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May 19, 2011

The Honorable Darrell Issa
Chairman
Committee on Oversight and Government Reform
House of Representatives

The Honorable Cliff Stearns
Chairman
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
House of Representatives

The Honorable Joe Barton
House of Representatives

The Honorable Michael C. Burgess
House of Representatives

The Honorable Doug Lamborn
House of Representatives

Subject: *Public Radio and the Role of Federal Funding*

This report documents information that we presented to your offices on March 31, 2011, in response to your request that we examine the extent to which federal funding is used to support public radio. The Corporation for Public Broadcasting (CPB) was established pursuant to the Public Broadcasting Act of 1967 and receives federal payments through the annual appropriations process. CPB distributes the federal payments it receives in accordance with a statutory formula.¹ Under this formula, the majority of each annual federal payment must be distributed to public broadcasting television and radio stations and program producers, such as National Public Radio (NPR), typically in the form of grants. The attached briefing slides address the following questions: (1) What are the missions of CPB, NPR, and local public radio stations? (2) What are the processes through which CPB receives federal payments and disburses them to grantees? and (3) What are NPR's sources of revenue, both federal and nonfederal?

¹47 U.S.C. § 396(k).

To address these questions, we reviewed documents from CPB and NPR, including audited financial statements for fiscal years 2006 through 2010, grant agreements, and grant provisions and eligibility criteria; and analyzed CPB data on funds disbursed to local public radio stations.² We also interviewed officials at CPB, the CPB Office of Inspector General, and NPR. We did not audit or verify unaudited information provided by CPB and NPR; however, as practical, we compared such information to information included in audited financial statements and reports. We conducted our work from January 2011 through May 2011 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and that we discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this report.

In summary:

- CPB is a nonprofit organization that was established to facilitate the growth and development of public television and radio for the purposes of instructional, educational, and cultural programming. Founded in 1970, NPR was established as a news-gathering, production, and program-distribution company governed by its member local public radio stations, which pay annual dues. Local public radio stations must be licensed by the Federal Communications Commission as noncommercial educational radio stations, and most are run by local entities such as universities and nonprofit community organizations. As of March 31, 2011, 818 local public radio stations were NPR members.
- Congress provides federal payments to CPB through the annual appropriations process. As a nonprofit corporation, CPB is not subject to the same federal fiscal controls as are government agencies. However, Congress may place requirements on CPB's expenditures through authorizing legislation and appropriations laws. For example, under CPB's authorizing legislation, approximately 89 percent of CPB's federal payment must be allocated through its grant programs. Beneficiaries of CPB's radio grant funding include local public radio stations and programming producers, such as NPR, American Public Media (APM), and Public Radio International (PRI). Allowable uses for grant funds vary with the type of grant program, and may include the costs of production, programming, and management.
- While NPR does not receive any federal appropriations, it was awarded approximately \$6.4 million in CPB grants during fiscal years 2006 through 2010. NPR also receives grants from federal agencies for programming and other special projects. An estimated 70 percent of NPR's annual revenues comes from membership dues, fees paid for its programs, and from nonfederal grants, contributions, and sponsorships. Because local public radio stations may use all, none, or any portion of their CPB

²Similar to the federal government, CPB's and NPR's fiscal years are from October 1 through September 30.

grants to purchase NPR programming and because, as the CPB Inspector General³ recently reported, not all stations maintain proper documentation that separately accounts for expenditures of CPB grant funds, limitations may exist in determining the total amount of CPB grant funds local public radio stations use to purchase programming, including NPR programming.⁴

We provided a draft of the attached briefing slides to CPB and NPR for comment. CPB and NPR provided technical comments, which we have incorporated where appropriate.

We are sending copies of this report to CPB and NPR. As we agreed with your offices, unless you publicly announce the contents of the report earlier, we plan no further distribution of it until 30 days from the date of this letter. The report will be available at no charge on GAO's Web site at <http://www.gao.gov/>.

If you or your staff members have any questions about this information, please contact me at (202) 512-2834 or goldsteinm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Additionally, Heather Halliwell, Assistant Director; Thomas Armstrong; Russell Burnett; Delwen Jones; Hannah Laufe; Julie Matta; Erica Miles; Josh Ormond; Robert Owens; Tim Schindler; and Mindi Weisenbloom made key contributions to this report.



Mark Goldstein
Director, Physical Infrastructure Issues

Enclosure

³The CPB IG was established by the Inspector General Act Amendments of 1988 (*Public Law No. 100-504, 102 Stat. 2515 (Oct. 18, 1988), codified at 5 U.S.C. App.*), to identify areas for improved economy, efficiency, and effectiveness through independent and objective audits and investigations; to prevent and detect fraud, waste, and abuse; and to recommend corrective actions.

