the draft recommendations.

CPB'S RESPONSE TO OIG DRAFT RECOMMENDATIONS

OIG Draft Recommendation 1: Reinforce the requirement that stations comply with CPB's discrete accounting requirements.

CPB Response: We agree that reinforcing station compliance with the discrete accounting requirements is necessary. In addition to increasing our communication efforts to stations regarding this matter we also will incorporate a definition of our discrete accounting requirement in all General Provisions and Eligibility Criteria documents requiring a unique general ledger code that identifies CSG funds and related expenditures.

OIG Draft Recommendation 2: Consider programming ISIS to flag for review by CPB Grants Administration any station's AFR that did not properly identify the restricted portion of the Radio CSG, Television Interconnection, Distance Service Grant or other specified CPB grants on their AFRs.

CPB Response: We understand the concern of this finding and will explore how best to ensure the specified grants are reported correctly. We may address this through ISIS modifications to either add a flag or additional reporting lines to the AFR for specific revenue items.

OIG Draft Recommendation 3: Reinforce the requirement to fully comply with all requirements of the Act by including generic language from the Act in the Community Service Grant agreement stating that grant funds may not be distributed to the licensee of a public broadcasting station that is not in compliance with the requirements of the Act. Appropriate language discussing the penalties provided for under the Federal False Claims Act Amendments should also be included in the discussion of the CPB requirements for compliance.

CPB Response: We agree to reinforce the requirement for full compliance by including language from the Act in the CSG agreement. As part of its annual revision process to CPB's general eligibility criteria, CPB will strengthen the language regarding compliance with the provisions of the Act to better communicate that compliance is required before CPB can release funds to a grantee. Further, since a false certification could result in a station being sued in Federal Court under the False Claims Act, CPB will include a reference to the potential for liability under the False Claims Act in the language as well.

OIG Draft Recommendation 4: Develop a policy to:

- a) reduce CSG funding for stations that violate provisions of the Act until compliance is achieved; and
- b) suspend stations from the CSG program for repeat violations of the Act.

Exhibit B

CPB Response: We agree that stations must be held accountable. CPB is developing and will consult with the System on a policy that would impose financial penalties or suspension on a station found to be non-compliant with the Act.

OIG Draft Recommendation 5: Work with the Office of Inspector General to develop guidance to expand the independent public accountant's attestation of the station's AFR to include testing of the station's compliance with the Communications Act requirements for open public meetings, open financial records, CAB, EEO, and donor lists and political activities.

CPB Response: CPB welcomes the opportunity to work with the OIG on Recommendation 5 to develop guidance for attestation by independent public accountants.

OIG Draft Recommendation 6: We recommend that CPB management work with the Office of Inspector General to develop agreed-upon-procedures for the Independent Public Accountant (IPA) attestation examination of the AFR and to require that the IPA provide a separate report to CPB of exceptions identified during the attestation examination.

CPB Response: We will work with the OIG to develop procedures and reporting guidelines for attestation by IPAs. With help from the System and perhaps the IPA community, we would hope to develop alternatives that do not unduly add to the financial burden of stations in securing the appropriate attestation.

OIG Draft Recommendation 7: Revise the Annual Financial Report to include a report of CSG, Interconnection, Distance Service, Local Service, RLAIIF, and other CPB grant expenditures by expense categories listed in Schedule E of the AFR.

CPB Response: We agree with the intent of Recommendation 7 for CSG funds. We will examine the feasibility of using the AFR to accomplish the recommendation, as well as alternative methods such as requiring the submission of separate reports to document the use of these funds.

OIG Draft Recommendation 8: Require CSG grantees to annually submit a grant report accounting for opening CPB cash balances, CPB grant revenues received, CPB expenditures, and CPB ending cash balances. This report should separately identify funds by CPB grant type (i.e., CSG, CSG radio restricted, Interconnection, Distance Service, Local Service, RLAIIF, and other CPB grants) for the period October 1, 20XX – September 30, 20XX. This report should be reconcilable to the grantee's financial records and to its annual financial statement audit. This report should identify final reports for grants closed during the reporting period. The accuracy of this report should be certified by the grantee's Chief Financial Officer and include a separate certification that CPB funds have not been expended on lobbying activities; reception or entertainment of public officials; and the other restrictions specified in the Television or Radio CSG General Provisions & Eligibility Criteria.

CPB Response: We agree with the intent of Recommendation 8 and we will work with the System to accomplish the goal of accounting for the actual use of all CPB funds. CPB already requires a separate certification that CSG funds have not been expended on lobbying or political activities. We agree with the OIG recommendation to amend the current certification to include all CPB funds.

OIG Draft Recommendation 9: Establish a centralized database to track all CPB grants/contracts (i.e., CSG, CSG related, and non-CSG) by recipient to account for grant awards, payment to recipients, grantee/contractor reported expenditures, and unexpended CPB funds on hand at September 30th of each year to facilitate CPB oversight and accountability on a grant basis.

CPB Response: All CPB grants and contracts are recorded in Great Plains by recipient, grant number and grant type (i.e. CSG, TV Programming). The grant or contract amount is recorded as a liability and all payments to recipients are processed against the individual liability. This ensures that payments on a particular grant or contract cannot exceed the grant or contract amount. The balance on any given grant or contract can be determined at any point in time.

To facilitate CPB oversight and accountability on a grant basis, CPB is developing requirements for an enhanced internal grant-tracking system.

CONCLUSION

CPB looks forward to the release of the final report. We also request that the OIG provide CPB management with the following additional information:

- Any insights related to Independent Public Accountant (IPA) attestations that the OIG gleaned from its Survey. CPB management would like to gain a better understanding of how the IPAs cited in the draft report may have less-than-properly executed their attestation responsibilities;
- Any specific recommendations that the OIG has regarding capturing additional data related to the CPB Oversight Mechanisms section in the Draft Report.

In addition to and separate from the report, we request that the OIG provide CPB management with the details of any non-compliance findings by individual stations so that CPB may take up the issues with those stations.

CPB, stations receiving CPB funds, and the OIG all have the responsibility to ensure that the funds appropriated to CPB are expended in accordance with the Communications Act and the terms of the grants. CPB will continue to work with the OIG to improve station compliance with the Act and to increase the effectiveness of CPB's oversight of federally appropriated funds.

cc: William J. Richardson III, Deputy Inspector General
Vincent Curren, Executive Vice President & Chief Operating Officer
West Smithers, Senior Vice President & General Counsel
William P. Tayman, Jr., Chief Financial Officer & Treasurer
Kevin E. Martin, Vice President, Station Grants & Television Station Initiatives
Greg Schnirring, Vice President, Radio
Robert Winteringham, Deputy General Counsel