CORPORATION FOR PUBLIC BROADCASTING

OFFICE OF INSPECTOR GENERAL

AUDIT OF CPB GRANTS AWARDED TO THE PACIFIC ISLANDERS IN COMMUNICATIONS, INC., HONOLULU, HAWAII FOR THE PERIOD OCTOBER 1, 2009 – SEPTEMBER 30, 2012

AUDIT REPORT NO. APT1301-1305

September 26, 2013

Mary Mitchelson
Inspector General

Corporation
for Public
Broadcasting

Office of Inspector General

Date: September 26, 2013

To: Jackie J. Livesay, Vice President, Compliance

From: Mary Mitchelson, Inspector General

Subject: Audit of CPB Grants Awarded to the Pacific Islanders In Communications, Inc., Honolulu, Hawaii for the Period October 1, 2009 – September 30, 2012, Audit Report No. APT1301-1305

We have audited the accompanying financial grant reports (Exhibits C-F) for the Pacific Islanders In Communications (PIC) as of September 30, 2012. The objectives of our audit were to determine whether: 1) financial reports fairly present Corporation for Public Broadcasting (CPB) grant revenues and expenditures; 2) costs were incurred in accordance with grant requirements; and 3) PIC complied with applicable provisions of the Public Broadcasting Act.

Based upon our audit we found:

- questioned costs totaling \$568,521 (\$547,327 for incurring program costs after the grant period had expired, \$17,846 in unused program producer funds, and \$3,348 in reporting operating costs in excess of the amounts recorded in PIC's accounting records);
- claimed reimbursements from CPB in excess of quarterly needs resulting in a surplus cash on-hand balance of \$715,008 as of September 30, 2012;
- funds put to better use estimated at \$114,293 because CPB's share of ancillary income and interest earnings were not reported to CPB; and
- funds put to better use totaling \$24,117 for unused FY 2012 operating funds.

We recommend that CPB require PIC to either refund the \$547,327 incurred after the grant period or amend the grant term to include these amounts. We also recommend that CPB deobligate \$24,117 of unused operations funds, and that PIC recoup \$17,846 of unused program funds from producers, as well as repay the \$3,348 claimed in excess of amounts shown on its accounting records. Finally, we recommend that PIC pays CPB the applicable portion of CPB's share of ancillary income and interest earned on this income, totaling \$114,293 or use these funds for future productions.

As a result of our audit, CPB initiated corrective action to reduce the \$715,008 cash balance that PIC had accumulated at September 30, 2012 by claiming reimbursements in excess of quarterly needs. Consequently, we do not recommend recovery of the overpayments; however, we recommend that CPB improve its procedures for reviewing payment requests to eliminate this issue in the future.

We performed this audit based on a referral made to our office. We performed our audit in accordance with *Government Auditing Standards* for financial audits. Our Scope and Methodology is discussed in Exhibit A.

In response to the draft report, PIC management agreed with our findings and stated that it takes responsibility for the issues that were brought up in the report and assured CPB that all of the funds received were used in accordance with PIC's mission. Further, PIC requested CPB to issue a no-cost extension to amend the terms of the FY 2010 grant instead of requiring PIC to repay the funds committed after the grant term expired. PIC's written response to the draft report is summarized after each finding and its complete response is included in Exhibit G. Our findings and recommendations did not change based on PIC's response to the draft report; however we did clarify Recommendations 1a and 1b.

The findings and recommendations contained in this report do not necessarily represent CPB management's final position on these matters. CPB management will make final management decisions on the recommendations in this report in accordance with CPB's audit resolution procedures.

Based on PIC's response, we consider Recommendations 1a-1b, 2a-2c, 3b, and 5a unresolved pending CPB's management decisions. Recommendations 3a, 3c, and 4a-4e are resolved but open pending CPB's acceptance of PIC's planned corrective actions. Recommendation 5b is resolved and closed.

BACKGROUND

PIC's records indicate that it was incorporated in the State of Hawaii in 1991 to promote the development of culturally diverse programming for public broadcasting by and about indigenous Pacific Islanders, including the people and cultures from Hawaii, Guam, the Northern Marianas Islands, and American Samoa. These same documents explain that PIC is a member of the National Minority Consortia (NMC), which collectively address the need for national public broadcast programming that reflects America's growing ethnic and cultural diversity. Other Consortia members serve the Asian American, Latino, African American, and Native American populations. Primary funding for PIC and the other Consortia members is provided through annual grants from CPB. PIC's FY 2012 annual financial statements reported total expenses of $1,680,300, and total revenues of $1,725,550 that included $1,658,900 of CPB grant revenues.

The PIC's mission statement explains that it supports, advances, and develops the Pacific Island media content and talent that results in a deeper understanding of the history, culture, and contemporary challenges of the Pacific Islands. In keeping with its mission, PIC helps the stories of the Pacific reach national audiences through funding support for production, training and education, broadcast services, and community outreach.

The primary work of PIC is to disseminate funds for the creation and production of quality programming by and about Pacific Islanders, and to develop and operate an efficient system to market and distribute these programs to broadcast, non-broadcast, and educational entities. PIC also educates and informs the community-at-large of Pacific Islander programming through the gathering and dissemination of funds, including research grants, and the establishment of a directory of existing and new Pacific Islanders in media.

According to PIC records, in the past 10 years, PIC has awarded approximately $5 million in grants to program producers for television productions that resulted in approximately 65 hours of programming for national public television. During this period PIC has screened films at over 100 community events worldwide, with over 50,000 people in attendance, and provided training to more than 350 emerging filmmakers. Since 1991, PIC has used CPB grants 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 grants CPB awarded to PIC included separate operations and production components, as follows:

Fiscal Year	***Operations Grant***	***Production Grant***	***FY Total***
2010	$555,000	$954,545	$1,509,545
2011	717,000	783,000	1,500,000
2012	686,980	822,565	1,509,545
Totals	***$1,958,980***	***$2,560,110***	***$4,519,090***

CPB provided operations and production grants so that PIC could fund the development, production, acquisition, and distribution of educational and cultural television and web-based programming that addresses issues of particular interest to Pacific Islanders for dissemination to the public. The operations funds were to be used for administrative and capital expenses such as personnel, professional services, insurance, office expenses, travel and equipment. The bulk of the productions funds are to be used for productions, i.e., grants awarded to independent producers. The remainder was budgeted for talent development, audience development, program administration, and national broadcast activities that included marketing, promotion, and carriage services.

According to CPB's grant agreement terms, the operations funds must be committed by PIC within the fiscal year of the grant award; however, the production grant funds are available to PIC for longer periods. The FY 2010 production funds must have been committed by September 30, 2011, while the FY 2011 and 2012 production funds are available to be committed by PIC until September 30, 2013 and September 30, 2014, respectively.

During our audit period, October 1, 2009 through September 30, 2012, CPB paid PIC a total of $4,325,307. Of this amount, $212,230 was paid against the FY 2009 grants. The balance of $4,113,077 was paid towards the FY 2010-2012 grants as presented in Exhibit B. Interim and final financial reports for these grant agreements are presented in Exhibits C-F.

RESULTS OF REVIEW

We have audited the accompanying PIC financial reports of revenues and expenses (Exhibits C-F) for the three-year period ending September 30, 2012. These reports are the responsibility of PIC management. Our responsibility is to express an opinion on these financial reports based on our audit.

We conducted our audit in accordance with *Government Auditing Standards* for financial audits and auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial reports are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial reports to determine compliance with the grant agreement requirements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial reports. We believe that our audit provides a reasonable basis for our opinion.

The accompanying PIC financial reports were prepared for the purpose of complying with the grant agreements between CPB and PIC, as described in Attachments B and C to these grant agreements, and are not intended to be a complete presentation of PIC's revenues and expenses.

Based upon our audit we found:

- questioned costs totaling $568,521 ($547,327 for incurring program costs after the grant period had expired, $17,846 in unused program producer funds, and $3,348 in reporting operating costs in excess of the amounts recorded in PIC's accounting records);
- claimed reimbursements from CPB in excess of quarterly needs resulting in a surplus cash on hand balance of $715,008 as of September 30, 2012;
- funds put to better use estimated at $114,293 because CPB's share of ancillary income and interest earnings were not reported to CPB; and
- funds put to better use totaling of $24,117 for unused FY 2012 operating funds.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial reports referred to above do not present fairly the results of PIC activities in conformity with CPB grant agreement terms for the three-year period ending September 30, 2012.

