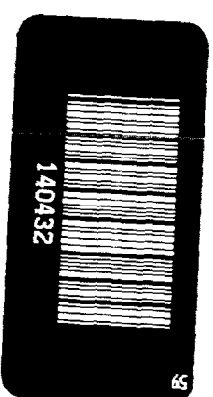


GAO

United States General Accounting Office
Report to Congressional Requesters

January 1990

CORPORATION FOR
PUBLIC BROADCASTING
Congressional
Guidance Needed on
Administrative
Expenses



GAO HRD-90-5

Human Resources Division

B-234911

January 22, 1990

The Honorable Daniel K. Inouye
Chairman, Subcommittee on Communications
Committee on Commerce, Science,
and Transportation
United States Senate

The Honorable Edward J. Markey
Chairman, Subcommittee on Telecommunications
and Finance
Committee on Energy and Commerce
House of Representatives

In this report, we respond to your February 9, 1989, request, as well as to subsequent discussions with your staffs, for information concerning Corporation for Public Broadcasting (CPB) expenses. We agreed to determine (1) the nature of CPB administrative expenses and whether they were within legislative limits, (2) whether program funds were used for administrative purposes, and (3) the nature and amounts of CPB consultant expenses. To obtain this information, we reviewed the accounting records and other documentation for the expenditures that CPB reported in its fiscal year 1988 financial statements; we also discussed expenditure issues with CPB officials. The details of our methodology are presented in appendix I.

Background

The enabling legislation for CPB capped administrative expenses payable from public funds at 5 percent of the annual federal appropriation through fiscal year 1988. The CPB 1988 amendments, effective in fiscal year 1989, limited administrative expenses to \$10.2 million (which is less than 5 percent of the appropriation, but more than CPB reported spending in 1988). For 1990 and subsequent years, the amendments permit administrative expenses to increase by whichever is greater: (1) 4 percent of the previous year's allowance or (2) the increase in the consumer price index.

Discussions on the floor of the Senate indicated that these changes were intended to make more funds available for program production. It was noted that since CPB had reported administrative expenses of about 4.2 percent in recent years, the 5 percent allowed by its enabling legislation was more than CPB really needed. Further, given CPB's 1988 reported administrative expenses of about \$9.5 million, it was believed that an

administrative expense limit of \$10.2 million for 1989 should be adequate for CPB needs.¹ Finally, given the present era of scarce funds, the Congress believed that it was inappropriate to allow CPB administrative expenses (capped at 5 percent) to grow at the same rate as CPB appropriations.

Results in Brief

CPB categorizes expenditures into two groups: administrative expenses and program services expenses. Administrative expenses are expenditures that support CPB as an organization, such as staff salaries, travel, rent, and printing costs. Program services expenses are expenditures that support individuals or entities in the field of public broadcasting; these expenses include grants to and contracts with producers and stations. CPB also includes administrative-type expenditures, such as staff travel, in program services expenses, but only when these administrative-type expenditures are incurred (1) to support program services activities or (2) in the administration of certain grants and contracts awarded to producers and stations. As a result, under CPB policy, expenditures such as staff travel will be recorded as (1) program services expenses when they are incurred in the course of carrying out activities that more directly support the public broadcasting industry and (2) administrative expenses when they support CPB as an organization. We observed that CPB consistently applied these definitions in recording expenses. Since CPB enabling legislation does not define the term "administrative expenses," we have concluded that the CPB definition is not at odds with applicable law.

The CPB statement of financial activity for 1988 reported administrative expenses of \$9.5 million, about \$1.2 million less than its 5 percent cap of \$10.7 million. About 62 percent of these expenses were for personnel costs; other expenses were for costs such as staff travel, printing, rent, delivery services, postage, conferences and memberships, meetings, and consultants. CPB had additional administrative-type expenses of \$732,000 (for example, costs of staff travel, supplies, printing, meetings, and consultants), which were included in program services; CPB reported \$319,600 of depreciation separately, as an expense of the property fund. Adding these amounts to the CPB reported administrative expenses of \$9.5 million results in a total of \$10.56 million, about \$140,000 less than the cap.

