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STATEMENT OF
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ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION
BEFORE THE
HOUSE SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS
OF THE
COMMITTEE ON ENERGY AND COMMERCE
ON NATIONAL PUBLIC RADIO



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INTRODUCTION

Good Morning Mr. Chairman and Members of the Subcommittee. We appreciate the opportunity to testify before the House Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce on our review of the financial operations of National Public Radio (NPR). I am accompanied by two personnel from GAO's Accounting and Financial Management Division, Mr. Thomas Sholedice, Group Director and Mr. Todd Givens, Audit Manager, who were responsible for conducting our review.

In early 1983, NPR underwent a significant financial crisis culminating in a need to seek an unanticipated loan of \$7 million from the Corporation for Public Broadcasting (CPB). At that time, you asked us to review NPR's financial operations. Specifically you requested we review (1) the reasons for NPR's financial problems, (2) NPR's financial management system, (3) the controls being implemented by NPR and CPB to prevent a similar situation in the future, and (4) the ability of NPR to operate under the terms of its contract with CPB. Discussions with your staff also indicated that you desired us to perform an examination of the propriety of various expenditures made by NPR. Our testimony on the results of our review is provided for the record. In addition, answers to specific questions asked by your staff are included as an attachment to this testimony.

In conducting our review of NPR financial matters, we interviewed present and former officers and Directors of NPR and officials of CPB. We also examined minutes of NPR's Board of Directors and various committees, financial records, correspondence and other documents which we believed related to the matters under

review. In many cases, we were forced to rely on interviews because documentation for many events did not exist or could not be located. For example, board minutes for some meetings existed in only draft form and certain files related to the budget and other matters could not be located by either the Executive Vice President or NPR.

NPR'S FINANCIAL PROBLEMS

NPR's financial problems, which resulted in an operating deficit of approximately \$6.4 million for the year ended September 30, 1983, and the unanticipated need to borrow \$7 million from CPB, occurred because the organization was not properly prepared for, and in fact, failed in its ambitious plan, known as Project Independence. NPR was not prepared for a number of reasons. First, its management operations were not properly structured to undertake the major expansion in program hours and commercial venture operations that were planned in Project Independence. NPR's operations, as pointed out in a management consultant's report to the Board in January 1982, were informal, resulting in decisions made on incomplete or inaccurate information, lack of coordination in implementation of decisions, lack of monitoring of actions taken, and confusion regarding the authority and the responsibilities of key members of management. These management problems and confusion over the budget led to overspending on the expansion and commercial efforts. Second, NPR's capability to raise funds from private grants and contributions had not been fully developed and, as a result, its grant revenue goals were not realized. Third, NPR's financial position was not adequate to sustain the increased operations and commercial joint ventures if these activities did not begin producing revenues as planned. Further, NPR did not have a formal

contingency plan to compensate for any revenue deficiencies. Finally, NPR did not have a functioning financial management information system to provide essential reports, such as comparisons of budgeted and actual revenues and expenditures, to enable management to monitor operations during a period when vital financial management decisions needed to be made.

I will first review the details of Project Independence and then will discuss how NPR's problems of informal management and inadequate fund raising capability became apparent during the preparation of the 1983 budget and fiscal 1983 operations.

PROJECT INDEPENDENCE

Project Independence was a plan by which NPR hoped to eliminate entirely its need for federal funds by 1988. It was developed in response to anticipated reductions in Federal grants from the Corporation for Public Broadcasting (CPB). NPR had been pursuing a significant expansion program for several years, with the number of program hours growing from approximately 2,100 in fiscal 1977 to 3,400 in fiscal 1982. This increase in programming was reflected in NPR's expenses, which increased from \$7.3 million in fiscal 1977 to \$26.7 million in fiscal 1982. Faced with anticipated reductions of Federal grants, NPR had three options in our opinion: (1) find alternative sources of revenue that would be sufficient to fund NPR's planned operations; (2) reduce operations and expenditures to reflect the lower federal revenue; or (3) institute a program combining (1) and (2). NPR's President decided to pursue the first option.

In November 1981, NPR's President announced his plan, Project Independence, to obtain additional non-federal revenues. He

provided details of the plan to the member stations at the Annual Membership Meeting on April 21, 1982. Project Independence included increased efforts to secure new grants and contributions from non-federal sources; the initiation of new commercial ventures which would provide profits to fund NPR operations; and increased programming, later called NPR Plus, which would be sold to member stations. The immediate purpose of this plan was to obtain sufficient revenue to meet plans for 1983, while the ultimate goal was to develop these alternative revenue sources so that NPR would not require any Federal funding by 1988. The Board of Directors was informed of the plan but did not formally approve the Project Independence concept until July 30, 1982, just two months prior to the start of fiscal 1983, at the same time it approved the fiscal 1983 budget.

Each of the individual components of Project Independence, fund raising, NPR Ventures, and NPR Plus, was significant and each had associated risks.

NPR Fund Raising

NPR based its planning for Project Independence on the assumption that it could obtain \$7.2 million in non-federal grants and contributions in fiscal 1983. By fiscal 1982, NPR was already receiving an increasing portion of its revenues from sources other than CPB. From 1977 to 1982, non-CPB revenues increased from 6 percent of total revenues to 34 percent of total revenues. The additional revenues were generated from grants, contributions, sales of programs to member stations, and other miscellaneous sources.

During the period from 1977 to 1982, grants and contributions from individuals, foundations and corporations increased from \$294,000 to \$3,095,000, while CPB funding had increased from \$6.8 million to \$17.4 million.

Despite the consistent growth in grants and contributions, NPR needed a strong fund raising program to meet its 1983 goal of \$7.2 million for non-federal grants and contributions. This goal was more than twice the amount of private grants and contributions which NPR had ever been able to achieve. A January 1982 study by consultants, McKinsey & Co., concluded, however, that NPR's fund raising organization and activities were insufficient to meet its future revenue needs. In response to this report, the Board of Directors created a new position of Vice President of Development and NPR proceeded to recruit a professional fund raiser. The Vice President did not, however, assume her duties until August 16, 1982 -- only six weeks prior to the start of the fiscal year 1983 operations which were to be funded by substantially increased grants and contributions.

NPR management originally expected that a significant portion of the 1983 non-federal grants and contributions goal of \$7.2 would be achieved by obtaining two large grants in support of NPR Plus. NPR had sought a 3 year, \$4.5 million grant from one foundation and a 3 year, \$5 million grant from another foundation. However, as of September 1982, formal negotiations with one foundation had not begun and the other foundation had indicated they would not provide NPR with any grant money. (At this point, according to the Executive Vice President, he believed any grant and contribution revenue shortage would be made up by revenues provided by NPR commercial ventures.)

In addition, the new Vice President of Development did not know that the goal for 1983 grants and contributions was \$7.2 million. While developing the 1983 budget, which we will discuss later, NPR had several different estimates of the amount of revenues expected to be obtained for fiscal 1983 by fund raising. None of the estimates were based on committed grants, but rather were target revenues which were needed to meet NPR's financial needs. When she was recruited, the Vice President of Development understood that the goal for grants and contributions was approximately three to four million dollars. In October 1982, the Vice President of Development was informed that the target was \$5.3 million. This reflects the confusion that existed at NPR because this estimated goal was not in agreement with the funding proposal submitted to CPB in August 1982 which indicated that NPR required \$7.2 million of grants and contributions in 1983 to balance the budget.

NPR Ventures

NPR's entry into commercial ventures was the second major component of Project Independence. Basically, all the venture plans anticipated use of the excess capacity of NPR's leased communications satellite radio channels. The Public Radio Act of 1981 authorized use of these satellite channels for commercial purposes as long as public service was not jeopardized. During the fall of 1981 and throughout 1982, NPR held negotiations with various organizations to establish partnerships in commercial ventures to use the satellite channels. While numerous possibilities were investigated, there were five ventures which were formally

negotiated. These ventures on which negotiations were held included National Satellite Paging, CODART, DATASPEED, Cellular Radio, and Information Network Corporation. Because of the problems discussed later, only one of these ventures is still in open, but currently inactive. All the other ventures have been terminated and NPR does not presently plan to pursue them.

The January 1982 study by McKinsey & Co. had also pointed out the need for a senior executive, with commercial experience, to oversee NPR's commercial ventures. The Board authorized the creation of a position as Vice President of Ventures, but again a person was not hired to fill the position until August of 1982. The lack of expertise in commercial operations was not the only problem facing NPR management with the proposed venture operations.

The main problem, as management was aware, facing NPR Ventures at the beginning of fiscal 1983 was obtaining Federal Communications Commission (FCC) authorization to use the satellite channels for the ventures. NPR had filed the necessary petitions between late 1981 and early 1982 and believed that the FCC would approve the petitions by late spring 1982. An unexpected challenge to NPR's petition delayed approval and as of the beginning of fiscal year 1983 approval had not been obtained. This delay was one of the primary reasons that the venture operations were unable to commence operations and, in fact, the approvals by the FCC have still not been issued.

Second, NPR management knew, based on studies done by McKinsey and Co. and NPR personnel, that the ventures had many uncertainties

and that the venture partners had little or no financial resources or actual operating experience. Each of the venture operations had a high degree of risk.

Finally, because of the uncertainties of the ventures operations, NPR did not prepare a detailed ventures budget until the second quarter of fiscal 1983. The NPR budget approved by the Board in July 1982 did not contain firm ventures revenue and expense estimates, although the Board was told that revenues and expenses would be "balanced" or break-even.

NPR spent over \$865,000 in fiscal 1983 on venture operations start up expenses. These costs were primarily NPR personnel and administrative expenses. At the present time, all but one of the venture operations have been suspended and there does not appear to be a significant possibility of NPR recovering these costs.

Even in the face of the problems with ventures, the Executive Vice President, has indicated that, at the time, he expected that venture revenues would possibly exceed venture expenses and might compensate for the two large grants that had not materialized.

