

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

**AUDIT OF DIGITAL DISTRIBUTION FUND  
GRANT AWARDED TO  
CENTRALCAST LLC, ALBANY, NEW YORK  
FOR THE PERIOD SEPTEMBER 30, 2011 – MARCH 20, 2014**

**REPORT NO. APT1404-1405**

**August 4, 2014**



Corporation  
for Public  
Broadcasting

Office of Inspector General

Date: August 4, 2014

To: Jackie J. Livesay, Vice President, Compliance

cc: Ted Krichels, Senior Vice President, System Development & Media Strategy

From: Mary Mitchelson, Inspector General 

Subject: Audit of the Digital Distribution Grant Awarded to Centralcast LLC, Albany, New York for the Period September 30, 2011 – March 20, 2014, Report No. APT1404-1405

### SUMMARY

We have completed an audit of the Corporation for Public Broadcasting (CPB) Digital Distribution Fund Agreement, CPB Account No. 14268, DDF Round 17 Grant awarded to Centralcast LLC, (CC) for the period September 30, 2011 – June 30, 2014. The objectives of our audit are to determine whether the CC: a) financial report fairly presents grant revenues and expenditures; b) incurred costs in accordance with grant requirements; and c) complied with grant requirements.

Our audit performed as of March 20, 2014 found that the CC:

- fairly reported grant revenues and expenditures on its interim financial report;
- expended and reported CPB funds in accordance with grant agreement requirements; and
- complied with grant requirements.

Based on our testing we had no findings or recommendations to report. After reviewing the draft report, CC officials did not see a need to provide an official response to the report.

We performed this audit based on the Office of Inspector General's (OIG) Annual Plan and in accordance with *Government Auditing Standards* for financial audits.

## BACKGROUND

New York television stations WCFE, WCNY, WNET, WLIW, WNED, WMIT, WPBS, WNPI, WSKG, and WXXI, members of the Association of Public Broadcasting of New York (APBS) formed a single legal entity named Centralcast LLC. CC was formed to provide technical and administrative services for its members who intended to construct a centralized, multi-station master control facility.

On September 30, 2011, CPB awarded a \$6,640,287 Digital Distribution Fund (DDF) 17 grant (#14268) to Centralcast for construction of a master control system budgeted to cost \$7,378,096. With funding from this agreement CC constructed a centralized master control facility co-located at WCNY in Syracuse, New York. The project enables the stations to be operated from the Centralized Master Control facility (Hub) to maintain universal service for the members' service areas and provide a cost efficient master control operation. This hub and spoke system uses servers to store programming and fiber optics links to connect with the stations. Stations continue to produce their own local programming and can take control of their signals if they desire. The Hub's functions include broadcast capability, consolidated storage, and traffic systems that allow stations to maintain their ability to insert locally generated content at any time. Members also have the ability to share programming and do live interviews from each other's stations

According to the grant agreement, the CC members collectively broadcast thirty-four discrete streams of video and audio using 10 broadcast television transmitters. The master control system allows additional audio and video broadcast systems to be added as new partners or clients emerge. The grant agreement also provides that the CC master control is a cost effective method to update all of the master control equipment at a single site for all members. Officials expect to save participating stations significant dollars in operating costs. Rather than have operators view numerous streams at once, the monitoring is done by "exception," where operators are alerted only when something goes wrong. Quality control is provided by the master control software. When failures occur, the system reacts and notifies the master control operator of what it did in response. If the system does not know what to do, it reports to the operator that a situation needs to be addressed.

During our audit period CC received \$6,607,086 in grant payments from CPB for grant # 14268 as itemized in Exhibit A. CC's fiscal year begins July 1 and ends June 30.

## SCOPE AND METHODOLOGY

We conducted our audit in accordance with *Government Auditing Standards* for financial audits to determine that CC: fairly reported grant revenues and expenditures; spent grant funds in accordance with CPB grant agreement terms; and complied with grant requirements. We performed our audit field work during the period February 2014 through April 2014.

The scope of the audit included tests of the costs claimed by CC for CPB grant number 14268 during the period September 30, 2011 – March 20, 2014. The interim report CC submitted to CPB through March 20, 2014 is provided in Exhibit B.

