

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

**AUDIT OF CPB GRANT AWARDED TO
PUBLIC BROADCASTING SERVICE FOR
PUBLIC TELEVISION INTERCONNECTION 2017 PHASE I
ARLINGTON, VA**

FOR THE PERIOD JANUARY 1, 2017 THROUGH DECEMBER 31, 2018

REPORT NO. APM1906-1908

SEPTEMBER 30, 2019



Report in Brief

Why We Did This Audit

We performed this examination based on our annual audit plan.

Our objectives were to determine whether: a) the financial reports fairly presented expenditures and revenues; b) costs were incurred in accordance with grant requirements; and c) the grantee complied with Communications Act and grant requirements for the period January 1, 2017 through December 31, 2018.

This report contains the conclusions of OIG. CPB will make the final decision on our findings and recommendations.

Send all inquiries to our office at (202) 879-9669 or email OIGemail@cpb.org or visit www.cpb.org/oig

[Listing of OIG Reports](#)

Audit of CPB Grant Awarded to Public Broadcasting Service for Public Television Interconnection 2017 Phase I for the Period January 1, 2017 through December 31, 2018

What We Found

Except for the matters discussed below, the Public Broadcasting Service (PBS) financial reports submitted to the Corporation for Public Broadcasting (CPB) fairly present the costs of PBS's activities in conformity with the CPB grant agreement requirements:

We found PBS:

- allocated rent and utility charges to the grant based on budgeted expenses rather than actual costs, resulting in questioned costs of \$7,646 (and additional charges after our audit period);
- lacked evidence for or did not provide reasonable advance notice for 30 of 79 (38 percent) open public meetings, including 9 of 11 (82 percent) interconnection committee meetings;
- did not make available to the public the reasons meetings were closed for 2 of 87 (2 percent) closed meetings or sessions of meetings; and
- provided interest free loans to employees during the grant period.

PBS agreed with our findings and responded that it is taking corrective actions.

CPB management will make the final determination on our findings and recommendations.

What We Recommend

We recommend that CPB require PBS to:

- claim actual rent and utility costs and correct overreported rent and utility including indirect costs of \$7,646 (and additional charges after our audit period) on its next interim financial report submitted and CPB consider requiring grantees disclose the method it uses to charge allocable costs to CPB grants;
- comply with the Communications Act of 1934, as amended, (Act) by providing reasonable advance notices of public meetings and making explanations of closed meetings available to the public, and develop written procedures to document how it complies with the Act; and
- comply with the Act and ensure that after the cancellation of the two loan programs that all previously granted interest free loans are repaid and closed.



Corporation
for Public
Broadcasting

Office of Inspector General

Date: September 30, 2019

To: Jackie J. Livesay, Vice President, Compliance
Ted Krichels, Senior Vice President, System Development and Media Strategy

From: *William J. Richardson III*
William J. Richardson III, Acting Inspector General

Subject: Audit of CPB Grant Awarded to Public Broadcasting Service for Public
Television Interconnection 2017 Phase I for the Period January 1, 2017 through
December 31, 2018, Report No. APM1906-1908

Enclosed please find our final report which contains our findings and recommendations. CPB officials must make a final management decision on the findings and recommendations in accordance with established audit resolution procedures.

Accordingly, we request that you provide us with a draft written response to our findings and recommendations within 90 days of the final report. We will review your proposed actions and provide our feedback before you issue a final management decision to the grantee, which is due within 180 days of the final report. For corrective actions planned but not completed by the response date, please provide specific milestone dates so that we can track the implementation of corrective actions needed to close the audit recommendations.

We will post this report to the Office of Inspector General's website and distribute to appropriate Congressional committees as required by the Inspector General Act of 1978, as amended. Please refer any public inquiries about this report to our website or our office.

Enclosure

cc: Bruce M. Ramer, Chair, CPB Board of Directors
Liz Sembler, Chair, Audit and Finance Committee, CPB Board of Directors
U.S. Senate Committee on Homeland Security and Governmental Affairs
U.S. House of Representatives Committee on Oversight and Government Reform
U.S. Senate Committee on Commerce, Science and Transportation
U.S. House of Representatives Energy and Commerce Committee
U.S. Senate Committee on Appropriations
U.S. Senate Labor-HHS-Education Appropriations Subcommittee
U.S. House of Representatives Committee on Appropriations
U.S. House of Representatives Labor-HHS-Education Appropriations Subcommittee

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EXECUTIVE SUMMARY

We have completed an audit of the Corporation for Public Broadcasting (CPB) grant for the Public Television Interconnection 2017 Phase I (sIX) project awarded to the Public Broadcasting Service (PBS) for the period January 1, 2017 through December 31, 2018.¹ Our objectives were to determine whether: a) financial reports fairly presented grant expenditures and revenues; b) costs were incurred in accordance with grant requirements; and c) grantee complied with grant requirements.