NPR Plus

The third major component of Project Independence was NPR Plus. The concept of NPR Plus began in early 1982, when NPR began exploring the idea of generating additional revenue by increasing programming and charging member stations a fee for broadcast rights. Originally, the plan included a classical music program running twenty-four hours a day, seven days a week, with an estimated cost of \$700,000. A number of surveys conducted by groups not affiliated with NPR indicated that a market existed for such a

service. NPR expected that member station fees and grants from private foundations for the increased programming would provide sufficient revenue to cover development and operational costs. Estimated costs of NPR Plus grew rapidly due to increases in the program format and errors in original cost projections. By July 1982, when the Board approved the plan, it had been expanded to include the classical music program, and a jazz program running six hours a day, six days a week, and additional hourly newscasts. NPR Plus was the primary reason that program hours produced or acquired were anticipated to increase from 3,430 in 1982 to 10,500 in 1983, almost a threefold increase. NPR estimated costs for the expanded programs at \$1.3 million during development of the fiscal 1983 budget, with estimated revenues of \$1 million. The final cost estimate for NPR Plus, approved by the Program Committee in December 1982, was \$1.7 million. This estimate was approved despite the fact that it was known that less than the number of stations required for the program to breakeven had signed up. Actual NPR Plus revenues through September 30, 1983 were only \$295,000 while costs were in excess of \$860,000.

Project Independence Summary

Project Independence, the program by which NPR planned to eliminate the need for Federal funds, was an ambitious undertaking which had significant risks and uncertainties. None of its major components developed as management anticipated they would when the 1983 budget was developed. Because the budget for 1983 and the problems with it are significant to understanding the eventual 1983 financial problems, I will now briefly review the 1983 budget development process.

FISCAL 1983 BUDGET PROCESS

In summary, despite a long development process, the 1983 budget was inadequate. The final 1983 budget was never approved by the Board or communicated to the operating divisions and needed revisions to reflect changes in grant revenue estimates and NPR Plus revenues and expenses which were not made. In addition, there were no detail budgets for venture operations and the Finance Department was not involved in the initial budget development process.

From October 1981, when the Board authorized the Executive Vice President to begin its development, through March 1982, budgets were submitted from operating divisions and departments, meetings were held with member stations and a preliminary CPB proposal was prepared. On March 15, 1982, the Executive Vice President presented a draft planning budget to the Board's Finance Committee. The draft reflected the following budget estimates:

	1981	<u>1983 Budget (000's)</u>		
	<u>Actual</u>	<u>Minimum</u>	<u>Target</u>	<u>Consolidated*</u>
CPB grants	\$18,220	\$12,200	\$14,300	\$14,300
Grants and contracts	1,464	5,900	8,600	8,600
Other	2,231	3,424	3,024	3,024
Ventures	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,700</u>
Total Revenues	<u>21,915</u>	<u>21,524</u>	<u>25,924</u>	<u>29,624</u>
NPR expenses	20,378	20,607	25,067	25,067
Capital expenditures	1,239	635	806	806
Venture expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,582</u>
Total Expenses	<u>21,617</u>	<u>21,242</u>	<u>25,873</u>	<u>29,455</u>
"Net Income"	\$ 298	\$ 282	\$ 51	\$ 169

*Target budget plus Venture revenues and expenses.

The Board approved this planning budget for circulation to the member stations. On April 21, 1982, this budget was formally presented by the Executive Vice President to the member stations at the Public Radio Conference. Based on comments received from members, revisions to estimates from operating departments and further negotiations with CPB, the Executive Vice President prepared a revised planning budget and released it in July 1982 to NPR officers for comment. The budget reflected the following:

	1983 Budget (000's)		
	<u>Minimum</u>	<u>Target</u>	<u>Consolidated*</u>
CPB grants	\$12,200	\$12,600	\$12,600
Grants and contracts	6,400	11,700	11,700
Other	3,424	3,124	3,124
Ventures	<u>-</u>	<u>-</u>	<u>3,700</u>
Total Revenues	<u>22,024</u>	<u>27,424</u>	<u>31,124</u>
NPR expenses	21,320	26,432	26,432
Capital expenditures	635	806	806
Venture expenses	<u>-</u>	<u>-</u>	<u>3,671</u>
Total Expenses	<u>21,955</u>	<u>27,238</u>	<u>30,909</u>
"Net Income"	\$ 69	\$ 186	\$ 215

*Target budget plus Venture revenues and expenses.

At a retreat for officer's held in July 1982 in Annapolis, Maryland, the Executive Vice President instructed NPR officers to use the target budget figures for operating purposes with the understanding that if additional revenues did not materialize, NPR would revert to spending at the minimum budget level.

The Board unanimously adopted the above budget on July 30, 1982. During the meeting, the Chairman of the Finance Committee reported that expected increases in revenues would allow NPR to operate on the target level budget and that estimated revenues and expenses of ventures in 1983 would be approximately \$2.5 million rather than the \$3.7 million included in the budget document, although we found no documentation supporting the revised estimates.

During August 1982, based on funding negotiations with CPB and without the approval of the Board, the Executive Vice President revised the budget approved in July by the Board by selectively choosing from the budget document the final budget spending levels for each NPR department. Some department budgets were selected from the minimum budget levels while others were selected from the target budget. Based on these changes, the Finance department prepared schedules which were included in the Comprehensive Funding Proposal sent to CPB on August 23, 1982. In summary, this proposal reflected the following budget for NPR in 1983 but excluded the estimates for Ventures.

	<u>000's</u>
CPB grants	\$12,900
Grants and contracts	10,176
Other	<u>3,124</u>
Total Revenues	<u>26,200</u>
NPR expenses*	25,369
Capital expenditures	<u>801</u>
Total Expenses	<u>26,170</u>
"Net Income"	\$ 30

CPB reviewed the proposal but reduced their funding support by \$325,000 to a total of \$12.6 million. The Executive Vice President did not reduce NPR budgeted expenses, but rather planned to seek additional grant and contribution funding to compensate for this decrease in CPB support. In addition, on September 22, 1982, the Executive Vice President approved a budget transfer between the Engineering and Distribution Divisions of \$1.24 million, to reflect a reorganization in operations. The Finance department produced "final" budget schedules based on the Comprehensive Funding Proposal, but these schedules did not include the \$325,000 CPB funding reduction or the \$1.24 million internal budget transfer.

As a result of this long development process, NPR, as of September 30, 1982, had a final budget for fiscal 1983. The final budget reflecting \$26.2 million in expenditures had not been formally approved by or communicated to the Board and the operating division directors believed they were to utilize the July 1982 target budget which had expenditures of \$27.2 million.

A number of other problems existed with the 1983 budget:

- The Finance department, including the Director of Budgets, was not involved in the initial development of the budget and had little knowledge of it.
- The budget was not revised, even after it was known before the start of the year, that two large anticipated grants would not be received.
- The budget was not revised subsequently to reflect increases in NPR Plus expenses and decreases in revenue estimates.

--There was no detailed budget for venture operations.

--Management relied on anticipated revenues from the joint ventures as the source of any deficiencies in grant revenues eventhough the FCC had not approved NPR's petitions for commercial use of the satellite channels and the Board had been told there would be no venture revenues in excess of expenses.

Other Problems at the Start of Fiscal 1983

Several other significant financial management problems existed at September 30, 1982.

First, NPR had a serious working capital deficit of \$ 1.5 million as of the end of fiscal 1982. This deficit was not reported to management and the Board until late December 1982 and early January 1983, respectively, when they reviewed the audited 1982 financial statements.

Second, NPR did not have a functioning financial management system to monitor actual operations and compare them to the budget. The old system, a computer system operated at a service bureau which had been used in 1982, was being replaced with an new computer system which would provide NPR the capability to generate its own financial management reports. Because the NPR Finance department personnel were installing the new system, reports from the old system comparing actual operations to the budget were terminated in June 1982. The new system, however, was not in place and was not capable of producing reports comparing budget to actual at the start of fiscal year 1983. Because of problems with the new system implementation, the final 1983 budget was not entered into the new

system and no reports were generated and distributed to management until the second quarter of 1983.

NPR Status at September 30, 1982

In summary, at the beginning of fiscal 1983, NPR management was embarked on an ambitious plan to expand programs broadcast, initiate various commercial joint ventures, and significantly increase private grants and contributions, but

- knew it was unlikely that they would receive any significant funds from two large grants which they had included in the budget estimates.
- had not yet established an effective fund raising program.
- had not received approval from the FCC for use of the satellite channels for commercial purposes.
- had not established an effective venture staff or a budget.
- had increased the scope of NPR Plus and its expected costs
- had not informed the operating division directors of the final budget
- had a large working capital deficit.
- did not have a functioning financial management system.
- had an informal management structure which did not always function efficiently.
- had no formal contingency plan for unexpected problems.

1983 OPERATIONS THROUGH APRIL 30, 1983

After NPR began fiscal 1983 operations, the following problems rapidly developed:

- Overspending, compared to the final budget, by various departments.

- Overspending due to NPR Plus start-up costs being higher and revenues less than budgeted.
- Unreimbursed spending on venture operations.
- Non-CPB grant revenues were not meeting expectations.
- Cash collections were delayed due to financial management information system problems.
- Financial reports, including budget vs. actual data, were not being supplied to management.

During the first quarter of 1983, the President and Executive Vice President were heavily engaged, often out of town, in negotiations regarding grants and joint venture arrangements. The Chief Financial Officer was on vacation during the month of November, the Controller was involved in day-to-day accounting matters and the 1982 audit, and the Director of the Financial Management System was involved in installing the new financial management information system. As a result, management was not in a position to recognize the signs of impending problems.

In both November and December 1982, written memos were issued by the Finance department discussing cash flow problems. A December 8, 1982, memo, in particular, indicated that approximately \$1 million a month in cash from non-CPB sources was required to provide for the budgeted 1983 expenses and that currently expenditures were exceeding cash receipts. Management, including the Chief Financial Officer, however, believed the cash flow problems were routine and could be dealt with through normal measures, such as increased efforts to collect receivables. Management also questioned the reliability of the memos because they had not been generated by the

new system, but were estimates based on cash receipts and disbursement records, although these were the only sources of information available.

In addition to the lack of any management information from the new system, the cash flow problems were further compounded because the new system did not provide accurate revenue information, preventing the Distribution Division from monitoring revenue. As a result, inaccurate bills were sent out, which were then not paid because of ensuing disputes.

Because the Representation Division was unable to receive accurate financial reports it stopped relying on the Finance Department and began relying on its own financial records. This was a typical response by the operating divisions because they did not receive any budget variance reports during this period. As a consequence, NPR management, as a whole, had lost control of expenditures in relation to the budget. In addition, the chairman of the finance committee did not receive regular financial reports that he had requested, and was never told of the new system problems.

The lack of budgetary control led to overspending by most NPR operating units. Some overspending was also due to confusion within the departments regarding certain grant revenue. The operating division personnel believed that grants received for specific purposes could be spent in addition to their budgeted expenditures. While this had been the practice in the past, all grant revenues in 1983 were to be considered as funding for the overall budgeted expenditures.

