

***Broadcasting
Board of Governors***

***FY 2004
Performance and
Accountability Report***

November 15, 2004

BROADCASTING BOARD OF GOVERNORS FY 2004 Performance and Accountability Report

MESSAGE FROM THE CHAIRMAN



I am pleased to present the Broadcasting Board of Governors' *Performance and Accountability Report for Fiscal Year 2004*. This is the BBG's first *Performance and Accountability Report* and includes the results of the first audit of the agency's balance sheet. The report also presents the other financial statements, measures our performance against the objectives we identified for FY 2004, highlights the accomplishments of the past year, and identifies the challenges that lay ahead.

The mission of the BBG is to promote and sustain freedom and democracy by broadcasting accurate and objective news and information about the United States and the world to audiences overseas. The BBG broadcast services, including the Voice of America, Radio and TV Marti, and the grantees, Radio Free Europe/Radio Liberty, Radio Free Asia, and the Middle East Television Network pursue this single mission, reaching a worldwide audience of over 100 million in 56 languages via radio, television, and Internet.

All BBG broadcast entities, including the grantees, adhere to the broadcasting standards and principles mandated by the International Broadcasting Act of 1994. All BBG broadcasts include accurate, reliable, objective, and comprehensive news; balanced presentations of United States thought, institutions, and policies; and information about developments throughout the world.

With the support of the Administration and Congress, the BBG has accomplished several key goals in FY 2004. We launched two 24/7 television services in Arabic to the Middle East: Alhurra and Alhurra Iraq. The two channels build on the success of Radio Sawa and its ability to attract significant audiences. VOA continued to build on the success of its Persian television program, *News and Views*, as well as initiated a 12-hour a day Urdu language program, *Radio Aap ki Dunyaa*. Radio Farda successfully continued to provide programming for the under 30 audience and Radio Free Afghanistan continued to provide vital coverage of news and information.

This report and the audit results demonstrate the BBG's ability to deliver results and increase program impact through the prudent management of available resources and the use of modern communications tools and techniques. I am proud that the independent auditors have provided our balance sheet with an unqualified ("clean") opinion. This is the highest rating an agency can achieve.

As required, I am providing an assurance that, with the exception of the areas identified

by the agency during its annual internal control review as noted in this report, the agency's system of management controls for the programs, organizations, and functions covered by the Federal Managers' Financial Integrity Act (FMFIA) have achieved the objectives of the FMFIA. We have already begun to take steps to correct these weaknesses. We take the stewardship of taxpayer resources seriously and are committed to improving our internal controls and financial processes.

The BBG has made significant progress in the integration of performance information with financial and budget information. The report reflects the progress the agency has made to strengthen the implementation of performance management and to assure that our performance information is appropriate, complete, and reliable. The report also details the progress we have made in support of the President's Management Agenda.

I am proud to report the achievements of the Broadcasting Board of Governors during FY 2004 in furthering our mission as well as wisely and effectively using the resources entrusted to us by the Administration, Congress, and the public.

A handwritten signature in black ink, appearing to read 'K. Y. Tomlinson', with a horizontal line extending to the right.

Kenneth Y. Tomlinson
Chairman

BROADCASTING BOARD OF GOVERNORS FY 2004 Performance and Accountability Report

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

This *Performance and Accountability Report* presents the Broadcasting Board of Governors' financial and program performance for FY 2004. It fulfills the requirements of the Accountability of Tax Dollars Act of 2002, the Federal Managers' Financial Integrity Act of 1982 (FMFIA), the Government Management Reform Act of 1982 (GMRA), and the Government Performance and Results Act of 1993 (GPRA).

FY 2004 has been a very productive year for the BBG in the area of financial management. We are proud to have an unqualified opinion on our balance sheet for our first audit. The auditors identified two reportable conditions involving internal controls that we have taken steps to begin correcting. During our FMFIA review, we identified two material weaknesses in the agency's system of management controls for the programs, organizations, and functions. We have begun to take steps to correct these weaknesses. While we recognize that there are still many challenges, we are confident that the progress we have made in this past year will help us meet those challenges in the future.

Key BBG FY 2004 accomplishments in financial management improvements include:

Expanded Electronic Government

The BBG has been working with the Department of State to conduct an analysis of the payroll providers that meet the BBG needs. OPM has approved BBG's proposal to participate with State on its fit-gap analysis of the National Finance Center's payroll system and to conduct a fit-gap analysis with the Department of Defense.

The BBG has joined with the Department of State and the US Agency for International Development in its analysis of travel providers, as mandated by the e-Travel initiative.

Improved Financial Performance

During FY 2004, the BBG improved its financial management system by utilizing automated tools for payroll accruals, improved tracking of overseas transactions, improved financial reporting, and improved utilization of reporting tools. The BBG implemented Employee Express to enable employees to manage their payroll deductions and contributions. The BBG also implemented a new time and attendance system worldwide.

The BBG offered extensive financial management training to its financial and administrative staffs. This training reinforced financial system controls and regulatory compliance.

Budget and Performance Integration

The BBG has made great strides in FY 2004 in improving the integration of performance information and planning with the formulation of the budget requests. Beginning with the formulation of the FY 2006 budget, the agency is including performance information to demonstrate the relationship between the agency's budget and strategic plan, implementation strategies, and performance targets.

We are pleased to provide this report to the Administration, Congress, and the public. We believe this report provides a full description of the BBG's program, performance, and financial efforts as we continue our effort to meet our mission, "to promote and sustain freedom and democracy by broadcasting accurate and objective news and information about the United States and the world to audiences overseas."



Janet K. Stormes
Acting Chief Financial Officer

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FY2004 Performance and Accountability Report

Introduction

Purpose of the Performance and Accountability Report

This FY 2004 Performance and Accountability Report is the Broadcasting Board of Governors' (BBG) first report providing consolidated performance and financial information. This integrated presentation of the agency's programmatic performance, financial accountability, and managerial effectiveness is intended to assist Congress, the President, and the public in assessing the performance of the BBG relative to its mission and stewardship of the resources entrusted to it.

This report satisfies the reporting requirements of the following legislation:

Accountability of Tax Dollars Act of 2002

Federal Manager's Financial Integrity Act of 1982 (FMFIA)

Government Management Reform Act of 1982 (GMRA)

Government Performance and Results Act of 1993 (GPRA)

Structure of the Performance and Accountability Report

The report includes the following sections:

Management Discussion and Analysis (MD&A)

The MD&A is an overview of the BBG, its organizational structure, and its mission. This section includes a summary of the agency's highlights and accomplishments for FY 2004, the progress the agency has made in implementing the President's Management Agenda, and the challenges that lie ahead. The MD&A also includes a summary of the financial statements, and the results of the agency's FY 2004 internal control review.