FINDINGS AND RECOMMENDATIONS

Complying with Grant Agreement Term Period

Our review of PIC's expenses claimed under the FY 2010 production grant disclosed that $547,327 was committed after the grant term had expired on September 30, 2011. Of this amount, $436,355 was used for contracts awarded to producers and $110,972 was expended on other production expenses associated with programming. As a result, we have questioned $547,327 for costs incurred after the grant period.

The FY 2010 production grant agreement specifies that:

> The term of this agreement shall commence on October 1, 2009 and shall end on September 30, 2012. Thereafter, at CPB's option, the term may be extended for additional periods under the same terms and conditions as provided herein, or any amended terms and conditions agreed to by the parties. Notwithstanding anything to the contrary contained herein, no production funding shall be provided to PIC hereunder that is not committed by PIC to a third party within the period October 1, 2009 through September 30, 2011.

Committing Funds to Producers

This grant provided up to $954,545 for production expenses, of which $727,670 was to be used for contracts with producers. Our review of the productions funded under this agreement disclosed that PIC committed $436,355 for 13 productions after the term of the grant had expired on September 30, 2011, and that CPB did not extend the grant term past this date. Details follow.

Production Title	***Amount Committed***	***Date Contract Signed with Producer***
Bye-bye Charlie?	$50,000	*
Animated Adventures of Judo Girl	50,000	6/30/12
Standing on Sacred Ground	50,000	9/25/12
Tokyo Hula	50,000	7/9/12
America by the Numbers: Clarkston, Georgia	20,000	12/19/11
E Haku Inoa: To Weave a Name	50,000	3/12/12
Tonga: The Last Place on Earth	50,000	3/5/12
Hawai'i Sons of the Civil War	15,000	3/20/12
Kumu Hina	15,000	4/27/12
Ku Kanaka/Stand Tall	15,000	4/20/12
Need to Know	12,809	6/13/12
The Illness and the Odyssey	50,000	1/18/13
One Voice	8,546	**
Total	**$436,355**	

* *No signed contract executed.*
*******Existing 2008 contract not amended to include this amount*.

PIC personnel explained that its former management instructed them to commit the FY 2011 production grants funds before committing the FY 2010 grant funds, because CPB believed PIC needed to establish a need for the 2011 funds. Our review of the PIC's Board of Directors meeting minutes confirmed an internal discussion regarding this issue. These minutes state that since PIC had not requested any FY 2011 funds in the first quarter of the fiscal year CPB personnel[1] recommended that PIC request FY 2011 funds to show need. At that time, October 2010 through December 2010, a substantial amount of the FY 2010 funds were still uncommitted.

Further, because PIC believed it was committing FY 2010 funds when its Board approved the projects for funding, not when PIC recognized the expenditures by signing a grant agreement with the producers. Without an executed agreement neither party was bound to the production. As a result, in accordance with generally accepting accounting principles, the grant funds were not committed until the producer and the PIC representative signed the grant agreement.

Committing Funds for Production Related Expenses

The FY 2010 productions grant also provided PIC $226,875 for expenses associated with programming such as national broadcast, talent and audience development, as well as program administration. More specifically, these expenses were for items that included equipment rentals, events, film festival sponsorships, printing, postage, advertising, study guides, contest awards, and public relations services.

During FY 2012, PIC expended $127,926 of FY 2010 grant funds for these types of expenses. However, because of the miscellaneous nature of these expenses, we could not determine that these expenditures were committed (ordered) before the FY 2010 grant term expired on September 30, 2011. We did note that, $16,954 of the $127,926 was expended in the first quarter of FY 2012 indicating the funds were committed before the FY 2010 grant funds expired. As a result, we accepted the $16,954 and questioned $110,972 ($127,926 - $16,954) because this amount was either committed after the grant term expired or there was no evidence of a commitment prior to September 30, 2011.

Recommendations

1) We recommend that CPB officials require PIC to either refund the:

   a) $436,355 of FY 2010 grant funds committed to producers after September 30, 2011, or amend the grant period to include these amounts.
   b) $110,972 of FY 2010 grant funds used for production related expenses in FY 2012, or amend the grant period to include these amounts.

[1] Subsequent discussion with CPB personnel did not identify anyone at CPB who had any knowledge of those instructions. Moreover, CPB personnel could not understand why anyone would advise using the FY 2011 funds, which expire in September 2013, before the FY 2010 funds that expired in 2011.

PIC's Response

PIC's response to the draft report agreed that it did commit funds to several projects and did expend funds associated with programming (such as national broadcast, talent and audience development, and program administration) after the grant term had expired. PIC provided several exhibits with its response (included in Exhibit G) to show that it could have used FY 2010 funds before the grant term expired to fund productions, but instead used other fiscal year funds (i.e., FY 2011) based on the decision made by former management. The amounts included in Exhibit I to PIC's response totaled $431,500 committed for productions, which is slightly less than the $436,355 in FY 2010 funds questioned because the funds were committed after the grant term.

PIC also explained that other expenses paid with FY 2011 funds could have been paid using FY 2010 funds. These expenses included: $45,602 in Marketing & Promotions; $39,249 in Talent Development; and $23,000 in Audience Development. This amount totals $107,851, which is slightly less than the $110,972 questioned in the draft audit report.

Furthermore, PIC response pointed out that in the last three payment requests PIC submitted to CPB with its FY 2010 quarterly reports, PIC listed all the projects that were awarded funds and included a column that indicated the date the project was awarded funding. Although several projects had award dates after the two-year commitment term, PIC did not receive any indication from CPB that this violated the grant.

Since the funds were committed or spent on projects that fulfilled the purpose of PIC's agreement with CPB, PIC requested a no-cost extension to the term of this agreement from CPB, which PIC explained is an option CPB can take based on language in the grant agreement.

OIG Review and Comments

Based on PIC's response we consider Recommendation 1a and 1b unresolved pending CPB's management decisions on these recommendations. If CPB's management decision does not provide a grant period extension to the FY 2010 grant PIC will need to refund $547,327. With an extension PIC will still need to refund $51,862 ($436,355 - $431,500 = $4,855 applicable to producer contracts plus $47,007 for other expenses).

In addressing PIC's response to Recommendation 1a, we acknowledge that the projects listed in Exhibit I of PIC's response could have been funded with FY 2010 funds, instead of FY 2011 funds. Because the contracts identified in Exhibit 1 totaling $431,500 were signed within the term period of the FY 2010 grant (prior to September 30, 2011), these commitments could have been funded with FY 2010 funds. Similarly, in addressing PIC's response to Recommendation 1b, we acknowledge the other expenses totaling $107,851 (i.e., Marketing, Promotion, Talent and Audience Development) paid in FY 2012 with expired FY 2010 funds could have been paid for with the unexpired FY 2011[2] funds that were still unspent and available to PIC.

While we acknowledge that the funds expended outside of the grant term were used for mission related work, this does not relieve PIC of its responsibility for complying with grant agreement terms as it relates to the timing of expenditures. Grant expiration terms and budgets are intended to focus CPB funds on the timely completion of products needed for public television.

However, if CPB decides to extend the grant period through FY 2012, the other $110,972 production expenses questioned would be reduced to $47,007 and not the difference of $3,121 between the $110,972 questioned in the draft report and the $107,851 referenced in PIC's response. PIC also would need to fully account for when it spent its FY 2010 Production funding by fiscal year. Additional information provided by PIC subsequent to its response to the draft report identified $47,007 in expenses reported to CPB that were either paid with FY 2010 funds in FY 2013 or were not incurred. If these amounts are substantiated by CPB during audit resolution, PIC will need to refund $47,007 of the FY 2010 other production expenses plus the difference of $4,855 in producer expenses per PIC's Exhibit 1, for a total refund of $51,862.

