



Corporation
for Public
Broadcasting

Office of Inspector General

Date: September 12, 2014

To: Jackie J. Livesay, Vice President, Compliance

cc: Steve Altman, Senior Vice President, Business Affairs
Ted Krichels, Senior Vice President, System Development & Media Strategy

From: Mary Mitchelson, Inspector General 

Subject: Other Matters—Audit of the Digital Distribution Grant Awarded to Centralcast LLC, Albany, New York, Report No. L-APT1404-1408

In planning and performing our 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) we noted that CPB did not approve variances and associated reallocations exceeding ten percent of the amounts budgeted as required by the grant agreement. Specifically, CPB did not follow grant requirements to provide its prior written consent to budget changes reported by CC. Moreover, the grant agreement did not require CC to report the reasons for the variances to CPB. Instead, it required CPB only to provide written prior approval for the variances.

We have reported similar findings to CPB in the four audit reports listed in Exhibit A. In response to two of these reports, CPB's management decisions stated that the grantee should follow grant requirements, even though CPB did not follow the grant requirements to provide written approvals of the budget changes but authorized CPB payments against the revised budgets. In the other two audits, CPB's management decisions allowed the costs we questioned as budget over-runs, where CPB had again not approved the budget changes in writing.

Documenting material budget changes is an important part of effective grants administration. CPB should document its approval of material budget changes. If CPB plans to continue not approving and documenting its consent to material budget changes, we recommend this requirement be either revised or eliminated from future grant agreements.

Budget Variances Not Approved in Writing

Our review of the budgeted and actual expenditures claimed by CC as of March 20, 2014 disclosed that CC made material changes to the grant budget without written approval by CPB. The following variances and budget reallocations were reported to CPB, but not formally approved in writing by CPB as required by the grant agreement.

Budget Versus Actual Comparison

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

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

As shown above, 5 of the 11 budget categories had variances exceeding ten percent. CC reported these variances to CPB on the *Cumulative Financial Report* it submitted with each of the three payment requests sent to CPB. However, while CC reported the variances to CPB, it did not explain the reasons for the variances that exceeded 10 percent in writing, because the grant agreement did not require such explanations. The grant agreement only required CPB’s prior approval of the changes—in writing. While CPB’s Terms and Conditions for Television, Radio and Other Media Production Grants require grantees to explain material budget changes for production grants, it is not a requirement of other CPB grants such as this Digital Distribution Fund Grant Agreement, # 14268.

Additionally CPB neither requested a written explanation of why the variances were necessary nor provided its approval for the changes in writing before approving the subsequent payments to CC.

Grantee agrees that the budget it has developed for this grant is attached hereto as Attachment B and is fully incorporated in this Agreement. Grantee shall not make any material changes to the Budget without prior written consent from CPB. For the

purposes of this section, “material change” means any change to the Budget resulting in a reallocation of more than 10% between the Budget categories listed in the Budget.

Grant Agreement #14268, Section 6, paragraph 6.1.

Our review disclosed that CPB’s project officer made at least two site visits and held numerous conference calls with CC personnel to review construction progress. As a result, the project officer was knowledgeable about the details surrounding the project. Discussions with the CC personnel and CPB’s project officer also disclosed they were aware of the variances and both offered the same causes for the variances. More specifically, they explained that as construction progressed design changes and process improvements caused the variances. The CC personnel also explained they believed that when CPB approved each payment, it approved the variances. While these explanations appear reasonable, for future grants CPB should ensure that grantees explain the reasons for material variances (i.e., exceeding 10 percent) *in writing* and that CPB documents its approvals *in writing*. However, if CPB intends to continue approving payments for grants with material budget variances without providing prior written approvals to grantees, it should revise or eliminate this requirement.

Prudent grants administration necessitates documenting material budget changes to ensure CPB funds are expended for the project as envisioned by CPB when it awarded the grant. This documentation is important because CPB cannot be assured that its project officers will be able to make site visits and be knowledgeable about the nuances of a specific project. Moreover, as project officer turn-over occurs the reasons for expending the amounts associated with the budget reallocations will no longer be available to support budget changes, unless this documentation is preserved in CPB’s official grant files. Documenting justifications for budget changes and approval decisions are essential to provide accountability and transparency to CPB grants management decisions.

