

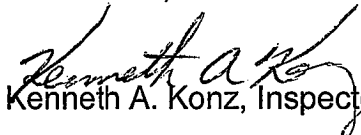


Corporation
for Public
Broadcasting

Office of Inspector General

November 28, 2007

To: David Liroff, Senior Vice President, Systems Development & Media Strategy

From: 
Kenneth A. Konz, Inspector General

Subject: Audit of Grants Awarded to Maryland Public Broadcasting
Commission Fiscal Years 2005 – 2006, Audit Report No. AST705-801

We have completed an examination of the Community Service Grant (CSG) and other grants awarded to the Maryland Public Broadcasting Commission (MPB). The purpose of the examination was to determine whether MPB's Non-Federal Financial Support (NFFS) was included on its Annual Financial Report (AFR) in accordance with the Corporation for Public Broadcasting (CPB) Financial Reporting Guidelines; whether the station was in compliance with the terms and eligibility requirements for CPB grants, including the statutory provisions of the Communications Act of 1934, as amended (the Act); and to determine whether CPB grant funds had been spent in accordance with the terms and conditions of the grants. We performed this examination based on the Office of the Inspector General's (OIG) annual audit plan objective to perform audits of a cross-section of stations comprising the public broadcasting system.

We found the AFRs were filed in accordance with CPB guidelines; NFFS was properly stated for the periods examined; grant funds were spent in accordance with the terms and conditions of grants; and MPB complied with the Act, except for the following observations.

- MPB was not in full compliance with CPB's minimum requirements for open financial records.
- MPB was not in full compliance with CPB's minimum requirements for open meetings.

In response to the draft report, MPB management indicated that as an agency of the State of Maryland that their financial records are available for review through the State's Public Information Act and they have always satisfied their obligations under the Maryland Open Meetings Act. Nevertheless, MPB will abide by the Inspector General's recommendations

related to financial records and open meeting compliance. MPB's response to the draft report is attached as Appendix A.

This report presents the conclusions of the OIG and the findings contained in this report do not necessarily represent CPB's final position. Accordingly, the report contains recommendations as to actions the OIG believes would be appropriate to resolve these findings. CPB management is responsible for determining the corrective actions to be taken. Final determinations on matters in this report will be made by CPB management in accordance with established CPB procedures.

Based on MPB's response to the draft report, we consider recommendations one through four resolved but open, pending implementation of planned corrective actions by MPB. Accordingly, we are requesting that you provide us with a draft written response to our findings and recommendations within 90 days of the final report and a final management decision within 180 days of the final report. For corrective actions planned but not completed by the response dates, please provide specific milestone dates to track the implementation of the corrective actions to close the recommendations.

BACKGROUND

The organizations that support public television in Maryland are MPB and the Maryland Public Broadcasting Foundation (Foundation). MPB is a state agency that holds the broadcast licenses from the Federal Communication Commission. MPB is also known as Maryland Public Television. All revenues and expenses on the financial statements and AFRs contain financial information from both MPB and the Foundation. The commission obtains its operating revenues from the state, membership contributions, federal grants, underwriting, CPB, and the Foundation.

The Foundation is a non-profit 501(c)(3) corporation established in 1981 to encourage increased funding for MPB and to receive donations and grants on MPB's behalf. The Foundation also safeguards MPB's endowment funds in an effort to insulate the station from economic hard times.

CPB provides CGSs to qualifying public television and radio stations. A condition of eligibility is compliance with certain financial reporting requirements as defined in the station's CSG grant documents. CSG recipients must file an AFR and audited financial statements with CPB as a condition for receiving the CSG.

In submitting their AFR each year, the head of each grantee certifies that the schedule of NFFS conforms with the definition of NFFS set forth in the Communications Act of 1934, as amended, and adheres to the appropriate source, form, purpose and recipient criteria described in the CPB's Financial Reporting Guidelines. Preparation of the AFR starts with the revenue balances reflected in the independent public accountant's (IPA) audited financial statements and is adjusted based on the application of the criteria contained in CPB's Financial Reporting Guidelines. The grantee's IPA attests to management's

assertion that the station complied with CPB's Financial Reporting Guidelines in reporting NFFS. The IPA's opinion is used by CPB to determine the reliability of amounts reported on the AFR.

SCOPE AND METHODOLOGY

We performed the examination field work from April 2007 to June 2007. We sought to determine MPB's compliance with the requirements of the CPB Financial Reporting Guidelines, Generally Accepted Accounting Principles, certain provisions of the Act, and CPB grant terms and requirements. The scope of the examination included reviews and tests of the data reported by the station on the AFRs and the audited financial statements for fiscal years ending June 30, 2005 and 2006. We examined MPB's compliance with the Act and Certification Requirements for CPB station grant recipients. We also examined expenses for the following grants: CSGs, Interconnection Grants, and Distance Service Grants to determine if expenses incurred were allowable in accordance with the terms and conditions of the grants.