¹The \$9.5 million for the CPB total fiscal year 1988 administrative expenses does not include \$319,600 of depreciation. Although depreciation was included in the CPB statement of financial activity, it was not clearly identified as an administrative expense. With depreciation, administrative expenses for 1988 total about \$9.8 million.

Some congressional guidance on the expenditures that should be considered administrative was included in the Senate report that accompanied the Public Telecommunications Act of 1988. Additional guidance may be needed, however, because Senate Report 100-444 does not help resolve the question of whether the Congress wants administrative-type expenses related to program support to be considered as administrative expenses subject to the cap. CPB asserts that the Senate report does not require it to classify all administrative-type expenditures as administrative expenses. If you find the CPB practice concerning the recording of expenditures to be inappropriate, you should consider taking action to clarify which expenses are subject to the administrative expenses cap. CPB's administrative expenses would be increased substantially if CPB was required to include administrative-type expenditures, currently classified as program-services expenses. Therefore, in deciding whether to require CPB to treat as administrative expenses some or all of the administrative-type expenditures it has been classifying as program-services expenses, you may wish to consider the potential impact of such a change on CPB's operations, taking into account the current cap.

The CPB 1988 administrative expenses included \$827,300 in consultant costs: \$746,400 for nonlegal services and \$80,900 for legal services. About 54 percent of the nonlegal costs were for services provided by a realty firm that assisted CPB in evaluating the need to relocate its offices; the owner of the new quarters will reimburse CPB for most of these costs. Similarly, about 71 percent of the costs for legal services were provided by one law firm, in connection with congressional deliberations on the two bills that were enacted as the CPB 1988 amendments.

Congressional Guidance on Administrative Expenses Needs Clarification

The enabling legislation for CPB limits the amount of appropriated funds that may be spent on administrative expenses, but does not define them. CPB defines administrative expenses as expenses that primarily support CPB as an organization, such as staff salaries and benefits, staff travel costs, printing, rent, delivery services, postage, conferences and memberships, meetings, and consultants. In contrast, when these kinds of expenditures support activities primarily benefitting individuals and others in public broadcasting, these expenditures are considered program services expenses and are recorded in the program category, along with grants, contracts, and other types of direct assistance to stations, producers, and others. Our review showed that CPB consistently applied these definitions in recording expenditures.

CPB reported spending about \$221.4 million in fiscal year 1988: \$206.3 million to directly support public television and radio stations as well as programs; about \$5.6 million for research, education, training, and other activities; and about \$9.5 million for administrative expenses (see app. II). The amount CPB reported for administrative expenses was about \$1.2 million under the cap of \$10.7 million for the year. Our analysis showed that \$5.8 million (about 62 percent) of the administrative expenses were personnel costs; the balance of \$3.7 million was for expenses such as staff travel, printing, supplies, data processing, postage, and transportation. In appendix III, we summarize these expenses by major organizational components and activities.

Our analysis also showed that reported program services expenses sometimes included the same types of expenses that were reported as administrative expenses: for example, travel, supplies, printing, meetings, and consultants. The total amount of these administrative-type program expenses was about \$732,000, including the costs of expert panels, which reviewed television and radio program production proposals; a newsletter; and CPB staff expenses, supporting education, research, and training, as well as international and other public broadcasting activities. These expenses are summarized in appendix IV.

Additionally, although CPB included depreciation as an administrative expense in its budget documents, it excluded the annual depreciation of \$319,600 from the amount reported for administrative expenses on the 1988 statement of financial activity (see p. 2). Instead, CPB reported the depreciation separately as an expense of its property fund.

The Senate report on S.2114,² the Senate version of CPB 1988 amendments,³ discussed CPB's administrative expenses:

"In the future all activities of the CPB, including the administration of the program fund selection panels, newsletters, media relations and promotion, its corporate contingency fund, training, research, policy development and planning, international and contracting activities, and all other categories of the staff activities must be paid out of the [amounts] allowed for CPB administrative expenses."

It is not clear from this language whether administrative-type expenditures related to program support should be considered administrative expenses subject to the cap. CPB officials believe that the Senate report

²See S. Rept. 100-444 (Aug. 1988), p.27.