GAO's analysis of NPR's expenditures indicates that overspending was occurring throughout the organization. A projection of annual expenditures, based on the audited seven-month actual expenditures through April 30, 1983, indicated the following potential overspending by NPR:

	000's		
	<u>Budget</u>	<u>Projected</u>	<u>Over/Under</u>
Administration	\$ 5,299	\$ 7,697	\$ 2,398
Programming	11,851	13,730	1,879
Representation	1,244	1,164	(80)
Distribution	736	1,998	1,262
Engineering	5,940	6,458	518
Capital/other	<u>1,101</u>	<u>1,366</u>	<u>265</u>
Total	26,171	32,413	6,242
Ventures, net	<u>-</u>	<u>1,199</u>	<u>1,199</u>
Total	<u>\$26,171</u>	<u>\$33,612</u>	<u>\$ 7,441</u>

In addition, revenues were not meeting expectations. GAO projected annual revenues of \$23.8 million, based on the audited financial statements for the period ended April 30, 1983. This revenue would have been \$2.4 million under the final 1983 budget. This failure to achieve revenue estimates, combined with the \$7.4 million overspending projected above, would have resulted in an operating deficit for the year ended September 30, 1983 of \$9.8 million. The fact that the actual operating deficit for the year ending September 30, 1983 was only \$6.4 million is due primarily to the efforts of the interim management team to reduce expenses.

The magnitude of these problems was not known by NPR management until the second quarter of fiscal 1983. In late December 1982, the Executive Vice President began preparation of the 1984 budget. As part of this process, he attempted to review fiscal 1983 operations to date. He was unable to obtain reliable financial information from the Finance Department, however, due to problems associated with the conversion to the new financial reporting system. The only reports available through January of 1983 were prepared from the cash receipts and disbursements records.

The lack of adequate financial data from the Finance Department led the Executive Vice President to seek information from the individual operating departments throughout the month of February. Based on this information, he estimated a \$3.3 million potential deficit, which he reported to the President on February 26, 1983.

Planning sessions were held in early March with division and department heads to discuss possible reductions in the budget. The estimated deficit of \$3.3 million, and the proposed budget reductions to overcome it, was presented to the Board on March 11, 1983. The Board approved the proposed solution including staff lay-offs which were announced on March 14, 1983.

During the next several weeks, revised estimates of revenue and expenses, including termination costs, became available to the Executive Vice President, and the potential deficit estimate was revised upward to \$5.8 million. The member stations were informed of NPR's financial problems at the April 18, 1983, Public Radio Conference. At this time, the President resigned. Ultimately, after audit, the actual operating deficit for fiscal 1983 came to approximately \$6.4 million.

SUMMARY OF FINANCIAL PROBLEMS

NPR's financial problems in 1983 resulted from:

- Non-CPB grant revenue projections which were not realized.
- Overspending by the organization on NPR Plus and other operations.
- Unreimbursed spending on venture operations.

These problems were caused or compounded by NPR's informal management operations, lack of developed venture management and fund raising capabilities, confusion over the budget, its weak financial condition at the beginning of the year and lack of a functioning financial management information system.

TRANSITION PERIOD FROM APRIL 30, 1983 TO OCTOBER 31, 1983

As of May 1983, a new interim President and management team were selected to bring NPR operations under control and deal with its financial problems. The new management made a number of changes in operations. The actions taken included:

- Hiring an accounting firm to perform an interim audit to determine NPR's financial condition as of April 30, 1983 and review management and control procedures.
- Further substantial reductions in expenses through personnel terminations and reductions in operating expenses.
- Negotiation of a loan from CPB.
- Reduction of venture operations.
- Completion of the financial management information system.
- Development of a 1984 budget based on supporting assumptions which were reviewed by the outside auditors.
- Approval of all expenditures by the President.
- Increased involvement of the Board in management.
- Search for a new permanent management team.

The interim management also began the process of improving NPR operating controls and procedures to prevent a similar future problem.

CURRENT STATUS OF CONTROLS

In general, the financial problems experienced by NPR in 1983 were caused by or compounded by the lack of management and financial controls over its operations. Since April 30, 1983, the peak of the crisis period, numerous changes and controls over operations have been instituted internally by NPR management and externally by CPB through the loan agreement. The primary sources of recommendations for making changes and instituting controls were (1) the Coopers and Lybrand management report which assessed NPR's controls as of April 30, 1983, (2) recommendations made by the interim President and his management team and (3) the CPB loan agreement. Some of the key areas which were focused on include: (1) the budget process, (2) administrative policies and procedures, (3) revenue controls, (4) purchasing controls, (5) CPB oversight, (6) the bylaws, and (7) the financial management system.

Budget Process

The main budget recommendation made by Coopers and Lybrand was that operating departments should have formal policies and procedures regarding the preparation, execution, and monitoring of budgets. According to NPR's Acting Executive Vice President the formal budget policies have been drafted and implemented. He also expects that further refinements to the process will be needed. In addition to this specific policy, other budgetary policies and procedures have been incorporated in the new draft NPR bylaws.

Administrative Policies

The Coopers and Lybrand management report identified numerous significant weaknesses in NPR's administrative policies as of April 30, 1983. The interim President and his management team implemented a number of administrative policies which added to, amended or superceded the existing inadequate policies. These policies focus on areas such as the procurement of goods and services, travel and related expenses, conflict of interest, hiring and compensation of outside auditors, personnel and employee conduct and responsibilities etc.

Revenue Controls

The institution of revenue controls result principally from the Coopers and Lybrand management report and requirements specified in the CPB loan agreement. The majority of the controls which were implemented internally address tightening the billing and revenue collection procedures. Specifically, some of these include preparing a monthly list of unpaid accounts and follow up on them, and distributing a computer listing of all bills to the originating department. In addition, improved control over grant revenue accounting was provided.

Purchasing Controls

Recommendations made by Coopers and Lybrand regarding improved purchasing controls have also been adopted. These controls include centralized purchasing, improved control over purchase orders, the comparison of purchase requests to available budget authority, and improved control over vendor invoices.

CPB Oversight

CPB oversight of NPR has been strengthened since April 30, 1983. For example, the loan agreement between NPR and CPB provides that for each of the fiscal years covered by the agreement NPR will develop an annual budget under which reasonably projected expenditures will not exceed the reasonably projected revenues. A public accounting firm is to examine the management assumptions used in preparing the budget and render an opinion on the assumptions reasonableness. In addition, CPB will approve NPR's budget on the grounds of financial prudence. Subsequent to CPB's approval of the budget, NPR will not make any revisions or reallocations between the line items that will exceed ten percent without prior written CPB approval. When requesting an advance under the loan agreement, NPR is to explain how the advance will impact upon its budget and provide CPB a financial status report for each month that the agreement is in effect. This report is to contain a balance sheet, statement of financial activity, statement of changes in financial position, and supplementary statements detailing income by major sources and the number of persons currently employed by NPR.

NPR Bylaws

NPR's bylaws have been redrafted to incorporate control over the budget and internal control systems. Specifically the bylaws state that the Board shall have sole authority to adopt or modify the budget for each fiscal year. The Finance Committee is to review and make recommendations to the Board regarding corporate and departmental revenue estimates and budget proposals, compliance with spending levels previously budgeted, and the establishment and

amendment of the budget. The Audit Committee shall oversee NPR's internal control systems, and the internal and external audits of NPR's financial condition. In addition, the bylaws state that the Controller shall ensure that all expenditures are made in accordance with budgets , policies and procedures.

These amended bylaws were presented to the Board in September 1983, at which time the Board moved that they be reviewed by its Governance Committee and by NPR's member stations. The amended bylaws are also to be reviewed at the April 1984, Public Radio Conference.

Financial Management Information System

NPR's financial management information system has now been implemented, based on our discussions with management personnel. They did report that certain minor problems are currently being resolved. The system is, however, producing monthly reports which are distributed to managers. The reports include financial statements, comparisons of actual to budgeted expenditures, and the costs assigned to each program area. These reports are being used, according to management, to monitor the operations of NPR.

NPR'S ABILITY TO CONTINUE OPERATIONS

NPR's 1984 budget of \$20.8 million in revenues reflects a reduction of \$5.4 million from the final fiscal 1983 budget, with reduced funding from CPB. The unaudited financial statements for the first quarter of fiscal 1984 reflect a net income of \$285,000, with 63 percent of revenues from CPB grants. This compares very favorably with the budgeted result which had planned a small deficit of approximately \$50,000. These figures demonstrate that, while

NPR's continued existence is dependent upon CPB support, significant reductions in expenses have been made since fiscal 1983 when the organization lost \$6.4 million. In particular, the reductions in personnel, from over 450 people in March 1983 to 288 as of December 31, 1983, help ensure the organization is now structured to operate on a much lower level of revenues.

CONCLUSIONS AND RECOMMENDATIONS

In summary, NPR has made substantial progress in bringing operations under control and in implementing improved controls and procedures. Most of these changes and controls became effective during fiscal 1984, and as a result GAO is not in a position at the present time to determine if all controls are working effectively. We concur, however, with the recommendations made by Coopers and Lybrand in their management report and those made by the interim President, particularly those relating to the bylaws. We also concur with the controls currently required by the CPB loan agreement. We recommend that NPR's Board and management and CPB complete implementation of improved controls in response to the existing recommendations and to regularly review the procedures and controls to ensure they operate effectively in the future.