⁴Corporation for Public Broadcasting Office of Inspector General, *Survey of Public Broadcasting Stations' Accounting for CPB Grants and Compliance with Communications Act Requirements, Fiscal Years 2007 and 2008*, Survey Report No. ECJ905-1105 (Washington, D.C.: March 2011).



Public Radio and the Role of Federal Funding

**Briefing for Congressional Committees
March 31, 2011**

For more information, contact Mark Goldstein, goldsteinm@gao.gov or 202-512-2834

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Topics

1. What are the missions of the Corporation for Public Broadcasting (CPB), National Public Radio (NPR), and local public radio stations?
2. What are the processes through which CPB receives federal payments and disburses them to grantees?
3. What are NPR's sources of revenue, both federal and nonfederal?

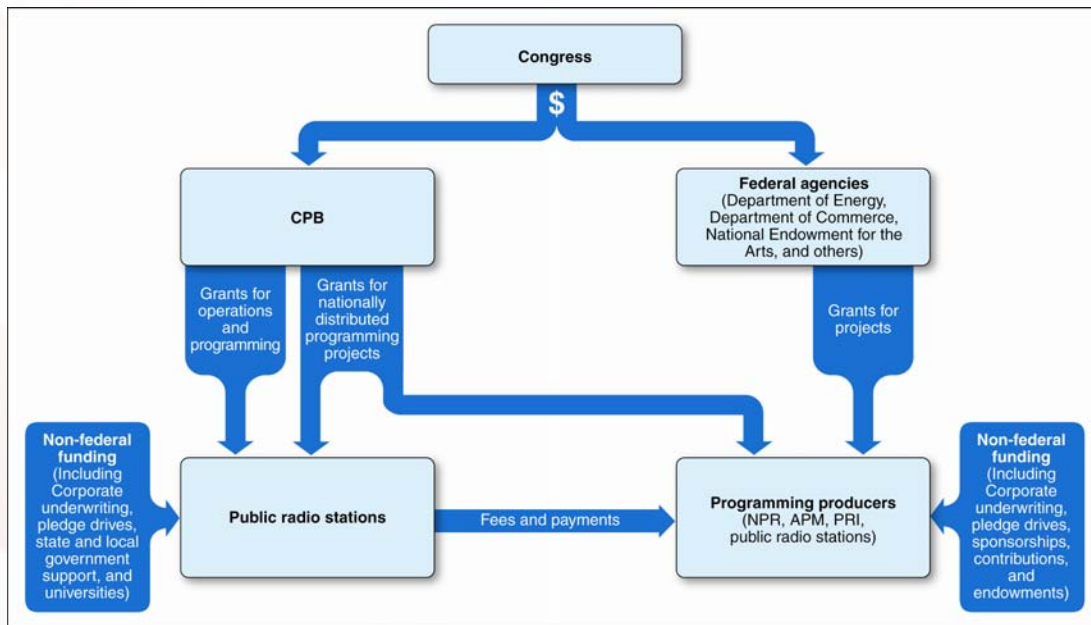
Scope and Methodology

- Reviewed documents from CPB and NPR to include audited financial statements for fiscal year 2006 through fiscal year 2010, grant agreements, grant provisions, and eligibility criteria, and analyzed CPB data on funds disbursed to local public radio stations.
- Interviewed officials at CPB, CPB Inspector General (IG), and NPR.
- We did not audit or verify unaudited information provided by CPB and NPR; however, as practical, we compared such information to information included in audited financial statements and reports.
- We conducted our work from January 2011 through March 2011 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

Note: Similar to the federal government, CPB's and NPR's fiscal years are from October 1 through September 30.

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Figure 1: Overview of Public Radio Funding



Source: GAO.

Topic 1: Congress Established CPB to Provide Grants for Public Broadcasting

- CPB was authorized under the Public Broadcasting Act to be established as a nonprofit corporation to facilitate the growth and development of both public TV and radio, along with use of these media for instructional, educational, and cultural programming.
- CPB is a nonprofit corporation subject to the District of Columbia Nonprofit Corporation Act and was structured by statute to afford “maximum protection from extraneous interference and control.”
- CPB cannot own or operate any public TV or radio stations or produce any TV or radio programming.