³Public Telecommunications Act of 1988 (P.L. 100-626).

language is consistent with their practice of classifying certain costs as administrative expenses in some instances and as program services expenses in others. This interpretation, officials asserted, requires changes in reporting only expenditures for program panels and the newsletter. Beginning with fiscal year 1989, the officials intend to record these expenditures as administrative expenses, but will continue reporting some other administrative-type expenditures as program services expenses. If the administrative-type costs supporting program activities had been considered as administrative, the amount of administrative expenses for 1988 would have increased to about \$10.56 million: the sum of the amount CPB reported as administrative expenses, depreciation, and the administrative-type expenditures CPB defined as program services expenses—about \$140,000 less than the cap. Applying this same approach to CPB 1989 expenditures would most likely result in a similar increase in the amount of administrative expenses reported.

Consultants Provided a Variety of Services

Services by two providers accounted for most of the consultant costs of \$827,300 (about \$746,400 for nonlegal services and about \$80,900 for legal) mentioned earlier. About 54 percent in nonlegal costs (\$402,500) represented services by a realty firm;⁴ most other large nonlegal expenses were for producing a series of radio broadcasts on the 1988 presidential campaign and for evaluating production budgets of various programs (see app. V for details).

Some \$57,600 (about 71 percent) of the legal costs were for services provided by a law firm in connection with congressional consideration of the House and Senate bills that were ultimately enacted as the CPB 1988 amendments. Most of the balance was for services by five other legal firms: one provided similar services for the same two bills; the remaining four (1) did research and analyses, (2) drafted position papers on other proposed and existing legislation as well as various agreements and contracts, and (3) prepared briefs and court filings (see details in app. VI).

Conclusion

The CPB 1988 administrative expenses were within the limits established by CPB enabling legislation, and the CPB practice of considering certain

⁴Since lessors normally pay finders' fees to realtors, the owner (the lessor here) of the new CPB quarters agreed to pay CPB the amount that the owner would have paid the realty firm for arranging the CPB lease. This amount will reimburse CPB about 84 percent of the realty cost.

expenditures as administrative expenses in some cases and program services expenses in others was not at odds with applicable law. It is unclear, however, whether CPB practice is consistent with the discussion in Senate Report 100-444 concerning administrative expenses.

If all CPB expenditures in support of its 1988 activities were considered as administrative, the administrative expenses would have been about \$1 million higher than CPB reported, but still under the cap of \$10.7 million. A similar increase in CPB-reported administrative expenses would most likely occur if the same approach was applied to CPB 1989 expenditures.

Matter for Consideration

If you find that the current CPB practice of recording administrative expenses is inappropriate, you should consider providing further guidance to CPB. In so doing, you should consider the potential impact of any changes on CPB operations, taking into account the new cap.

Agency Comments

In a November 17, 1989, letter, CPB commented on a draft of this report. CPB agreed that clarification of congressional intent concerning the nature of costs that CPB should classify as administrative expenses would be helpful. CPB also elaborated on (1) classifying some costs as administrative in some instances and as program services costs in others, (2) using outside consultants for legal and nonlegal services, and (3) reporting depreciation on CPB financial statements as a cost of the property fund. In addition, CPB provided some technical comments that we incorporated in the report as appropriate. The CPB written comments are included in appendix VII.

We are sending copies of this report to other interested congressional committees as well as members and will make copies available to others on request.

If you or your staffs have any questions about this report, please call me on (202) 275-1655. Other major contributors to this report are listed in appendix VIII.



Linda G. Morra
Director, Intergovernmental
and Management Issues

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Table VI.1: Legal Consulting Costs Incurred in 1988, by
Provider

Abbreviation

CPB Corporation for Public Broadcasting

Scope and Methodology

We focused our review on the CPB financial activities for the fiscal year ending September 30, 1988. We obtained the CPB 1988 audited financial statements and a printout of the general ledger accounts, showing balances and detailed transactions for the year. Then we

- reconciled the individual line item expenses in the CPB statement of financial activity for 1988 with accounting records,
- identified the nature of the individual expenses charged to each of these accounts,
- compared the nature of the expenditures that CPB considered as administrative with those it considered as program support, and
- reviewed all the expenses for legal services and a judgmental sample of the expenses for nonlegal services in order to identify the individual consultants and the services obtained.