We began our examination by conducting a risk assessment of the information reported on the AFRs and audited financial statements. As part of our risk assessment, we gained an understanding of the internal controls established by MPB for the preparation of the AFRs, recording of revenues, and approval of expenditures. We talked with MPB's IPA and reviewed the working papers used to prepare the audited financial statements. The risk assessment was used to plan our detailed audit work.

Specifically, we tested the accuracy of the AFRs by performing financial reconciliations and comparisons to MPB's underlying accounting records and audited financial statements. We evaluated compliance with CPB's Financial Reporting Guidelines by reviewing MPB's determination of revenue when computing its NFFS. We reviewed documentation supporting revenues reported on the 2005 and 2006 AFRs. We scanned the expense journal entries for CPB expenses and selected a judgmental sample for testing. We reviewed supporting documentation to determine whether the expenses were allowable under the CPB grant agreements.

Our examination was performed in accordance with the Generally Accepted Government Auditing Standards (GAGAS) for attestation examination engagements. The results of our examination of MPB's compliance with the Financial Reporting Guidelines, selected provisions of the Act, and grant agreement terms are presented in the **Results of Review** section of the report.

RESULTS OF REVIEW

We have examined the FY 2005 and 2006 AFRs, Schedules A and C, and related CPB grant expenditures. We reviewed the AFRs for compliance with CPB Financial Reporting Guidelines, CPB expenditures for compliance with grant agreement terms, the

Certification of Eligibility requirements, and the station's compliance with certain provisions of the Act. The AFRs are the responsibility of MPB. Our responsibility is to examine the correctness of the AFRs, compliance with Financial Reporting Guidelines and grant provisions, and compliance with the Certification of Eligibility requirements of certain provisions of the Act.

Our examination was conducted in accordance with GAGAS and attestation standards established by the American Institute of Certified Public Accountants, and accordingly, we examined on a test basis, evidence supporting Schedules A and C submitted to CPB and performed other procedures we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, AFR Schedules A and C were fairly stated for fiscal years 2005 and 2006, based on the CPB Financial Reporting Guidelines and the grant agreement terms. Further, MPB complied with the Certification of Eligibility requirements and the Act requirements, except for two provisions of the Act regarding the financial information made available to the public and fully documenting its compliance with open meeting requirements to provide adequate advance notice of public meetings and evidence that information was made available to the public on closed meetings.

FINDINGS AND RECOMMENDATIONS

Open Financial Record Compliance

Based on our review, MPB did not fully comply with the open financial records requirement. When we inquired about what financial information was made available to the public, we were given a copy of the "Report to the Community," which did not contain the financial information required by CPB guidelines. Further, the station's written guidelines, on making financial information available to the public, did not address the specific CPB requirements.

Title 47 U.S.C. Section 396(k)(5) of the Act requires that public telecommunications entities must maintain for public examination copies of their annual financial reports, audit reports, and other information regarding finances, that have been submitted to CPB. The Certification Requirements provide that the required documents include copies of the most recent three years' AFRs for the station and the corresponding audited financial statements.

The Certification requirements further state that the station is to develop and maintain documentation explaining how the station will comply with the Act. The CPB guidelines provide additional guidance on the preparation of documentation indicating the manner of compliance with requirements. The document should be available for public access and provide information that will describe the type of financial records made available for public inspection, by specific description; the mechanism by which the records are made available and, if appropriate, the location of these records, the arrangements made for

reproduction of the documents, and any limitations placed on access to the file by the station.

MPB has a written policy on open financial records, issued by the State. However, this policy is very vague and does not specifically state what financial records should be made available for public inspection.

When we requested the financial records available to the public, we were given a copy of the "Report to the Community." This document did not fully provide the financial information required by CPB guidelines. Specifically, it did not include the AFRs, the financial reports submitted to CPB, or a copy of the station's audited financial statements. We believe this condition did not provide the public with sufficient financial information, as required by CPB guidelines. In discussing this condition with MPB's management, we learned that they were not fully aware of the specific requirements and they indicated that they would take appropriate corrective actions.

Recommendations

We recommend that CPB management ensure that MPB takes the following actions:

1. Maintains a complete open financial records file for public inspection. This file should contain all financial reports filed with CPB, including the last three years' AFRs and audited financial statements. The file should be maintained at the station and be made available to the public for inspection upon request.
2. Develop further guidance to supplement the state policy on open financial records. This document should describe the types of CPB financial records available to the public, any limitations placed on public access to this information by the station, and the methods available to the public for reviewing and copying the financial information.

Management Response

In response to the draft report, MPB management indicated that they do maintain all the financial information required by the State of Maryland and this financial information is available through the State's Public Information Act (PIA) process. Further, they said that even an informal request for financial information, not covered by the PIA, would be provided. Finally, they noted that during the audit period, MPB had not received a request for financial records.

OIG Review and Comment

Based on MPB's response, we consider recommendations one and two resolved but open pending implementation of MPB's planned corrective actions. We recommend that MPB provide CPB with documentation of their corrective actions.