Obtaining Final Reports from Producers and De-obligating Unused Funds

Our audit found that PIC did not effectively oversee program producers reporting of final production costs and de-obligate $17,846 of unused funds as required under its grant agreements with CPB. PIC grant agreements with program producers did not require that final reports be submitted within 180 days following the initial air date or distribution date of the last episode. Further, PIC had not established procedures to compare producers' final expenditure reports to the producers' budgeted costs and to seek reimbursement from producers for the unused amount of the PIC commitment. As a result, we questioned $17,846 in program production expenses reported to CPB that should have been de-obligated by PIC and recovered from program producers.

Submitting Final Reports

Section III paragraph 13d of CPB grant agreements with PIC state that:

> All Programs funded hereunder shall contain a closing out provision within a time specified in the production or other agreement with respect to the project. The time period for closing out any project that is a Program shall in all cases be no later than 180 calendar days following the initial airdate or distribution date of the last episode of the season funded Program, provided that CPB and PIC agree to discuss and consider in good faith extensions of the close out date in the event that exigent circumstances arise that prevented closure within the anticipated timeframe. PIC shall provide CPB with notification of such close-out and will include language

[2] PIC would have needed to use FY 2011 funds because when these expenses were committed or paid for in FY 2012 the FY 2010 funds had expired, but the FY 2011 funds were still viable.

in its agreements with Program Producers requiring such Program Producers to provide CPB directly with a copy of the Program Producer's final financial report.

While PIC's FYs 2011 and 2012 grant agreements with program producers specified a term for the grant, i.e., "The agreement shall commence from the date indicated above and shall continue for 12 months from that date ("Term") ….," these agreements did not include provisions requiring program producers to close out no later than 180 days after the initial airing. Additionally, these agreements did not include language requiring producers to provide CPB a copy of the final financial report.

De-obligating Unused Funds

Our review of program producers' final reports found that $17,846 in unused grant funds were being retained by the program producers. Further, PIC took no action to recoup the unused funds in order to de-obligate these funds and make them available for other projects, if the grant period had not lapsed. These funds had been reported to CPB as program production expenses and as a result, we questioned $17,846 in production expenses.

While PIC personnel received final reports from producers, they were unaware that when the actual project costs were less than the amount budgeted in the grant agreement, any unused CPB funds must be returned to PIC. PIC officials also indicated that rarely were all grant funds not used, but when there were unused grant funds the excess amount was insignificant and used for other parts of the project.

To demonstrate the need to review producers' final reports and recoup excess funds, we reviewed a sample of 11 final reports of completed FY 2009 - 2011 grants. This review disclosed that 6 of the 11 final reports identified that the projects were completed under budgeted[3]. As a result, these producers should have refunded the unused grant funds to PIC. We have questioned grant funds totaling $17,846, as follows:

Productions	Grant Amount	Project Budget	Percent Grant / Project	Actual Expenditures	Amount Under Budget	Unused CPB Grant Funds
My King, My Country	$14,945	$14,945	100%	$12,250	$2,695	$2,695
Paradise Transformed	15,000	26,550	56%	22,903	3,647	2,060
Need To Know	50,000	83,160	60%	73,532	9,628	5,789
Tonga: The Last Place on Earth	15,000	15,000	100%	14,922	78	78
Animated Adventures of Judo Girl	15,000	31,313	48%	30,855	458	219
The Calling	100,000	1,719,000	6%	1,598,590	120,410	7,005
Amount Producers to Repay						**$17,846**

[3] *My King, My Country* and *Tonga: The Last Place on Earth* were both funded with FY 2009 grant funds.

CPB's FY 2012, as well as prior year production grant agreements, require PIC to ensure that all producers receiving CPB grant funds agree that:

> Any program funded hereunder shall be subject to proportional de-obligation of funds in the event that the project is completed under budget, unless CPB written consent to the contrary is obtained. Any funds so de-obligated shall be available to be reinvested by PIC in other projects….but unless such funds are committed by PIC to a third party within two (2) years of the fiscal year of the CPB grant initially funding such program(s), such funds must be returned to CBP.

Similarly, the agreements that PIC executes with its program producer provide that:

> …in the event that the amount of the PIC Commitment paid to Producer exceeds producer's cost in completing the … Services, producer agrees to reimburse PIC for the unused amount of the PIC Commitment of the … Services.

PIC's processing of program producers' Final Financial Reports has not focused on any unused funds being retained by program producers. During FYs 2009 through 2011, PIC awarded about 50 grants for research and development and production projects and we reviewed a sample of 11 of these agreements to identify unused funds.

Discussions with CPB personnel also confirmed that they had not received program producers' final financial reports, and without those reports they could not verify when unused funds needed to be reprogrammed or recouped by CPB. They also indicated that action was being initiated to obtain final reports from all minority consortia grantees.

Recommendations

2) We recommend CPB require PIC to:

   a) Initiate action to recoup $17,846 of unused excess funds from producers. Producers who do not comply should be disqualified from receiving future CPB grant funds. The recouped funds should be reprogrammed for other productions, if the grant term has not expired; all other funds should be refunded to CPB.
   b) Include close out provisions in all future grant agreements with program producers, as required by the FYs 2011 and 2012 production grant agreements executed between PIC and CPB.
   c) Provide CPB with program producers' final financial reports for all productions previously completed during FYs 2010-2012.

PIC's Response

PIC's response recognized that its sub-agreement with independent producers did not require producers to submit final financial reports to CPB or specify that final reports had to be submitted to PIC within 180 calendar days following the initial airdate. PIC's response also explained that since CPB provides PIC with the sub-agreement to give to independent producers, PIC requested that CPB amend its sub-agreement to include this language. PIC also suggested that since it is unlikely that producers will provide CPB directly with copies of their final financial reports, even when contractually obligated, that it be allowed to submit those reports to CPB instead, which will also serve as notification to CPB of the close-out of the project.

PIC acknowledged that it was unaware that when the actual project costs were less than budgeted in the grant agreement, a proportion of the unused funds had to be returned to PIC. In the majority of cases when a producer came in under-budget, PIC explained that it was due to budget reductions necessitated by not securing other funding rather than PIC funding not being used. In these circumstances, PIC believes it should have amended the agreements to reflect a new PIC-approved budget.

Since the sample tested examined closed projects, PIC requested that it not attempt to amend these closed contracts to reflect the revised budgets, but to be diligent about these amendments moving forward. It also suggested that CPB should provide a limit to when a contract amendment needs to occur or when the funds would need to be returned (e.g., amounts more than $500) when a producer comes in under-budget.

OIG Review and Comments

Based on PIC's response, we consider Recommendation 2a - 2c unresolved pending CPB's management decisions on these recommendations. We do not agree that budget reductions and subsequent amendments to producer agreements should negate the need to recoup unspent funds from producers. As the total project costs decrease, we believe the amount of the PIC grant should also decrease proportionally.

PIC Cash Management Practices

Our review of PIC expenditures and amounts claimed for reimbursement disclosed that PIC consistently claimed reimbursement of CPB funds in excess of the next quarter's production expenses during our audit period, contrary to grant requirements. As a result, PIC maintained cash balances in excess of quarterly needs and accumulated a cash balance of $715,008 as of September 30, 2012, as shown below.

Fiscal Years	CPB Grant Funds On-hand
2010	$356,029
2011	190,209
2012	168,770
Total	**$715,008**

Further, we found that PIC did not deposit FY 2011-2012 funds in interest bearing accounts to avoid recordkeeping requirements for reporting interest earned because the interest rate available was very low. Requesting reimbursements from CPB in excess of quarterly needs deprived CPB from investing the funds until needed, and PIC did not invest the funds it received to earn interest that could have been applied to future production needs.

CPB's grant requirements addressed payment requests. The guidance changed between the FY 2010 grant and the subsequent FYs 2011-2012 grants, clarifying that reimbursement requests should be limited to meet only its quarterly estimated payments to program producers and for other production expenses.

The FY 2010 grant agreement between CPB and PIC provided that "Each Payment Request Form shall include PIC's estimate of its cash flow needs (**including expense projections and actual grant commitments**) for the next three-month period to cover its funding of program development, production acquisition, and distribution…." In effect, this grant agreement allowed PIC to include the full value of commitments (contracts) with producers in its payment requests. However, the payment request form also required PIC to limit reimbursement requests to its cash flow needs for the following quarter.