Performance Information Section

This section presents annual program performance information as required by the GPRA. A description of the agency's progress in meeting its operational strategic goals is provided. A summary of the FY 2004 performance objectives is presented, as well as information about the outcome of specific performance indicator targets. The performance section also includes a summary of the Program Assessment Rating Tool (PART).

Financial Information Section

This section contains BBG's financial statements and related Independent Auditor's Report. The BBG has prepared and presented all five statements as required by OMB 01-09. This is the first year the BBG has compiled financial statements, therefore comparative data is not available.

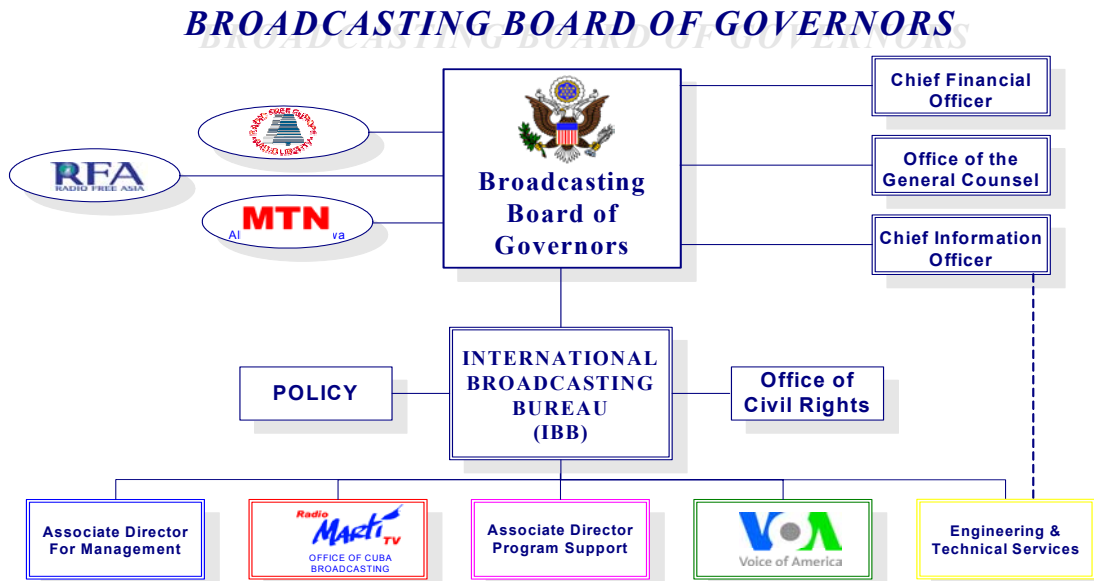
*Section 1:
Management's
Discussion and Analysis*

Organizational Structure and Mission

BBG Organization

The BBG, a bipartisan presidentially appointed board, became an independent Federal entity on October 1, 1999. The Board supervises all non-military international broadcasting funded by the U.S. government, in accordance with the 1998 Foreign Affairs Reform and Restructuring Act (P.L. 105-22). In accordance with its enabling legislation, the Board sets the priorities and overall strategic direction of U.S. international broadcasting, allocates resources, manages relationships with the other executive branch agencies and Congress, reviews and evaluates the effectiveness of the broadcast language service, and safeguards journalistic integrity. This last function is of key importance to the Board, which sees as vital its role as a “firewall” between BBG journalists and those who would seek to influence news coverage.

The BBG broadcasting organizations include the Voice of America (VOA), Radio Free Europe/Radio Liberty (RFE/RL), Radio Free Asia (RFA), the Middle East Television Network (MTN-Radio Sawa and Alhurra television) and the Office of Cuba Broadcasting (OCB-Radio and TV Marti), as well as support offices in the International Broadcasting Bureau (IBB). VOA, RFE/RL, RFA, OCB, and MTN, while under the supervision of the BBG, have varied legal and organizational frameworks. VOA and OCB are part of the U.S. government. RFE/RL, RFA, and MTN are grantee organizations that receive their funding from the government but are organized and managed as private corporations.



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BBG Mission Statement

To promote and sustain freedom and democracy by broadcasting accurate and objective news and information about the United States and the world to audiences overseas.

The BBG through its broadcast services pursues this single mission. This mission, now more than ever, is critical to the United States' foreign policy and national security. The importance of this mission is reflected in the 9/11 Commission Report:

“Just as we did in the Cold War, we need to defend our ideals abroad vigorously. America does stand for its values...If the United States does not act aggressively to define itself in the Islamic world, the extremists will gladly do the job for us.”

The BBG provides the United States and its leaders direct and immediate access to a worldwide audience of over 100 million. BBG broadcasts reach this audience in 56 languages via radio, television, and Internet. This direct access enables the United States to showcase its ideals abroad and counter the misrepresentations of America and uninformed views of its policies. U.S. non-military international broadcasting is the most direct and effective tool in the battle for hearts and minds. The battle, fought through the communication of our ideals and by providing accurate news and information worldwide, is especially important in making an enduring connection with young people who might otherwise become the next generation of terrorists. U.S. non-military international broadcasting is one of the U.S. government's most effective and cost-effective weapons in this battle.

All BBG broadcast entities, including the grantees, adhere to the broadcasting standards and principles mandated by the International Broadcasting Act of 1994. All BBG broadcasts include reliable, accurate, objective, and comprehensive news; balanced and comprehensive presentations of United States thought, institutions, and policies, including discussion about those policies; and information about developments throughout the world and a variety of opinions from nations around the world.

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FY 2004 Highlights and Accomplishments

The BBG has continued to demonstrate its ability to deliver results and increase program impact through the prudent management of available resources and the use of modern communication tools and techniques. With the support of the Administration and the Congress, the BBG has accomplished several initiatives in support of the War on Terrorism, and the 9/11 Commission has recognized the great potential for our initiatives in television and radio broadcasting to the Arab world, Iran, and Afghanistan.

- **Voice of America**

VOA covered the War on Terrorism and events in Iraq, as well as international news and current affairs through broadcasts in 44 languages over the Internet and on radio, and in 20 languages on TV. On May 16, 2004, the VOA and Worldnet were merged, streamlining operations. In May 2004, a new 12-hour per day Urdu language service, *Radio Aap ki Duniyaa (Your World Radio)*, was launched. VOA Dari and Pashto continued to provide vital coverage of news and information. VOA Persian continued to build on the success of its Persian TV programming. The nightly Persian 30-minute television show, *News and Views*, marked its one-year anniversary in July. VOA Indonesia expanded its programming and increased the number of radio and television affiliates.

