



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

Boyer
126026

RELEASED

DECEMBER 21, 1984

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-214761

RESTRICTED
Account
By the Inspector General

The Honorable George M. O'Brien
House of Representatives

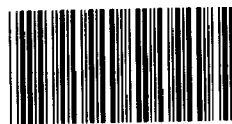
Dear Mr. O'Brien:

Subject: Corporation for Public Broadcasting's Oversight
of Public Television (GAO/AFMD-85-31)

This is in response to your letter of July 20, 1983, which requested that we report on the Corporation for Public Broadcasting's (CPB) oversight of public television entities that receive federal funds, particularly, the Public Broadcasting Service (PBS). Discussions with representatives of your office indicated a primary area of concern was the potential for a financial crisis occurring in public television similar to that which occurred at National Public Radio (NPR). CPB's oversight is perceived as an important preventative factor.

SUMMARY

In our opinion, the risk of a financial crisis jeopardizing public television service in a manner similar to that which occurred at NPR is minimal. (See enclosure I, p. 7.) At the time of NPR's crisis, NPR was the primary recipient of CPB's direct radio support; such support represented over half of NPR's total revenues. In addition, NPR provided significant services to public radio. Conversely, federal funds distributed by CPB as direct television support are spread among more than 250 public television entities, reducing the risk associated with concentrated federal funds. Only 10 of these entities receive more than \$1 million and, in all but one case, this represents less than 30% of their overall revenue. Unlike NPR, PBS neither receives a substantial part of its revenue from CPB, nor does it provide the same relatively large array of services to public television. Given this difference in relative risk, we believe that the oversight procedures presently described by CPB in relation to public television entities receiving federal funds are sufficient.



(916880)

126026

530912

DISTRIBUTION OF CPB FUNDS

CPB directs approximately 75%, or \$113.9 million, of its grant and contract funds to public television. Ten public television entities receive 34% of the total direct television funds and, for all but one of these recipients, CPB funds represent less than 30% of their total revenue. (See enclosure II.) The exception is a consortium of program producers that receives \$3.8 million, 58% of its revenues, from CPB in return for producing programs for public television. These revenues are not paid in a lump sum; CPB disburses funds based on contractual performance subject to review as discussed below. The remaining 66% of funds earmarked for public television are spread among more than 250 stations, institutions, private production companies, consortiums, and individuals.

CPB OVERSIGHT AND AUDITS

Public television entities receiving CPB support must file periodic reports which meet criteria set by the four departments within CPB that oversee the various types of grants and contracts. The Certification Department oversees Community Service Grant applications to ensure compliance with application criteria, such as minimal income requirements and CPB accounting principles. The Program Fund Department oversees CPB funded program production contracts by conducting progress reviews at critical production dates. The Department for Human Resources Development monitors training and education grants. The Broadcast Services Department administers the Community Service Grant program. In addition, this latter department also monitors NPR, PBS, and other grant and contract recipients for compliance with nonfinancial performance criteria and refers financial problems to CPB's Director of Audits.

Grants and contracts are subject to audit by CPB's Director of Audits. CPB initiates audits based on problems perceived by CPB management in addition to a randomly selected audit schedule. A list of completed audits for fiscal years 1983 and 1984 can be found in enclosures III and IV.

PBS IS UNLIKE NPR

There is no entity in public television which occupies the unique position held by NPR in public radio. No one station or production company provides the major source of television program distribution and produces the majority of television programming while receiving more than half of its income from federal sources. PBS' primary function is providing a satellite interconnection system for program distribution; it produces no programs. The majority of PBS' funding comes from public television stations in the form of program acquisition funds,

membership dues, and satellite interconnection fees. PBS received only \$6.7 million of direct CPB television support in fiscal 1983, representing only 11% of PBS' total revenue. Conversely, NPR provides public radio with a significant service in the form of program production. In fact, NPR received 100% of CPB funds reserved for radio program production in 1983. In addition, NPR distributes radio programming through a leased satellite interconnection system and has received an average of 67% of its total revenue from CPB over the past three fiscal years.

Based on the overall distribution of direct television support and our analysis of PBS, the failure of any one public television entity would not put service to the public at risk. A mechanical or physical failure of the satellite interconnect system would hinder or prevent program distribution, but this type of risk is not related to the financial issues we were asked to review.