The FY 2011 and 2012 grant agreement specified that a submitted Payment Request Form shall include only an estimate of the upcoming quarter's expected payments to third parties (program producers) - not the full amount of an executed agreement for the production. The agreement further clarified that if any monies advanced were not paid in the following quarter, those monies must be subtracted from the next PIC payment request. In essence, PIC is required to request reimbursement and maintain cash on-hand for only production expenses that are to be paid in the following quarter. More specifically, PIC should have on-hand only enough CPB funds to pay for one quarter's production expenses.

Accumulating Cash Balances

While PIC complied with the spirit of the FY 2010 grant agreement terms when requesting payments, at the time of our review PIC had a balance of $356,029 in FY 2010 CPB grant funds on hand. Our review of payment requests for this grant disclosed that almost all of the FY 2010 cash on-hand balance of $356,029 had been in PIC's possession for more than six quarters, from June 2011 until December 2012 when we initiated our audit. Similarly, $141,650 of the $190,209 of the FY 2011 balance was on-hand for more than six quarters and the remaining $48,559 was on-hand between two to five quarters. As of December 2012, the FY 2012 cash balance of $168,700 was sufficient enough to pay between two to three quarters of its anticipated payments to producers and vendors.

To further illustrate what we found, the payment requests that PIC submitted for the FY 2011 grant showed the same $100,000 projected payment for the production of *Expedition Wisdom (aka Fixing Juvie Justice)* on the seven quarterly requests PIC made from January 2011 through September 2012. Subsequently, PIC made a

$50,000 payment to this producer on November 29, 2012. However, during this time period PIC had $100,000 of CPB funds on-hand (for over 2 years) and still had the remaining $50,000 on-hand in December of 2012.

Similarly, a projected expense was shown on seven of the eight quarterly payment requests for the production of *Home Field Advantage (aka Wai ‘Awa‘awa).* The projected payment requested for this production was $100,000 for five quarters and was then reduced to $30,000 for the remaining two quarterly requests after PIC paid the producer $70,000 in June of 2012. The $30,000 was still being held by PIC as of December 2012.

PIC officials did not adhere to grant requirements for requesting payments to meet future quarterly payments to program producers. As a result, PIC accumulated cash in excess of its immediate quarterly needs.

Our review of the payment request forms submitted to CPB also found that better CPB oversight of cash requests could have identified that PIC had excess cash on-hand. For example, quarterly payment requests showed that PIC requested the same projected expenses quarter after quarter for specific production projects. PIC made these requests without adjusting its new requests for funds previously received but still not paid to program producers. We reviewed the eight quarterly payment requests for the FY 2011 production grant and found that most of the production expenses shown on those requests were previously requested and paid by CPB, as shown below:

Productions Funded by FY 2011 Grant	**Quarters PIC Claimed as Projected Expense**
Expedition Wisdom (aka Fixing Juvie Justice)	7
Jake Skimabukuro: Life on Four Strings	8
The Mystery of Easter Island	3
Pacific Heartbeat	6
Home Field Advantage (aka Wai ‘Awa‘awa)	7

Earning Interest on Excessive Cash Balances

Our review found that PIC did not prudently manage the excessive cash balances drawn down from CPB by depositing these funds in interest bearing accounts. The FY 2010 grant agreement allowed PIC to retain the interest received from the on-hand balances of that year’s grant funds. The FY 2011 and FY 2012 grant agreements required PIC to report the interest it earned from the on-hand balances of these funds and to use the interest earned for production expenses.

To avoid this reporting and associated recordkeeping requirement, PIC maintained the FY 2011 and FY 2012 cash on-hand in a non-interest bearing account. As a result, it did not earn any interest on these excessive balances. It is beneficial for CPB to ensure that PIC maintains cash on-hand balances at the levels specified in its grant agreements and deposits those funds in interest bearing accounts so that funds are prudently used. It is especially important that CPB monitors PIC's on-hand balances as future interest rates rise to historically normal levels.

CPB Initiated Corrective Actions

As a result of our audit, CPB initiated corrective action to reduce the $715,008 overpayments that PIC claimed contrary to grant requirements when we apprised it of our findings, while the audit was in process. Consequently, our report did not include a recommendation to recover the overpayments. However, because additional actions are needed we recommend that CPB improve its procedures for reviewing payment requests to eliminate this issue in the future.

Recommendations

3) We recommend that CPB officials:

   a) Enforce existing grant agreement terms and require PIC to maintain cash-on-hand balances at the minimum levels required by the agreements for the production grants CPB awarded to PIC.
   b) Improve its procedures for reviewing payment requests to ensure that grantee requests comply with grant agreement terms and maintain only cash on-hand balances allowed.
   c) Ensure PIC deposits CPB funds in interest bearing accounts to maximize the utilization of funds paid to PIC.

PIC's Response

PIC's response agreed that it could have done a better job of predicting projected expenses for the next quarter, and since the audit review, it has been more realistic in terms of projected expenses. Consequently, the CPB grant funds on-hand have decreased drastically.

In terms of reporting procedures, PIC asserts that it did follow the correct procedures for submitting payment requests. From FY 2010 to FY 2012, PIC submitted payment request forms that included year-to-date actuals and projected expenses. This amount was compared to the amount of cash PIC had remaining from the previous quarter, which was then subtracted from the next PIC payment request. Although payment requests were submitted for each quarter, PIC never received any indication from CPB that there was anything wrong with the way PIC was requesting funds or that the expenses projected for the next quarter were too high.

PIC also agreed to move its FY 2011 and FY 2012 cash on-hand to an interest bearing account.

OIG Review and Comments

Based on PIC's response Recommendations 3a and 3c are resolved pending CPB management acceptance of PIC's planned actions. Recommendation 3b was directed to CPB and is unresolved pending receipt of the CPB management decision outlining how CPB will improve its procedures for reviewing and approving payment requests.

Reporting Ancillary Income and Interest Income

While PIC records indicate that since 1998, it has earned $193,586 of ancillary income from the sale of DVDs, VHS tapes, broadcast licensing fees, and other income sources, PIC only reported ancillary income for FY 2007. PIC did not maintain adequate records to track the amount of ancillary income received by year and related interest earnings. Additionally, PIC has limited historical documentation to show that it requested producers to report the date and amount of gross revenues received from the exercise of their ancillary rights as required by the CPB grant agreements. We also found that PIC did not calculate, maintain records of, or report to CPB the interest earned on CPB's share of ancillary income estimated at $17,500. This amount and the CPB share of the $193,586 of ancillary income earned since 1998, totaling $96,793, were not reported to CPB. In total $114,293 ($17,500 + $96,793) should have been reported to CPB. As a result, we considered this amount as funds put to better use.

Section V, Paragraph 13 of the current production grant, as well as prior production grants, require each agreement PIC executes with independent producers to establish that PIC and CPB are entitled to a percentage of the net proceeds from the subsidiary or ancillary rights earned from the showings of completed programs ("the PIC/CPB share"). This paragraph also provides instructions for calculating the PIC/CPB share of the ancillary income due each organization. Essentially, the program producer may retain all Net Proceeds up to the amount the producer contributed to the program before being required to pay PIC/CPB (distributed equally) their share of ancillary income earned from each production.

After producers have recouped their contribution to the program, PIC must require each program producer to pay the PIC/CPB share annually from the date CPB funding was committed to the program through the end of the fifteenth consecutive year ("Revenue Sharing Period"). Paragraph 13c of the grant agreement further provided that PIC can retain up to $250,000 of CPB's share of the "the PIC/CPB share," if within fifteen years from the date of the CPB production agreement (the Retention Period), the Retained CPB Share has been used for programming. If not used within this time, PIC is required to pay CPB its share with interest compounded annually at a rate of 10 percent from the date of receipt by PIC.