APPENDIX I

NATIONAL PUBLIC RADIO
SUMMARY OF BUDGET VS ACTUAL
FISCAL 1980 - 1983 (Note 1)

APPENDIX

DESCRIPTION	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL
	FY 1980	FY 1980	FY 1981	FY 1981	FY 1982	FY 1982	FY 1983 (Note 2)	FY 1983
Revenue								
CPB								
Basic Operating Grant	\$ *	\$15,327,110	\$ *	\$14,413,784	\$ *	\$15,400,000	\$12,100,000	\$12,150,000
Capital Additions	*	598,092	*	780,791	*	789,877		
Supplemental Appropriation	*	1,250,565	*	3,025,060	*	1,184,691	500,000	409,149
Total CPB Funding	15,758,708	17,175,767	15,234,395	18,219,635	15,400,000	17,374,568	12,600,000	12,559,149
Non-CPB								
Grants/Contributions	*	1,184,298	*	1,464,022	*	3,095,223	7,200,000	3,843,686
Membership Dues	*	1,096,575	*	1,315,628	*	1,476,120	1,224,000	1,345,012
Distr. Interconnect Fees	*	-0-	*	-0-	*	1,981,104	1,900,000	2,071,600
Distribution Services	*	-0-	*	-0-	*	846,448	2,200,000	3,146,312
NPR Plus	*	-0-	*	-0-	*	-0-	1,000,000	295,403
Other Income	*	576,023	*	916,057	*	1,409,735	46,709	396,560
Total Non-CPB Funding	3,288,369	2,856,896	6,419,945	3,695,707	7,519,037	8,808,630	13,570,709	11,098,573
Total Revenues	19,047,077	20,032,663	21,654,340	21,915,342	22,919,037	26,183,198	26,170,709	23,657,722
Expenses								
Program Services:								
Programming	10,113,304	10,319,135	11,116,230	10,967,770	10,918,027	10,650,827	11,850,748	12,794,602
Distribution	1,163,170	1,049,598	1,400,366	1,270,300	1,325,475	2,085,335	735,768	1,586,712
Representation	886,284	881,066	1,351,566	1,338,813	1,301,799	1,607,853	1,244,377	1,318,045
Total Program Services	12,162,758	12,249,799	13,868,162	13,576,883	13,545,301	14,344,015	13,830,893	15,699,359
Support Services (Note 3)	6,884,319	6,762,718	7,786,178	8,039,698	9,373,736	11,759,205	12,339,816	13,539,361
Ventures	-0-	-0-	-0-	-0-	-0-	-0-	-0-	865,989
Restated Expenses (Note 4)	-0-	-0-	-0-	-0-	-0-	576,495	-0-	-0-
Total Expenses	19,047,077	19,012,517	21,654,340	21,616,581	22,919,037	26,679,715	26,170,709	30,104,709
Excess (Deficiency) of Revenues over Expenses	\$ -0-	\$ 1,020,146	\$ -0-	\$ 298,761	\$ -0-	\$ (496,516)	\$ -0-	\$ (6,446,987)

*Indicates no detailed breakout is available.
For explanation of notes, please see following page.

NOTES TO APPENDIX I

- Note 1 Actual financial data is based on financial statements audited by independent certified public accountants. Certain reclassifications in expense categories have been made for consistency with the budget.
- Note 2 GAO developed the FY 1983 budget using several sources of information. The revenue estimates were obtained from the Comprehensive Funding Proposal sent to the CPB in August 1982, and from information contained in a December, 1982 memo from NPR's Finance Department. The expense budget was developed using Finance Department schedules prepared in late September 1982, memos between NPR's Executive VP and department heads, and the Comprehensive Funding Proposal.
- Note 3 Support Services includes both Engineering and Administrative expenses.
- Note 4 During the April 30, 1983 financial audit, costs of programs to be broadcast in the future which had been deferred as of September 30, 1982 were written off as a prior period adjustment. This adjustment has been reflected in the schedule as a reduction of 1982 income.
- Note 5 Budget and actual figures for FY 1980, 1981, and 1982 were taken from the Annual Summaries sent to the CPB.

FISCAL 1982		FISCAL 1983			FISCAL 1984
10/81 - 7/82	8/82 - 9/82	10/82 - 5/83	6/83 - 7/83	8/83 - 9/83	10/83 - 2/1/84
R.J. Butterworth	R.J. Butterworth P. Cahill	R.J. Butterworth	R.J. Butterworth P. Cahill	R.J. Butterworth P. Cahill	D. Bennett R.J. Butterworth P. Cahill
			D. Creagh	D. Creagh	W. Chamberlin, Jr D. Creagh
W. Devine III	W. Devine III				
C. Douglas	C. Douglas	C. Douglas	C. Douglas	C. Douglas D. Forsling 9/ E. Graves 10/	C. Douglas
E. Graves	E. Garves	E. Graves	E. Graves		
J. Gregory	J. Gregory				
J. Irwin	J. Irwin				K. Jensen
M. Jones	M. Jones	M. Jones	M. Jones 6/		
G. Klingler	G. Klingler	G. Klingler	G. Klingler	G. Klingler 11/	
C. MacKinnon	C. MacKinnon	C. MacKinnon	C. MacKinnon	C. MacKinnon	W. Leonard C. MacKinnon
F. Mankiewicz	F. Mankiewicz	F. Mankiewicz 2/			
S. Meuche	S. Meuche	S. Meuche	S. Meuche	S. Meuche	S. Meuche
C. Meyer Jr.	C. Meyer Jr.	C. Meyer Jr.	C. Meyer Jr.	C. Meyer Jr. 12/	G. Miles, Jr.
		J. Mitchell 3/			
M. Mitchell					
G. Olivarez	G. Olivarez	G. Olivarez	D. Mullally 7/ G. Olivarez	D. Mullally G. Olivarez	D. Mullally G. Olivarez
D. Ouzts	D. Ouzts	D. Ouzts 4/			
					E. Sanchez G. Shivers
			W. Siemering 8/ W. Smith	W. Siemering W. Smith 13/	W. Siemering
W. Smith	W. Smith	W. Smsith			
P. Swenson	P. Swenson	C. Wooten 5/			

1/ Resigned 7/82 2/ Resigned 5/83 3/ Resigned 5/83 4/ Resigned 4/83 5/ Resigned 3/83
 6/ Resigned 6/83 7/ Elected 5/83 8/ Elected 5/83 9/ Elected 7/83; Retired 9/83
 10/ Resigned 7/83 11/ Retired 9/83 12/ Resigned 9/83 13/ Retired 9/83

KEY NPR BOARD MEMBERS AND OFFICERS
FISCAL 1982 TO FISCAL 1984

<u>POSITION</u>	<u>NAME</u>	<u>DATES</u>	
		<u>FROM</u>	<u>TO</u>
<u>BOARD OF DIRECTORS</u>			
Chairman	Maurice Mitchell	10/79	7/82
	Vacant	8/82	9/82
	Myron Jones	10/82	6/83
	Donald Mullally	6/83	Present
Vice Chairman	Frank Mankiewicz	8/77	4/83
Secretary	Ritajean Butterworth	10/80	9/83
	Ernest Sanchez	10/83	Present
Treasurer	James Irwin	10/81	9/82
	Steven Meuche	10/82	6/83
	Cyrus MacKinnon	6/83	9/83
	George Miles	10/83	Present
Finance/Development Comm. Chairman	James Irwin	10/81	9/82
	Steven Meuche	10/82	6/83
	Cyrus MacKinnon	6/83	9/83
Development Comm. Chairman	Patricia Cahill	10/83	Present
Programing Committee Chairman	George Klingler	10/81	9/83
	David Creagh	10/83	Present
Membership Committee Chairman	Dale Ouzts	10/81	9/82
	Wallace Smith	10/82	7/83
	Steven Meuche	7/83	9/83
	William Siemering	10/83	Present
Finance/Audit Committee	George Miles	10/83	Present
<u>OFFICERS</u>			
President	Frank Mankiewicz	8/77	4/83
	Interim Management	5/83	10/83
	Douglas Bennet	10/83	Present

APPENDIX III

APPENDIX III

<u>Position</u>	<u>Name</u>	<u>Dates</u>	
<u>Officers (cont.)</u>			
Executive VP	Thomas Warnock	12/78	6/83
	Interim Management	6/83	10/83
	Steve Symonds	11/83	Present
Sr. VP Programming	Samuel Holt	12/78	12/83
	Vacant	1/83	8/83
	Joe Gwathmey (Acting)	8/83	Present
Sr. VP Representation	Clyde Robinson	7/80	12/83
Sr. VP Distribution	Billy Oxley	7/78	Present
Sr. VP National Affairs and Planning	Walda Roseman	7/80	11/81
	Vacant	12/81	2/82
		Position abolished.	
VP Business Services	Richard Hodgetts	8/82	8/83
	Vacant	8/83	
VP Development	Vacant	2/82	7/82
	Jane Couch	8/82	Present
VP Engineering	Richard Cassidy	2/82	Present
VP News and Information	Barbara Cohen	2/82	6/83
General Counsel	Michael Glass	9/81	11/83
Chief Financial Officer/ Assistant Treasurer	Arthur Roberts	10/79	6/83
	Interim management	6/83	9/83
Director of Finance and Administration	H. Melvin Ming	8/83	Present
<u>INTERIM MANAGEMENT</u> (starting May 1983)			
Acting Chief Executive Officer	Ronald Bornstein	5/83	8/83
Acting President	Ronald Bornstein	8/83	10/83
Acting Executive Vice President	Steve Symonds	6/83	10/83

APPENDIX III

APPENDIX III

PositionNameDatesOfficers (cont.)Acting Director of
Finance

George Miles

6/83

10/83

Counsel

Henry Goldberg
Thomas Gherardi

5/83

10/83

5/83

10/83

GAO RESPONSES TO QUESTIONS
OF SUBCOMMITTEE STAFF

During the period October 1, 1981 thru April 30, 1983, did NPR have a fiscal year budget?

Yes. See testimony for details.

Who adopted the budget? When?

Yes. See testimony for details.

Who amended the budget. When?

The fiscal 1983 Revised Draft Planning Budget was amended several times, both before and during the 1983 fiscal year, however none of these amendments were ever brought before the Board for approval.

Pre-fiscal 1983 amendments were:

- Late July 1982 - Before the Board approved the fiscal 1983 Revised Planning Budget, the Executive V.P. instructed NPR Officers to plan their fiscal 1983 operations based on the "Target" budget level.

- Aug. 23, 1982 - Based on funding negotiations with the CPB Director of Broadcast Services, the Executive V.P. further refined the fiscal 1983 Revised Draft Planning Budget by selectively choosing, from the three budget levels, the final budget for each NPR department. Some department budgets came from the "Minimum" planning budget level, while others came from the "Target" planning budget level. The result was a final NPR fiscal 1983 operating budget of \$26.2 million.

- The Finance Department prepared schedules from these figures that were included in the Comprehensive Funding Proposal to the CPB.

- The Executive V.P. submitted this proposal to CPB.
- Sept. 1982
- CPB returned the proposal to the Executive V.P. with one hand written change: the \$325,000 requested for Temporary Distribution Services was not to be funded by CPB. NPR would seek outside funding for this activity, so it remained in the budget.
- Sept. 22, 1982
- Both the Planning and the Common Carrier Management Functions were transferred from the Distribution Division to the Engineering Division. This resulted in a \$1.2 million transfer between the division's budgets, but did not change the NPR budget total.
- Sept. 22, 1982
- Finance produced Revised schedules based on the Comprehensive Funding Proposal. However, they did not include the \$325,000 CPB change nor the \$1.2 million transfer between divisions. Had these changes been included, this document would have represented the final NPR Fiscal Year 1983 Budget, totalling \$26.2 million as understood by the Executive V.P.