Our comments presented in this letter are based on information obtained during a limited review of CPB's oversight procedures related to public television and during our review of NPR's financial operations, performed for the House Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce. The latter culminated in testimony before the subcommittee on February 10, 1984, and a letter report, addressing CPB's oversight of NPR, to the committee on March 28, 1984. We did not perform an extensive examination of CPB's operations, and our comments are limited to the adequacy of CPB's stated oversight procedures. The enclosure includes supporting evidence for our comments in this letter. If you or your staff have any questions, please contact me at 275-9461.

Sincerely yours,



Frederick D. Wolf
Director

Enclosures

**THE CORPORATION FOR PUBLIC BROADCASTING'S
OVERSIGHT OF PUBLIC TELEVISION**

Table of Contents

	<u>Page</u>	
ENCLOSURES		
I	THE CORPORATION FOR PUBLIC BROADCASTING'S OVERSIGHT OF PUBLIC TELEVISION	4
	Introduction	4
	Corporation for Public Broadcasting	4
	National Public Radio	5
	Public Television	6
	Public Broadcasting Service	7
	CPB oversight and audits	8
II	CPB direct television support shown as a percentage of the grantee's total revenue, fiscal year 1983	10
III	CPB Audit Department--audits completed for fiscal year 1983	11
IV	CPB Audit Department--audits completed for fiscal year 1984	12

THE CORPORATION FOR PUBLIC BROADCASTING'S
OVERSIGHT OF PUBLIC TELEVISION

INTRODUCTION

Our work concerning the Corporation for Public Broadcasting (CPB) and public television grantees was limited and was not intended to be a comprehensive review of these entities. We reviewed the legal oversight requirements as stated in 47 USC 396, and we interviewed CPB officials about funding activities including funding criteria, reporting responsibilities, and audit requirements. We reviewed grantee submitted financial information and developed basic comparative statistics related to the fiscal year 1983 grant distribution. In accordance with the need for confidentiality expressed in the congressional request letter, we did not obtain CPB's comments on a draft of this report. Our work was performed in accordance with generally accepted government auditing standards.

After discussion with representatives of your office, we delayed work on your request in order to answer other related questions arising from the CPB/National Public Radio (NPR) situation. As agreed, no work on public television was performed until the NPR crisis was investigated and a report on its causes given to the Congress in February 1984. In addition, a limited review of CPB's oversight of NPR and the sufficiency of that role was performed in response to specific congressional questions and culminated in a letter report issued in March 1984 (GAO/AFMD-84-44).

CORPORATION FOR PUBLIC BROADCASTING

The Public Broadcasting Act of 1967 (47 USC 396) authorized the creation of the CPB to develop noncommercial television and radio services and to protect them from external interference or control. The corporation is to assist in:

- program development and availability,
- program distribution, and
- radio and television broadcasting development.

CPB is authorized to contract with or make grants to stations, independent producers and/or production entities for the acquisition or production of services. The corporation acts as intermediary between the federal government and the entities receiving federal funds.

The public broadcasting system consists of CPB, radio and television stations, and other servicing organizations including NPR and Public Broadcasting Service (PBS). NPR and PBS were established by CPB and the stations to provide public telecommunications services in accordance with CPB's mandate.

A significant portion of public broadcasting funds are contributed by radio listeners and television viewers with additional funds provided by state and local governments, educational institutions, and local and national businesses and foundations. Approximately 19% of all public broadcasting funds come from federal sources. The federal government participates primarily through CPB, which provides 15% of the system's income.

According to a set ratio, CPB provides funds to both public radio and television entities for various activities and purposes. Community Service Grants (CSG) comprise the largest single funding category and represent a formularized distribution of money for unrestricted use in public broadcasting. CSG recipients must submit grant reports and yearly audited financial statements to provide information for CPB's monitoring and oversight functions.

The remainder of CPB funds are used for various services. CPB makes program distribution funds available to individual stations and to NPR for the support of the satellite interconnect system. Program production grants are given for specific programming purposes. Proposals are usually in the form of cost-reimbursable contracts with a limited ceiling. Payment is based upon required financial accounting and actual performance related to predetermined criteria. CPB funds are also available for paying music royalty fees--a "blanket" amount for both radio and television entities. Finally, CPB supports research, education, training, and other related expenses based on cost reimbursable contracts.