In addition, we reviewed the controls over the CPB nonfederal funds, reconciled CPB expenses with accounting records, and tested, on a sample basis, certain transactions to identify purpose. In addition, we discussed administrative expenses with CPB officials and reviewed the legislative history of the CPB enabling legislation, including the Public Telecommunications Act of 1988.

We carried out our work between February and August 1989 in accordance with generally accepted government auditing standards. CPB provided written comments on a draft of this report. These comments are included in appendix VII.

CPB Expenses as Reported in the Statement of Financial Activity (Year Ended Sept. 30, 1988)

Expenses	Amount
Expenses for program services:	
Direct television support	
Community service grants	\$109,524,280
Program production	39,932,475
Program distribution	4,835,938
Subtotal	154,292,693
Direct radio support	
Community service grants	34,107,465
Program production	14,208,920
Subtotal	48,316,385
Other direct support (mostly music royalty fees)	3,696,879
Research, education, training, and other	5,572,190
Total program services expenses	211,878,147
Expenses for administrative services:^a	
Corporate administration ^b	9,508,920
Total all expenses	\$221,387,067

^aCPB uses the term "supporting services."

^bThe 5-percent administrative expense cap for the year was \$10.7 million. Depreciation of \$319,600 was not included in the total administrative expenses, but was reported separately as an expense of the property fund.

CPB Administrative Expenses by Organizational Components and Activities (Year Ended Sept. 30, 1988)

Organizational component and activity	Administrative expenses ^a		
	Personnel ^b	Other ^c	Total
President and CEO:			
President's office	\$158,488	\$25,248	\$183,736
Audit department	514,442	126,136	640,578
Policy development and planning department	366,353	32,320	398,673
Subtotal	1,039,283	183,704	1,222,987
Television program fund:			
Director's office	606,118	93,344	699,462
Education department	246,847	21,286	268,133
International activities department	169,717	16,161	185,878
Subtotal	1,022,682	130,791	1,153,473
Corporate communications:			
Director's office	417,931	47,854	465,785
Promotion and outreach	2,813	131,337	134,150
Media relations and promotion	70,189	70,189	
Subtotal	420,744	249,380	670,124
Vice-president and treasurer:			
VP-treasurer's office	95,314	22,440	117,754
Unallocated salaries and benefits, severance accrual	473,827		473,827
Administration department			
Director's office	112,857	1,794,661	1,907,518
Computer services	181,087	105,365	286,452
Office services	184,851	405,275	590,126
Print services		96,259	96,259
Personnel	91,663	106,929	198,592
Budget and program analysis department	145,553	39,782	185,335
Business affairs department	375,408	83,406	458,814
Certification department	101,207	21,162	122,369
Financial management dept.	219,511	68,107	287,618
Subtotal	1,981,278	2,743,386	4,724,664
Senior vice-president, telecommunications:			
VP office	221,797	17,096	238,893
Broadcast services dept.	244,694	46,431	291,125
Human resources development department	387,661	36,671	424,332
Subtotal	854,152	100,198	954,350

(continued)

**Appendix III
CPB Administrative Expenses by
Organizational Components and Activities
(Year Ended Sept. 30, 1988)**

Organizational component and activity	Administrative expenses ^a		
	Personnel ^b	Other ^c	Total
Vice-president, general counsel, and secretary:			
VP and general counsel's office	366,152	100,500	466,652
Secretary's office	79,515	29,274	108,789
Board directors' fees and expenses		104,598	104,598
Subtotal	445,667	234,372	680,039
Vice-president, government relations:			
VP office	84,785	18,499	103,284
Total^d	\$5,848,591	\$3,660,330	\$9,508,921^e

^aThe administrative expenses are as shown in the statement of financial activity (app II).

^bRepresents costs of employees' salaries and benefits, as well as temporary help.

^cRepresents expenses such as employee travel, business entertainment, conference and registration fees, meeting facilities and catering, printing and photography, supplies and materials, membership fees, delivery services, data processing, subscriptions and publications, consultant fees and expenses, postage and meter rental, rent, external and internal reproduction, advertising, transportation and storage, telecommunications, insurance, and building security.