Based on our audit, except for the matters discussed below, the financial reports presented in Exhibits B and C fairly present the results of PBS's activities in conformity with CPB grant agreement compliance requirements for the period January 1, 2017 – December 31, 2018.

We found PBS:

- allocated rent and utility charges to the grant based on budgeted expenses rather than actual costs, resulting in questioned costs of \$7,646;
- lacked evidence for or did not provide reasonable advance notice for 30 of 79 (38 percent) open public meetings, including 9 of 11 (82 percent) interconnection committee meetings;
- did not make available to the public the reasons meetings were closed for 2 of 87 (2 percent) closed meetings or sessions of meetings; and
- provided interest free loans to employees during the grant period.

We recommend that CPB require PBS:

- claim actual rent and utility costs and correct overreported rent and utility including indirect costs of \$7,646² on its next interim financial report submitted and CPB consider requiring that grantees disclose the methods each use for charging allocable costs such as occupancy and fringe benefits to grant projects that are not included in an indirect cost rate;
- comply with the 47 U.S.C. Section 396(k)(4) of the Communications Act of 1934 as amended, (Act) by providing reasonable advance notices of public meetings and explanations of closed meetings available to the public;
- develop written procedures to document how it complies with the Act and maintain evidence to document its compliance with advance notice and reasons for closing meetings; and
- comply with the 47 U.S.C. Section 396(k)(9) and ensure that after the cancellation of the two loan programs that all previously granted interest free loans are repaid and closed.

In response to the draft report, PBS agreed with our findings and recommendations and said it is taking corrective actions. PBS's written response to the draft report is presented in Exhibit E.

¹ We reviewed Act compliance for meetings held between January 1, 2017 through March 26, 2019 to identify current practices.

² PBS reported an additional \$7,581 in overstated rent and indirect expenses after our audit period that should also be corrected in its next financial report.

This report presents the conclusions of the Office of Inspector General (OIG) and the findings reported do not necessarily represent CPB's final position on these issues. While we have made recommendations that we believe would be appropriate to resolve these findings, CPB officials will make final determinations on our findings and recommendations in accordance with established CPB audit resolution procedures. Based on PBS's response to our draft report we consider recommendations one through five resolved but open pending CPB's final management determination and acceptance of PBS's corrective actions.

We performed this audit based on the OIG's 2019 annual plan. We conducted our audit in accordance with *Government Auditing Standards* for financial audits. Our scope and methodology are discussed in Exhibit D.

BACKGROUND

PBS records state that it was incorporated in 1969 as a 501(c)(3) not-for-profit membership organization in partnership with its member stations to serve the American public with high quality programming and services using media to educate, inspire, entertain, and express a diversity of perspectives.

PBS chartered the Interconnection Committee as a special committee of the PBS Board with authority to oversee the operations and use of the interconnection system, including upgrades and improvements to the system and established a utilization plan for its operation of the system.

The Communications Act of 1934, as amended (Act), 47 U.S.C. Section 396(g)(1)(B) authorized CPB to assist in the establishment and development of one or more interconnection systems used for the distribution of public telecommunications services so that all public telecommunications entities may disseminate such services at times chosen by the entities. During fiscal years (FY) 2016 and 2017 Congress appropriated a total of \$90 million to CPB to replace and upgrade the public broadcasting interconnection system. CPB used these funds to award Grant Agreement, "Public Television Interconnection 2017 Phase I," CPB ID No. 34599-MS to PBS for \$56.7 million for the period January 1, 2017 through September 30, 2020. This grant provides that PBS, through its service providers that have the expertise to provide the required services, shall build and operate the interconnection system to provide television interconnection services on behalf of, for the benefit of, and available to all public television stations.

This grant funds the technology infrastructure that delivers content from producers and distributors to stations across the nation that in turn provide this content to local communities on a variety of platforms. The interconnection system supports over 175 stations, distributors, and joint master control users. The interconnection system is being restructured to take advantage of technology and ensure efficiency and reliability of the system. The first phase of the work consists of deployment of non-linear, non-real time (NRT) file delivery using vendors selected through a competitive procurement process. The term of the grant (January 1, 2017 through September 30, 2020) funds this first stage. Further stages of development are anticipated with funding contingent on future appropriated funds from Congress.