NATIONAL PUBLIC RADIO

NPR is a nonprofit corporation created by CPB and the public radio stations to serve their needs. NPR is the major producer of public radio programming and is responsible for managing the satellite interconnect system and distributing programs. NPR also represents its member stations before the Congress, the industry, and the public.

To carry out its functions, NPR receives a major part of CPB funds set aside for public radio. In 1983, NPR received 43% of the total direct, CPB radio support. The remaining 57% was given directly to public radio entities and also covered CPB's overhead. NPR's federal funds included 83% of all direct radio funds earmarked for program distribution and 100% of those earmarked for program production. CPB funding averaged 67% of the total NPR revenues over the past three fiscal years and is expected to be in excess of 50% in fiscal year 1984.

Because NPR provides such vital services to public radio and because it is heavily funded by CPB, NPR is required to submit periodic budgets, reports and financial statements to CPB. An annual contract, the Production and Support Agreement, is based on a submitted funding request and prohibits the use of

federal funds for any purposes other than those outlined in the agreement. For monitoring and oversight purposes, NPR is required to submit:

- quarterly financial statements, comparative budgets, and other supplemental reports;
- final detailed written report, audited financial statements, and a final narrative report describing NPR's performance under the contract.

Since NPR is so dependent upon federal funds, reductions in the last few years had a strong impact on its activities. In July 1982, NPR responded to decreased funding by initiating "Project Independence"--a plan to achieve freedom from reliance on federal money. This ambitious undertaking required major organizational changes and involved significant risks and uncertainties. By February 1983, NPR was in a financial crisis which resulted in an operating deficit of \$6.4 million for the year. The major causes of this crisis were:

- overestimation of revenues from non-CPB grant sources;
- overspending based upon these projected revenues;
- unreimbursed spending on high-risk commercial ventures; and
- a lack of reliable internal financial reports and control.

NPR borrowed \$7 million of an \$8.5 million line of credit granted by CPB to help ensure its survival and that of public radio. A major part of the public radio system is dependent upon NPR for program production and distribution.

The August 1983 loan agreement between CPB and NPR provides for increased CPB control and oversight. NPR must submit a budget which has been examined by a public accounting firm for reasonableness and which must then be approved by CPB on grounds of financial prudence. NPR is required to implement a financial accounting system that can separately and properly account for all CPB funds. NPR must submit monthly detailed financial status reports, quarterly reports detailing their progress under the Loan Agreement and a yearly independently audited financial statement report with accompanying management letters.

PUBLIC TELEVISION

Nearly 75%, \$113.9 million, of all CPB funds are used to directly support public television. Approximately \$39 million, 34% of that amount, is divided among the ten largest grant recipients with the remainder being spread among more than 250

stations, institutions, private production companies, and individuals. The largest grantees are comprised of 8 television stations, a production company, and PBS. Only one, Public Television Playhouse (a production house), receives greater than half of its total revenue directly from CPB. However, the Playhouse is actually a corporate consortium of program production entities receiving CPB funds on a contractual basis.

According to CPB officials, the major grantees provide program production services which are useful to the system as a whole, but no one entity is crucial to the system's functioning. PBS, to be discussed later, does provide some important services, however. The risk of a financial crisis occurring in a particular entity and having a serious effect on the entire public television network is minimal since:

- public television money is distributed over a large number of recipients,
- CPB funds represent less than 30% of the total revenue in all but one of the major grantees, and
- no one recipient controls a majority of the services essential to the system.

The loss of a large grantee or production center would mean the loss of some quality programs but would not bring public television to a standstill.

PUBLIC BROADCASTING SERVICE

PBS is a nonprofit corporation created by CPB and the public television stations to provide telecommunications services in accordance with CPB's mandate. PBS manages, schedules, and purchases programming products or services but produces no programs and does not serve as the stations' representative. In fiscal year 1983, PBS received approximately \$6.7 million of direct CPB support which was only 6% of the direct television support funds. This grant money represented 11% of total PBS revenues for the year with most of the remainder of the revenues coming from the stations for program broadcast rights, satellite interconnection fees, and other service fees.