^dIn percentages, the personnel expenses are 61.5 percent; the other expenses, 38.5 percent; and the total, 100 percent.

^eDiffers from amount shown for corporate administrative expenses in statement of financial activity by \$1.00 because of rounding of individual amounts.

GAO Analysis of CPB Administrative-Type Expenditures Included in Program Services Expenses (Year Ended Sept. 30, 1988)

Program services expenses^a	Admin. type^b	Grants, contracts	Total
Direct television support:			
Program production	\$96,217	\$39,836,258	\$39,932,475
Direct radio support:			
Program production	54,198	14,154,722	14,208,920
Research, education, training, and other:			
Communications activities	155,969	132,282	288,251
Human resources activities	169,474	1,932,445	2,101,919
Education activities	27,462	1,460,046	1,487,508
Telecommunications activities	79,114	328,262	407,376
International activities	65,569	202,371	267,940
Policy development and planning	39,974	890,449	930,423
Office services (printing)	43,773	45,000 ^c	88,773
Subtotal	581,335	4,990,855	5,572,190
Total	\$731,750	\$58,981,835	\$59,713,585

^aAs found in CPB statement of financial activity.

^bThe administrative-type expenditures include panelists' honoraria, staff and nonstaff travel, meeting facilities and catering, postage and meter rental, printing and photography, data processing, delivery services, external reproduction, conference and registration fees, business entertainment, equipment rental, transportation and storage, advertising, consultant fees and expenses, salaries and benefits, and telecommunications.

^cContract for broadcaster's liability insurance.

CPB Nonlegal Consulting Costs by Organizational Component or Activity or Both (Year Ended Sept. 30, 1988)

Organizational component/activity	Cost
Communication activities:	
Promotion and outreach	
J.R. Associates	\$3,060
Business Communications	1,403
I.L. Strack	175
Subtotal	4,638
Media relations and promotion:	
Thea Marshall Communications	
Additional public service child care announcements (see also "CPB audience building," below)	1,500
M. Sheehan Assoc.	
Public-speaking coaching to 7 persons	4,855
Business communication	1,073
Subtotal	7,428
CPB audience building:	
Thea Marshal Communications	
Distribution of child care public service radio announcements (see also "Private and public sector outreach," below)	
Subtotal	10,857
Private and public sector outreach:	
Thea Marshall Communications	
Produce and distribute 5 public service radio announcements on child care	10,965
J.R. Associates	
Produce a public relations video to promote public television programming	21,900
Subtotal	32,865
Station information service:	
Whelan Group	
Drafting CPB 1987 annual report	7,695
J.R. Assoc.	1,500
Editorial Experts	978
Subtotal	10,173
Total communication activities	65,961
Education activities:	
C. Wellner (encourage educational use of programs)	1,249

(continued)

Appendix V
CPB Nonlegal Consulting Costs by
Organizational Component or Activity or
Both (Year Ended Sept. 30, 1988)

Organizational component/activity	Cost
Television program fund activities:^a	
J.R. Assoc.	500
M. Sheehan, Assoc.	1,228
Subtotal	1,728
Government affairs activities:^a	
N. Foltin (assistance with congressional meetings, testimony, board and other meetings)	6,300
Office of the Secretary:^a	
Westin Hotel	151
Telecommunications activities:^a	
Office of the Senior VP APSARA Systems	300
Radio program fund activities:	
Sandy Tolan	
Production of a series of 15 radio reports on the 1988 presidential campaign	72,081
Broadcast services:	
Local TV program awards	
Beach Associates	
Produce video about winner of CPB's 1988 Lowell award for awards ceremony and stage the ceremony	15,144
Station advisory service	
N. Rubin	3,821
J. Mireles	1,734
P. Norton	955
M. Alvar	150
R. Karwoski	
Provide technical assistance to a tv station in Wisconsin and others	3,831
D. Ouzts	3,235
J. Witherspoon	1,581
Thomas & Clifford	1,500
L. Carr	3,618
B. Mayes	993
J. Capobianco	1,636
D. Day	2,006
K. Aubry	2,572
R. Sweeney	1,416
VA Dambach	1,709
G. Shivers	1,402
D. Van Otten	1,400
S. Rathe	1,054
D. Crowe	1,334