In conducting our audit, we reviewed CPB's grant files and discussed the award and administration of the grants with CPB officials from the Office of Business Affairs, Office of the Chief Financial Officer, and the Office of System Development and Media Strategy. We also discussed the grant agreements and management's policies and procedures with various CC officials, including its Executive Director, WCNY's Chief Executive Officer, and WCNY's Controller, as well as WCNY's Director of Technical Systems. We also reconciled the financial data maintained by CC in its accounting records for the grant reviewed to the expenses it reported to CPB.

We tested the accuracy of grant expenditures that CC 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, including procurement requirements, by testing all but four of the expenditures claimed under the grant to supporting documentation maintained by CC. During the period of our review, CC claimed total expenses of \$6,280,829. The transactions we tested totaled \$6,262,952 that included a variety of expenditure types such as integrator and equipment acquisition contracts. The transactions not tested were valued at \$17,877.

We gained an understanding of the internal controls over the preparation of the grant financial report, cash receipts, and payment authorizations to plan our substantive testing. Further, to obtain reasonable assurance that the financial report submitted to CPB was 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.

## RESULTS OF REVIEW

In our opinion, the financial report in Exhibit B presents fairly the results of CC activities in conformity with CPB grant agreement terms for the DDF Round 17 grant for the period September 2011 through March 20, 2014.

We have audited the accompanying CC financial report of revenues and expenses (Exhibit B) for Grant No.14268 that CPB awarded to CC. This financial report is the responsibility of CC management. Our responsibility is to express an opinion on this financial report 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 report is free of material misstatements. CC's financial report was prepared for the purpose of complying with the grant agreement between CPB and CC and is not intended to be a complete presentation of CC's revenues and expenses.

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 report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Internal Control over Financial Reporting*

In planning and performing our audit of the financial report submitted to CPB, we considered CC's internal control over financial reporting to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial report provided to CPB but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of CC's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial reports will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency or a

combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any internal control deficiencies that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether CC's financial report is free from material misstatements, we performed tests of its compliance with certain provisions of law and grant agreement requirements, noncompliance with which could have a direct and material effect on the determination of financial report amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

**Schedule of CPB Payments to CC for Grant No. 14268  
July 1, 2011 – March 20, 2014**

<b>Payment Dates</b>	<b>Payments</b>
October 3, 2011	\$500,000
June 29, 2012	4,795,763
September 21, 2012	1,012,510
September 11, 2013	298,813
<b>Total</b>	<b>\$6,607,086</b>

*Unpaid CPB grant funds of \$33,201 are pending submittal of the Final Financial Report.*

**Centralcast Digital Distribution Fund Round 17 Grant #14268  
Cumulative Financial Report as of March 20, 2014**

Item	Budget Amount	Actual Cost	Amount Paid	(%) Paid to Actual Cost	(%) Cost vs. Budget Deviation	(\$ Cost vs. Budget Variance	Amount Unpaid
Core Solution Components	\$4,850,000	\$4,850,000	\$3,839,500	79%	0%	0	\$1,010,500
Traffic and Scheduling System	444,161	446,412	366,260	82%	-1%	-2,251	80,152
EAS Equipment	120,000	78,831	72,215	92%	34%	41,169	6,616
PSIP Equipment	210,542	204,542	204,542	100%	3%	6,000	0
System Wide Transmitter Remote Control System	87,134	65,861	65,861	100%	24%	21,273	0
Satellite Receiving Equipment	185,472	190,512	190,512	100%	-3%	-5,040	0
Network Equipment for Core Infrastructure	201,369	446,211	446,211	100%	-122%	-244,842	0
MC Pods, Audio, and QC	127,068	115,706	115,706	100%	9%	11,362	0
Racks, Jack Fields, KVM	162,076	145,004	145,004	100%	11%	17,297	0
Core Glue Systems, Alarm/Monitoring, RF Routing	240,461	120,544	120,544	100%	50%	119,917	0
System Integration and Other Eligible Expenses	749,813	714,472	714,472	100%	5%	35,341	0
<b>TOTALS</b>	<b>\$7,378,096</b>	<b>\$7,378,096</b>	<b>\$6,280,828</b>				<b>\$1,097,268</b>

*This summary report was prepared by Centralcast, LLC for audit reporting purposes. The Interim Financial Report submitted to CPB was itemized in accordance with the grant financial reporting requirements.*