Grant Budget Summary

Grant No. 34559-MS Budget Category	Amount Budgeted³
Stage 0 Ongoing NGIS Maintenance & Management Services (includes satellite lease for transponders, NGIS infrastructure support, and NGIS staff and contractors)	\$14,048,881
Stage 1 Non-Linear System Deployment (includes linear transponder & support, terrestrial connectivity, technology services, third party vendor support, and staff and contractors)	\$41,631,905
Rent and Utility	\$250,331
Indirect	\$768,883
Total Expenses	\$56,700,000

During our audit period, January 1, 2017 through December 31, 2018, CPB paid PBS a total of \$22,524,265 under grant number 34559-MS per Exhibit A. The grant agreement provides that CPB shall receive and use the funds as appropriated by Congress and any interest earned thereon to fund costs associated with replacing and upgrading the public broadcasting Interconnection System. The interim financial reports that PBS submitted to CPB for these grant agreements are presented in Exhibits B and C.

RESULTS OF AUDIT

In our opinion, except for the matters discussed below, the financial reports presented in Exhibits B and C fairly present the results of PBS's activities in conformity with CPB grant agreement requirements for the period January 1, 2017 through December 31, 2018.⁴

We have audited the accompanying interim financial reports expenditures and interest income (Exhibits B and C) for the CPB agreement for sIX grant number 34559-MS, for the period ending December 31, 2018. The financial reports are the responsibility of PBS management. Our responsibility is to express an opinion on these 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 misstatements. 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 the audit evidence we have obtained is sufficient and

³ Subsequent to our audit period CPB amended the grant budget for reallocations between budget categories with no impact on the total budget amount.

⁴ We tested Act compliance for open/closed board and committee meetings held through March 26, 2019.

appropriate to provide a basis for our opinion. PBS prepared the accompanying interim financial reports to comply with the grant financial reporting requirements.

As discussed in the Findings and Recommendations section of this report, our audit found PBS:

- allocated rent and utility charges to the grant based on budgeted expenses rather than actual costs, resulting in questioned costs of \$7,646;
- lacked evidence for or did not provide reasonable advance notice for 30 of 79⁵ (38 percent) open public meetings, including 9 of 11 (82 percent) interconnection committee meetings;
- did not make available to the public the reasons meetings were closed for 2 of 87 (2 percent) closed meetings or sessions of a meeting; and
- provided interest free loans to employees during the grant period.

In accordance with *Government Auditing Standards*, we considered PBS's internal control over financial reporting and its compliance with provisions of law and grant agreement requirements. The purpose of the following explanations is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion of the effectiveness of internal control over financial reporting or on compliance. Accordingly, this information is not suitable for any other purpose.

Internal Control over Financial Reporting

In planning and performing our audit of the interim financial reports submitted to CPB, we considered PBS'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 reports 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 PBS's internal control.

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 deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 on 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.

⁵ The number of meetings was reduced to 79 from 80 in the draft report because PBS confirmed that one meeting did not have a quorum therefore an official meeting was not held.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PBS's financial reports are 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. The results of our tests disclosed noncompliance with CPB and Act requirements for grant number 34559-MS resulting in questioned costs of \$7,646 and Act non-compliance as discussed further in the Findings and Recommendations section of the report.

FINDINGS AND RECOMMENDATIONS

Questioned Costs – Rent and Utility Allocation

PBS overstated its rent and utility allocation and related indirect expenses charged to the grant by \$7,646 because it applied this allocation based on budgeted occupancy costs rather than actual PBS expenses incurred. The overstated rent and utility expenses reported on its financial report are shown in the table and discussed below:

Questioned Rent and Utility Costs

Rent and Utility Expense Allocation	FY 2017	FY 2018	FY 2019	Total as of 12/31/18
Budgeted and reported	\$7,995	\$53,300	\$24,043	\$85,338
Actuals	7,411	46,572	24,758	78,741
Variance rent and utility	584	6,728	(715)	6,597
Indirect at 15.9 %	93	1,070	(114)	1,049
Total overstated rent and utility including indirect - questioned costs	\$677	\$7,798	(\$829)	\$7,646

The grant agreement, Article II.3(a) states that "CPB shall reimburse Grantee for its actual fees and expenses up to the total budget amount of \$56,700,000 ("Total CPB Commitment")."

PBS allocates rent and utility expenses to grants based on its annual budgeted occupancy costs. PBS divides the occupancy costs by the total PBS headcount then allocates to each grant based on the rate per headcount times grant headcount. For example, for the sIX grant in FY 2018 PBS allocated the monthly rent and utility expense per headcount of \$888 times the five sIX grant employee headcount for a total of \$53,300 in rent. In addition, PBS charged indirect expense of 15.9 percent on the direct rent and utility allocation in the amount of \$8,475 for FY 2018. PBS officials said these budgeted costs were not trued up to actuals at year-end, therefore the grant projects were charged budgeted amounts rather than actual amounts.

The CPB grant requires that only actual expenses are allowable for reimbursement. PBS provided OIG with quarterly actual occupancy costs and headcount information. Based on the

information provided, as summarized and shown in the above chart, PBS overstated its rent and utility expenses and indirect related costs by \$7,646. In addition, PBS identified an additional \$7,581 in overstated rent and utility allocation including indirect costs for FY 2019 that was reported after our audit period. PBS in its response to our preliminary observations stated it would correct the overreported allocations on the next interim report it submits to CPB and use quarterly actual occupancy costs and headcount to apply the rent and utility allocation for future reporting periods.