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- **Radio Free Europe/Radio Liberty**

During FY 2004 RFE/RL continued to make a significant contribution to the War on Terrorism through radio and Internet broadcasts in 27 languages. Nineteen of those broadcast languages reach countries and regions where the majority of the population is Muslim. RFE/RL websites were launched in ten additional languages. RFE/RL's Radio Free Afghanistan continued to provide vital coverage of news and information. Radio Farda, a joint RFE/RL-VOA effort, successfully continued to provide programming for the under 30 audience.
- **Radio Free Asia**

RFA continues to act as a surrogate for local radio in countries where governments prevent or restrict freedom of the press. RFA's broadcasts to China included coverage of the SARS virus and the Taiwanese elections. RFA also covered major events in North Korea, Laos, Burma, Tibet, Vietnam, and Cambodia.
- **Middle East Television Network and Radio Sawa**

In FY 2004 MTN began broadcasting Alhurra and Alhurra Iraq, both 24/7 TV services that provide accurate coverage of up to the minute news, analysis, and discussion to Arabic speakers across the Middle East. These two TV channels complement the progress that Radio Sawa has already made in building a significant audience for U.S. international broadcasting in the Arab world. Radio Sawa continued to expand its news and current affairs capabilities to provide more coverage of the war on terrorism, American policies, American democracy, and the post-war effort in Iraq.
- **Engineering and Technical Services**

In FY 2004 IBB information technology functions were consolidated into the Office of Engineering and Technical Services. In addition to managing and operating the global broadcast network, satellite feed distribution system, and the 24/7 FMs, the Engineering now manages all IBB information technology support functions, including Internet technical support. Engineering efforts over the past year continue to support the U.S. government's mission to combat terrorism and to deliver critical programs of multiple broadcast elements to diverse listening and viewing audiences around the world. In FY 2004, the Djibouti medium wave transmitting station became operational and FM transmitters were installed in Iraq, Afghanistan, and Morocco.
- **Agency Direction**

During FY 2004 the BBG continued to oversee all U.S. funded, non-military international broadcasting, including the operations of IBB, VOA, OCB, and the three grantees, RFE/RL, RFA, and MTN. The BBG implemented the 2003 Language Service Review recommendations and initiated the 2004 review. The BBG also began a review of the IBB support functions beginning with a review of the Office of Personnel. In FY 2004 the BBG prepared its first financial statements and underwent its first independent audit of its financial statements. The Office of the General Counsel, Office of the CFO, Director of the IBB, Office of Policy, and

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Office of Civil Rights supported agency activities throughout the past year.

- **Management Directorate**

The Management Directorate continued to support the President's Management Agenda through several initiatives. The Management Directorate began a detailed analysis of the BBG's workforce in FY 2004 that will continue in FY 2005, along with a Human Capital Survey and a Training Needs Assessment. In the past year the agency used its new pilot Personal Services Contract authority in the expansion of Urdu programming.

- **Program Support**

The Office of Marketing and Program Placement continued its work to market a growing variety of BBG programs through advertising and promotional campaigns in FY 2004. Throughout the year OMPP placed programming in strategically important areas, by establishing FM affiliations in Indonesia, Pakistan, Turkey, and Iraq, as well as affiliations with several TV stations in Serbia. The Office of Performance Review conducted annual program reviews of the VOA language services to evaluate program quality and effectiveness. The Office of Research and Office of Public Affairs also continued their work to support international broadcasting activities.

- **Office of Cuba Broadcasting**

In FY 2004 OCB restructured Radio Marti to an all-news and information format, 24 hours a day, six days a week and 18 hours, one day a week. This new format provides an uncensored, comprehensive, and balanced perspective of current events through news programming, roundtable discussions, and expert analysis. In addition, TV Marti began broadcasting 24 hours a day, seven days a week.

President's Management Agenda

In 2001, the President established the President's Management Agenda for improving the management of the federal government. This plan focuses on five areas targeted for improvement across the federal government: human capital, competitive sourcing, e-government, financial management, and the integration of budget and performance. The BBG has made substantial progress on each of the President's Management Agenda (PMA) initiatives. The following is a summary of our PMA progress in FY 2004.

Strategic Management of Human Capital

The Management Directorate has developed the structure of a comprehensive Human Capital Strategy based upon the goal of having a well led, skilled, responsive, agile, and diverse workforce aligned with the agency's mission. A detailed analysis of our workforce was initiated in 2004, as well as a Human Capital Survey of employees and a comprehensive Training Needs Assessment. These were linked to the agency's strategic plan and used in developing and pursuing comprehensive Human Resource strategies for shaping, recruiting, training, retaining, and leading the agency's workforce in carrying out its mission, including

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identifying the specific competencies required and linking individual performance to organizational goals.

To meet the need for changing skills, the BBG obtained and is utilizing Voluntary Separation Incentive Payments (buyouts) and an extension of the agency's Early-Out Authority.

The agency implemented an automated staffing system to streamline the recruitment process. New recruitment literature was developed to assist in attracting a diversity of well-qualified applicants. To better examine the skills now needed by VOA's broadcasters, the agency incorporated an assessment of journalistic skills into existing tests. The agency expanded recruiting efforts by seeking partnerships with universities and professional organizations.

Competitive Sourcing

The agency's FAIR Act submission this past year reflected a commitment to finding the best possible means of accomplishing our mission. Contracting has been used to facilitate the accomplishment of broadcasting initiatives. To enhance the effectiveness of the use of commercial contractors, the agency has developed guidelines that, in selected cases, permit training to contractors. Providing such specialized training, when justified on a case-by-case basis, has enabled VOA to successfully attract contractors to accomplish needed tasks. The agency used its new pilot Personal Services Contract authority to assist in the expansion of Urdu programming.

Expanded Electronic Government

The Office of Personnel Management (OPM) has mandated that we transition to one of four federal payroll providers. The BBG must coordinate the transition with the Department of State's payroll system transition, anticipated to occur in FY 2006. The BBG currently has a cross-service agreement with the Department of State for the payroll system and Department of Defense for the personnel system. The BBG has been working with the Department of State to conduct an initial analysis of the providers to meet the BBG payroll needs. OPM has approved BBG's proposal to participate with State on its fit-gap analysis of the National Finance Center's payroll system and to conduct its own fit-gap analysis with the Department of Defense.

The BBG has joined with the Department of State and the US Agency for International Development in its analysis of travel providers, as mandated by the e-Travel initiative outlined in the President's Management Agenda. The focus of that analysis will primarily relate to the overseas travel related payments. Once the e-Travel system is implemented overseas, the implementation will continue for the domestic operations.

Improved Financial Performance

The BBG currently has a cross-servicing agreement with the Department of State for its financial management system. During FY 2004, the BBG continued to improve its financial management system by utilizing automated tools for payroll accruals, improved tracking of overseas transactions, improved financial reporting, and improved utilization of reporting tools. The BBG is in compliance with federal accounting principles and standards. In addition, the BBG met all Treasury and OMB financial reporting requirements in FY 2004.

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The BBG offered extensive financial management training to its financial and administrative staffs. This training reinforced financial system controls and regulatory compliance.