Open Meeting Compliance

Based on our review, MPB did not fully comply with two open meeting requirements. Specifically, MPB did not consistently retain documentation that it provided the public with reasonable advance notice of planned public meetings and did not prepare written explanations of why meetings were closed, to comply with the CPB open meeting requirements.

Section 396(k)(4) of the Act, requires licensees of non-commercial public broadcasting stations to have governing board meetings open to the public, and to provide reasonable notice to the public of those meetings. One of the minimum compliance requirements for “reasonable notice” as stated in CPB’s explanation of the Act’s requirements includes providing notice to the public of the time, place and purpose of an open meeting at least one week in advance of the schedule date. Further, the Act requires that if a meeting is closed the organization shall make available to the public a written statement explaining the reasons for closing the meeting, as required by the Act.

The minimum compliance for “reasonable notice” as stated in the CPB’s certification Requirements includes:

- Notice is placed in the “Legal notices” or the radio and television schedules section of a local newspaper in general circulation in the station’s coverage area; or, notice is given through an announcement that is accessible on the station’s web site.
- Notice is communicated by letter, e-mail, fax, phone, or in person to any individuals who have specifically requested that they be notified.
- The station makes on-air announcements for at least three consecutive days once each calendar quarter that explains the station’s open meeting policy and provides information about how the public can obtain information regarding specific dates, times and locations.

Our review identified that advance public notice documentation was retained for one public meeting during our audit period and it met CPB requirements. However, the station did not retain documentation that reasonable notices were given for the other public meetings held during our review period. We learned that MPB’s management was not aware that they needed to retain their documentation of notices given to the public of planned public meetings. The lack of complete documentation of advance meeting notices hampered our ability to confirm that the public consistently received reasonable advance notice of public meetings.

Additionally, when we inquired about the reasons public meetings were closed, we learned that the station did not prepare a statement explaining the basis for closing their meetings to the public.

We recommend that CPB management ensure that MPB takes the following corrective actions:

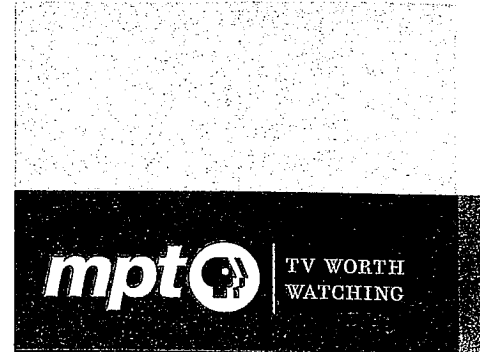
3. Establish a process to track and retain documentation of all notices given to the public regarding open meetings for at least three years.
4. Establish a process to ensure that written explanations are prepared whenever a meeting is closed to the public. This document should explain why the session was closed in accordance with the Act (e.g., discussing matters related to individual employees, proprietary information, litigation, etc.). The notice should be prepared in a reasonable time following the meeting and be available to the public upon request. This documentation should be retained for at least three years.

Management Response

In response to the draft report, MPB management indicated that as a state agency, they have always satisfied its obligations under the Maryland Open Meetings Act. Further, they said that for the most part, The Act's requirements are similar to CPB's, but to the extent they differ, MPB will follow CPB requirements in the future.

OIG Review and Comment

Based on MPB's response, we consider recommendations three and four resolved but open, pending implementation of MPB's planned corrective actions. We recommend that MPB provide CPB with documentation of their corrective actions.



ROBERT J. SHUMAN
PRESIDENT AND CEO

September 5, 2007

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

Dear Mr. Richardson:

We have received your draft audit report number AST 705-XXX for Fiscal Years 2005-2006. We are delighted to hear "the AFRs were filed in accordance with CPB guidelines; NFFS was properly stated for the periods examined; grant funds were spent in accordance with the terms and conditions of grants; and MPB complied with the Communications Act of 1934 as amended" with only two observations related to open financial records and the open meeting requirements.

With respect to the open financial records compliance, MPT does maintain all of the required financial information. As an agency of the State of Maryland, those financial records are available for review through the State's Public Information Act ("PIA") process. In the event that an informal request was made for financial information that did not necessarily comply with the Maryland PIA, MPT would still provide that information. During the term of the audit period and in recent memory, MPT has not received a request for financial records. Nevertheless, MPT will abide by the Inspector General's recommendations related to financial record compliance.

As to the open meeting requirements, here too MPT, as a state agency, has always satisfied its obligations under the Maryland Open Meetings Act (the "Act"). For the most part, the Act's requirements are similar to the CPB's, but to the extent that they differ, MPT will follow CPB requirements going forward. Please note that MPT routinely prepares and maintains written explanations of its occasional closed meetings. Nevertheless, MPT will abide by the Inspector General's recommendations related to open meeting compliance.

We appreciate your professionalism during the course of the audit.

Sincerely,

A handwritten signature in black ink that reads "Robert J. Shuman". The signature is written in a cursive, flowing style.

Robert J. Shuman
President and Chief Executive Officer

CC: Larry Unger
Martin G. Jacobs