(continued)

**Appendix V
CPB Nonlegal Consulting Costs by
Organizational Component or Activity or
Both (Year Ended Sept. 30, 1988)**

Organizational component/activity	Cost
Public Radio Program	1,796
A. Marino	1,756
G. Stein	1,462
A. Singer	1,450
G. Haertig	3,545
J. Olsson	523
Subtotal	46,479
Radio audience development	
J. Capobianco	1,294
Total broadcast services	62,917
Policy development and planning: ^a	
APR	3,085
M. Wagner	180
Subtotal	3,265
Program and audience research	
J. Lefkoff	200
NEM Enterprises	200
D. Giovannoni	
Study feasibility of a system for providing more frequent and comprehensive radio programming and audience data	5,000
F. Tavares	2,500
Subtotal	7,900
Interconnection planning and engineering:	
J. Dyer	
Services related to satellite interconnection matters	6,960
Strategic planning:	
S A I D, Inc.	
Keypunching of CPB's annual information survey data	5,376
J. Landau	327
Subtotal	5,703
Total policy development and planning	23,828
Office of VP-Treasurer activities:	
Collier-Jackson	2,708
Whelan Group	4,000
ANNIS	2,700
Subtotal	9,408

(continued)

**Appendix V
 CPB Nonlegal Consulting Costs by
 Organizational Component or Activity or
 Both (Year Ended Sept. 30, 1988)**

Organizational component/activity	Cost
Certification activities:^a	
Hay Associates	
Update data on the fair market value of volunteer services for public tv and radio stations	5,226
Administration department activities:	
Office corporate support	
Long & Foster	
Services related to locating other suitable office space for CPB	402,500
Towers, Perrin, Forster	
Management consulting services in assisting to revise CPB staff salary program	9,800
Lerch, Bates, & Assoc. Info Systems Group	1,000
Computer programming and related services for CPB's annual information survey.	6,050
Heart to Heart	800
M. Garrison	2,580
Biospherics, Inc.	1,140
Subtotal	423,870
Building evaluation project	
Architectural Interiors	4,957
Total administration department	428,827
Business affairs department activities:^a	
J. Simson	1,981
R. Raab	
Evaluation of program production budgets for various programs	58,000
Video publishing	
Create computer-based system for tracking status of CPB-funded video programs and CPB income from them	8,250
Video publishing	206
Subtotal	68,437
Total	\$746,413

^aThe expenses under these activities were classified as "corporate support," that is, administrative expenses.

Legal Consultant Costs Incurred by CPB (Year Ended Sept. 30, 1988)

In 1988, CPB incurred a total of \$80,892.49 in legal costs. About \$75,600 was for services provided directly to CPB and \$5,300 was for the CPB share in costs of litigation undertaken by two public broadcasting organizations. About 83 percent of the fees were for services by two providers and the remainder by four others, as follows:

Table V1.1: Legal Consulting Costs Incurred in 1988, by Provider

Provider	Cost Incurred	Percent
Bryan, Cave, McPheeters	\$57,638	71.2
Paul Mutino	9,690	12.0
Verner, Liipfert, Bernhard	3,222	4.0
Steptoe & Johnson	2,039	2.5
Staas & Halsey	1,731	2.1
Arent, Fox, Kinter	1,272	1.6
CPB share of court-filing costs	75,592 5,300	93.4 6.6
Total	80,892	100.0

The payments to the firm of Bryan, Cave, McPheeters and the firm of Verner, Liipfert, Bernhard were for services related to congressional consideration of S.2114 and H.R.4118, the two bills that eventually were enacted as the 1988 CPB amendments. These firms provided a variety of services to the CPB general counsel, including (1) legislative research on issues raised by the bills and the final legislation, (2) arranging for and attending meetings with senators and their staffs concerning the two bills, and (3) drafting CPB discussion and position papers on the bills as well as developing proposed strategies on them.

The other legal firms provided the following types of legal services:

- research, analysis, and drafting of position papers on existing and other proposed legislation;
- drafting various agreements and contracts;
- preparation of briefs and court filings; and
- miscellaneous matters dealing with employment, past due funds, and the CPB lease.

