

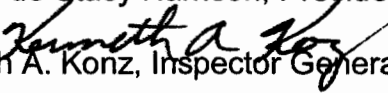


Corporation  
for Public  
Broadcasting

Office of Inspector General

March 30, 2007

To: Patricia de Stacy Harrison, President & Chief Executive Officer

From:   
Kenneth A. Konz, Inspector General

Subject: Preventing Use of CPB Funding for Receptions or Entertainment of  
Government Officials, Special Report No. 703

This memorandum addresses the need to clarify future production agreements funded by the Corporation for Public Broadcasting's (CPB) to assure that CPB funds will not be used to entertain or provide receptions for elected officials, as prohibited by the Public Broadcasting Act of 1967, as amended. In our recent audit of co-production agreements awarded to the Greater Washington Educational Telecommunications Association, Inc. (WETA), we found that a Program Challenge Fund agreement between the Public Broadcasting Service (PBS) and WETA, which CPB participated in funding, provided entertainment to federal and state government officials. This memorandum is being issued as a management advisory and was prepared in accordance with the Office of Inspector General Manual, Chapter Seven, Special Assignments to provide advisory services to CPB.

In response to our draft memorandum, management officials advised us that they are formulating actions to address our recommendations. Accordingly, we request that you provide us with a written response to our finding and recommendations within 90 days. For corrective actions planned but not completed by the response date, please provide specific milestone dates to track the implementation of corrective actions to close each recommendation.

Our audit of WETA included a review of a Program Challenge Fund agreement to fund a project titled "On Stage at the White House: The Governors' Dinner." This was a one hour public television special that took the viewers behind the scenes of a major social event at the White House, as the President and First Lady entertained the governors of all fifty states. The first half hour of the program showed the preparations in the White House in the days leading up to the event. The second half hour aired the performance of a leading American musical artist in the East Room of the White House.

CPB provided \$300,000 of the \$579,235 to fund this project, as provided in Exhibit A. The agreement was executed between PBS and WETA. CPB was not a direct

signatory to the final agreement, under an arrangement agreed to in 1997 by a former CPB Chief Operating Officer. Under this arrangement PBS was to operate as our agent in executing and delivering Program Challenge Fund projects. While CPB did not sign the agreement, CPB reviewed the budget and agreed to provide additional funding of \$100,000 when another funding sponsor withdrew from the project. The final approved agreement's budget included \$14,000 in talent fees. Our audit identified that a total of \$54,523 was expended on talent and their related travel expenses.

The Public Broadcasting Act of 1967, as amended, at 47 U.S.C. § 396 (k) (2) (A), provides:

“The funds authorized to be appropriated by this subsection shall be used by the Corporation, in a prudent and financially responsible manner, solely for its grants, contracts, and administrative costs, except that the Corporation may not use any funds appropriated under this subpart for purposes of conducting any reception, or providing any other entertainment, for any officer or employee of the Federal Government or any State or local government.”

The Program Challenge Fund agreement did not specify that CPB funds could not be used to fund the talent fees or their related travel expenses. Section 5.1 of the agreement stated:

“PBS and CPB shall pay jointly to Producer a total of up to five hundred thousand dollars (\$500,000) for the Program (the “Commitment”) from the Program Challenge Fund, Fiscal Year 2002. In addition, CPB shall pay to Producer fifty thousand dollars (\$50,000) from CPB discretionary funds (the “CPB Additional Commitment”).”

CPB jointly paid the \$54,523 in talent and related expenses.

Further, the agreement did not require that expenditures had to be accounted for by funding source to provide accounting to document that talent related expenses were charged to another funding source. Section 5.2 of the agreement provided that:

“Producer acknowledges and agrees that all funds provided by PBS and CPB to Producer are provided on a cost-reimbursement basis only, and that in no event will any portion of the Program Payment be disbursed or applied by Producer for any purpose other than Program production hereunder, it being understood that this provision allows all payments made hereunder to be commingled with other funds.”

Discussions with CPB Office of Business Affairs officials indicated that the primary purpose of the project was to film the workings of the White House in preparation for a major social event for the public broadcasting audience. They also said that CPB officials had previously discussed internally the challenges of limiting our funding to specific budgetary line items, but that option had been rejected by CPB production

officials citing the need to evaluate the project in its entirety to ensure the integrity of the proposal's financial needs before committing CPB funds.