Because PBS used budgeted costs rather than actual expenses incurred to allocate its occupancy costs, PBS overstated grant expenditures by \$7,646.

Recommendation

We recommend that CPB officials:

- 1) require PBS to claim actual rent and utility costs and correct overreported rent and utility including indirect costs on the next interim financial report submitted to CPB; and
- 2) consider requiring that grantees disclose the methods it uses for charging allocable costs such as occupancy and fringe benefits to grant projects that are not included in the indirect cost rate.

PBS Response

In response to our draft report PBS agreed to correct the overreported rent and utility charges including indirect costs on its next interim report (\$7,646 questioned costs plus \$7,581 reported after our audit period). PBS's response to the draft report described its new process for allocating actual rent and utility or occupancy expenses to CPB grants.

OIG Review and Comment

Based on PBS's response to the draft report, we consider recommendations one and two resolved but open pending CPB's final determination accepting PBS's corrective actions and recovery of the grant overpayments in corrections to its next interim financial report submitted to CPB.

Open/Closed Meetings

PBS was not fully compliant with the open/closed meetings requirements of the Act and incorporated into the grant agreement. Our audit found that PBS held 79 open Board and committee meetings subject to the advance notice requirements. While 49 (62 percent) were compliant, 30 (38 percent) were not because either there was no documentary evidence of advance notice, or the advance notice was not at least 7 days prior to the meeting. PBS's non-compliance with advance notice for open board and committee meetings is summarized in the table below.

Summary of Open Meetings

Board and Committee Meetings	Number of Meetings	Compliant Advance Notice	Non-Compliant Advance Notice
Governing Board	11	11	0
Executive Committee	8	6	2
Audit Committee	11	7	4
Finance Committee	9	8	1
Nominating & Governance Committee	11	4	7
Investment Committee	8	2	6
Station Services Committee	10	9	1
Interconnection Committee	11	2	9
Total	79	49	30
Percentage		62%	38%

Our audit found that the Investment, Nominating and Governance, and Interconnection committees had greater occurrences of non-compliance for advance notice than other board and committee meetings.

During the period audited for meeting compliance, extended through March 2019 to address current practices, PBS held 87 fully or partially closed meetings which required a written explanation of the reasons for closing. Of the 87 closed meetings, 85 (98 percent) were compliant but 2 (2 percent) lacked a memorandum to explain why the meeting was closed as shown in the following table.

Summary of Closed Meetings

Closed Meetings	Number of Meetings	Compliant Closed Reason Notices made available to the Public	Non-Compliant Closed Reason Notices made available to the Public
Governing Board	11	11	0
Executive Committee	13	12	1
Audit Committee	11	11	0
Finance Committee	12	12	0
Nominating & Governance Committee	12	12	0
Investment Committee	9	9	0
Station Services Committee	15	15	0
Interconnection Committee	4	3	1
Total	87	85	2
Percentage compliant/non-compliant		98%	2%

The Act, 47 USC §396(k)(4), requires reasonable advance notice to the public of open meetings. CPB Community Service Grant (CSG) guidance (2016⁶) states that reasonable advance notice should be at least 7 days in advance and describes four ways that reasonable advance notice can be achieved: posting notice on the station website, on-air broadcast notice as shown in the station log, notice in the Legal notices section of a local newspaper in general circulation, or giving notice through a recorded announcement accessible on the phone system.

The Act, 47 USC §396 (k)(4), requires meetings to be open to the public unless one of five conditions exist: matters relating to individual employees, proprietary information, litigation and other matters requiring the confidential advice of counsel, commercial or financial information obtained from a person on a privileged or confidential basis, or the purchase of property or services, the premature disclosure of which would compromise the station's business interests. The Act does not require advance notice to the public of closed meetings but does require a memo to be made available to the public within a reasonable period of time that explains the reasons for closing the meeting. CPB CSG guidance to CSG grantees requires that a memo be available to the public within 10 days of the closed meeting that identifies the closed meeting and provides the specific reasons for closing the meeting.

PBS said the cause for the lack of adequate advance notice for all board and committee meetings is not necessarily a lack of adherence to existing PBS policies and procedures, but it may be that it did not document those policies with timely screen shots. In addition, PBS officials said that one Interconnection Committee meeting was called at the last-minute and it was not practical to provide advance notice to the public. PBS stated that going forward it would work to ensure that it captures webpage screen shots and properly documents its advance notices. PBS explained that it omitted the two closed meeting explanation memos in error but has subsequently documented the reasons for closing the two meetings and made the information available for the public.