Comments From CPB



CORPORATION FOR PUBLIC BROADCASTING

Donald E. Ledwig
President and
Chief Executive Officer

November 17, 1989

Ms. Linda G. Morra
Director of Select Congressional Studies
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Morra:

We are pleased to provide our comments on the Draft GAO report entitled Corporation for Public Broadcasting: Congressional Clarification Needed on Administrative Expenses, prepared by your office.

Through the years CPB has strived to accurately and methodically categorize expenses of the Corporation consistent with congressional guidance while using all corporate resources in the best interests of public broadcasting. We are delighted that your draft report has confirmed what we have felt to be consistently true: that CPB has developed and has consistently applied a cost classification procedure that accurately records costs in a manner consistent with our statute and that we do not intentionally violate that system for any parochial interest.

A few corrections and clarifications that we would like to see addressed in the final report are attached for your consideration. In addition, we would like to make three general points for consideration as you finalize the report.

First, we must emphasize that while CPB is primarily an "administrative" organization we directly participate in activities that support public broadcasting. Many CPB costs that are categorized as administrative are costs that directly aid and support public broadcasting and are not "administrative" in the pejorative sense that that term is often used in public discourse. We also want to emphasize that CPB has, by virtue of congressional direction, industry practice or simple national economies-of-scale, undertaken projects that generate costs not usually considered "administrative" as that term is traditionally used.

111 16th Street NW
Washington, DC 20036
(202) 955-8275

20 Years of Quality Programming

For instance, CPB sponsors industry recognition programs that make prestigious national awards to producers and local stations, and we operate a national jobline designed to help stations establish and retain a diverse work force. These activities are staffed by CPB employees simply because we have found that to be the least expensive approach. We record staff and related costs for these projects as "administrative" expenses while we charge the costs of program judges, awards materials, 800 phone line charges, and travel costs by awardees as system support activities. Your auditors captured these latter costs in the "admin.type." column of Appendix III. Only under the "broad" definition of administrative costs as defined in the report, would such costs fall within our "administrative" budget.

While we would welcome greater legislative precision in the definition of cost categories, we must strongly reinforce the closing recommendation to Congress made in the report (page 11, closing paragraph) to adjust the administrative cap if a new definition of "administration" is implemented. CPB develops programs and activities that try to solve problems in the least costly way possible. On occasion we contract for services, and on other occasions we find it less expensive to do more of the work internally. We urge you to strongly encourage Congress to continue to allow us that flexibility. We believe it to be in the best interest of Congress, public broadcasting, and the American people.

Secondly, we maintain an authorized staff of slightly more than 100 full-time employees which compares with staffs over twice that size at the National Endowment for the Arts (NEA) and at the National Endowment for the Humanities (NEH), entities with similar responsibilities and federal funding levels. Therefore, on occasion we need skills or experience that we do not have or we need immediate help in areas where recruiting has not been completed. In such cases we retain the services of outside consultants for particular projects. For instance, during the majority of 1988, CPB's Office of Government Relations reported to the General Counsel. Because of the extraordinary nature and unexpected intensity of legislative activity during that year, the General Counsel determined that outside legal expertise in legislative matters was necessary. These outside legal consultants also assisted in other areas of CPB legal work to supplement reduced staff in both the Office of the General Counsel and Government Relations. The legislative work performed by these consultants was restricted to providing advice and counsel to CPB's General Counsel.

In all cases, when the use of consultants demonstrably benefits stations we charge such costs to program services. When those activities primarily assist CPB directly we charge such costs to our administrative budget. We believe that this approach is consistent with our guidance from Congress.

A third and last technical point concerns your interpretation of our financial statements. While we do separately record depreciation in a Property Fund, we have consistently included depreciation in all representations of our total administrative expenses. Our consolidated financial statements and our budget presentations to Congress uniformly have included depreciation in any totals represented to be "CPB Administration." The occurrences where this issue affects your draft are noted in the attachment.