Recommendations

We recommend that CPB management:

1. Evaluate its grants management practices and decide to either follow the current grant requirement of providing prior written consent for material budget modifications or eliminate the grant requirement and CPB’s decision to make future payments against the grant will serve as CPB’s approval of the budget changes.
2. Include in future agreements for non-production grants the requirement that grantees provide written justifications for budget reallocations exceeding the budgetary limits spelled out in the agreement, similar to the production grants’ Terms and Conditions.
3. Ensure project officers obtain and evaluate grantee’s written justifications for budget changes before authorizing further payments under the grant by amending project officer responsibilities in the Project Officer Handbook.

CPB's Response¹

In response to our draft management letter, CPB stated that its review of its grant administration practices confirm that it has purposefully included in its Terms and Conditions for Television, Radio and other Media Production Grants the provisions that restrict grantees from making significant budget revisions without CPB's approval.

CPB also stated that project officers are expected to understand provisions in the Terms and Conditions governing budget reallocations and to document budget revisions that exceed the discretionary reallocations grantees are permitted to make without CPB approval. Therefore, CPB concluded that its project officers need to ensure that CPB's contract files include adequate documentation of the reasons for approving budget reallocations.

Further, CPB indicated that it will provide additional project officer training emphasizing these points.

OIG Review and Comment

Based on CPB's written response and our subsequent discussions with CPB officials we consider our recommendations resolved but open pending completion of the project officer training.

In response to Recommendation 1, CPB officials indicated that CPB will provide additional training to project officers that emphasizes the need to comply with either the budget reallocation provisions contained in the Terms and Conditions that are applicable to production grants or the budget reallocation clause used in many non-production grants, such as the Centralcast grant (see clause in text above). CPB personnel also indicated that the proposed training will emphasize that both of these clauses require CPB's "prior written consent" for major budget reallocations. Additionally, CPB's response stated that project officers need to ensure that CPB's contract files include adequate documentation of the reasons for approving budget reallocation.

In response to Recommendation 2, CPB indicated that it does not wish to include budget reallocation provisions similar to those contained in the Term and Conditions in future non-productions grants to require grantees receiving non-production grants to document the reasons for budget variances. Instead, CPB officials indicated they would use the proposed training to resolve the conditions we reported.

In regards to Recommendation 3, CPB again chose to provide additional project officer

¹ See Exhibit B for CPB's complete response.

training on budget reallocations as opposed to amending the project officer's responsibilities in the Project Officer Handbook.

During future grant audits we will evaluate the effectiveness of CPB's project officer training regarding providing grantees "prior written consent" for major budget reallocations.

Prior Audit Reports with Budget Variance Recommendations

Report Title	Report No.	Report Date	Recommendations
Audit of Radio Production Grants Awarded to Pundit Productions, Inc.	APR605-702	3/23/07	Review grantee's budget modifications
Audit of CPB Grants Awarded to ITVS, Inc.	APT1002-1103	3/29/11	Report budget variances and obtain CPB approval of budget changes
Examination of CPB Grant Awarded to Pundit Productions, Inc.	APR1203-1206	8/20/12	Recover unapproved budget over-runs
Audit of CPB Grants Awarded to Youth Media International	APR1209-1306	9/27/13	Recover unapproved budget over-runs



DATE: August 20, 2014

TO: Mary Mitchelson, Inspector General

Cc: William J. Richardson, Deputy Inspector General
Vincent Curren, Executive Vice President & Chief Operating Officer
William P. Tayman, Jr., Chief Financial Officer & Treasurer
West Smithers, Senior Vice President & General Counsel
Steve Altman, Senior Vice President, Business Affairs

RE: Other Matters Correspondence dated August 8, 2014 concerning the Audit of the Digital Distribution Grant Awarded to Centralcast LLC, Report No. APT1404-1405

CPB's review of its grant administration practices confirm that CPB has purposefully included in its Terms and Conditions¹ the provisions mentioned in the correspondence above that restrict grantees from making significant budget revisions without CPB's approval.

In managing CPB grants, project officers are expected to understand provisions in the Terms and Conditions governing budget reallocations, and to document budget revisions that exceed the discretionary reallocations Grantee's are permitted to make without CPB's approval. Accordingly project officers need to ensure that CPB's contract files include adequate documentation of the reasons for approving budget reallocations.

CPB will provide additional project officer training emphasizing the points set forth above.

CPB is available if you wish to discuss these matters further.

¹Section 4(D) of the Terms and Conditions for Television, Radio and Other Media Production Grants, April 2013 Edition.