As indicated in the testimony, there were events which were known to management which should have led to further revisions to the budget, such as the likely shortage in grant revenue, but which were not reflected in any budget revision.

Amendments During Fiscal Year 1983 - the following changes were adopted after the discovery of the projected 1983 shortfall. Based on information from department heads, the Executive V.P. projected a \$3.3 million budget deficit in middle to late February 1983. The President authorized the Executive V.P. to assemble officers and department heads to work out the details of the budget cuts:

- Mar. 5, 1983
 - Ad Hoc Budget Planning Committee consisting of officers and department heads, unofficially trimmed \$2.8 million from the budget.
- Mar. 8, 1983
 - Ad Hoc Planning Committee decided to terminate 35 people.

- Mar. 9-10, 1983 - Board minutes and interviews with agency officials indicate that the Board's Finance and Programming Committees were presented a budget cut outline by the President and the Executive V.P.
- Mar. 11, 1983 - The Board made the first official fiscal 1983 budget cut of \$2.8 million, and authorized NPR to negotiate with the President of CPB for a \$0.5 million loan.

Following the "Dulles Officers Retreat" on March 21 and 22, 1983 at which the Executive V.P. provided a newly projected budget deficit of \$5.8 million, the following occurred:

- late Mar. 1983 - The President and the Executive V.P. informed the Board and CPB of the additional shortfall.
- Mar.-Apr. 1983 - NPR officers held budget strategy meetings.
- Apr. 13, 1983 - The Board in executive session reviewed budget revision options.
- Apr. 17, 1983 - The Board adopted a revised fiscal 1983 budget that called for member station assessments of \$1.5 million in 1983 and 1984 and a reprogramming of \$0.5 million from the Representation Division to the Programming Division.
- Apr. 20, 1983 - The Board in executive session discontinued NPR contributions to the employee retirement plan in a further effort to reduce costs.

Who was in charge of implementing the fiscal 1983 budget?

According to the Executive V.P., the Finance Department was responsible for distributing Revised Schedules to NPR department heads. However, NPR's Controller assumed the Executive V.P. had circulated final budget data to department heads.

According to our review of the NPR job descriptions in effect for the the period in question, the responsibility for the transmission of final budget data rests with the Finance Department:

The Chief Financial Officer and Assistant Treasurer:

- Establishes and operates a financial budget system,
- Maintains internal relationships with all Department Directors and Officers at NPR, and
- Maintains external contact with CPB.

The Director, Financial Management Information Systems, Budgets and Grants:

- Performs budgets and grants administration;
- Provides assistance to management in budget preparation,
- Compiles budget instructions and provides guidance,
- Prepares budget estimates,
- Is responsible for incorporating CPB grant changes into the final budget,
- Is responsible for including funds reprogramming in the final budget, and
- Maintains internal relations with all departments within NPR regarding FMIS matters and/or grants administration.

The Controller:

- Administers budgets,
- Administers reports to CPB,
- Coordinates and assists NPR staff in the preparation of corporate budgets,
- Maintains internal relations with division and department heads, and
- Maintains external relations with CPB.

The Executive V.P.'s budgetary responsibilities are not defined. Personnel did not update the Executive V.P.'s position description.

Was the budget, as adopted or amended, actually implemented?

The NPR Final Budget, as amended by the Executive V.P. and CPB before the start of fiscal 1983 was never fully implemented. In our review of NPR's fiscal 1983 budget process we found:

- Senior V.P.'s have stated that they never received a "final" NPR budget from the Finance Department.
- The Executive V.P. assumed that the Finance Department distributed the final NPR Budget, as amended, to the operating departments.
- The Finance Department manually produced a revised schedule based on the approved CPB funding proposal which showed department budget totals, but failed to show the CPB \$325,000 change, and the reprogramming of \$1.2 million between divisions. There was no evidence that this schedule was distributed.
- Due to the confusion over job responsibility in regard to the distribution of the final budget, the "final" figures were not distributed to department heads and they continued to operate under the "Target" level given to them in July, 1982 by the Executive V.P.

What was the budget outcome, end of Fiscal Year result of financial transactions?

For the seven-month period October 1, 1982 through April 30, 1983, NPR expenses exceeded revenues by \$4.5 million. The NPR Fund Balance, of April 30, 1983, for this same period of time had a deficit of \$1.2 million. Working capital for the first seven of the fiscal year 1983 decreased by \$4.7 million.

Using the seven-month actual expense totals for NPR and projecting these out to the fiscal year-end (September 30, 1983), GAO concludes that had NPR's rate of spending for the seven-month period October 1, 1982 through April 30, 1983 remained constant through the fiscal year-end, total expenditures would have amounted to approximately \$32.1 million. This projected expenditure total exceeds the CPB-approved final budget of \$26.2 million by over \$5.9 million.

Subsequent to April 30, 1983, an interim management team took over responsibility for NPR operations. The management team placed constraints on NPR's spending. The results of these constraints are evident in NPR's fiscal 1983 results of operations. For the fiscal year ended September 30, 1983, total NPR expenses were \$30.1 million, which exceeded total revenue by approximately \$6.5 million. The NPR Fund Balance at fiscal 1983 year end consisted of \$3 million deficit. Fiscal 1983 expenditures exceeded the CPB-approved final budget of \$26.2 million by \$3.9 million.

In what writing(s), if any, was this result reflected?

On May 2, 1983, the NPR Board authorized the engagement of the accounting firm of Coopers and Lybrand for the purpose of conducting an audit of NPR for the period October 1, 1982 through April 30, 1983. Their audit report was issued on September 30, 1983.

What, if anything, was wrong with the budget?

NPR signed the fiscal 1983 CPB Production and Support Agreement and began the fiscal year with no firm commitment or guarantee for the majority of its projected non-CPB revenues nor did it revise the budget estimates when revenue sources changed.

For example, of the \$9 million budgeted grants and contracts revenue for the Programming Division:

- \$5.3 million was expected from outside contributions. The Senior V.P. of Development was not aware of this goal until after the beginning of the fiscal year
- \$2 to 3 million was expected in grants from two Foundations. One grant never passed the negotiation stage. The Executive V.P. merely anticipated a positive reaction to the President's grant requests prior to the close of fiscal 1983. The Ford grant which was anticipated to be approximately \$5 million over 3 years, fell through prior to the beginning of fiscal 1983. The President finally negotiated a \$0.4 million grant, and
- \$0.7 to 1.7 million was expected from earned income, e.g. tape sales and overseas program sales.
- In addition, the original venture revenue estimates were \$3.7 million which would cover costs, reimburse stations and leave NPR with approximately \$300,000 to \$400,00, but by April 30, 1983, Ventures had exceeded its revenues by approximately \$854,000.
- NPR departments overspent their budgets from 1982 to April 30, 1983 due to:
 - confusion over what constituted the "final" NPR 1983 Budget, and
 - double spending of grant revenue department heads were unaware that all grant revenue had been included in their budgets.

--Formal budget to actual variance reports ceased in July 1982, and

--the first firm financial performance information did not become available until after the first quarter of fiscal 1983 operations.

GAO recommendations?

See testimony.

Did NPR have an accounting and financial reporting systems capable of providing current information regarding overall, departmental and functional compliance with the budget as adopted or amended?

--Coopers and Lybrand's management report of June 1983 stated that the financial management system during the first seven months of fiscal 1983 (Oct. 1982-April 30, 1983) was incapable of producing timely and accurate reports. Specifically, the report indicated:

--Implementation of software was done ineffeciently and ineffectively:

- NPR management did not assign necessary technical resources,
- User Communication with users necessary for effective implementation did not occur,
- The order of system module implementation was incorrect,
- The existing system was terminated before the new system was operating properly, and before all software modifications to the new system were complete,
- The partially implemented system did not provide reliable financial data to NPR management, and
- Many of the reports produced by the systems were not designed to meet NPR's management information needs.

--The Coopers and Lybrand report also stated that only certain segments of the total automated financial system had implemented as of April 30, 1983:

- the general ledger system - implemented,
- the accounts receivable system - partially implemented,

- the budget reporting system - partially implemented,
- the accounts payable system - not implemented,
- the sales & inventory control system - not implemented, and
- The fund accounting system - not implemented.

Why did such a system not exist at NPR?

See testimony.

Whose responsibility was the creation of such a system?

- The Chief Financial Officer was responsible for establishing and operating the financial management system required by NPR operations.
- The Director, Financial Management Information Systems, Budgets & Grants was responsible for coordinating and directing all financial management information system activities to include financial systems design, development, and implementation of training of departmental users. He was also responsible for oversight of the FMIS project.
- The Controller was responsible for administering a comprehensive accounting system for the corporation.
- FMIS Management Committee was to be an interface between the system and user groups. It was composed of the:
 - Executive Vice President,
 - Chief Financial Officer,
 - Senior V.P. Representation,
 - Senior V.P. Engineering,
 - Manager of Computer Services,
 - Director, Financial Management Information, Systems, Budgets & Grants, and
 - Controller
- Deloitte, Haskins, and Sells, was engaged to perform a limited review of the conversion process (converting from an outside service bureau, AMS, to an NPR operated AMCOR financial system) by:
 - reviewing plans for conversion testing & installation and
 - reviewing system documentation & test results.

Who knew no such system was in place?

--A Deloitte, Haskins, and Sells report, dated October 21, 1982, provided a status report on the FMIS implementation process, which began in the spring of 1981. The report highlighted the following activities pertaining to implementation of the system:

- the implementation process has progressed well but,
- the time schedule has slipped due to unanticipated delays,
- the general ledger module has been tested but,
- testing the accounts payable, accounts receivable and budget modules will begin in October.

--Deloitte, Haskins and Sells recommended that:

- Additional testing on components of the general ledger software.
- Testing of accounts receivable, accounts payable and budget modules be scheduled and carefully controlled because parallel testing would not be done and noted that two custom software programs for budgeting were being developed.
- Develop controls over entry of data to these modules.
- A position be created to monitor the execution, modification and updating of the financial applications at NPR.

In addition, they reported that,

- As of October 1982 two custom programs were being developed to recreate the budget expense breakdown by cost center as was available from the AMS system

--Deloitte, Haskins & Sells' final report of March 30, 1983 reviewed the conversion process for the budget system during January and February 1983. The report indicated that:

- the general ledger system has been implemented,
- the accounts receivable module procedures should be documented and the module would be fully operational in late spring 1983,

-accounts payable procedures should be documented,
and

-the budget system had sufficient detail to produce
a:

- chart of accounts,
- monthly proof of transactions,
- summary posting reports, and
- monthly variance reports.