The Retained CPB Share

While PIC's records do not accurately reflect the annual earnings and expenses attributable to ancillary income, its records dating back to 1998 showed that as of February 2013, PIC had gross ancillary revenues of $362,199 from the sale of DVD's, VHS tapes, and broadcast licensing fees, as well as amounts received from producers. PIC's records also showed that it had incurred expenses of $168,613 attributable to the DVD and tape sales, during the same time period. These expenses included preparation of the film in DVD and VHS format, printing labels, as well as shipping and handling, etc. In total, PIC had accumulated $193,586 of net income from the exercise of ancillary rights ($362,199 - $168,613). The grant agreement provides the net income is to be distributed equally between CPB and PIC, and that PIC is not required to make any payments to CPB of CPB's portion of the PIC/CPB Share from the first $250,000 of the shared net proceeds if PIC uses these funds for future public television productions. Amounts earned in excess of $250,000 each year must be shared equally, with CPB's share being remitted to CPB no later than the final financial report for the fiscal year in which the revenue was generated.

Our review of PIC's records indicates that no more than $250,000 was earned in any year. As a result, the $193,586 of ancillary income should be split equally between CPB and PIC. The grant agreements allow PIC to use the retained CPB share of the funds, totaling $96,793 ($193,586 ÷ 2) and not pay CPB these funds if within fifteen years from the date of the grant agreement the CPB share is committed for programming. Since, the initial amount of ancillary income was earned in 1998, PIC has until this year, 2013, to commit the ancillary income earned in 1998, as well as the interest earned on this CPB retained share. If not so committed, PIC needs to remit these funds to CPB with 10 percent interest compounded annually from the time PIC received this income in 1998.

Calculating Interest Earned on the Retained CPB Share

We also found that PIC did not calculate, maintain record of, or report the interest earned on CPB's share of ancillary income. Based on the mean U.S. historical interest rates, we estimate that $17,500 of interest was earned by PIC from 1998 to 2012 on the $96,793 of retained CPB share. As a result, at the time of our review, we estimate that the total retained CPB share including interest being held by PIC is $114,293 ($96,793 + $17,500). This amount needs to be reported to CPB and used in accordance with the terms of the grant agreement or returned to CPB.

Reporting Ancillary Income

Discussions with CPB personnel disclosed that they did not know if PIC reported any ancillary income to CPB. Discussions with PIC personnel disclosed that former employees handled ancillary income, and they left the organization without properly training the remaining staff what was necessary to complete this task. As a result, they had no institutional knowledge regarding whether ancillary income had been reported to

CPB, producers reported ancillary income to PIC, or PIC requested producers to report ancillary income.

The current Executive Director explained that she assumed her position just before the audit started, and shortly thereafter she began sending letters to producers requesting their ancillary income reports. She also provided us with the files for about 20 producers containing some form of ancillary income information. For example, eight of the folders contained letters from PIC dated in 2013 requesting that the producers report ancillary income to PIC. Eight other files contained letters from producers, dated in 2008, reporting that they had received no ancillary income. Additionally, five producers reported a total of $13,131, as follows.

Production Titles	***Year Reported***	***Ancillary Income Reported by Producer***
Sacred Vessels	2008	$2,010
Na Kamalei: The Men of Hula	2008	18
Unnatural Causes: Is Inequality Making Us Sick?	2012	4,128
King Kamehameha	2009	163
Insular Empire: America in the Mariana Islands	2004	2,794
Insular Empire: America in the Mariana Islands	2008	4,018
Total Ancillary Income Reported		**$13,131**

In total, 13 producers reported either they had no ancillary income or reported ancillary income in the past. PIC personnel disclosed they believed their records for the $193,586 of ancillary income included not only DVD and VHS sales but also the ancillary income reported by producers. However, our review was only able to confirm the $4,128 of the $13,131 shown above was included in PIC records. The remaining $9,003 should be added to PIC's ancillary income calculations and CPB's share of this amount included in the retained CPB share. In any event, PIC records of ancillary income reported to CPB and requests for ancillary income information from producers were sporadic, and did not satisfy the CPB grant agreement requirements that PIC and producers report *annually*, even when no ancillary income was received in a particular year.

Section V paragraph 13d of the FY 2012, as well as prior year production agreements require that:

> Each year . . . PIC shall provide to CPB a written report covering revenues generated from the exercise of Subsidiary or Ancillary Rights[4] for each program during the previous twelve-month period . . . ("PIC's Annual Report"). This reporting obligation . . . shall continue until the end of the 16th consecutive year following the Initial National Public Television Release of the Program…. PIC must satisfy its reporting requirements

[4] The grant agreement between CPB and PIC defines Subsidiary or Ancillary Rights as synonymous terms.

even in a year in which there are no Gross Proceeds from the exercise of Subsidiary or Ancillary Rights by reporting zero(0) Gross Proceeds.

> For purposes of preparing the Annual Report, PIC shall contractually require that each Program Producer report and fully disclose to PIC: (a) the date and amount of all Gross Revenues received from the exercise of Subsidiary or Ancillary Rights in a Program . . . ; (b) the amount and nature of each direct cost deducted from the Gross proceeds to calculate Net proceeds; (c) the amount and nature of any recoupment by the Program Producer; (d) the cumulative total of all Net Proceeds received to date; and (e) the amount distributed to each entity entitled to share in the Net Proceeds.

PIC did not ensure that program producers reported ancillary income, even zero amounts, to satisfy CPB grant agreement requirements. PIC agreements with program producers state that, "The parties agree that [producers] shall report to PIC annually … any [ancillary income] share….failure to submit the annual report …shall result in disqualification from future funding …by PIC." Our review of 10 contracts that PIC executed with program producers disclosed that two (one from FY 2011 and a second from FY 2012) did not contain required the PIC/CPB Revenue Sharing clause.

Recommendations

4) We recommend that CPB ensure that PIC:

   a) Requires program producers to report ancillary income information as required by Section V of the CPB production grant agreement. This effort should include requiring program producers that completed programs within the past fifteen years to update ancillary income information for past years. Producers who do not report ancillary income should be disqualified by PIC from receiving future CPB grant funds.
   b) Reports ancillary income to CPB annually, as well as the interest earned on CPB's share of ancillary income, as required by the grant agreement terms.
   c) Pays CPB, each year the applicable portion of the retained CPB share of ancillary income, totaling $114,293, with interest compounded annually at a rate of 10 percent from the date of receipt, if within fifteen years from the date of the CPB production agreement the retained CPB Share has not been used for programming.
   d) Includes the PIC/CPB Revenue Sharing clause in all future grant agreements with program producers as required by Section V paragraph 13 of the FYs 2011 and 2012 production agreements.
   e) Adds CPB's share of the $9,003 of ancillary income not included in PIC's records to the ancillary income calculation.

PIC's Response

In its response, PIC agreed that it has been negligent in reporting ancillary or subsidiary income to CPB. Since former employees who handled this task left the organization without properly training others, PIC will conduct a review of its records and procedures and take steps to remedy this problem. PIC will also consult with counsel to develop written processes to account for ancillary and subsidiary income.

PIC acknowledged that of the ten contracts that were examined during the audit review, two contracts did not contain the required PIC/CPB Revenue Sharing clause. PIC will amend one of these contracts to include this language, but PIC will not be able to amend the other contract since it has already closed. PIC will ensure that this clause is contained in all future contracts as required by CPB.

OIG Review and Comments

Based on PIC's response Recommendations 4a – 4e are considered resolved pending CPB's acceptance of PIC's proposed corrective actions.

Grant Accounting

Our review of FYs 2011-2012 grant accounting found that PIC over-reported FY 2011 costs by $3,348 and did not de-obligate unused FY 2012 funds of $24,117. As a result, we questioned $3,348 in costs reported in excess of the accounting records and identified $24,117 in funds put to better use for unused funds not de-obligated.

Year-end Accruals

As of September 30, 2011, PIC claimed $104,376 under its FY 2011 operations grant for year-end accruals that were to be paid in the future after the products and services ordered were provided and billed to PIC. Our review, as of September 30, 2012, disclosed that PIC incurred, i.e., was billed and paid, only $101,028 for these expenses. As a result, we questioned the difference of $3,348.

Section IV paragraph 7 of the FY 2012 and 2011 CPB production agreements provided that, "… all CPB funding provided to PIC under this agreement is provided on a cost-reimbursement basis only, and that PIC shall charge CPB only for costs incurred in the performance of this agreement …."