PBS manages the television satellite interconnect system and thereby handles the scheduling and distribution of programming. Until fiscal year 1984, PBS received half its interconnect funds directly from CPB and the remainder from the individual stations. Beginning this year, the entire funding amount will be given to the stations in the form of Community Service Grants (CSG), and they, in turn, will pay PBS. Therefore, the stations have an increased interest in monitoring the PBS budget. According to CPB officials, interconnect costs have

actually gone down. PBS must also submit its budget and yearly reports on station access to the satellite interconnect system to CPB for review.

Management of the satellite distribution system is critical to public television. However, if PBS were unable to provide this service, CPB would implement an informal contingency plan and transfer distribution management to another group. Satellite transmission services would be leased and the interlink capabilities of various stations would be utilized. CPB foresees minimal disruption of program transmission services in the use of this alternative.

CPB OVERSIGHT AND AUDITS

The enabling legislation (47 USC 396) does not place any specific requirements on CPB with regard to overseeing the activities of entities receiving federal funds. However, like any entity to which the Congress has given the responsibility to administer a government program, CPB, in our opinion, has a general responsibility to exercise a proper degree of oversight of these activities to ensure that federal funds are properly used and accounted for. CPB has four departments that oversee grants and contracts and an audit staff responsible for grant and contract auditing.

The Certification Department oversees CSG applications to ensure compliance with federal mandates concerning community advisory boards, open board meetings, and audited financial statements. This department certifies that stations are meeting minimal income requirements and that financial reports comply with CPB accounting principles. Annual reports are reviewed to ensure that they do not contain financial information not appearing in the audited financial statements and that the amount of aggregate nonfederal grantee support, used as a basis for future CSG levels, is verifiable.

The Program Fund Department oversees \$20-22 million used to finance the production of programs used predominantly in public television. This department reviews programming proposals and recommends funding while CPB's contract department negotiates payment schedules. Program Fund staff review production progress at critical dates. Periodic progress reports and financial statements are reviewed prior to payment. CPB officials noted that contracts with consortiums such as Public Television Playhouse are monitored closely.

The Department for Human Resources Development contributes to CPB oversight by monitoring training and education grants. Some of these grants provide matching funds for the training of telecommunications executives and mid-level management, with emphasis on financial training.

The Broadcast Services Department administers the \$86 million CSG program and oversees NPR and PBS. This department requires annual financial surveys from recipients; they review grant and contract recipients for compliance with operational and program (nonfinancial) criteria. Problems are referred to CPB's station advisory service, and site visits are conducted when necessary. Financial inquiries are referred to the CPB Director of Audits.

CPB's audit staff consists of 5 professionals including 3 CPAs. According to the Director of Audits, there is more "awareness" of CPB's oversight role since NPR's crisis; his staff continues to have annual meetings and regional financial workshops with grantee financial management. CPB now has a computerized tickler file to track the required reports of grant and contract recipients. CPB's audits are based on problems perceived by CPB management or random selection, rather than a predetermined audit schedule. An independent certified public accounting firm performed various CPB/PBS contract audits and issued reports in November 1981.

In 1984, CPB audited 11 public television entities receiving CPB funds. (See enclosure IV.) The majority of CPB direct television support, CSGs, and production contracts and grants are overseen by CPB's Broadcast Services and Program Production Departments, as previously discussed.

Improvements in CPB's oversight were actually the result of the passage of the 1978 Public Telecommunications Act and were underway when the NPR crisis became apparent. The most important change is that grant and contract recipients must now submit audited financial statements to CPB.

CPB DIRECT TELEVISION SUPPORT SHOWN AS A PERCENTAGE
OF THE GRANTEE'S TOTAL REVENUE FISCAL YEAR 1983
(grantees receiving more than \$1 million in CPB funds)

<u>Communications entity</u>	<u>Aggregate direct CPB funding¹</u>	<u>Total revenue²</u>	<u>Percentage CPB funded</u>
—(in thousands)—			
Educational Broadcasting Corp. (New York) WNET-TV	\$8,396	\$71,759	11.7%
WGBH Educational Foundation (Boston) WGBH-TV, WGBY-TV	7,775	45,935	16.9%
Public Broadcasting Service (Washington, D.C.) PBS	6,729	59,282	11.4%
Metropolitan Pittsburgh Public Broadcasting Inc., WQED-TV	4,417	16,346	27.0%
Public Television Playhouse, Inc. (New York) ³	3,765	6,470	58.2%
Greater Washington Educational Telecommunications Assoc, Inc. (Washington, D.C.) WETA-TV	2,409	13,888	17.3%
Educational Television Commission (South Carolina) ETV	1,628	17,194	9.5%
Community Television of Southern Cali- fornia (Los Angeles) KCFT-TV	1,465	15,409	9.5%
Maryland Public Broadcasting Commission Maryland Center for Public Broadcasting	1,207	14,197	8.5%
KQED, Inc. (San Francisco) KQED-TV	<u>1,100</u>	16,139	6.8%
Total direct CPB funding received by these 10 entities	<u>\$38,891</u>		
Total direct CPB funding received by these 10 entities expressed as a percentage of total direct CPB tele- vision funds			<u>34%</u>