-The November and December budget reports were used to verify the accuracy of the conversion Budget entries made from user prepared reports.

-The transfer of budget information from manual to the automated system had been reconciled.

In summary the report indicated that:

-the AMCOR financial system appeared to have fulfilled NPR's expectations, and

-the Accounting Department needed to become more responsive to management's information needs.

The Coopers and Lybrand report of June 1983 and the Deloitte, Haskins and Sells report of March 1983 agree that:

-the general ledger system was implemented

-the accounts receivable and accounts payable system were still being implemented,

-the budget system was partially implemented.

The reports do not agree on the exact status of the budget system. The explanation appears to be that the finance department personnel believed the budget system and reports were acceptable but that management and operating personnel were not satisfied with the reporting.

Our review indicates that budgetary reports were not distributed during November and December 1982 and that:

-the Executive V.P. was reportedly told by the Finance Department that delays in getting reliable information from AMCOR were a temporary problem,

- in a mid-January meeting the Executive V.P. informed the Senior V.P. Representation that he could not rely on information from the accounting system,
- there was a FMIS meeting on Feb. 8 or 9th at which the lack of accounting information from the new system was discussed,
- the Representation Division began receiving financial reports from the new system in late December or early January. However, they were considered useless since much of financial information was omitted,
- financial reports received in February did not match Representation's records, and
- at the March 26th officers' retreat, the Senior V.P. of Distribution was asked to work with Finance and correct problems with of the new accounting system.

According to the Controller, the first firm financial information for fiscal 1983 became available in January. It showed departmental spending for October & November 1982, and was prepared from cash receipts & disbursements journals and the bank statements.

What was done with this knowledge?

NPR continued to implement FMIS, but information used for decision making continued to be based on analyses of cash receipts, disbursements and operating division records.

GAO Recommendations:

See testimony.

During the period Oct. 1, 1981 to April 30, 1983, did NPR have a system or systems of controls to assure overall, departmental, and functional compliance with the budget as adopted or amended, (i.e., to assure obligations and expenditures where lawful, authorized, budgeted, and made in the regular course of business and within adopted procedures)?

There was no effective system of controls at NPR to assure overall departmental and functional compliance with the budget.

Why Not?

-As previously discussed the final NPR fiscal 1983 budget was not transmitted to department heads; therefore, the budget was ineffective as a control.

-The automated financial management system was incapable of producing meaningful reports from Oct 1, 1982 to April 30, 1983. These reports were ineffective as a control.

-NPR had inadequate administrative policies and procedures governing:

- procurement,
- travel,
- employee conduct,
- conflict of interest, and
- selection of and Board access to independent auditors.

-Where policies did exist the procedures to enforce them were ineffective or nonexistent. (NPR policies and procedures are discussed later in this testimony)

Who was charged with creating such a system?

- The Board is responsible for adopting a budget. The Finance Committee has oversight responsibility for the financial operations of NPR.
- The President was responsible for the creation of administrative policies and procedures and the direction of the day-to-day affairs of the NPR.
- The administration of the budget as a control tool and the monitoring of budget variances through a financial management information system were the responsibility of the Chief Financial Officer and his staff.

When was the absence of such a system first manifested; to Whom?
Who took action to correct the situation; when? What outcome?

- NPR's management was aware that the Finance Department stopped issuing budget variance reports in June 1982.
- The Finance Department was aware that no budget monitoring was possible at the beginning of fiscal 1983 when it terminated its Automated Management Services (AMS) in preparation for change to the new AMCOR system.
- The Executive V.P. first knew of the lack of budgetary information when he began work on the fiscal 1984 budget in late Dec. 1982 and early Jan. 1983.
- When fiscal problems became evident early in calendar year 1983 the Executive V.P. manually collected expenditure information from department heads to determine the first projected budget deficit.

GAO recommendations?

See testimony.

During the period Oct. 1, 1981 to April 30, 1983 did a system exist to assure that (1) Senior Management (Officers) (2) appropriate Board Committees and (3) the Board of Directors, were informed of overall, departmental, and functional material deviations from budgeted income, obligations, and expenditures?

See testimony and above responses.

Was the system implemented?

See testimony.

To what extent?

See testimony.

Give examples of the management information system functioning, if any?

See testimony.

Give examples of the NPR management information system failing to function, if any? In each example who was responsible for the success, failure of the system to function? Why?

--The Board did not adopt final budget and insure it was transmitted to responsible management personnel. Several factors contributed to this problem and the overall confusion surrounding the budget.

--The President did not to adopt administrative policies and procedures requiring clear position descriptions and an understanding at all levels of respective responsibilities for corporate governance and corporate accountability.

--The Finance Committee did not monitor completion of the budget preparation process. No review or approval of amendments to the July 1982 Draft Planning Budget ever occurred. In addition, the Finance Committee did not monitor the Finance Department, whose Financial Management Information System was incapable of producing timely and accurate reports during the period October 1, 1982 to April 30, 1983.

--Finally, the Board, its committees, and its management did not to recognized the warning signs of problems at NPR:

See testimony.

- Feb., 1982 - although some members of the Board expressed misgivings about NPR's ability to raise funds and create new V.P. positions in a time of tight money, the Board:
 - created 4 new V.P. positions, and
 - approved pursuit of new income sources to support the President's plan to reduce NPR's dependence on Federal Funds,
- July, 1982 - the Finance Department ceased issuing budget variance reports in July, 1982 and did not resume until January, 1983. According to management officials, the reports that they in January were useless,
- Sept., 1982 - major grants did not materialized and the Executive V.P. did not revise fiscal year 1983 revenue estimates.
- Oct. 1, 1982 - FCC approvals, critical to Ventures success, had not been received,
- Oct. 27, 1982 - the NPR Controller gave a negative audit report on the Codart venture,
- Nov. 5, 1982 - the Chief Financial Officer sent a memo to the Executive V.P. citing cash flow problems at NPR,
- Nov. 22, 1982 - another memo about the cash flow problem was sent to all officers, directors, and managers, by the Chief Financial Officer,
- Dec. 6, '82 - the Finance Committee Chairman noted that NPR was late in making payments to stations,
- Dec. 8, '82 - the Budget Officer and Controller sent a memo to the Executive V.P. about the cash flow problems. NPR needed \$12 million non-CPB revenue during fiscal 1983 to remain solvent, according to the memo,
- Dec., 1982 - the Executive V.P. called NPR officers together to discuss the December 8 memo. He decided to wait for the Chief Financial Officer's response. The Chief Financial Officer said this was a temporary problem,

- Dec., 1982 - the Senior V.P. Representation received his first reports from new FMIS system; according to him, they were of little value.
- Dec.-Jan 1983- the Officers approved a 6% pay raise,
- Jan., 1983 - CPB noted that NPR was under their projected first quarter non-CPB revenue estimates,
- Jan. 13,1983 - the Chief Financial Officer reported a decrease in NPR working capital for fiscal 1982, but characterized the audit report as "clean" to the Board. The Deloitte, Haskins, and Sels partner warned the Chairman of the Finance Committee to monitor NPR cash flow and to request monthly financial reports. The Deloitte, Haskins, and Sels partner noted that NPR's only material control weakness was in the area of distribution fees,
- Mid Jan.1983 - The Executive V.P. could not get the necessary financial information to prepare the fiscal 1984 budget, He responded by personally getting information from division heads in February,
- Late Feb.1983- Fiscal problems became apparent with the Executive V.P.'s first projected budget deficit of \$3.2 million for fiscal year 1983,
- Apr. 13,1983 - A memo from the Budget Officer to the Chief Financial Officer indicated that critical financial information regarding budget cuts and reprogramming of funds was never transmitted, by the, Executive V.P. to the Finance Department.

What if anything, was wrong with the system?

--As previously stated:

- the Board did not monitor responsibility,
- Administrative policies and procedures were weak or non-existent, especially in the area of budget execution and management,
- the Financial Management Information System failed to provide timely and accurate reports,
- responsible officials did not take immediate action on the warning signs of fiscal problems,

--In addition, a January 1982 report by McKinsey and Co, inc. noted that NPR lacked some necessary management skills in light of Project Independence and interviews with management officials indicated a lack of confidence in the Finance Department and its reports.

GAO Recommendations?

See testimony.

During the period Oct, 1, 1981 to April 30, 1983 did NPR have an outside (CPA) auditor?

Yes, Deloitte, Haskins & Sells

Was an outside audit conducted?

	<u>Date</u>	<u>Deficiencies Noted</u>
Fiscal 1982 financial audits	12/8/82	No
Management Letter, fiscal 1982	12/8/82	Yes
Management Letters, FMIS	10/21/82 & 3/30/83	Yes (see (discussion of FMIS)

Summarize audit results and deficiencies:

An Unqualified Auditors Report with no exceptions noted was issued on the financial statements for the year ended September 30, 1982.

The Management Letter made some observations which Deloitte, Haskins, and Sells considered to be internal control weaknesses. Observations which relate to the financial crisis are as follows:

- the Bank reconciliations were not prepared monthly. Deloitte, Haskins, and Sells recommended bank reconciliations be prepared monthly and on a timely basis.
- subsidiary property records did not reflect a complete and current inventory. Deloitte, Haskins, and Sells recommended a physical inventory off all property and adjustment of subsidiary records,

-as of 9/30/82, current liabilities exceeded current assets by approximately \$1.5 million. Deloitte, Haskins, and Sells recommended NPR officers evaluate financial condition of the company to assure the maintenance adequate working capital,

-NPR was in the initial stages of acquiring investments in other entities. Deloitte, Haskins, and Sells recommended financial records for these investments be improved and ownership over 20% should be recorded on equity method.

Were any of the deficiencies communicated to: (1) senior management, (2) Board Committee, or (3) the Board of Directors?

-The Executive Vice President stated that he had the Deloitte Haskins and Sells audit reports giving a clean opinion. He and the President, had met privately with Deloitte, Haskins, and Sells officials and nothing they said caused him concern.

-The Chief Finance Officer presented the Deloitte, Haskins, and Sells audit report at the Finance Committee meeting held on Jan 13, 1983. During this meeting, mention was made of the worrying capital deficit as being caused by the significant investment in capital equipment during the year. However, of the \$1.6 million in capital additions, approximately \$1.2 million was paid for by CPB capital grants. The Chief Financial Officer was charged with preparing a written response to the management letter for review at the March 8th meeting.

