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United States Government Accountability Office
Washington, DC 20548

July 7, 2006

The Honorable Richard C. Shelby
Chairman
The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Michael G. Oxley
Chairman
The Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives

Subject: *LOCAL Television Act: Status of Spending for Fiscal Year 2005*

In December 2000, the Congress passed the Launching Our Communities' Access to Local Television Act of 2000 (LOCAL TV Act).¹ The act created the Local Television Loan Guarantee Program and established the LOCAL Television Loan Guarantee Board to finance projects to provide access to signals of local television stations to households in areas with limited or no access to such signals from a commercial, for-profit satellite service or other multichannel video provider. The program authorizes the board to approve loan guarantees up to 80 percent of loans, totaling no more than \$1.25 billion in aggregate; however, since inception of the program, no loan guarantees have been approved and the program has not been utilized.

Section 1006 of the act requires that we perform an annual audit of the (1) administration of the provisions of the act and (2) financial position of each applicant who receives a loan guarantee under the act, including the nature, amount, and purpose of investments made by the applicant. In April 2005, we issued to your committees our required annual report² covering fiscal year 2004. Since there continue to be no loan guarantee recipients for GAO to audit, this report primarily addresses whether program administration during fiscal year 2005 satisfied the provisions of the act.

¹Pub. L. No. 106-553, tit. X, 114 Stat. 2762A-128 (Dec. 21, 2000) (codified, as amended, at 47 U.S.C. §§ 1101-1110).

²GAO, LOCAL TV Act: Administrative Funds May No Longer Be Necessary, GAO-05-438 (Washington, D.C.: Apr. 22, 2005).

To determine the status of the \$2 million appropriation for administrative expenses and the working group costs incurred during fiscal year 2005, we obtained and evaluated information from the board, including budget, contract, and cost data; minutes of board meetings; and other related information. We did not independently verify or audit the working group cost data we obtained from the board. We conducted our work from March 2006 through June 2006 in accordance with U.S. generally accepted government auditing standards. We requested comments on a draft of this report from the board. The board's oral comments, which we received from the board's liaison, are discussed in the Agency Comments and Our Evaluation section of this report.

Results in Brief

Since fiscal year 2002, we have reported annually on the administration of the LOCAL TV Act as required by Section 1006 of the act. Since inception of the program, no loan guarantees have been approved and there are no current or anticipated budgetary resources available for future loan guarantees. On December 13, 2004, the board authorized closing out one of two existing contracts. The other contract expired on December 31, 2005. Fiscal year 2005 administrative costs totaled about \$6,500. Given that the President's Budgets for Fiscal Years 2006 and 2007 both pointed out that the unobligated budget authority for this program had been rescinded and the administration was not proposing additional funds for this program, we reiterate our previous matter for congressional consideration to rescind the balance of the appropriation for administrative expenses. In oral comments on a draft of this report, the board agreed with our report.

Background

In November 2001, the Congress appropriated \$2 million for administrative expenses to implement the program.³ The board established a working group⁴ to assist with

³Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2002, Pub. L. No. 107-76, tit. III, 118 Stat. 704, 725 (Nov. 28, 2001). The November 2001 act directed that this amount be transferred to and merged with the appropriation for Rural Development, Salaries and Expenses. The Consolidated Appropriations Resolution, 2003, provided that any balances available from prior years for the Rural Utilities Service, Rural Housing Service, and Rural-Business Cooperative Service salaries and expenses account be transferred to and merged with the fiscal year 2003 appropriation. Pub. L. No. 108-7, div. A, tit. III, 117 Stat. 26, 28 (Feb. 20, 2003). Pursuant to this provision, the balance of the \$2 million appropriated in fiscal year 2002 was carried forward to fiscal year 2003. Similar provisions with the same carry-forward effect occurred for fiscal years 2004, 2005, and 2006. See Consolidated Appropriations Act, 2004, Pub. L. No. 108-199, div. A, tit. III, 118 Stat. 3, 21 (Jan. 23, 2004); Consolidated Appropriations Act, 2005, Pub. L. No. 108-447, div. A, tit. III, 118 Stat. 2809, 2827-28 (Dec. 8, 2004); and Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2006, Pub. L. No. 109-97, 119 Stat. 2120, 2137-38 (Nov. 10, 2005).

⁴The working group costs consist of an estimate of senior-level officials' salaries and related costs from various departments and agencies that are represented on the board, to assist it with implementing the program. The program did not have full-time staff but depended on staff from the various agencies supporting their individual board members as a collateral duty. The costs incurred by the working group members to support their board members have been borne by the respective departments and agencies from within their existing budgetary resources (i.e., salaries and expenses appropriations or accounts).

implementing the program and used GovWorks for administrative services.⁵ During fiscal year 2002, the Department of Agriculture (USDA) obligated the entire \$2 million appropriation by issuing orders for its anticipated needs to GovWorks, which subsequently awarded, on the board's behalf, two contracts with an estimated value totaling about \$1.2 million—one to Ernst & Young LLP valued at \$727,000 and one to Arnold & Porter LLP valued at \$500,000. Since inception, GovWorks has obligated and disbursed approximately \$640,000 to Ernst & Young LLP to develop the underwriting criteria and program regulations and approximately \$22,000 in fees to itself. The Arnold & Porter LLP contract was issued for legal services; however, no obligations or disbursements were made for this contract. The Arnold & Porter LLP contract was terminated on April 19, 2005. The Ernst & Young LLP contract was extended for 1 additional year on December 22, 2004, to December 31, 2005, and was officially closed out on February 15, 2006. As of March 31, 2006, the remaining unobligated balance in the GovWorks account was approximately \$1.3 million, as summarized in table 1. The unexpended balance in this appropriation has been carried forward each fiscal year in the annual appropriation for Rural Development, Salaries and Expenses.⁶