¹Funding amounts are based on grants given by CPB during the period October 1, 1982 - September 30, 1983. CPB lists three other entities as being recipients of more than \$1 million in grants for fiscal year 1983. Columbia University, California Institute of Technology, and the Consortium for Mathematics and Its Applications receive these grants from the Annenberg Foundation administered by CPB. No federal funds are involved.

²Total revenue taken from audited financial statements for fiscal year 1983 reflects various cycle dates.

³Public Television Playhouse, Inc. is a corporate consortium of production entities established to produce programs for public television.

CPB AUDIT DEPARTMENT
AUDITS COMPLETED FOR FISCAL YEAR 1983

KLON-FM Long Beach, CA	WKAR-TV East Lansing, MI
KPCC-FM Pasadena, CA	WDTH-FM Duluth, MN
KCSU-FM Fort Collins, CO	KUOM-AM Minneapolis, MN
KUNC-FM Greeley, CO	WNJC-FM Senatobia, MS
WCLK-FM Atlanta, GA	WUNC-FM Chapel Hill, NC
Iowa Public Broadcasting Network Des Moines, IA	WUNC-TV Chapel Hill, NC
WVUB-FM Vincennes, IN	NHP-TV Durham, NC
WVUT-TV Vincennes, IN	WNYE-TV New York, NY
WKPC-TV Louisville, KY	WNET-TV New York, NY
WWNO-FM New Orleans, LA	WNYC-AM New York, NY
WBJC-FM Baltimore, MD	WNYC-FM New York, NY
WAUS-FM Berrien Springs, MI	WNYC-TV New York, NY
WKAR-FM East Lansing, MI	WVIZ-TV Cleveland, OH
WFAR-AM East Lansing, MI	NBPC-FM Columbus, OH
WCBE-FM Columbus, OH ¹	KURU-FM San Antonio, TX
WDUQ-FM Pittsburgh, PA	KYVE-TV Yakima, WA
	WVU-TV Morgantown, WV

¹Two separate audits performed at this location.

CPB AUDIT DEPARTMENT
AUDITS COMPLETED FOR FISCAL YEAR 1984

KUAC-TV
Fairbanks, AK

KNAU-FM
Flagstaff, AZ

KCDS-FM
Angwin, CA

KVPR-FM
Fresno, CA

Int'l. Inst. of L.A. (TV)
Los Angeles, CA

KBSR-FM
Mission Viejo, CA

KPCC-FM
Pasadena, CA

Nat'l Asian American Tele-
communications Assn. (TV)
San Francisco, CA

PEN (TV)
San Francisco, CA

KCSU-FM
Ft. Collins, CO

Development Exchange
Washington, DC

NPR
Washington, DC

WHMM-TV
Washington, DC

WUFT-TV
Gainesville, FL

KLIW-TV
New York, NY

WBFO-FM
Buffalo, NY

KAZI-FM
Austin, TX

WUFT-FM
Gainesville, FL

WUWF-FM
Pensacola, FL

WSRE-TV
Pensacola, FL

KCKK-FM
Cedar Rapids, IA

WCBU-FM
Peoria, IL

WMKY-FM
Morehead, KY

WYES-TV
New Orleans, LA

KAXE-FM
Grand Rapids, MN

KBFL-FM
Buffalo, MO

KBLV-FM
Twin Lake, MI

WSHA-FM
Raleigh, NC

WVSP-FM
Warrenton, NC

WEVO-FM
Concord, NH

Bill Moyers' Journal (TV)
New York, NY

KAMU-TV
College Station, TX

KAMU-FM
College Station, TX

KURU-FM
San Antonio, TX