The BBG implemented Employee Express during FY 2004. Employee Express allows the employees to manage their payroll deductions and contributions. This automation reduces the need for paper forms and provides employees access to payroll data at any time. The BBG also implemented a new time and attendance system, Webtatel. This system provides the BBG with needed checks and balances for leave balances and employee history reports. This system is web based and is being implemented in the agency offices worldwide.

Budget and Performance Integration

The BBG has taken great strides in FY 2004 in improving the integration of performance information and planning with the formulation of the budget requests. Beginning with the formulation of the FY 2006 budget, the agency is including performance information to demonstrate the relationship between the agency's budget and strategic plan, implementation strategies, and performance targets.

The BBG Office of the CFO, including the Office of Financial Operations, the Budget Office and the Office of Strategic Management, facilitates the agency's on-going effort to integrate performance information with budget and financial information. In addition, the Budget Office staff is assigned responsibilities according to program areas. The Budget Office works closely with the program offices to formulate and execute the budget and financial plans. The BBG monitors implementation of the financial plans by program, conducting quarterly reviews of the status of funds to ensure that the funds meet each program's programming requirements and objectives. Also, each BBG entity is required to report on GPRA performance information annually, to set targets for future years and report on current year results.

The BBG continues to build a portfolio of program level strategies and annual performance plans linked to the agency's strategic goal, performance indicators and resources. A more detailed explanation of our progress as demonstrated through the OMB's Program Assessment Rating Tool (PART) evaluations is included in the Performance Section of this report.

On-going Challenges

Broadcast Environment

Beyond the challenge of reaching large audiences in competitive media environments that any broadcasting organization faces, the BBG seeks to broadcast to parts of the world where freedom of the press is often suppressed or denied. The BBG also broadcasts to those countries and regions that lack democracy or are in the process of transitioning into democracies. This means working in countries that are susceptible to conflict and power struggles, and where the leadership may be vulnerable.

The unstable security situation in the Middle East and other regions makes it difficult to establish broadcasting facilities; however, the establishment of facilities for Radio Free Afghanistan, Radio Sawa, the Alhurra television stations, and the like is a critical component of the agency's mission. As a result the BBG must remain flexible, adapting and responding to rapidly changing situations on the ground that impact both our daily operations and our plans for the future. For example, while it was possible to establish FM or terrestrial capabilities in five Iraqi cities during FY 2004, security and logistical conditions delayed the planned deployment of broadcasting facilities in additional cities.

In addition, changes in the leadership and policies of the host country governments may impact where and how we broadcast. The BBG relies on agreements with host governments for program delivery and access to local radio and TV affiliates. When the political climate or the leadership of countries changes, our ability to continue broadcasting may also change.

The BBG also broadcasts across borders to listeners in countries that we are not able to establish agreements with. In those countries that seek to suppress efforts to promote a free press, radio and television signals and Internet content are blocked, requiring us to find alternative methods to broadcast our programming.

Infrastructure

The BBG must also respond to the effects of natural disasters that can damage our technical infrastructure. When such unanticipated events occur it is necessary to respond as quickly as possible to prevent interruptions in our broadcasting capabilities. For example, in July 2004 a typhoon hit the Island of Tinian, damaging the antennas at the IBB transmitting station. In August 2004 another typhoon hit the Island of Saipan, damaging the antennas at the station there. The Office of Engineering quickly began repairs to the damaged stations, and shifted broadcasting to other stations in the BBG network until the repairs are completed and the station is fully operational. These unanticipated repairs required Engineering to alter their planned maintenance and repair activities to address the effects of these natural disasters.

Management

Management challenges include transitioning of our payroll and finance systems over the next few years and at the same time ensuring that on-going operations and financial management are not adversely affected. In preparation for these transitions, the BBG has begun working closely with the relevant federal agencies, including the Department of State and the Office of Personnel Management to ensure a smooth transition occurs.

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The agency must have a workforce equipped with the skills necessary to accomplish its international broadcasting mission. Another management challenge is to balance the recruitment and hiring of new employees with needed skills to counter the expected surge in eligible retirements. We must also retain those who have the experience and necessary skills, and retrain those whose skills have become outdated. New technologies and broadcast methods in the audience's preferred media will also impose further requirements to reshape, recruit, or retrain the workforce.

Management Controls, Systems, and Compliance with Laws and Regulations

The BBG is committed to establishing and maintaining effective and efficient internal controls. In FY 2004 the BBG conducted an internal control review and the agency will conduct ongoing reviews of internal accounting and administrative control systems. The results of these reviews, as well as consideration of audits, evaluations and reviews conducted by the U.S. General Accounting Office (GAO), the Office of Inspector General (OIG) and other outside entities, are used as a basis for the BBG's reporting on the condition of the agency's internal controls.

The BBG's standards incorporate the GAO's *Standards for Internal Controls in the Federal Government*. Good internal control systems are essential for ensuring the effective conduct of BBG business and the accomplishment of management objectives. All internal control systems should be reviewed periodically because these systems have inherent limitations and should not be relied upon to provide absolute assurance. In addition, changes in regulations and organization may also require adjustments to the internal control systems.

As a result of the FY 2004 review the BBG identified the following material weaknesses and high vulnerability areas. For the purposes of this report, a weakness is material if it violates statutory or regulatory requirements; significantly weakens safeguards against waste, loss, unauthorized use of funds, property or other assets; significantly impairs the mission of the BBG; or merits the attention of the Chairman, the BBG or Congress. BBG management has designated a high vulnerability issue as a high-risk area with identified deficiencies and less than effective internal controls. These areas warrant special attention of management, with the need to strengthen controls.

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Material Weakness	Corrective Action
<p><i>The Manual of Operations and Administration (MOA) needs to be updated</i></p> <ul style="list-style-type: none"> • The MOA provides operating procedures, agency policy and provide guidelines for establishing management controls. • Regulations and Federal accountability requirements have changed that may require additions or deletions to the manual. 	<ol style="list-style-type: none"> 1) The BBG has hired an independent contractor to rewrite the MOA. 2) BBG estimates that the project will take one year to complete.
<p><i>Use of International Long-Distance Telephone Service</i></p> <ul style="list-style-type: none"> • Use of international long distance of telephone service is readily available. • Improved review and certification of telephone service for official business is needed. 	<ol style="list-style-type: none"> 1) Sort monthly telephone bills by element, distribute to affected managers and require managers to certify calls for <u>official business only</u>. 2) Investigate long-distance calls over an established dollar threshold to verify “official use”, monthly. 3) Look for trends or abnormalities in telephone usage, monthly. 4) Educate agency employees through a series of email broadcasts on the proper usage of government provided long-distance service, repeated every quarter. 5) Pursue employee discipline or termination, if appropriate, when telephone abuse is found.
<p><i>Personal Property Accountability</i></p> <ul style="list-style-type: none"> • The BBG needs a single property database. • Several systems exist within the agency for tracking property, making property inventory control difficult. • Inventory must be taken each year. 	<ol style="list-style-type: none"> 1) The Personal Property Working Group was created and assigned to develop an implementation plan for correcting the cited deficiencies. 2) The group published and distributed a Property Management Handbook. 3) The BBG contracted for a single database inventory system. 4) Procedures were written for the various stages of property management from acquisition to disposition. 5) Inventories were taken in FY 2003 and FY 2004.