PBS's policy is to hold all meetings as open meetings unless there is a need to close the meeting for one or more of the reasons identified in the Act. An advisory memo to the Board from the Office of the Corporate Secretary, "Open Meetings Policy" provides that all open meetings will be timely identified on the web page, including phone meetings, but does not establish a time frame. According to an assistant general counsel, this is a 2007 document prepared for Board members to understand open meetings requirements. Another open meeting policy document provides slightly different directions. It directs that all open Board, Committee, and conference call meetings will be posted to the web page which will include a note that more information, like call-in information, can be obtained via email from the Office of the Corporate Secretary.

The differences between the two memos were explained by the counsel. According to the counsel, posting of advance notice of meetings is the responsibility of the PBS Office of the Corporate Secretary. Officials in the Office of Corporate Secretary said PBS has solid practices for providing the required open and closed meeting notices per the Act, but said that it did not have detailed written instructions and no other PBS department provides oversight of this function.

⁶ Effective for FY 2017.

The PBS web page lists board and most committee meetings in advance, generally for the upcoming year including general information such as committee, date, and city, if not Arlington, VA. Specific details like time and location required for adequate advance notice are usually given for upcoming meetings within reasonable advance notice time (i.e., 7 days). The web page includes a notation that the public may contact the PBS Office of the Corporate Secretary by email to obtain call-in information and additional information.

In addition, PBS also provided evidence of notice in newspaper publications for all board meetings and committee meetings held in conjunction with the board meeting and posting meeting notices in this way was also the responsibility of the PBS Office of Corporate Secretary according to PBS officials. For example, prior to the Board of Directors meeting, on March 25-26, 2019, meetings of the Investment, Station Services, Finance, and Executive Committee were held and advance notice for those committee meetings was included in the published notice. However, not all committees meet in conjunction with board meetings. On March 25-26, 2019, there were no meetings of the Audit, Nominating and Governance, or Interconnection committees. Thus, jointly held Board and committee meetings received adequate advance notice through publication, but publication did not establish advance notice for all committee meetings because all committees do not meet when the Board meets.

We also reviewed web page screen shots PBS provided in order to document advance notice of meetings. For those meetings that lacked advance notice the cause appeared to lie in not providing adequate detail on the web in sufficient time; not obtaining timely screen shots of the calendar web pages to retain evidence of adequate advance notice; or the lack of advance notice at all.

Both policy memos refer to closed meeting memos, however the directions in each vary slightly. The staff instructions state that such memos are prepared no less than once each month and are to be accessible and available upon request. The memo prepared for the Board in 2007 provides that the memos will be prepared within 10 business days by the Corporate Secretary. The PBS web page describing open and closed meetings "About the Board" states that closed meeting memos can be requested by contacting the PBS Corporate Secretary and provides a street address, but no email address or phone number.

We could not attest that PBS was fully compliant with the reasonable advance notice for open public meetings requirement of the Act, despite having policy/procedure in place and staff assigned to handle the requirement because PBS lacked documentary evidence for us to review its compliance for all of its board and committee meetings. Committee meetings, especially Interconnection meetings were more problematic than Board of Directors meetings. As a result, we could not determine if the public was provided reasonable advance notice for some PBS meetings as required by the Act.

Additionally, explanations of the reasons for closed meetings were usually but not always prepared and were therefore not available to the public as required by the Act. PBS did prepare these explanations after our audit fieldwork found two non-compliant meetings.

Recommendations

We recommend that CPB officials require PBS to:

- 3) comply with the 47 U.S.C. Section 396(k)(4) of the Act by providing reasonable advance notices of public meetings and explanations of closed meeting available to the public; and
- 4) develop written procedures to document how it complies with the Act and maintain evidence to document its compliance with advance notices and reasons for closing meetings.

PBS Response

In response to our draft report PBS stated that going forward PBS will provide at least seven days' notice in accordance with CPB guidance except in case of emergency meetings and will continue to make closed meeting explanations available to the public. In addition, PBS explained that it is updating its written procedures for compliance with open meeting requirements for the Act including more detailed record-keeping of its processes to better demonstrate its compliance.

OIG Review and Comment

Based on PBS's response to the draft report, we consider recommendations three and four resolved but open pending CPB's final determination accepting PBS's corrective actions.

Prohibition on Interest Free Loans

PBS provided interest free loans to its employees that were not compliant with the Act and grant agreement requirements that prohibit interest free loans. PBS had two interest free loan programs for employees during our audit period: one for interest free loans of up to \$1,000 (with eligibility open to employees enrolled in the PBS' Educational Assistance benefits program) and the second program offered interest free loans for the purchase of a personal computer. During our fieldwork PBS informed us that the \$1,000 interest free tuition loan under the Educational Assistance Program was cancelled on June 1, 2019 and that the computer loan program was cancelled on July 1, 2019.