Unspent Grant Funds

As of September 30, 2012, PIC incurred expenses totaling $662,863 under the FY 2012 operations grant. Since the amount incurred was $24,117 less than the $686,980 approved budget for this grant, CPB needs to de-obligate the $24,117 not used by PIC. Details are provided in Exhibit F.

Section III,10, of the FY 2012 and 2011 CPB production agreements provided that, “PIC agrees to repay to CPB, upon request, at the conclusion of CPB’s audit of PIC’s final financial accounting, any unexpended amounts and any amounts reasonably determined by CPB to have been expended in a manner not in conformity with this Agreement.”

Recommendations

5) We recommend that CPB officials:

   a) Require PIC to repay CPB the $3,348 claimed but not incurred under the FY 2011 operations grant.
   b) Deobligate the $24,117 not used by PIC under the FY 2012 operations grant.

PIC’s Response

PIC’s response agreed that it did claim $104,376 in year-end accruals for FY 2011 Operations that were to be paid in the future after the products and services ordered were provided and billed to PIC. Although PIC only paid $101,028 as of the end of September 30, 2012, its response indicated that the remaining $3,348 was spent during the next fiscal year. Since the funds were spent on expenses that fulfilled the purpose of PIC’s contract with CPB, PIC requested CPB to make a no-cost extension to the term of this contract.

In its financial report to CPB, PIC did reflect year-to-date actuals for FY 2012 Operations that were $24,117 less than the approved budget of $686,980. CPB has since amended PIC’s contract to reflect this new budget.

OIG Review and Comments

Based on PIC’s response we consider Recommendation 5a unresolved pending CPB’s management decision. Based on CPB’s deobligation of unspent funds we consider Recommendation 5b resolved and closed.

Exhibit A

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 PIC complied with applicable provisions of the Public Broadcasting Act. We performed our audit field work during the period March through June 2013.

The scope of the audit included tests of the costs claimed by PIC on active CPB production and operations grants during the period October 1, 2009 – September 30, 2012. Final and interim reports submitted to CPB as of September 30, 2012 are provided in Exhibits B through F.

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

We tested the accuracy of grant expenditures that PIC 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 77 expenditures for the grants reviewed, valued at $453,600, to supporting documentation maintained by PIC. The transactions tested included a variety of expenditure types such as, payroll, travel, producer contracts, and consulting fees. We also judgmentally selected ten producer contracts funded in FYs 2010, 2011, and 2012 to review contract terms and conditions. We reviewed documents available to the public under the Public Broadcasting Act.

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 PIC's independent public accountant (IPA), we discussed and reviewed the IPA's internal control and fraud risk assessment working papers, as well as, its financial statement work.

Exhibit B

Schedule of CPB Payments to PIC
October 1, 2009 – September 30, 2012

Payment Date	Operations	Production	Total
FY 2009 Grant:			
1/22/2010	$23,500		$23,500
10/22/2009		$122,351	122,351
5/7/2010		7,893	7,893
11/18/2010		58,486	58,486
Sub-total	**$23,500**	**$188,730**	**$212,230**
FY 2010 Grant:			
1/4/2010	235,000		235,000
3/3/2010	265,000		265,000
11/22/2010	55,000		55,000
2/26/2010		240,000	240,000
5/14/2010		26,057	26,057
12/9/2010		197,848	197,848
6/23/2011		322,730	322,730
6/29/2012		167,910	167,910
Sub-total	**$555,000**	**$954,545**	**$1,509,545**
FY 2011 Grant:			
1/4/2011	430,200	195,750	625,950
6/23/2011	215,100	533,300	748,400
9/23/2011		10,000	10,000
12/22/2011		15,195	15,195
3/21/2012	71,700	9,804	81,504
6/29/2012		18,951	18,951
Sub-total	**$717,000**	**$783,000**	**$1,500,000**
FY 2012 Grant:			
1/20/2012	412,188	243,141	655,329
3/23/2012		9,069	9,069
6/29/2012		110,000	110,000
9/4/2012	206,094	123,040	329,134
Sub-total	**$618,282**	**$485,250**	**$1,103,532**
Grand Total	**$1,913,782**	**$2,411,525**	**$4,325,307**

Exhibit C

FY 2010 Production Grant No.13216
Interim Financial Report Submitted to CPB
As of September 30, 2012

	Approved Budget	Actual	$ Over (Under) Budget	Percent of Budget
Revenue:				
CPB Grant	**$954,545**	**$954,545**	**$0**	**100%**
Expenses:				
MEDIA FUND & EXECUTIVE PRODUCTIONS	**727,670**	**727,670**	**$0**	**100%**
NATIONAL BROADCAST				
Marketing & Promotions	95,000	94,279	(721)	99%
Cyber Insurance	5,000	4,757	(243)	95%
Knapp Carriage Service/Nielsen	5,660	5,660	0	100%
Subtotal	**105,660**	**104,696**	**(964)**	**99%**
TALENT DEVELOPMENT	**43,069**	**43,069**	**0**	**100%**
AUDIENCE DEVELOPMENT	**55,000**	**55,975**	**975**	**102%**
PROGRAM ADMINISTRATION				
Content Coordinator	14,646	14,646	0	100%
Media Fund Administration	8,500	8,489	(11)	100%
Subtotal	**23,146**	**23,135**	**(11)**	100%
Total Production Expenses	**$954,545**	**$954,545**	**0**	**100%**

Exhibit D

FY 2010 Operations Grant No.13215
Final Financial Report Submitted to CPB
As of September 30, 2010

	Approved Budget	Actual	$ Over (Under) Budget	Percent of Budget
REVENUE (CPB Grant) *CPB made the Final Payment of $55,000 during November 2010*	**$555,000**	**$500,000**	**($55,000)**	**90%**
EXPENSES				
Personnel				
Salaries, Fringe Benefits & Taxes	314,602	314,662	60	100%
Subtotal	**314,602**	**314,662**	**60**	**100%**
PROFESSIONAL SERVICES				
Auditor	9,080	9,700	620	107%
CPA/Payroll	6,150	6,226	76	101%
Legal	3,300	3,275	(25)	99%
Insurance	3,050	2,895	(155)	95%
Other Contracted & Professional Services				
Web Development	36,000	35,555	(445)	99%
Technology Management	1,500	1,571	71	105%
Planning Other	3,300	3,229	(71)	98%
Subtotal Other Contracted & Professional Services	40,800	40,355	(445)	99%
Subtotal	**62,380**	**62,451**	**71**	**100%**
OFFICE EXPENSES				
Rent/Parking	70,400	70,727	327	100%
Telephone/Email	8,000	7,826	(174)	98%
Office Supplies	4,600	4,504	(96)	98%
Postage/Messenger	3,000	3,001	1	100%
Copying/Printing/Binding	1,240	1,236	(4)	100%
Business Expense	21,368	21,943	575	103%
Subtotal	**108,608**	**109,237**	**629**	**101%**
EQUIPMENT				
Equipment	14,000	13,601	(399)	97%
Maintenance	1,410	1,408	(2)	100%
Subtotal	**15,410**	**15,009**	**(401)**	**97%**
TRAVEL				
Staff Travel	39,000	38,816	(184)	100%
Board Travel	15,000	14,825	(175)	99%
Subtotal	**54,000**	**53,641**	**(359)**	99%
Total Production Expenses	**$555,000**	**$555,000**	**0**	**100%**

Exhibit E

FY 2011 Operations & Production Grant No.13575
Interim Financial Report Submitted to CPB
As of September 30, 2012