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High Vulnerability Issue	Corrective Action
<p><i>Annual FMFIA Reviews</i></p> <ul style="list-style-type: none"> • The BBG identified the FMFIA management control identification process as a high vulnerability issue for FY 2004. • Regular FMFIA reviews had not been conducted by the agency. • Managers and supervisors need training in developing and documenting internal controls. 	<ol style="list-style-type: none"> 1) Institute annual FMFIA reviews. 2) Conduct mandatory FMFIA training to all supervisors and managers before the next FMFIA cycle. 3) Implement a continuous management control review process within the IBB Office of Administration.
<p><i>Travel Voucher Program</i></p> <ul style="list-style-type: none"> • Travel Vouchers are not filed on a timely basis. • Unused travel advances are not routinely reported and returned to BBG. • Travel authorizations and travel vouchers are processed independently. 	<ol style="list-style-type: none"> 1) The E-Travel initiative will result in a new travel management program for the BBG. 2) The BBG has aligned itself with the Dept. of State for a new travel management system. 3) In the interim, BBG is implementing the Travel Manager, an automated travel management system and interface with the financial system. This is the same system as in place with the Dept. of State. 4) The agency plans full implementation of this interface by second quarter, FY 2005. 5) A Travel Grant process was implemented for use by non-government employees.

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Financial Highlights

The BBG financial statements, which are included in the Financial Section of this report, are the first set of statements prepared for the agency for audit. The independent accounting firm, Leonard G. Birnbaum and Company, LLP conducted our FY 2004 financial statement audit and issued an unqualified (“clean”) opinion on our balance sheet. This is the best possible audit result and a significant achievement for the agency.

Preparing these statements allows the BBG to improve financial management and provide accurate and reliable information to Congress, the President and the taxpayer. BBG management is responsible for the integrity and objectivity of the financial information presented in the statements.

The financial statements and financial data presented in this report have been prepared from the accounting records of the BBG in conformity with generally accepted accounting principles (GAAP). In addition, the standards as prescribed by the Federal Accounting Standards Advisory Board (FASAB) have been applied.

FINANCIAL HIGHLIGHTS	
(Dollars in Thousands)	2004
At End of Year:	
Condensed Balance Sheet Data:	
Fund Balance with U.S. Treasury	\$ 189,497
Accounts Receivable	4,153
Property, Plant and Equipment	188,247
Other	534
Total Asset	<u>\$ 382,431</u>
Accounts Payable	16,978
Retirement and Payroll Services	30,439
Total Liabilities	<u>\$ 47,417</u>
Unexpended Appropriations	162,782
Cumulative Results of Operations	172,232
Total Net Position	<u>\$ 335,014</u>
Total Liabilities and Net Position	<u><u>\$ 382,431</u></u>
For the Year:	
Total Cost	706,531
Total Earned Revenue	(2,046)
Total Net Cost of Operations	<u><u>704,485</u></u>

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Limitation of Financial Statements

The BBG management prepared the accompanying financial statements to report the agency's financial position and the result of its operations pursuant to the requirements of Chapter 31 of the United States Code section 3515(b).

While these statements have been prepared from the books and records of the BBG in accordance with the formats prescribed in OMB bulletin 01-09, *Form and Content of Agency Financial Statements*, these statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation and ongoing operations are subject to enactment of appropriations.

*Section 2:
Performance
Information*

Strategic Goal

The primary strategic goal of U.S. International Broadcasting is to create an increasingly effective and modern international broadcasting system that reaches significant audiences where most needed, in support of U.S. strategic interests. Its activities are designed to encourage the widest possible exchange of ideas and to foster an understanding of the U.S.'s values and culture, its institutions, and its policies.

FY 2004 Operational Strategic Goals

The operational strategic goals outlined below guide U.S. International Broadcasting in fulfilling the agency's primary strategic goal of reaching significant audiences in support of U.S. strategic interests. These goals provide direction to the agency and its broadcasting entities in making programming and budgetary decisions, thereby forming the foundation on which all of our international broadcasting activities are supported. They are not goals that we measure quantitatively, but are important guides for the implementation of all of our measurable performance goals.

- **Design a broadcasting architecture for the 21st century.**
BBG will reconstitute US international broadcasting as a *single system*. This system will be composed of regional networks, common program threads consisting of VOA and grantee programs in common languages, within which each station will preserve its unique characteristics and strengths. The programs will, however, be delivered as a coherent stream. The effect will be to coordinate and bring to bear all of the relevant resources of US international broadcasting on a given critical region. Both VOA's and the grantees' missions will be fulfilled.
- **Build out progressively, using regional networks and single-country priority initiatives.**
The old structure of US international broadcasting must change. Using annual Language Review as a prime tool, BBG will assess priority area by priority area, who the target audiences should be and what form of broadcasting will be needed to reach them.
- **Employ modern communications techniques and technologies across the board.**
BBG will accelerate multi-media development, infusing more TV and Internet into the mix. We will adopt the principles and practices of modern radio formatics. We will control the distribution channels that audiences use, where possible, and in general adapt our programs in accordance with audience research findings so they reach more people while still achieving our mission.

FY2004 Performance and Accountability Report

- **Preserve our most precious commodity—credibility—and ensure overall programming excellence.**

Congress established the Broadcasting Board of Governors as an independent agency. The reason is clear: If our audiences do not find our broadcasts to be credible, they will tune us out. If they tune us out, we sacrifice our mission. To remain credible, BBG must maintain the "firewall" between the entities and those who would influence programs from the outside. At the same time, we must enforce top journalistic standards and we must maintain top quality standards.

- **Revitalize the telling of America's story to the world.**

As the world's only superpower, in an era of globalization, America inspires strong feelings around the globe. Among many populations those feelings are negative. Our mission as broadcasters and journalists is not to change that to love--although that would be nice--but to ensure that the real facts about this country and its policies are understood clearly. We must be sure that our programs are interesting, attractive and never boring.

- **Shore up our surge broadcasting capability.**

Be better prepared for crisis broadcasting wherever it is needed. BBG created a Crisis Response Team, with standing procedures to enable us to manage crises when they occur. We also need the technical means to respond to the transmission requirements of crises.

FY2004 Performance and Accountability Report

FY 2004 Performance Objectives and Outcomes

These performance objectives support the operational strategic goals listed above.