Section 396(k)(9) of the Act provides, in part, that CPB is prohibited from distributing funds to PBS unless PBS provides CPB with assurance that no officer or employee of PBS will be loaned money by PBS on an interest free basis. 47 U.S.C §396(k)(9). The PBS Interconnection grant agreement contains references to the Act and specifically refers to §396(k)(9) in its list of "Applicable Laws" in Article III - "47 U.S.C. §396(k)(9), concerning the annual compensation of, and prohibition of interest-free loans to, officers and employees."

PBS's Educational Assistance program provided tax-free reimbursement for 100 percent of tuition costs as well as books, lab fees, and other school fees associated with an approved course, up to a total of \$5,250 per calendar year for employees who took for-credit course work previously approved by PBS. As a part of the Educational Assistance program, PBS offered

interest free loans to participating employees up to a maximum of \$1,000. Loans had to be repaid over a maximum of 5 months via payroll deduction or in a lump sum.

The PBS Computer Loan Program allowed non-probationary full time and part time employees to borrow a sum between \$500 up to \$2,000 to reimburse the employee for the purchase of a computer, or related supplies from a commercial source. The amount borrowed was repaid through payroll deduction over a maximum of 12 months or in a lump sum.

When OIG inquired into the legality of the two interest free loan programs, PBS initially responded that the programs were part of PBS's employee benefit package and argued that neither violated the spirit of the Act and that the financial impact of both programs was minimal. OIG concluded that the Act provision is absolutely clear and it, along with other Act provisions, are incorporated directly and specifically into the terms of the grant. Granting interest free loans is prohibited.

While we recognize that it may be good corporate policy to have programs to enhance benefits for employees, including tuition assistance and computer purchase assistance, in PBS's case, the statute specifically and clearly prohibits interest free loans to PBS officers or employees. The consequence, under the Act, is to withhold funding from PBS if they do not comply with statutory provisions. PBS has signed the grant, agreeing to comply with its terms, yet in this instance, during the audit period it did not comply. We do not suggest that funding should be withheld but with PBS's cancellation of both programs during our audit, PBS should provide assurance to CPB that it will fully comply with the (k)(9) provision.

Recommendation

We recommend that CPB officials require PBS to:

- 5) comply with the 47 U.S.C. Section 396(k)(9) and ensure that after the cancellation of the two loan programs that all previously granted interest free loans are repaid and closed.

PBS Response

In response to our draft report PBS stated it had cancelled its interest free loan programs and the loans will be cancelled after repayment is completed.

OIG Review and Comment

Based on PBS's response to the draft report, we consider recommendation five resolved but open pending CPB's final determination accepting PBS's corrective actions.

Exhibit A

CPB Payments to PBS for Grant Number 34559-MS PBS Interconnection 2017 Phase I

Payment Dates	Amount
12/14/2017	\$5,000,000
1/25/2018	3,825,951
3/9/2018	3,819,995
5/23/2018	1,980,936
9/13/2018	4,405,364
12/12/2018	3,492,019
Total through 12/31/18	\$22,524,265

Exhibit B

PBS
Public Television Interconnection 2017 Phase I Grant (CPB ID No. 34559-MS)
Interim Financial Report for the Period Ending 12/31/2018
Expenditures⁷

Grant No. 34559 Budget Category	Total Project Budget	Cumulative Actuals and Reporting Period	Variance (Project Balance)
Stage 0 Ongoing NGIS Maintenance & Management Services (includes satellite lease for transponders, NGIS infrastructure support, and NGIS staff and contractors)	\$14,048,881	\$7,301,138	\$6,747,743
Stage 1 Non-Linear System Deployment (includes linear transponder & support, terrestrial connectivity, technology services, third party vendor support, and staff and contractors)	\$41,631,905	\$13,779,980	\$27,851,925
Rent and Utility	\$250,331	\$85,337	\$164,994
Indirect	\$768,883	\$367,989	\$400,894
Total Expenses	\$56,700,000	\$21,534,444	\$35,165,556

Note: The budget was subsequently amended to reallocate over \$1 million in Stage 0 costs to Stage 1 and other cost categories including adding a project travel and miscellaneous expense category. The budget reallocations did not impact the total budget amount.

⁷ The actual financial report included detailed budget line item information. OIG has summarized the financial report at the stage level for presentation purposes.

Exhibit C

PBS
Public Television Interconnection 2017 Phase I Grant (CPB ID No. 34559-MS)
Interim Financial Report for the Period Ending 12/31/2018
Schedule of Interest Income

Period	Amount
January 2017 to September 2017	-
October 2017 to December 2017	-
January 2018 to March 2018	\$1,331
April 2018 to June 2018	9,543
July 2018 to September 2018	7,707
October 2018 to December 2018	10,348
Project to Date Actuals	\$28,929

SCOPE AND METHODOLOGY

We conducted our audit in accordance with *Government Auditing Standards* 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 PBS complied with applicable provisions of the Act. We performed our audit field work during the period February through August 2019.