	Approved Budget	Actual	$ Over (Under) Budget	Percent of Budget
REVENUE				
Operations	$717,000	$717,000	$0	100%
Productions	783,000	783,000		
Total CPB Grant Revenue	**1,500,000**	**1,500,000**	**0**	**100%**
EXPENSES - OPERATIONS				
Personnel				
Salaries, Fringe Benefits & Taxes	416,407	405,525	(10,882)	97%
Subtotal	**416,407**	**405,525**	**(10,882)**	**97%**
PROFESSIONAL SERVICES				
Auditor	9,700	10,575	875	109%
CPA/Payroll	8,135	8,948	813	110%
Legal	4,000	4,400	400	110%
Insurance	3,050	3,100	50	102%
Other Contracted & Professional Services				
Web Development	20,000	22,000	2,000	110%
Technology Management	2,000	1,822	(178)	91%
Planning Other	40,013	43,768	3,755	109%
Subtotal Other Contracted & Professional Services	62,013	67,590	5,577	109%
Subtotal	**86,898**	**94,613**	**7,715**	**109%**
OFFICE EXPENSES				
Rent/Parking	79,195	75,118	(4,077)	95%
Telephone/Email	9,000	8,650	(350)	96%
Office Supplies	5,000	5,500	500	110%
Postage/Messenger	4,000	4,312	312	108%
Copying/Printing/Binding	3,500	3,171	(329)	91%
Business Expense	30,000	33,000	3,000	110%
Subtotal	**130,695**	**129,751**	**(944)**	**99%**
EQUIPMENT				
Equipment Purchase/Lease	7,000	7,168	168	102%
Maintenance	3,000	2,974	(26)	99%
Subtotal	**10,000**	**10,142**	**142**	**101%**
TRAVEL				
Staff Travel	40,000	42,503	2,503	106%
Board Travel	18,000	17,966	(35)	100%
Subtotal	**58,000**	**60,469**	**2,468**	104%
MEDIA FUND ADMINISTRATION	15,000	16,500	1,500	110%
Total Operating Expenses	**$717,000**	**$717,000**	**0**	**100%**

Exhibit E (continued)

FY 2011 Operations & Production Grant No.13575
Interim Financial Report Submitted to CPB
As of September 30, 2012

	Approved Budget	Actual	$ Over (Under) Budget	Percent of Budget
EXPENSES - PRODUCTION				
MEDIA FUND & EXECUTIVE PRODUCTIONS				
Media Fund (Production & Completion)	$485,650	$345,000	($140,650)	71%
Online	25,000	25,000	0	100%
Discretionary	78,300	38,950	(39,350)	50%
Subtotal	**588,950**	**408,950**	**(180,000)**	**69%**
NATIONAL BROADCAST				
Marketing & Promotions	75,000	74,357	(643)	99%
Cyber Insurance	5,000	4,945	(55)	99%
Knapp Carriage Service/ Nielsen	6,050	6,050	0	100%
Post-Production	10,000	10,106	106	101%
Subtotal	**96,050**	**95,458**	**(592)**	**99%**
TALENT DEVELOPMENT	**41,180**	**41,180**	**0**	**100%**
AUDIENCE DEVELOPMENT	**56,820**	**47,203**	**(9,617)**	**83%**
Total Production Expenses	**$783,000**	**$592,791**	**($190,209)**	**76%**

Exhibit F

FY 2012 Operations & Production Grant No.14412
Interim Financial Report Submitted to CPB
As of September 30, 2012

	Approved Budget	Actual	$ Over (Under) Budget	Percent of Budget
REVENUE				
Productions	$822,565	$485,251	($337,314)	59%
Operations	686,980	618,282	(68,698)	90%
TOTAL CPB GRANT REVENUE	$1,509,545	$1,103,533	($406,012)	73%
EXPENSES - PRODUCTION				
Training Expenses	$55,000	$40,468	($14,532)	74%
Insurance Expense	4,500	2,550	(1,950)	57%
Outreach Expense	25,000	25,000	0	100%
Packaging	10,000	8,340	(1,660)	83%
Professional Services	6,500	6,050	(450)	93%
Promotion	30,000	26,970	(3,030)	90%
Travel Expenses	20,000	10,844	(9,156)	54%
TOTAL PRODUCTION EXPENSES	**$151,000**	**$120,222**	**($30,778)**	**80%**
EXPENSES-PROGRAMMING				
Licensing Agreements	$671,565	$191,352	($480,214)	28%
TOTAL PROGRAMMING EXPENSES	**$671,565**	**$191,352**	**($480,214)**	**28%**
EXPENSES - OPERATIONS				
Salaries, Fringe Benefits & Taxes	$428,448	$403,635	($24,813)	94%
Conferences, Meetings & Special Events	10,000	10,960	960	110%
Equipment Costs	4,500	4,766	266	106%
Insurance Expense	3,050	767	(2,283)	25%
Office Expense	17,500	19,230	1,730	110%
Office Lease & Storage	78,000	77,760	(240)	100%
Panels/Readers	7,500	8,100	600	108%
Postage and Delivery	3,000	3,124	124	104%
Professional Services	58,437	64,198	5,761	110%
Telephone/Fax	9,000	9,060	60	101%
Travel Expenses	67,545	61,263	(6,282)	91%
TOTAL OPERATING EXPENSES	**$686,980**	**$662,863**	**($24,117)**	**96%**

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www.piccom.org

PIC
PACIFIC ISLANDERS IN COMMUNICATIONS

PRESERVING OUR HERITAGE THROUGH THE LANGUAGE OF FILM

Exhibit G

September 9, 2013

William J. Richardson III
Deputy 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 Pacific Islanders in Communications for the period October 1, 2009 to September 30, 2012.

We thank you for the opportunity to respond to the report before it becomes final. We have provided you with additional documentation to consider before the finalization of your report.

Although PIC takes responsibility for the issues that were brought up in the report, we want to assure the Office of the Inspector General and CPB that all of the funds received were used in accordance to PIC's mission and for public media.

I would like to thank Carl Jannetti for his fair assessment and due diligence to help PIC provide greater accountability as stewards of federal funding.

Sincerely,

Leanne Ferrer
Executive Director

Kevin Yim
Board President

cc: Leann Yeung
Sylvia Strobel
Allen Arakaki

Pacific Islanders in Communications
Response to Draft Audit Report

Complying with Grant Agreement Term Period

Committing Funds to Producers

PIC did commit funds to several projects after the grant term had expired. As stated in the draft audit report, this decision was made by former management who thought it was best to commit FY2011 production grant funds prior to committing FY2010 grant funds based on a conversation she had with CPB in which she said that CPB had stated that PIC had to establish need for FY2011.

Exhibit I shows the projects that could have used FY2010 funds, but used other fiscal year funds instead based on the decision made by former management. This amount totals $431,500, which is slightly less than the $436,355 in FY2010 funds that was committed after the grant term.

Furthermore, PIC would like to point out that in the last three payment request forms PIC submitted to CPB with its FY2010 quarterly reports, PIC listed all projects that were awarded with these funds and included a column that indicated the date the project was awarded funding. Although several projects had award dates after the two-year commitment term, PIC did not receive any indication that this violated the contract.

Since the funds were committed or spent on projects that fulfilled the purpose of PIC's contract with CPB, PIC would like to formally request from CPB a no-cost extension to the term of this contract, which is an option CPB can take based on language in the contract:

> 1. Term. The term of this Agreement shall commence on October 1, 2009 and shall end on September 30, 2012. Thereafter, at CPB's option, the term may be extended for additional periods under the same terms and conditions as provided herein, or any amended terms and conditions agreed to by the parties.

Committing Funds to Production Related Expenses

Similar to committing funds to producers, PIC did expend funds associated with programming (such as national broadcast, talent and audience development, and program administration) after the grant term had expired. Again, this decision was made by former management who thought it was best to expend FY2011 production grant funds prior to expending FY2010 grant funds based on a conversation she had with CPB in which she said that CPB had stated that PIC had to establish need for FY2011.

PIC has included two exhibits to help illustrate this point. Exhibit II shows the FY2010 7th and 8th quarter financial report that reflects year-to-date actuals made between October 1, 2009 and September 30, 2011. Similarly, Exhibit III shows the FY2011 4th quarter financial report that reflects year-to-date actuals made between October 1, 2010 and September 30, 2011. Expenses that were paid using FY2011 funds that could have been paid using FY2010 funds include: $45,602 in Marketing & Promotions; $39,249 in Talent Development; and $23,000 in Audience Development (although the amount actually spent in FY2011 was $27,845, there was only a balance remaining of $23,000 in FY2010). This amount totals $107,851, which is slightly less than the $110,972 listed in the draft audit report.