In conclusion we appreciate the opportunity to review and comment on the draft report, and I am pleased that your staff found us to be forthright and helpful during their review of our operations. We are particularly pleased that your report vindicates CPB from any implied charges that improper accounting or diversion of program funds is taking place at CPB. Attached are some specific comments that pertain to the draft of your report on CPB.

Sincerely,



Donald E. Ledwig
President and Chief Executive Officer

Attachment

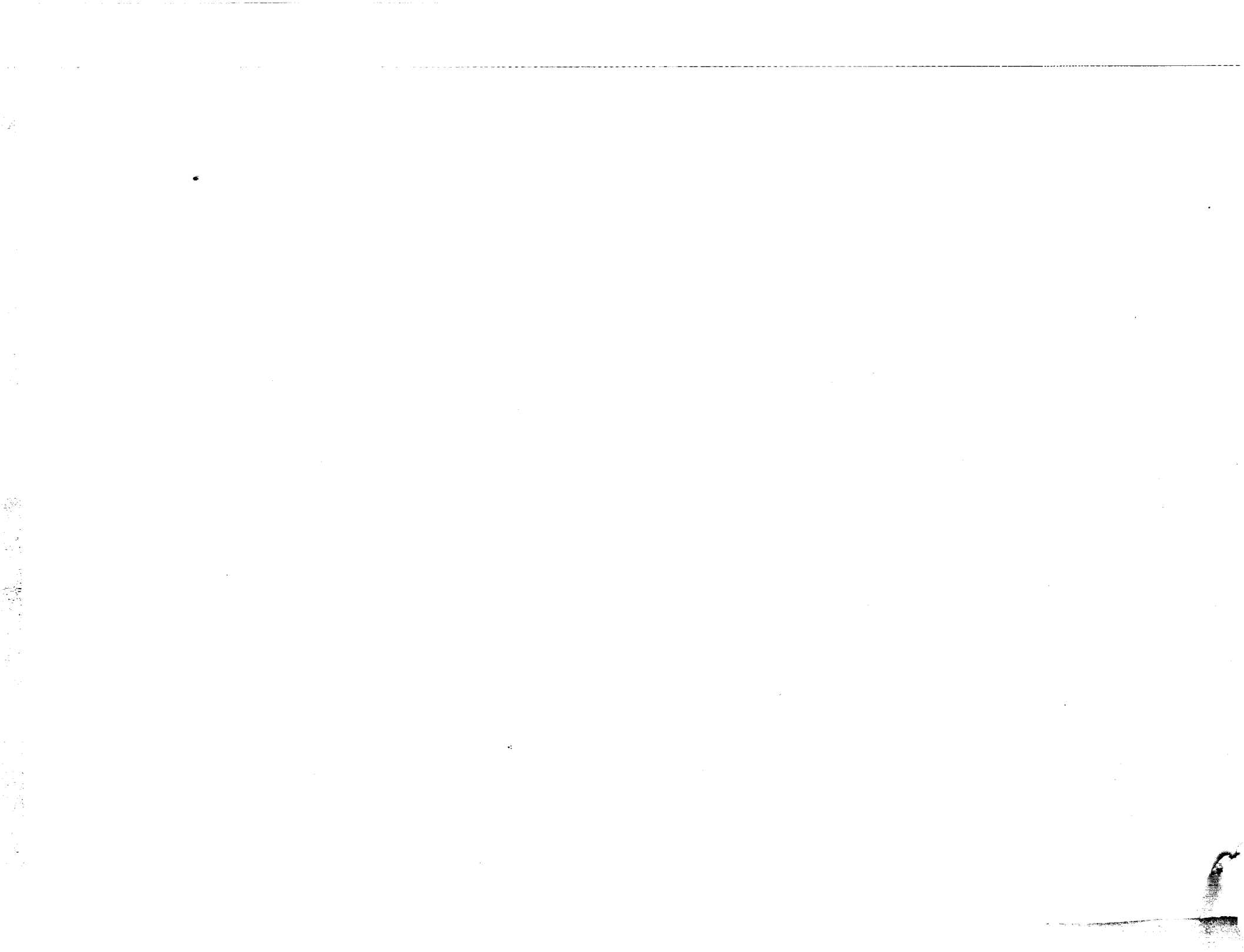
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