Additionally, the Program Challenge Fund project "On Stage at the Kennedy Center: A Holiday Concert for the Troops with Marvin Hamlisch" had similar agreement provisions and CPB funded \$200,000 of \$659,058, with talent fees expenditures of \$125,043. Finally, our ongoing audit of Capitol Concerts identified that CPB's FY 2006 agreement contains an approved budget line item of \$136,055 for two receptions, to be held in conjunction with the Memorial Day concert and the Capitol Fourth concert. Our review identified that members of Congress and their staff members had been invited to these receptions.

While we recognize that the prohibition against funding receptions and other entertainment, present in most agency authorizing statutes, was primarily intended to prohibit CPB from directly using its funds to entertain government officials in a manner that could be related lobbying or self promotion purposes, the clear language of the statute could be construed to apply to providing talent or other entertainment in productions funded with CPB grants. Even indirect funding of entertainment or receptions for officers and employees of Congress or state and local government officials and employees, resulting from the absence of grant provisions prohibiting use of our funds for these purposes, creates unnecessary exposure for potential criticism from oversight officials or the public. In all three cases cited, the costs associated with either entertainment or receptions could easily be funded from other funding sources to eliminate the possibility that CPB funds were used for these prohibited activities.

### **Recommendation**

- 1) We recommend that CPB officials consider inserting language in future agreements:
  - a) prohibiting the use of CPB funds to pay for the entertainment or receptions for any officer or employee of the Federal Government, or any State or local government; and
  - b) require that CPB expenditures be accounted for by funding source for future verification of how CPB funds were expended.

cc: Vincent Curren, Executive Vice President & Chief Operating Officer  
Greg Diefenbach, Senior Vice President, TV Programming  
Steve Altman, Senior Vice President, Business Affairs  
Westwood Smithers, Jr. Senior Vice President, General Counsel  
William P. Tayman, Jr., Chief Financial Officer & Treasurer

**“On Stage at the White House: Governors’ Dinner”  
Final Report PBS Program Challenge Fund**

Budget Category	Budget	Final Report	Talent Costs
<b>Revenue</b>			
PBS/CPB Program Challenge Fund			
PBS	\$250,000	\$250,000	
CPB (1)	\$300,000	\$300,000	
Annenberg Trust (1)	\$50,000	\$50,000	
Production Deficit (1)	\$51,997	\$25,574	
<b>Total Revenue</b>	<b>\$651,997</b>	<b>\$625,574</b>	
Less: Remaining Producer Fees from Annenberg	-\$48,296	-\$46,339	
<b>Total Project Funds</b>	<b>\$603,701</b>	<b>\$579,235</b>	
<b>Expenses</b>			
WETA Staff Salaries & Benefits	\$42,080	\$89,566	
Talent Fees	\$15,792	\$14,000	\$14,000
Production	\$246,456	\$219,265	
Pre-Production	\$34,000	\$20,794	\$434
Post-Production	\$45,670	\$30,759	
Travel	\$42,100	\$55,820	\$40,089
Administration	\$21,050	\$18,261	
Promotion & Station Relations:			
Promotion & Publicity	\$28,710	\$14,808	
Station Relations	\$10,377	\$10,476	
On-Air Promotion	\$8,300	\$4,651	
Interactive Media/Web	\$8,350	\$4,295	
<b>Production Direct Subtotal</b>	<b>\$502,885</b>	<b>\$482,695</b>	<b>\$54,523</b>
Indirect Expense	\$100,617	\$96,539	
Producer Fee	\$48,296	\$46,339	
<b>Total PBS Allowable Budget</b>	<b>\$651,798</b>	<b>\$625,573</b>	
Less: Producer Fees	-\$48,296	-\$46,339	
<b>Total Allowable CPB Budget</b>	<b>\$603,502</b>	<b>\$579,234</b>	

Note:

- 1) CPB’s contract file documents an additional CPB commitment of \$100,000 to this project in February 2004. Along with CPB’s commitment, WETA was to use \$50,000 from their program funds (Annenberg Trust) and they would absorb their normal charge for producer fees to cover the remaining deficit of \$51,997.