Similar to the funds committed to producers, since the funds were spent on expenses for the line items in which it was intended that fulfilled the purpose of PIC's contract with CPB, PIC would like to formally request from CPB a no-cost extension to the term of this contract, which is an option CPB can take based on language in the contract:

> 1. <u>Term.</u> The term of this Agreement shall commence on October 1, 2009 and shall end on September 30, 2012. Thereafter, at CPB's option, the term may be extended for additional periods under the same terms and conditions as provided herein, or any amended terms and conditions agreed to by the parties.

<u>Obtaining Final Reports from Producers and De-obligating Unused Funds</u>

Submitting Final Reports

PIC recognizes that its sub-agreements with independent producers did not require independent producers to submit their final financial reports to CPB or specified that final reports had to be submitted to PIC within 180 calendar days following the initial airdate or distribution date of the last episode of the season. Since CPB provides PIC with these sub-agreements to give to independent producers, PIC requests that CPB amends the sub-agreements to include this language.

Additionally, since it is unlikely that producers will provide CPB directly with a copy of their final financial report even when contractually obligated, PIC requests that it be allowed to submit these reports to CPB instead, which will also serve as notification to CPB of close-out of the project.

De-obligating Unused Funds

PIC acknowledges that its staff was unaware that when the actual project costs were less than the amount budgeted in the grant agreement, a proportion of the funds not used by the producers needed to be returned to PIC. In the majority of cases in which a producer came in under-budget, however, it was due to budget reductions necessitated by less funding secured than expected rather than PIC funds not being used. In these circumstances, PIC should have amended the contracts to reflect this new PIC-approved budget, a step that has now become part of procedure.

Since the sample testing examined projects that have since closed, PIC would like to request that it not attempt to amend these closed contracts to reflect the revised budgets, but to be diligent about these amendments in moving forward.

Also, when a producer comes in under-budget, it would be helpful if CPB could provide a limit to when a contract amendment needs to occur or when the funds would need to be returned (e.g., amounts more than $500) so that PIC does not need to take needless action for amounts deemed immaterial by CPB.

<u>PIC Cash Management Practices</u>

Accumulating Cash Balances

During the time period reviewed, PIC agrees that it could have done a better job of predicting projected expenses for the next quarter. However, since the audit review, PIC has been more realistic in terms of projected expenses, and the CPB grant funds on-hand have decreased drastically.

In terms of reporting procedures, PIC did follow the correct procedures for submitting payment requests. From FY2010 to FY2012, PIC submitted payment request forms that included year-to-date actuals and projected expenses. This amount was compared to the amount of cash PIC had remaining from the previous quarter, which was then subtracted from the next PIC payment request. Although payment requests were submitted for each quarter, PIC never received any indication from CPB that there was anything wrong with the way PIC was requesting funds or that the expenses projected for the next quarter were too high.

PIC would also like to comment on one of the difficulties about adhering to this payment schedule and procedure. Based on the quarterly reporting schedule, PIC needs to submit its quarterly report by the end of the month following the reporting term. It then takes CPB anywhere from a month to two months to read the reports and process payments. This means that at least two months have passed within the quarter before PIC receives its payment for that quarter. This results in PIC delaying payments to vendors and producers until it receives its payments from CPB.

Lastly, PIC would like to mention that with any type of media project, delays are unavoidable and project deliverable dates are completely dependent on each individual producer. Although PIC tries its best to keep producers on schedule, there have been instances in which timelines have been extended to a great degree, which leads to incorrectly projected expenses by PIC.

Earning Interest on Excessive Cash Balances

PIC will move its FY2011 and FY2012 cash on-hand to an interest bearing account.

<u>Reporting Ancillary Income and Interest Income</u>

PIC has been negligent in reporting ancillary or subsidiary income to CPB. Since former employees who handled this task left the organization without properly training others, PIC will conduct a review of its records and procedures and take the steps to remedy this problem. PIC will also consult with counsel to develop written processes to account for ancillary and subsidiary income.

Reporting Ancillary Income

PIC acknowledges that of the ten contracts that were examined during the audit review, two contracts did not contain the required PIC/CPB Revenue Sharing clause. PIC will amend one of these contracts to include this language, but PIC will not be able to amend the other contract since it has already closed. PIC will ensure that this clause is contained in all future contracts as required by CPB.

Grant Accounting

Year-end Accruals

PIC did claim $104,376 in year-end accruals for FY2011 Operations that were to be paid in the future after the products and services ordered were provided and billed to PIC. Although PIC only paid $101,028 as of the end of September 30, 2012, the remaining $3,348 was spent during the next fiscal year. Since the funds were spent on expenses that fulfilled the purpose of PIC's contract with CPB, PIC would like to formally request from CPB a no-cost extension to the term of this contract.

Unspent Grant Funds

In its financial report to CPB, PIC did reflect year-to-date actuals for FY2012 Operations that were $24,117 less than the approved budget of $686,980. CPB has since amended PIC's contract to reflect this new budget.

Exhibit I

Production Title	Amount Committed	Date Contract Signed with Producer
Black Grace	$10,000	3/24/11
Black Grace	$10,000	5/15/11
Hula Girls	$10,000	8/15/11
Rolling Down Like Pele	$500	8/23/11
Malaga	$500	9/9/11
Stones	$500	9/15/11
Jake Shimabukuro	$150,000	9/16/11
Mystery of Easter Island	$100,000	9/20/11
Mystery of Easter Island	$150,000	9/20/11
Total	**$431,500.00**	

Exhibit II

PACIFIC ISLANDERS IN COMMUNICATIONS
CPB CONTRACT NO. 13216
FY2010 PRODUCTION REPORT
SEVENTH AND EIGHTH QUARTERS (OCTOBER 1, 2009 TO SEPTEMBER 30, 2011)

	CPB 2010 Production Expenses Fund			
	YTD Actual	**Approved Budget**	**$ over Budget**	**% of Budget**
EXPENSES				
MEDIA FUND & EXECUTIVE PRODUCTIONS	**$230,163**	**$727,670**	**-$497,507**	**32%**
NATIONAL BROADCAST				
Marketing & Promotions	$1,590	$75,000	-$73,410	2%
Cyber Insurance	$4,757	$5,000	-$243	95%
Knapp Carriage Svc/Nielsen	$5,660	$5,660	$0	100%
Subtotal	**$12,006**	**$85,660**	**-$73,654**	**14%**
TALENT DEVELOPMENT	**$9,833**	**$88,069**	**-$78,236**	**11%**
AUDIENCE DEVELOPMENT	**$7,000**	**$30,000**	**-$23,000**	**23%**
PROGRAM ADMINISTRATION				
Content Coordinator	$14,646	$14,646	$0	100%
Media Fund Administration	$8,456	$8,500	-$44	99%
Subtotal	**$23,102**	**$23,146**	**-$44**	**100%**
TOTAL PRODUCTION EXPENSES	**$282,105**	**$954,545**	**-$672,440**	**30%**

Exhibit III

PACIFIC ISLANDERS IN COMMUNICATIONS
CPB CONTRACT NO. 13575
FY2011 QUARTER 4 FINANCIAL REPORT
OCTOBER 1, 2010 THROUGH SEPTEMBER 30, 2011

	CPB 2011 Expenses Fund			
	YTD Actual	**Approved Budget**	**$ over Budget**	**% of Budget**
EXPENSES - PRODUCTIONS				
MEDIA FUND & EXEC PRODUCTIONS				
Media Fund (Production & Completion)	$100,000	$485,650	-$385,650	21%
Online	$10,500	$25,000	-$14,500	42%
Discretionary	$20,000	$78,300	-$58,300	26%
Subtotal	**$130,500**	**$588,950**	**-$458,450**	**22%**
NATIONAL BROADCAST				
Marketing & Promotions	$45,602	$75,000	-$29,398	61%
Cyber Insurance	$4,695	$5,000	-$305	94%
Knapp Carriage Svc/Nielsen	$6,050	$6,050	$0	100%
Post-Production	$1,571	$10,000	-$8,429	16%
Subtotal	**$57,918**	**$96,050**	**-$38,132**	**60%**
TALENT DEVELOPMENT	**$39,249**	**$68,000**	**-$28,751**	**58%**
AUDIENCE DEVELOPMENT	**$27,845**	**$30,000**	**-$2,155**	**93%**
TOTAL PRODUCTIONS EXPENSES	**$255,512**	**$783,000**	**-$527,488**	**33%**