The scope of the audit included tests of the costs claimed by PBS on CPB grant number 34559-MS during the period January 1, 2017 through December 31, 2018. Interim financial reports submitted to CPB through December 31, 2018 are provided in Exhibits B and C.

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: Business Affairs, Chief Financial Officer, Chief Operating Officer, and System Development and Media Strategy. At PBS, we discussed the agreements with management officials in the Accounting and Financial Division, the Technology Division, Office of the Chief Legal Officer as well as the Office of Corporate Secretary. We also reconciled the financial data maintained, by PBS in its accounting records for the grant to the expenses it reported to CPB.

We tested the accuracy of grant expenditures that PBS 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 over 70 expenditures claimed under the grant reviewed, valued at \$5,088,198 or 24 percent of expenditures claimed, to supporting documentation maintained by PBS. During the period of our review, PBS claimed total expenses of \$21,534,443. The transactions tested included a variety of expenditure types such as: payroll, fringe benefits, space allocations, indirect costs, consultant and equipment acquisition contracts, satellite leasing costs and support, and the managed system technology and connectivity services.

We reviewed interest earned by PBS on CPB grant funds held before being expended, and the procurement policies and procedures PBS used to award contracts. We also reviewed the documents PBS made available to the public to comply with the requirements of the Act,⁸ and the PBS policies that addressed annual compensation of, and prohibition of interest-free loans to, officer and employees in compliance with Act requirements.

We gained an understanding of the internal controls over the preparation of the grant financial reports, cash receipts and interest income, 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. We reviewed corporate policies and procedures, performed risk

⁸ We tested current 2019 practices beyond the audit period ending 12/31/18 through 3/26/19.

assessments, and considered fraud in our planning which included interviews with project and financial management officials.



September 16, 2019

William J. Richardson III
Acting Inspector General
Office of Inspector General
Corporation for Public Broadcasting
401 Ninth Street, NW
Washington, DC 20004-2129

Re: Audit of Corporation for Public Broadcasting grant awarded to Public Broadcasting Service for Public Television Interconnection 2017 Phase I- Arlington, VA for the Period January 1, 2017 through December 31, 2018, Draft Report No. APM 1906-XXXX

Dear Mr. Richardson,

Public Broadcasting Service ("PBS") is in receipt of the Office of Inspector General's ("OIG") Draft Report Number APM 1906-XXXX for the Audit of CPB Grant Awarded to Public Broadcasting Service for Public Television Interconnection 2017 Phase I- Arlington, VA for the Period January 1, 2017 through December 31, 2018 (the "Draft Report"). This letter contains PBS's formal, written response and comments to the OIG's findings and recommendations contained in the Draft Report. PBS also takes this opportunity to formally request that, if the OIG has any additional findings in the period between this formal response and the OIG completing its final report, the OIG provide PBS with notice of and an opportunity to respond to any such findings.

Turning to the Draft Report, the OIG found that PBS:

- allocated rent and utility charges to the grant based on budgeted expenses rather than actual costs, resulting in questioned costs of \$7,646, with an additional \$7,581 in overstated rent and indirect expenses after our audit scope that should also be corrected in its next financial report;
- lacked evidence for or did not provide reasonable advance notice for 30 of 80 (38 percent) open public meetings, including 9 of 11 (82 percent) interconnection committee meetings;
- did not make available to the public the reasons meetings were closed for 2 of 87 (2 percent) closed meetings or sessions of a meeting; and
- provided interest free loans to employees during the grant period.

The OIG recommended that CPB require PBS to:

- 1) claim actual rent and utility costs and correct overreported rent and utility including indirect costs of \$7,646 (and \$7,581) on its next interim financial report submitted to CPB;
- 2) and CPB should consider requiring that grantees disclose the methods it uses for charging allocable costs such as occupancy and fringe benefits to grant projects that are not included in an indirect cost rate;
- 3) comply with the 47 U.S.C. Section 396(k)(4) of the Act by providing reasonable advance notices of public meetings and explanations of closed meetings available to the public;
- 4) develop written procedures to document how it complies with the Act and maintain evidence to document its compliance with advance notices and reasons for closing meetings; and



- 5) comply with the 47 U.S.C. Section 396(k)(9) and ensure that after the cancellation of the two loan programs that all previously granted interest free loans are repaid and closed.

(Draft Report, Executive Summary, page 1.) PBS hereby responds and comments to these findings and recommendations.