-The Finance Committee members were sent copies of the Deloitte, Haskins, and Sells audit report as soon as they became available for review before the January meeting.

-On Jan 13, 1983 the Finance Committee met in executive session with the Deloitte, Haskins and Sells partner. The partner discussed several issues raised in the preliminary draft of the management letter.

-On January 14, 1983 the Finance Committee reported an unqualified audit opinion for fiscal year 1982 to the Board and recommended its acceptance. The Finance Committee, was charged with receiving the auditors recommendations and management's response. The Committee was then to report to the Board on the adequacy of managements response. The Chairman of the Finance Committee stated that the Board decided at its March 8, 1983 meeting that the Chief Financial Officer's response to the management letter was not adequate. He was instructed to revise the response in time for the Public Radio conference.

-No minutes for a Board meeting on March 8, 1983 have been found. No copy of either the original minutes or the revised response to the management letter have been found.

What, if anything, could the outside auditor have recommended to avoid the crisis that it did not?

Since Deloitte, Haskins and Sells was engaged to audit fiscal 1982 and completed their work in early December, 1982, the auditor could not be expected to identify fiscal 1983 operating problems which management had not identified. The auditor did report the working capital deficit of \$1.5 million as of September 30, 1982 to management and the Board.

Was NPR subject to any statutory or contractual duty to report NPR income, obligation, and expenditures to any other person, firm or U.S. government entity?

Yes

State the nature and scope of the duty.

The Public Broadcasting Act of 1967 requires recipients of CPB funding to: keep adequate books, records and reports, be audited biannually by independent accountants, submit audit reports to CPB, and provide such other financial information as CPB may require.

NPR and CPB signed a Production and Support Agreement for Fiscal Year 1983. A requirement of this Agreement was the submission of NPR periodic financial reports to the CPB Vice President/Financial Treasurer and the Director of the Broadcast Services. The reports were to be filed no later than 45 days after the end of each quarter and were to include:

- financial statements (balance sheet, income statement, statement of change in fund balance),
- a statement of income by major sources (i.e., member dues, government funds, private foundation grants, etc.),
- a current budget report, and
- a report of income received from non-CPB sources, which was applied to activities financed in whole or in part by CPB.

In addition, NPR was required to submit at the end of the fiscal year:

- a final detailed narrative report which describes NPR's performance under this agreement. Due by 3/31/84

-a final financial accounting which includes the financial reports produced by NPR's outside auditors for fiscal year 1983, due 60 days after the end of the fiscal year. Financial reports included a balance sheet, an income statement and a statement of changes in fund balance, and

-a final report showing the actual application of direct costs to the statement of estimated costs due 1/15/84.

Was the duty Fully and accurately fulfilled?

In early March, 1983, NPR submitted certain of the above information for the quarter ended December 31, 1983.

If no, who was responsible?

If no, give specifics about any deficiencies; identify persons responsible.

On March 9, 1983, the Director of Budget and Contract Management for CPB wrote a letter to the Executive Vice President of NPR detailing missing required reports:

-the report of income by major source, and

-the report of income from non-CPB sources applied to CPB funded activities.

On March 22, 1983, NPR's Chief Financial Officer responded to the above by sending a "Supplemental Income Schedule" which reported income by major source. The second required report was not filed since NPR stated that it had not received any such income. A copy of the response was sent to the Executive Vice President and to the Controller of NPR.

If no, did such person, firm or agency give notice of NPR's failure to NPR Senior Management, NPR Board Committee, NPR Board of Director?

NPR Management was given notice of the incomplete contractual requirements as discussed above. No indication could be found that either a Board Committee or the Board itself was ever given notice of this failure.

Was NPR subject to audit by any person, firm, or U.S. Government entity?

Yes, NPR is subject to audit.

For each person, firm, or entity, give name?

The Public Broadcasting Act of 1967 require NPR to undergo a biannual audit by an independent certified public accountant or an independent licensed public accountant certified or licensed by a regulatory authority of a State. This audit is required to be in accordance with auditing standards developed by CPB in consultation with the Comptroller General. In addition, the CPB/NPR Production and Support Agreement for FY 1983 required NPR to submit audited financial reports produced by outside auditors for the 1983 fiscal year-end.

The Comptroller General of the United States and/or CPB, or the duly authorized representative of either, have audit authority over NPR. Specifically, the Comptroller General or CPB, shall have access to any books, documents, papers, and records for the purpose of auditing and examining all funds received or expended for public telecommunications purposes during any fiscal year for which Federal funds are available.

Describe the nature of audit liability?

GAO has found nothing in its review of background legislation and contracts to indicate that either the Comptroller General or CPB has a requirement to audit the books and records of NPR. However, CPB does have oversight responsibility.

State whether the audit was conducted and when?

During fiscal year 1983, the CPB began a review of NPR's internal accounting controls and a documentation of the cost system. The financial situation at NPR resulted in the CPB changing the focus of its audit to that of a financial statement audit for the six months ended March 31, 1983. The CPB withdrew from this audit after the NPR interim management team engaged a CPA firm to conduct a seven month financial statement audit of NPR.

Summarize the results of the audit?

Because CPB withdrew before its audit work was completed, no report of the audit was issued.

Did (Does) NPR Have Adequate Policies & Procedures Regarding:

1. Procurement of goods and services,
2. Travel and related expenses of employees,
3. Employee conduct and responsibilities,
4. Conflicts of interest,
5. Selection and compensation of outside auditors,
6. Board access to independent auditors, and
7. Public access to meetings of the Board of Directors and information regarding actions taken by the Board.

	10/1/81-4/30/83 <u>1/</u>	Present <u>2/</u>		
	Policies	Procedures	Policies	Procedures
	NO	NO	YES	YES
	NO	NO	YES	YES
	NO	NO	YES	YES
	NO	NO	YES	YES
	NO	NO	YES	YES
	NO	NO	YES	YES

1/ For the period 10/1/81 - 4/30/83, NPR had policies and procedures regarding all the listed activities except those relating to outside auditors. However, existing policies/procedures were inadequate. (See the discussion on the following pages).

2/ Because present policies and procedures have been in effect at NPR for 5 months or less, judgment of adequacy can be based only upon review of the written documents and not upon the testing of compliance and enforcement of those policies and procedures.

With regard to policies and procedures:

- a) were there any deficiencies noted from Oct. 1, 1981 to Apr. 30, 1983, and
- b) were any corrective actions taken between Apr. 30, 1983 and the present.

Our review has shown that the policies and procedures in effect at NPR prior to April 30, 1983 were inadequate and not enforced. We are referring to those specific policies and procedures listed in the preceding chart as well as those mentioned throughout the testimony. Some of the deficiencies we observed were also noted in various studies, letters and reports to NPR's Board of Directors and management.

In January 1982, McKinsey and Company presented a Report to the Board of Directors based upon their management and organization audit. The report noted that problems existed in the areas of decision making, coordination, underdeveloped corporate functions, and relationships between management and the Board. Their specific recommendations included:

- formalizing current adhoc procedures,
- making structural changes in existing positions and responsibilities,
- expanding the role of the Board, and
- strengthening the financial and planning systems.

As part of the fiscal 1982 audit, Deloitte, Haskins and Sells conducted a limited study and evaluation of NPR's internal accounting control system. The resulting Management Letter dated Dec. 8, 1982 indicated numerous control problems, two of which dealt with Accounts Receivable and were deemed material weaknesses. The balance, while not material, were serious and included the areas of purchasing, cash disbursements, billing, physical inventory, and working capital. The recommendations were in the nature of specific procedural changes.

Coopers & Lybrand were engaged to perform a comprehensive audit and management review for the first seven months of fiscal year 1983. Their report indicated that the deficiencies mentioned in previous studies still existed and concluded that NPR policies and procedures were wholly inadequate. Their recommendation therefore necessitated the formulation and enforcement of comprehensive policies and detailed procedures covering every aspect of NPR's organization.

The transition team began to work on formalizing policies and procedures immediately upon assuming control in May 1983. Working closely with Coopers & Lybrand, they addressed every deficiency noted in the above reports and others mentioned in our testimony. Coopers & Lybrand seems satisfied that these new policies and procedures, if enforced, will prove adequate in the area of internal accounting control and we concur. Policies and procedures formulated to address areas other than internal accounting control appear to be adequate if enforced.

EXPENDITURES, CONDUCT, AND MISMANAGEMENT

Expenditures made by NPR are not generally subject to the various laws and regulations that govern the expenditures of funds by executive agencies. Also, NPR's employees are not subject to Federal conflict of interest laws although officers and directors have a fiduciary duty of loyalty and responsibility to NPR.

Has GAO found any unlawful expenditures by NPR, its directors, or employees?

GAO found no instances of unlawful expenditures. Our review was limited to the period October 1, 1982 through April 30, 1983, and consisted of judgemental samples of all NPR expenditures with the exception of payroll for other than officers.

Has GAO found any active misrepresentation of NPR's financial status by NPR, its directors, officers, or employees to any person, firm or Government agency?

GAO found no instances of active misrepresentation of NPR's financial status.

GAO did note that the fiscal 1983 funding request to CPB did not include the estimated revenues and expenses of the venture operations.

Has GAO found instances of other financial impropriety by NPR, its officers, or employees?

As of April 30, 1983 NPR had not made the required tax deposits of \$651,172 in employee withholdings. This amount, plus interest due, was subsequently remitted to the Internal Revenue Service.

Has GAO found instances of apparent or actual conflicts of interest involving NPR directors, officers, or employees?

GAO found no apparent conflicts of interest involving NPR directors. As of April 1983, NPR had no written policies or procedures concerning conflict of interest situations other than a prohibition on the acceptance of gifts or services by an employee of NPR. However, GAO reviewed the following situations based on questions which have arisen regarding possible

conflicts of interest:

- Maurice Mitchell - Member, NPR Board of Directors from 1978-1982: Board Chairman fiscal year 1980 through July 29, 1982.

Mr. Mitchell resigned from NPR's Board of Directors on July 29, 1982. In October 1982, he accepted a position as a consultant and board member of the National Information Utilities (NIU) Corporation, a co-partner in one of NPR's ventures activities. On April 7, 1983, Mr. Mitchell received 23,078 shares of NIU stock at a total purchase price of \$100. The stock's discounted purchase price was to serve as compensation for Mr. Mitchell's services to NIU in lieu of payment.