FY 2004 Performance Objectives	FY 2004 Outcomes
Complete the successful launch of the Middle East Radio Network (Radio Sawa)	Radio Sawa, launched in FY 2003, expanded its news and current affairs capabilities in the past year, and now broadcasts over 325 live newscasts per week, including daily 30-minute news magazines containing in-depth reporting and analysis. The addition of 6 new FM transmitters, a large MW transmitter, and a website expansion enabled Radio Sawa to reach a wider audience during the past year.
Harmonize Radio Free Afghanistan and VOA in the Afghanistan Radio Network	The Radio Free Afghanistan-VOA cooperative venture continues to serve as a vital source of accurate news and information in Dari and Pashto. In FY 2004 VOA Dari and Pashto broadcasters began working in the same studio, interacting and providing a seamless programming stream. Radio Free Afghanistan expanded its network of correspondents throughout the country and added more live programming from its Kabul bureau.
Revamp broadcasting to Iran to reach a young audience	Radio Farda's substantive discussion programs and roundtables on Iranian human rights, politics, and youth issues are attracting new loyal listeners to U.S. international broadcasting. VOA Persian TV developed new programming for young audiences.

FY2004 Performance and Accountability Report

FY 2004 Performance Objectives	FY 2004 Outcomes
Pioneer anti-terrorism broadcasting	In FY 2004 MTN launched two 24/7 TV channels, Alhurra and Alhurra Iraq, to broadcast news and information to Arabic speakers across the Middle East. VOA launched a new 12-hour per day Urdu language program for listeners in South Asia and expanded its Indonesian program menu.
Reach the two continental giants - Russia and China	VOA's Mandarin service doubled its television broadcasts from one to two hours daily, and its Cantonese service developed TV programming. RFA continued to cover major news events in China and Tibet. RFE/RL created more live and interactive radio programming for Russian audiences, and launched a new Internet site in Russian.
Overhaul the support services	The Board sponsored a comprehensive review of the Office of Personnel and is applying the recommendations as appropriate. The IBB conducted a customer survey of the support offices and is using the results to improve agency support services.
Institute annual strategic review	The annual Language Service Review was conducted for each of the agency's 56 broadcast languages in order to identify priorities. The annual Performance and Assessment Rating Tool and integrated budget development process were also used in FY 2004 to link agency strategy with planning, performance, and resources.

FY2004 Performance and Accountability Report

FY 2004 Performance Objectives	FY 2004 Outcomes
Accelerate multi-media development	In FY 2004 MTN launched two 24/7 TV channels (Alhurra and Alhurra Iraq), VOA broadcasted nearly 50 hours of TV every week, and TV Marti expanded its original programming from 4.5 to 8 hours per day. Internet broadcasting was improved through website redesigns and expansions by Radio Sawa, RFA, RFE/RL, and VOA.
Universally adopt the principles of radio formatics	The format of broadcasting was designed to appeal to target audiences by providing clear, consistent programming that features news, information, and music that research indicates there is a demand for.
Control the distribution channels that audiences use	The BBG controls FM stations in 35 locations and continues to establish FM broadcasting capabilities in major population centers around the world. In FY 2004 new stations were installed in Iraq, Afghanistan, and Morocco.
Go local in content and presence	In FY 2004 BBG broadcast entities developed programming of interest to local audiences. Alhurra and Radio Sawa covered events in Iraq, RFA and RFE/RL continue to report on current events in each of the many countries they broadcast to, and Radio/TV Marti coverage included the development of civil society in Cuba.
Tailor content to the audience	In FY 2004 the BBG conducted audience research within target areas for each broadcast service. Information about audience demographics, media usage and program preferences were used by broadcasting managers to develop and improve programming.

FY2004 Performance and Accountability Report

FY 2004 Performance Objectives	FY 2004 Outcomes
Drive innovation and performance with research	The Program Support Directorate expanded the reach and impact of U.S. international broadcasting by developing media products to meet new demands identified through audience research.
Maintain the firewall	The Board continues to preserve the credibility of U.S. international broadcasting by preventing those who would seek to influence news coverage from doing so.
Update and enforce journalism standards	Each of the entities adheres to the standards set by the Broadcasting Act and supported by their missions. Oversight for adhering to the standards was provided by the Board.
Perform annual program reviews of all broadcast services	The Office of Performance Review conducted performance reviews for VOA and OCB in FY 2004. RFA and RFE/RL also conducted program reviews of their services.
Present this country and its policies clearly and effectively to a new generation	Throughout FY 2004 the broadcast entities developed new programming to appeal and inform young audiences.
Be better prepared for crisis broadcasting wherever it is needed	In FY 2004 the Board continued to maintain crisis management policies and protocols that will be used when crises arise to enable quick, coordinated responses among the broadcast entities.

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FY 2004 Performance Indicator Targets and Outcomes

Delivering accurate news and information to significant audiences in target countries is our core definition of success. That success is a two-part consideration, requiring first that our programs say what we want in a manner attractive to listeners or viewers, and second, that our programs reach large numbers of people on a regular basis. Both elements are equally important, and we have implemented performance indicators to measure both of them at the entity level, together with other secondary measures. Scores for the performance indicators and secondary measures are aggregated at the entity level in order to provide a rough sense of what each entity is accomplishing.

Summary of FY 2004 Performance Indicator Targets and Outcomes

	FY 2004 Target	FY 2004 Estimate
Regular Listening/Viewing Audiences: Number of people in target areas listening or viewing at least weekly by program element.		
VOA (Radio)	82 million	87 million
VOA (TV)	12 million	20 million
VOA (Radio + TV)	91 million	99 million
RFE/RL	27 million	33 million
RFA	NA	NA
Radio Sawa	10.7 million	14.3 million
MTN (Alhurra)	NA	NA
OCB	NA	NA
Affiliations and Transmitters: Count of local radio and TV stations regularly carrying U.S. government programs, and IBB-owned and operated local transmitters carrying TV, FM, and AM.		
VOA (Radio) – affiliates	170 – 187	188
VOA (Radio) – transmitters	18	18
VOA (TV) – affiliates	153 – 168	170
RFE/RL – affiliates	69 – 76	58
RFE/RL – transmitters	9	9
Radio Sawa – transmitters	21	21
MTN (Alhurra) - TV transmitters	2	2
Program Quality: Assesses the U.S. interest, content, balance, accuracy and quality of presentation of program material. Score is percent of services whose programs are rated "good" or "excellent."		
VOA (Radio)	100	100
VOA (TV)	NA	NA
RFE/RL	100	100
RFA	100	100
Radio Sawa	100	NA
OCB	100	100
Radio Signal Strength Index: Overall network indicator applied to cross-border SW and MW radio signals that measures whether programs can be heard by target audiences. Based on a 5-point scale.		
BBG	2.97	3.0
Satellite Effectiveness Index: Assesses whether our satellite delivery is keeping pace with global media developments.		
BBG	7.9	7.9
Transmission Network Consumable Expense: The cost of power and parts to operate the IBO transmitter.		
BBG	\$39 million	\$32 million

Verification and Validation of Indicators

The performance indicators are a best effort to measure in a meaningful way each broadcast element's level of performance. To achieve maximum objectivity, measurement is performed independently of the elements being evaluated. VOA, RFE/RL, RFA, MTN and OCB audience research is carried out by InterMedia, an outside research provider under contract to the BBG. The Broadcasting Satellite Users' Group, a multi-element working group not affiliated with the Engineering element, calculates the Satellite Effectiveness Index. InterMedia also conducts the initial evaluation of program quality on a sample of programs, the results of which are presented at program reviews for all entities. These research ratings are complemented by scoring on a different set of programs from in-house program review analysts not affiliated with the language service in question in a ratio of 55 to 45. Each performance indicator requires different measurement techniques.