NPR Produces Radio Programming and Provides Technical Support to Local Public Radio Stations

- 90 public radio station licensees founded NPR in 1970 as a news-gathering, production, and program-distribution company governed by its member public radio stations. NPR does not own or operate any local public radio stations.
- NPR serves as a membership organization of independently licensed and operated local public radio stations across the United States.
 - Member stations pay annual dues, which entitles them to certain rights to NPR programming, association with the NPR brand, and a vote in election of the station manager members of NPR's Board of Directors.
 - As of March 31, 2011, 818 local public radio stations are part of NPR's membership network.
 - Both member and nonmember stations can choose to purchase NPR programming.
- NPR conducts technical research and manages the Public Radio Satellite system for the distribution of public radio programming.

Local Public Radio Stations

- A local public radio station must be licensed by the Federal Communications Commission as a noncommercial educational radio station.
- Most local public radio stations are run by universities, nonprofit community organizations, state government agencies, or local school boards.
 - Some of these organizations own and operate multiple local public radio stations.
 - Some radio stations are owned and operated jointly with local public TV stations.

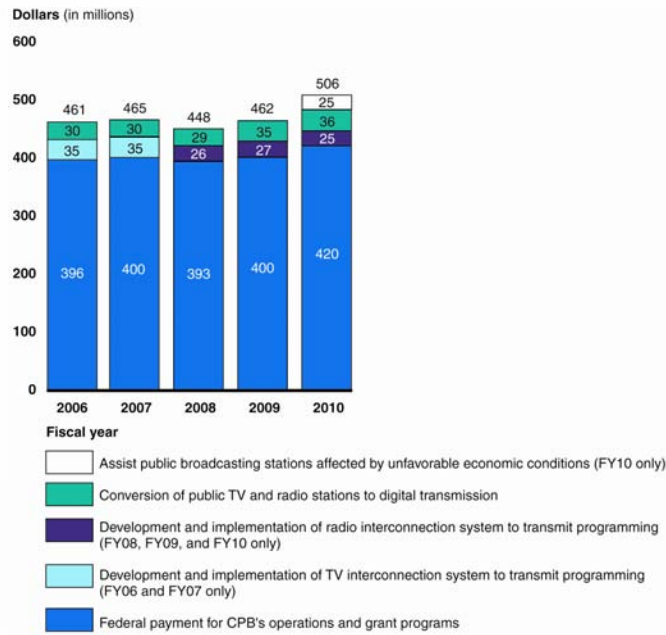
Topic 2: CPB Is Not Subject to the Same Federal Fiscal Controls as Are Government Agencies

- Through the appropriations process, federal payments are enacted by Congress to CPB.
- As a private nonprofit corporation, CPB is not subject to the same restrictions and controls on its expenditures as are government agencies. Some of the federal controls that *do not* apply to CPB include:
 - The Antideficiency Act, which prohibits agencies from spending or obligating themselves to spend in advance of or in excess of appropriations (31 U.S.C. § 1341).
 - The “Purpose Statute,” which provides that appropriations may be used only for their intended purpose (31 U.S.C. § 1301(a)).
 - The “*Bona Fide* Needs Statute,” which provides that appropriations made for a definite period of time may be used only for obligations properly incurred during that time (31 U.S.C. § 1502(a)).
- Congress may place requirements on CPB’s expenditures through authorizing legislation and appropriations laws.

Congress Provides Federal Payments to CPB through the Appropriations Process

- Congress determines the amount of the federal payment for CPB's operations and grant programs 2 years prior to the fiscal year in which CPB will receive the funds from the U.S. Treasury.
- Congress may also provide additional funds to CPB for specified purposes.
 - For example, in the Consolidated Appropriations Act for fiscal year 2010, Congress provided for (1) fiscal stabilization funds; (2) costs related to the digital transition of public broadcasting; and (3) development and implementation of the new public radio satellite interconnection system.

Figure 2: Federal Payments to CPB



Source: GAO analysis of CPB financial statement data.

CPB Fund Allocations Are Governed by Statute

- By statute, approximately 89% of the federal payment must be allocated to public broadcasting stations or program producers through CPB's grant programs.
 - 75% of these funds must be allocated for TV grants.
 - 25% of these funds must be allocated for radio grants (see slides 12 and 13 for additional information on how these funds are allocated).
- Not more than 5% can be used for CPB administrative expenses, to include the Office of the Inspector General.
- 6% can be used for system support, to fund projects and activities which will enhance public broadcasting.
 - One example of system support is broadcast and Internet music licensing fees that CPB pays on behalf of local public radio stations and public radio producers, such as NPR, Public Radio International (PRI) and American Public Media (APM).