Table 1: Unobligated Balance in GovWorks Account at March 31, 2006

Item	Cost
Appropriation for administrative expenses, fiscal year 2002	\$2,000,000
Less: Disbursements to Ernst & Young LLP	(640,000)
Less: Disbursements for GovWorks fee	(22,000)
Unobligated balance in GovWorks	\$1,338,000

Source: GAO analysis based on information from the LOCAL Television Loan Guarantee Board.

In last year's annual report, we addressed program administration and key activities that occurred during fiscal year 2004. Specifically, we reported that the board completed the steps necessary to prepare the program for implementation by issuing the mandated underwriting criteria and operating rules. On December 23, 2003, the board provided applicants the first opportunity to apply for a loan guarantee. The board received one application, which it returned with the related fee because the board determined that it was incomplete. On December 8, 2004, the Congress passed the Consolidated Appropriations Act, 2005, one provision of which rescinded all prior appropriations that had been available to guarantee loans under the program. The President's Budgets for Fiscal Years 2006 and 2007 both pointed out that the unobligated budget authority for this program had been rescinded and the administration was not proposing additional funds for this program. In our fiscal year 2004 report, we suggested that if the Congress was not going to provide future loan guarantee funding, it should rescind the balance of the \$2 million appropriated for administrative expenses to carry out the program that had been transferred to

⁵GovWorks is a franchise fund established within the Department of the Interior by the Congress and the Office of Management and Budget to offer administrative services to federal agencies.

⁶See footnote 3.

GovWorks but remained unobligated by contracts in that account. Since the balance of this appropriation has not been rescinded, this report addresses the status of the \$2 million appropriation for administrative expenses and the fiscal year 2005 working group costs.

Fiscal Year 2005 Program Costs Summary

Since December 2004, there has been minimal program activity except closing out the existing contracts, resulting in working group costs totaling approximately \$6,500. From the program's initial funding, which was on November 28, 2001, to September 30, 2005, the board estimated it incurred expenses of approximately \$1.3 million to implement the program, as summarized in table 2.

Table 2: Program Costs from November 28, 2001, to September 30, 2005

Component	Cost
Ernst & Young LLP	\$640,000
GovWorks fees	22,000
Working group costs from inception to September 30, 2005 (estimated)	604,000
Total	\$1,266,000

Source: GAO analysis based on information from the LOCAL Television Loan Guarantee Board.

As mentioned previously, \$662,000 in obligations and disbursements were made from the \$2 million administrative appropriation for Ernst & Young LLP to develop the underwriting criteria and program regulations and for GovWorks' administrative fees. Working group costs, which were not paid from the appropriation for administrative expenses, have been borne by the respective departments and agencies from within their existing budgetary resources (i.e., salaries and expenses appropriations or accounts). The board's estimate of salaries and expenses incurred by the working group members to support the board totaled approximately \$604,000. Table 3 provides a summary of the reported estimated administrative costs incurred by the working group for the fiscal years ended September 30, 2002, through 2005.

Table 3: Summary of Reported Estimated Administrative Costs Incurred by the Working Group for the Fiscal Years Ended September 30, 2002, through 2005

Entity representing the LOCAL Television Loan Guarantee Board	Fiscal year			Total (inception through 9/30/05)
	2002 and 2003	2004	2005	
USDA Rural Utilities Service	\$212,077	\$166,977	\$1,572	\$380,626
Department of the Treasury	61,604	59,314	2,932	123,850
Department of Commerce	39,629	21,657	1,090	62,376
Federal Reserve Board	20,432	15,584	892	36,908
Total estimated costs	\$333,742	\$263,532	\$6,486	\$603,760

Source: GAO analysis based on information from the LOCAL Television Loan Guarantee Board.

Given that the President's Budgets for Fiscal Years 2006 and 2007 both pointed out that the unobligated budget authority for this program had been rescinded and the administration was not proposing additional funds for this program, we reiterate our previous matter for congressional consideration to rescind the balance of the Rural Development, Salaries and Expenses appropriation for administrative expenses transferred to GovWorks that remains unobligated against the GovWorks account.

Agency Comments and Our Evaluation

In oral comments, the board agreed with the report and told us that in May 2006 the remaining unobligated funds in the GovWorks account were transferred to the general fund of the U.S. Treasury. As of the date of this report, the board had not yet provided the supporting documentation we requested showing either a cancellation of the original interagency orders placed with GovWorks or the transfer of the unobligated balance in the GovWorks account.

We are sending copies of this report to the Secretaries of Agriculture, Commerce, and the Treasury; the Chairman of the Board of Governors of the Federal Reserve System; members of the LOCAL Television Loan Guarantee Board; and the Director, Office of Management and Budget. We will also make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staffs have any questions on matters discussed in this report, please contact me at (202) 512-9095 or williamsm1@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are Casey Keplinger, Assistant Director; Tom Dawson; Lauren Fassler; and Jeffrey Isaacs.



McCoy Williams
Director, Financial Management and Assurance

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