Regular Listening/ Viewing Audience: This indicator measures the number of people in target areas listening to or viewing BBG programming on a weekly basis. The measure is obtained for each program element. It is based upon measurement of the “regular listening audience” a statistical standard long used to report international radio audience reach. Regular listening/viewing audience has over the years been consistently defined as all adults listening or viewing at least once a week, as determined by an audience survey that has an adequately designed sample.

- **VOA (Radio) - Target: 82 million Actual: 87 million**
The net gain in regular audience for VOA came primarily from two factors. The first is a sizeable increase in listeners to several African vernacular languages, namely Swahili, Central African, and Hausa. The second is the successful maintenance of listening rates around the world. These factors offset losses that resulted from the elimination of some language services in Europe, implemented in FY 2004.
- **VOA (TV) - Target: 12 million Actual: 20 million**
Successful TV initiatives in Russia, Iran, and Kosovo are the major reasons why the actual figure greatly exceeded the target. In Iran already successful satellite TV programs were expanded. In Indonesia successful TV initiatives were also expanded via broadcast affiliates.
- **VOA (Radio + TV) - Target: 91 million Actual: 99 million**
This figure is the unduplicated count of the total radio and TV audience. Those who listen on radio and also watch on TV are only counted once in measuring performance against the target. Because VOA radio and TV listeners and viewers are largely unique to the medium there is little audience overlap. The target was exceeded primarily because of the success of the TV initiatives.
- **RFE/RL - Target: 27 million Actual: 33 million**
Much of the increase above the target is due the listening audience for Radio Free Iraq (5.0 million) and Radio Farda in Iran (3.8 million).
- **RFA - Target: NA Actual: NA**

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Because of the limitations of reliable survey data in many of the countries that Radio Free Asia broadcasts to it is not possible to estimate a listening audience.

- **Radio Sawa - Target: 10.7 million Actual: 14.3 million**
Audiences increased considerably in the United Arab Emirates, Jordan, and Kuwait in the last year. In addition, the successful inauguration of three FM's in Morocco enlarged the North African audience by several million.
- **MTN (Alhurra) - Target: NA Actual: NA**
Targets were not set for Alhurra in its first year of operation. Data from the first round of representative surveys designed to estimate the size of the Alhurra audience in key Arab markets is currently being collected and will be used to set targets in future years.
- **OCB (Radio and TV Marti) - Target: NA Actual: NA**
The closed nature of Cuban society makes it extraordinarily difficult to conduct the survey research required to make reliable estimates of radio and television audiences.

Affiliations and Transmitters: This is the number of local radio and TV stations regularly carrying US government programming, and of IBB owned and operated local transmitters carrying TV, FM, and AM broadcasts. This indicator counts only those stations with contracts, that regularly rebroadcast identified programs of U.S. International Broadcasting elements on competitive media, in or near prime time in an uncensored manner, either nationally or in strategically important parts of the country. This measurement standard was implemented in 2003 and is much more restrictive than the method used previously. As a result, the FY 2004 target numbers have been adjusted to reflect the more stringent criteria.

- **VOA (Radio) Affiliates - Target: 170-187 Actual: 188**
In FY 2004 eight FM stations in Pakistan began broadcasting VOA's new Urdu-Language program, "Aap ki Duniyaa." High-impact affiliations were also added in Indonesia, Nigeria, Uganda, Mali and Russia. Networks of stations in the Democratic Republic of Congo, Malawi, Bolivia, and Ukraine were added in FY 2004 plus affiliations were renewed in Northern Iraq
- **VOA (Radio) Transmitters - Target: 18 Actual: 18**
VOA added 5 radio transmitters in Iraq FY 2004 and achieved the target.
- **VOA (TV) Affiliates - Target: 153-168 Actual: 170**
For the first time ever, affiliation agreements were executed with an Indian affiliate. Aaj Tak, a Hindi-Language all-news network was signed to carry VOA-TV programs on a regular basis. Other new high-impact VOA-TV affiliates were added in Armenia, Indonesia (Bali), Russia, Uzbekistan (multiple), and Ukraine.

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- **RFE/RL Affiliates - Target: 69-76 Actual: 58**
Under pressure from the Ukrainian government, the Radio Dovira Network ceased carrying RFE/RL programming in the spring of 2004. In addition, BBG-authorized programming reductions caused programming to cease in these languages: Bulgarian, Croatian, Estonian, Latvian, Lithuanian, Slovak, and Romanian.
- **RFE/RL Transmitters - Target: 9 Actual: 9**
RFE/RL added six transmitters in Afghanistan by pairs in Herat, Talalaba and Marar-e-Sharif.
- **Radio Sawa Transmitters - Target: 21 Actual: 21**
Radio Sawa added nine radio transmitters to reach a wider audience for its broadcasts in FY 2004. These are six FM transmitters in Morocco, two FM transmitters in Iraq, as well as a large MW transmitter in Djibouti covering Sudan and Yemen.
- **MTN (Alhurra) TV Transmitters - Target: 2 Actual: 2**
MTN added its first two terrestrial transmitters in Baghdad (Channel 12) and Basra (Channel 3).

Program Quality: This is the percentage of an entity's language services whose program quality is assessed as "good" or "excellent." Ratings are based upon two broad criteria: (1) *content*, and (2) *presentation*. The *content* criterion includes evaluations of accuracy, reliability, authoritativeness, objectivity, comprehensiveness, and other variables reflecting distinct statutory, policy, and mission mandates for the different stations. The *presentation* criterion involves separate sub-criteria for each production unit unique to its media and the program. These are averaged and summarized on a scale from 1 – 4, where 1 to 1.5 is poor, 1.5 to 2.5 is fair, 2.5 to 3.5 is good, and 3.5 to 4 is excellent.