The NPR-NIU co-venture was approved by the NPR Board of Directors in the spring of 1982. We are not aware of any evidence to show that Mr. Mitchell had a conflict of interest regarding the Board's decision. In addition, Mr. Mitchell obtained the NIU stock over eight months after his resignation from NPR's Board.

- Wallace Smith - Member, NPR Board of Directors through September 1983.

The American Public Radio Network (APRN) is a counterpart to NPR and was formed by five station managers. Mr. Wallace Smith was a board member of both NPR and APRN.

In July 1982, Mr. Mitchell, Chairman of the Board, directed Mr. Mankiewicz to draft a letter to the licensees of these five stations indicating NPR members' concern over the formation of APRN. The five station managers sent protest letters to NPR board members and Mr. Smith expressed resentment at the action which had been taken. The NPR Board was split over the issue and, during the debate, some Board members asked for Mr. Mitchell's resignation and he complied. Mr. Wallace Smith remained on the NPR Board through September 1983.

- Richard Hodgetts - VP Business Services.

Mr. Hodgetts was engaged in negotiations regarding the National Satellite Paging (NSP) venture when NPR's venture partner offered Mr. Hodgetts a position. Mr. Hodgetts reported the offer to the NPR interim management

and, so far as we could determine, did not participate in any further negotiations. The venture agreement was reviewed by NPR legal counsel and no questions were raised about the agreement. Mr. Hodgetts subsequently left NPR.

In addition, GAO was informed of a possible conflict of interest situation regarding various officers and directors of NPR. Under the terms of one of the venture agreements, these officers and directors could have received stock under an incentive plan from I.N.C. Telecommunications Corporation, one of NPR's venture companies. The venture was terminated and no stock was ever issued to any of the officers or directors. Because the records made available to us were incomplete and unsigned, we are unable to conclude positively that this arrangement was a conflict of interest.

Has GAO found instances of improper, inefficient, or ineffective expenditures of NPR funds by NPR directors, officers, or employees?

In GAO's review of travel and conference expenses, we found instances of inadequate control over expenditures of NPR funds by officers and employees. They did not provide management with reasonable assurance as to propriety, necessity, and reasonableness of expenses. Management did not enforce the policies they had and did not modify the policies when credit card usage and NPR operations expanded.

GAO has found that travel and conference charges between October 1, 1982 and April 30, 1983 totaled \$795,000. NPR credit cards had been used to charge over \$450,000 of the total. Details of these charges are shown in appendices IV through VII.

Our review revealed that, as reported by Coopers and Lybrand, NPR had a poor control over travel and conference expenditures.

Major weaknesses are:

- Credit cards were issued to over 100 of 400 employees.
- Requirements to submit support for expenses incurred were not enforced.
- Billings from the credit card company were paid even though support had not been received from employees resulting in the payment of \$10,000 in charges and stolen cards (the credit card company later gave NPR credit for the \$10,000.)
- Expense reports were often incomplete even when submitted.
- Employees were allowed to charge personal expenses on the cards, totalling \$16,000, which were not in some cases promptly reimbursed.

--Credit card purchases for non-travel and conference items, such as computers and software, totalling \$20,000, were permitted.

--Charges totalling \$50,000 were permitted for in-town entertainment of NPR staff and guests.

--Large amounts of travel advances were made to employees and were not promptly accounted for or reimbursed by employees.

Only after months of detailed research in NPR's records and repeated inquiries of present and former employees of NPR, were we able to find support for \$531,578 of the charges incurred. We were ultimately unable to find support for \$4,600 of the charges we had selected for examination. NPR is continuing to attempt to obtain support for these charges. NPR has collected all travel advances which it could determine from its records were not previously paid or supported by expense reports but certain charges had to be written off because it could not be proved that the advance was not repaid.

GAO reviewed contracts and purchase orders totalling \$3,269,000 to determine whether they were approved, whether competitive bids were obtained, and whether the items were received. Two divisions were responsible for purchase orders, Administrative and Engineering and all contracts were originated in the General Counsel's office. Our review confirmed the weaknesses reported by Coopers and Lybrand in June 1983. The firm reported that noncentralized purchasing was being used extensively, resulting in lack of assurance regarding best price and current availability within NPR.

Has GAO found instances of mismanagement, misfeasance, or malfeasance by NPR directors, officers, or employees?

GAO considers the following three instances as representative of weak management in that prudent business practices were not followed:

--See Testimony for Comments About Overall Financial Management.

--Weak Purchasing Procedures

- GAO reviewed contracts and purchase orders totaling \$3,269,000 to determine whether they were approved, whether competitive bids were obtained, and whether the items were received. Two divisions were responsible for purchase orders, Administrative and Engineering, and all contracts were originated in the General Counsel's office.

Coopers and Lybrand reported weaknesses in the system and controls and recommended changes in June 1983. The firm reported that noncentralized purchasing was being used extensively, resulting in lack of assurance regarding best price and current availability within NPR. This weakness also made it difficult for GAO to determine propriety and reasonableness of expenses.

In June 1983 NPR instituted cost-savings steps after reviewing costs for office supplies, postage, printing and photocopying supplies, and freight. NPR was also improving its purchasing procedures in other areas.

--Travel Advances Not Repaid

- In addition to the credit card system, NPR had a cash advance and cash reimbursement system for travel and other expenses not covered by credit cards or the imprest fund and for expenses incurred by those without a credit card.

GAO's review of this system showed the same weak controls over advances as for the credit card system. Expense reports were not timely, were incomplete, or were never submitted. As a result, the reported outstanding travel advances had accumulated to about \$100,000 as of April 30, 1983.

Coopers and Lybrand stated that as of April 30, 1983, some travel advances had been outstanding from November 1977 and recommended writing off losses of \$60,000. This action reduced the net outstanding advances to \$40,000.

By December 1983, NPR had removed the records of invalid, uncollectible advances. Most people on the prior list were no longer NPR employees.

--Untimely Purchase of an Automobile

In February 1983 the automobile provided NPR for use by the President was 3-years old, and in accordance with NPR policy, on February 24, 1983, NPR ordered a 1983 automobile at a total cost of \$10,760. After deducting a trade-in allowance of \$4,510, NPR paid \$6,250 for the automobile. On February 25, 1983, a request for check was approved by the Administration Division and a check for \$6,250 was issued on March 3, 1983. The president resigned in April 1983 and on June paid NPR \$8,300 for the automobile, based on quotations obtained from several dealers verbally on the cars value at that time.

--Failure to Follow Moving Expense Policy

NPR had problems in obtaining a Vice President for Development. The main prospect felt that she and her husband, an attorney, could not pay for the expenses associated with moving them to the Washington, D.C. area.

As a matter of policy, NPR did not routinely pay moving expenses of new employees but, in demonstrated hardship cases, would consider paying a portion of these expenses. After considering the case, the President instructed the General Counsel to retain the candidate's husband for legal services for one year at a cost of \$10,000.

A \$10,000 letter contract was drawn up on December 1, 1982, for services rendered or to be rendered between November 1, 1982 and October 1, 1983. It was agreed that consulting services would be provided to the General Counsel on a personnel project and on a project regarding non-related business income. Furthermore, NPR was to look for other opportunities for consulting to be agreed upon by both parties. The \$10,000 payments were charged to consultants fees under the corporate contingency portion of the president's office budget.

Between January and April 1983, the attorney and the General Counsel had exploratory discussions on several cases that looked as if they might go to litigation. The attorney was asked to look at several personnel matters before the courts, from the plaintiff's perspective, and he completed two pleadings related to those cases. In addition to the personnel work, the attorney performed some tax related work.

Has GAO found instances of NPR expenditures that NPR may recover from any present or former director, officer, or employee?

All personal charges made on credit cards have been reimbursed.

NPR
SUMMARY OF CHARGE CARD EXPENSES
OCTOBER 1982-APRIL 1983
OFFICERS

	<u>Credit Card Expenses</u>
Frank Mankiewicz, President	\$ 15,596
Thomas Warnock, Executive VP	7,955
Samuel Holt, Senior VP-Programming	
Billie Oxley, Senior VP-Distribution	4,914
Clyde Robinson, Senior VP-Representation	30,149
Barbara Cohen, VP-News & Information	9,953
Richard Cassidy, VP-Engineering	3,973
Jane Couch, VP-Development	9,191
E. Richard Hodgetts, VP-Business Services	10,665
Michael Glass, General Counsel	6,853
Arthur Roberts, Chief Financial Officer	8,157
	<u>\$107,406</u>

NPR
SUMMARY OF TRAVEL AND CONFERENCE EXPENSES
OCTOBER 1982-APRIL 1983

Total travel and conference expenses	\$ <u>795,291</u>
Credit card charges	\$ <u>459,358</u>
Equipment purchased on credit cards	\$ <u>22,295</u>
Personal expenses reported by employees using credit cards	\$ <u>15,652</u>

NPR
SUMMARY OF CREDIT CARD CHARGES
OCTOBER 1982-APRIL 1983

	<u>Expenses</u> <u>TOTAL</u>	<u>Reviewed by</u> <u>GAO</u>
Credit card charges:		
Officers	\$ 107,406	\$ 102,738
Division Directors	56,550	56,550
Others	<u>295,402</u>	<u>153,012</u>
Subtotal	\$ 459,358 ^{1/}	\$ 312,300
All other travel and conference expenses	<u>335,933</u>	<u>219,278</u>
Total travel and conferences	<u>\$ 795,291</u>	<u>\$ 531,578</u> ^{2/}

1/ Credit card charges include about \$10,000 of expenses charged to "other than travel". Coopers and Lybrand vouched all amounts over \$1,000 in the travel and conferences accounts.

2/ GAO reviewed the work of Coopers and Lybrand, performed additional tests, and reviewed vouchers that were not in their sample, with emphasis on charges made by officers, division directors and charges over \$500.

NPR
SUMMARY OF CREDIT CARD CHARGES BY TYPE
OCTOBER 1982-APRIL 1983

	<u>Travel</u>	<u>Out-of-town meals</u>	<u>Local meals</u>	<u>Retail</u>	<u>Other</u>	<u>Total</u>
Officers	\$ 75,113	\$ 3,411	\$13,376	\$15,056	\$ 450	\$107,406
Division Directors	40,323	3,179	11,217	417	1,414	56,550
Others	<u>217,417</u>	<u>16,851</u>	<u>25,077</u>	<u>20,688</u>	<u>15,369</u>	<u>295,402</u>
TOTAL	<u>\$332,853</u>	<u>\$23,441</u>	<u>\$49,670</u>	<u>\$36,161</u>	<u>\$17,233</u>	<u>\$459,358</u>

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