1. Questioned Costs – Rent and Utility Allocation Section

The OIG stated,

PBS overstated its rent and utility allocation and related indirect expenses charged to the grant by \$7,646 because it applied this allocation based on budgeted occupancy costs rather than actual PBS expenses incurred. The overstated rent and utility expenses reported on its financial report are shown in the table and discussed below[.]

And additionally,

The CPB grant requires that only actual expenses are allowable for reimbursement. PBS provided OIG with quarterly actual occupancy costs and headcount information. Based on the information provided, as summarized and shown in the above chart, PBS overstated its rent and utility expenses and indirect related costs by \$7,646. In addition, PBS identified an additional \$7,581 in overstated rent and utility allocation including indirect costs for FY 2019 that was reported after our audit scope. PBS in its response to our preliminary observations stated it would correct the overreported allocations on the next interim report it submitted to CPB and use quarterly actual occupancy costs and headcount to apply the rent and utility allocation for future reporting periods.

OIG provided the following recommendations to CPB officials:

- 1) ensure that PBS claims actual rent and utility costs and corrects overreported rent and utility including indirect costs on the next interim financial report submitted to CPB; and
- 2) consider requiring that grantees disclose the methods it uses for charging allocable costs such as occupancy and fringe benefits to grant projects that are not included in the indirect cost rate.

PBS Response:

- 1) PBS will correct the overreported rent and utility including indirect costs, both the \$7,646 discovered during the audit and the \$7,581 reported after the audit scope, on the next interim financial report submitted to CPB as recommended by the OIG.
- 2) On a quarterly basis, PBS will allocate rent and utility or occupancy actual expenses to CPB grants based on the proportion of grant actual headcounts over PBS's total actual filled headcounts.

2. Open/Closed Meetings Section

The OIG found that, "PBS was not fully compliant with the open/closed meetings requirements of the Act and incorporated into the grant agreement." PBS appreciates the opportunities and



consideration provided by the OIG for PBS to respond and clarify these meeting exceptions during the audit.

OIG recommended that CPB officials require PBS to:

- 3) comply with the 47 U.S.C. Section 396(k)(4) of the Act by providing reasonable advance notices of public meetings and explanations of closed meeting available to the public; and
- 4) develop written procedures to document how it complies with the Act and maintain evidence to document its compliance with advance notices and reasons for closing meetings.

PBS Response:

- 3) Going forward, PBS will provide at least seven (7) days' notice, per CPB guidance, of public meetings (except in the case of emergency meetings) and will continue to make explanations of closed meetings available to the public.
- 4) PBS notes that it is updating its written procedures for compliance with the Open Meetings requirements of the Act. The new document will describe how PBS complies with the requirements of the Act and will detail record-keeping processes necessary to demonstrate compliance with advance notices and reasons for closed meetings.

3. Prohibition on Interest Free Loans

The OIG found that,

PBS provided interest free loans to its employees that were not compliant with the Act and grant agreement requirements that prohibit interest free loans. PBS had two interest free loan programs for employees during our audit period: one for interest free loans of up to \$1,000, for employees enrolled in the PBS' Educational Assistance benefits program and the second program offered interest free loans for the purchase of a personal computer. During our fieldwork PBS informed us that the \$1,000 interest free tuition loan under the Educational Assistance Program was cancelled on June 1, 2019 and that the computer loan program was cancelled on July 1, 2019.

OIG recommended that CPB officials require PBS to:

- 5) comply with the 47 U.S.C. Section 396(k)(9) and ensure that after the cancellation of the two loan programs that all previously granted interest free loans are repaid and closed.

PBS Response:

- 5) The programs have been cancelled, and the loans will be closed once repayment is completed.



PBS appreciates the opportunity to submit this formal response. Should the OIG have any objection or question regarding this response or any additional findings, PBS requests the opportunity to clarify or correct this response as necessary.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mario Vecchi", with a horizontal line underneath.

Mario Vecchi
Chief Technology Officer

Attachment

cc: Debra Jacobson, Office of the Inspector General, CPB
Helen Mollick, Esq., Counsel to the Inspector General, Assistant Inspector General for Investigations, Office of the Inspector General, CPB
Thomas E. Tardivo, Chief Financial Officer and Treasurer, PBS
Thomas A. Crowe III, Vice President, Interconnection, PBS
Meghan Biggs, Vice President and Controller, PBS
Eric Stith, Vice President, Financial Planning and Analysis, PBS
Scott Griffin, Assistant General Counsel, PBS
Carolyn Oh, Director, Finance, PBS
Ted Krichels, Senior Vice President, System Development and Media Strategy, CPB
Jackie J. Livesay, Assistant General Counsel and Vice President, Compliance, CPB
William P. Tayman, Jr., Chief Financial Officer and Treasurer, CPB
Beth Walsh, Vice President, Media Strategy Operations, CPB
Deborah Carr, Vice President, Operations, CPB