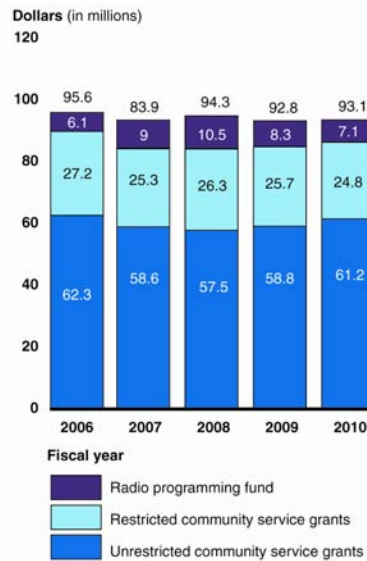
Table 1: CPB Grant Programs for Local Public Radio Stations and Program Producers

Type of grant	Percent of funds allocated	Description of grant programs	Eligible grant recipients
“Unrestricted” community service grants	70	<ul style="list-style-type: none"> •Recipients must use grant funds “for purposes related primarily to the production or acquisition of programming.” Allowable costs include programming and production, management, engineering, fund raising, underwriting. •These grants are awarded based on an established formula. 	<ul style="list-style-type: none"> •Local public radio stations
“Restricted” community service grants (also known as National Programming Production and Acquisition Grants)	23	<ul style="list-style-type: none"> •Recipients must use grant funds “for acquiring or producing [radio] programming that is to be distributed nationally or is designed to serve the needs of a national audience.” Radio programming can be purchased from producers such as NPR, Public Radio International, American Public Media, and from other stations that produce national content. •These grants are awarded based on an established formula. 	<ul style="list-style-type: none"> •Local public radio stations
Radio programming fund grants	7	<ul style="list-style-type: none"> •CPB has discretion to invest in nationally distributed programming projects. Many of these grants are competitively awarded. 	<ul style="list-style-type: none"> •Local public radio stations •Radio programming production organizations such as NPR, PRI, APM, and Association of Independents in Radio

Source: GAO presentation of CPB data.

Figure 3: Amounts Awarded through CPB's Radio Grant Programs

- Of the approximately 89 percent of its federal payment that CPB must allocate through its grant programs, 25% must be allocated to radio stations and producers. This figure shows how the radio portion of the federal payment is further allocated among CPB's three radio grant programs.
- Federal payments are available to CPB until expended.



Source: GAO analysis of CPB financial statement data.

Note: These amounts include the interest CPB earns on the federal payment.

Local Public Radio Stations Vary in Size and CPB Grant Funding

- 384 organizations that operate more than 900 local public radio stations receive support from CPB, in addition to nonfederal support such as listener donations and corporate sponsorships.
- The amount of grant funding local public radio stations receive from CPB is awarded according to an established formula which takes into account station characteristics such as population density, nonfederal financial support, and minority audience, among other things.
- Local public radio stations fall under 4 grant levels; some selected characteristics of these include:
 - A – Only broadcast signal within a coverage area with no staffing requirement.
 - B – Minimum of 1 full time employee and raises a minimum of \$100,000 in nonfederal support.
 - C – Station’s coverage area has a population density less than or equal to 40 people per square kilometer.
 - D – Station’s coverage area has a population density greater than 40 people per square kilometer.

Local Public Radio Stations Are the Main Beneficiaries of CPB Radio Grant Funding

- For the 5-year period from fiscal year 2006 through fiscal year 2010, public radio stations have been awarded, on average, \$85 million annually in the unrestricted and restricted community service grants from CPB.
- Organizations that operate larger local public radio stations tend to receive more total CPB funding than organizations that operate smaller stations; however, smaller stations tend to rely on CPB funds to make up a larger percentage of their total revenue.¹
- Local public radio stations have also received grants from CPB's radio programming fund for the production of nationally distributed radio programming.
 - One such station was KSJV-FM (Fresno, CA), which was awarded \$500,000 in fiscal year 2008 for production of a nationally distributed Spanish-language daily newscast.

1. We analyzed total revenue, CPB funds received, and percentagewise reliance on CPB funds by community service grant level. Looking from these grant levels A & B (combined) to C to D, we find increasing total revenues and increasing CPB funds received, but decreasing percentagewise reliance on CPB funds.

Topic 3: While NPR Does Not Receive Any Federal Appropriations, It Has Been Awarded Grants from CPB

- From fiscal year 2006 through fiscal year 2010, NPR received approximately \$6.4 million from 14 CPB grants to conduct high-definition radio research and development, carry out public media projects, and produce nationally distributed programs, including:
 - \$350,000 in fiscal year 2007 for NPR's midday news magazine,
 - \$1 million in fiscal year 2008 for coverage of the 2007/2008 election cycle, and
 - \$1 million in fiscal year 2009 for coverage of the economic crisis.
- CPB contracted with NPR to replace, refurbish, and upgrade the public radio satellite interconnection system, including ground equipment for local stations.
 - In fiscal years 2008, 2009, and 2010, CPB paid NPR approximately \$5.1 million, \$3.4 million, and \$30.6 million, respectively, under this contract.

NPR Has Also Received Some Federal Funds through a Variety of Federal Agencies

- From fiscal year 2006 through fiscal year 2010, NPR has received approximately \$2.5 million in grants from federal agencies, including:
 - 2 grants from the Department of Education totaling \$400,000, for an initiative to provide emergency information to the deaf and blind.
 - 4 grants from the Department of Commerce totaling \$747,852 to NPR Labs through the Public Telecommunication Facilities Program.
 - 12 grants from the National Endowment totaling \$690,000 to fund ongoing cultural or music programming.

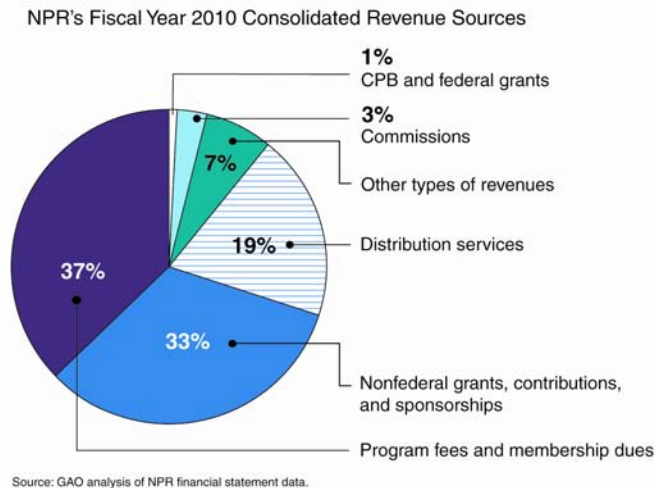
Figure 4: Grant Amounts to NPR from CPB and Federal Agencies

(Dollars in millions)	FY2006	FY2007	FY2008	FY2009	FY2010
CPB grants for radio programming and other projects	.06	1.20	1.56	1.63	1.96
CPB grants for satellite interconnection systems	-	-	5.08	3.43	30.63
Federal Agencies (Department of Commerce, Department of Education, National Endowment for the Arts, National Science Foundation)	.33	.30	.60	.49	.73
Total CPB and Federal Grants to NPR	\$.39M	\$1.5M	\$7.24M	\$5.55M	\$33.32M

Source: GAO analysis of NPR data.

A Majority of NPR's Revenue Comes from Fees Paid for Its Programs and from Nonfederal Grants, Contributions, and Sponsorships

- NPR's total consolidated annual revenues from fiscal year 2006 through fiscal year 2010 ranged from \$148 million to \$214 million.
- CPB and federal agency grants accounted for approximately 1% of NPR's total consolidated revenue in fiscal year 2010.



Source: GAO analysis of NPR financial statement data.

Note: As noted above, 37% of NPR's revenue comes from program fees and membership dues. Local public radio stations may use certain CPB grants to pay these program fees and membership dues. CPB and federal grants do not include payments from CPB for contracted goods and services to upgrade public radio satellite systems.

Limitations May Exist in Determining the Total Amount of CPB Grant Funds Local Public Radio Stations Use to Purchase Programming

- Stations may use all, none, or any portion of their community service grant funds to purchase NPR programming.
- Under its grants agreements, CPB requires local radio stations that receive community service grants to separately account for the funds received (termed “discrete” accounting) and to maintain proper documentation to support all expenditures of grant funds.
- However, on March 31, 2011, the CPB IG reported that it surveyed 29 local public broadcasting station licensees (responsible for 17 public television stations and 23 public radio stations) that received CPB grants and found that 15 licensees (52 percent) did not maintain discrete accounting records over CPB grant expenditures (see Corporation for Public Broadcasting Office of Inspector General, *Survey of Public Broadcasting Stations’ Accounting for CPB Grants and Compliance With Communications Act Requirements, Fiscal Years 2007 and 2008*, Survey Report No. ECJ905-1105 (Washington, D.C.: March 2011)).

Note: The CPB IG used a nonrepresentative sampling method; therefore, the results are not generalizable to the entire population of local public radio stations.

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