- **VOA (Radio) - Target: 100 Actual: 100**
Program quality ratings for VOA radio broadcasting have been steadily increasing over the years, with FY 2004 being the first year that all language services are assessed as being either good or excellent.
- **VOA (TV) - Target: NA Actual: NA**
In 2004 criteria were developed and piloted for use in monitoring panels on TV programming.
- **RFE/RL - Target: 100 Actual: 100**
Program quality ratings continued to be good or excellent for all RFE/RL language services in 2004.
- **RFA - Target: 100 Actual: 100**
Program quality ratings continue to be good or excellent for all RFA language services in 2004.

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- **Radio Sawa - Target: 100 Actual: NA**
Radio Sawa is undergoing its first monitoring panels in preparation for its first full performance review in early FY 2005.
- **OCB - Target: 100 Actual: 100**
Program quality ratings were good or excellent for Radio and TV Marti in 2004.

Radio Signal Strength Index: This statistic refers exclusively to radio signal monitoring by IBB staff of cross-border shortwave and medium wave signals in or near target areas. Signal strength is an important register of whether the programs are capable of being heard by the target audiences. The index is measured on a scale of 1 to 5, where 1 – 1.5, nil; 1.5 – 2.5 poor; 2.5 – 3.5 fair or average; 3.5 – 4.5 good; and 4.5 – 5 excellent.

- **BBG - Target: 2.97 Actual: 3.0**
The actual FY04 Radio Signal Strength Index increased to 3.00 from a target value of 2.97. Significantly reduced shortwave broadcasting requirements during FY04 decreased the burden on the shortwave transmission network and allowed somewhat more favorable transmission resources to be employed. During FY04, shortwave transmissions from the Holzkirchen station were discontinued, shortwave transmissions were initiated from the Kuwait station, and medium wave was initiated from Djibouti.

Satellite Effectiveness Index: This index provides a quantitative measure of the ability of the satellite network to access the population of TV households. The measure accounts for TV population, total satellite network capacity, signal strength, and prime-time flexibility. This is a TV measure. It is an open-ended scale, in order to reflect the massive increase in global television use.

- **BBG - Target: 7.9 Actual: 7.9**
The Satellite Effectiveness Index achieved an actual level of 7.9 in FY04, equaling the predicted FY04 target level. The changes in the satellite index reflect satellite TV channel capacity adjustments in various regions for greater economy and effectiveness and the initiation in FY04 of new satellite TV services to Cuba and the Middle East.

Transmission Network Consumable Expense: This indicator is equal to the total annual cost of power and parts to operate the transmitters in the IBO network around the world. Jamming by host governments drives the number up, as does a proliferation of media in the target market areas that require more diverse delivery systems on our part to successfully compete there.

- **BBG - Target: \$39 million Actual: \$32 million**
The Transmission Network Consumable Expense declined to \$32 million in FY04, a substantial decrease below the predicted target level of \$39 million. Although the medium wave and shortwave transmission network is still experiencing the pressures of higher fuel and power costs resulting from the Iraq war and terrorism's effect on

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market stability, the index cost was offset by reduced language transmissions for lower-priority broadcasts. These reductions resulted in a decrease in transmission levels in the second half of the year of approximately 80,000 shortwave and medium wave hours, resulting in a reduction in costs of approximately \$4 million for the year. Further cost reductions were achieved by a shift from some higher cost leases to lower cost IBB owned and operated transmission facilities.

Program Assessment Rating Tool (PART)

In FY 2002 the BBG put forward a new Strategic Plan and approach to international broadcasting that focuses on marrying the broadcasting mission to local media markets. The strategy lays out the primary long-term strategic goal and operational strategic goals linked to agency performance measures. We continue to refine and explore new performance goals that can better measure overall impact and represent progress towards achieving the long-term outcome goal.

The Congressionally-mandated Language Service Review continues to be the foundation for making resource adjustments and setting strategic priorities at the language service level. The performance data gathered through this analytical process are common to the GPRA measures, internal Program Reviews and PART evaluations.

Schedule

The PART process, initiated in FY 2002, established a five-year schedule for evaluating all of the BBG's programs. Programs evaluated in prior years may be also re-evaluated if significant changes that would affect the rating have been made to the program, or if there is Congressional interest in the results of specific programs. Consistent with the schedule below, detailed performance plans were also developed for the individual language services within a program.

In FY 2004 a PART evaluation of broadcasting to East Asia and Eurasia was conducted as well as a re-evaluation of Near East Asia and South Asia. In FY 2005 the agency will evaluate broadcasting to Latin America and Cuba, and in FY 2006 the support functions will be evaluation through the PART process. In FY 2007 the evaluation cycle will begin again, with broadcasting to Near East Asia and South Asia.

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Results of Prior Year PART Evaluations

Since the PART began, the BBG has significantly improved its ratings from “Results Not Demonstrated” in FY 2002 to “Moderately Effective” in FY 2003 and FY 2004.

Year of Review	Programs Reviewed	Results
FY 2002	<ul style="list-style-type: none"> ▪ Broadcasting to Near East Asia and South Asia 	<ul style="list-style-type: none"> ▪ Results Not Demonstrated rating.
FY 2003	<ul style="list-style-type: none"> ▪ Broadcasting to Africa ▪ Broadcasting to Near East Asia and South Asia 	<ul style="list-style-type: none"> ▪ Moderately Effective rating. ▪ Moderately Effective rating. Re-evaluation because of War on Terror and major enhancements for Middle East Television Network.

Program Evaluations

The BBG conducts annual independent evaluations to assess effectiveness and strategic priorities. The annual Language Service Review conducted by the Board assesses two basic issues: (1) where should the BBG broadcast and (2) how well is the BBG broadcasting. The Language Service Review fulfills a BBG congressional mandate to “review, evaluate, and determine, at least annually, after consultation with the Secretary of State, the addition and deletion of language services.” The Program Reviews, conducted by the individual entities, are annual quality control mechanisms based on field research and external analysis of program content and presentation. In FY 2004, the PART draft evaluation assigned a “yes” answer to question 2.6 regarding these evaluations: *Are independent evaluations of sufficient scope and quality conducted on a regular basis or as needed to support program improvements and evaluate effectiveness and relevance to the problem, interest, or need?*

The Office of the Inspector General (OIG) and the Government Accountability Office (GAO) also conduct evaluations of the BBG. The OIG issued eight final reports to the BBG in FY 2004. The agency will continue to implement and respond to the recommendations of those evaluations. The final reports that were issued in FY 2004 are:

1. OIG Final Report titled, “Inspection of the Broadcasting Board of Governors’ Operations in the Republic of South Africa,” Report No. IBO-I-04-07

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2. OIG Final Report titled, "Inspection of the Broadcasting Board of Governors' Operations in Thailand," Report No. IBO-I-04-06
3. OIG Final Report titled, "Inspection of the International Broadcasting Bureau's Transmitting Station in Greece," Report No. IBO-I-04-05
4. OIG Final Report titled, "Review of Strategic Management of Human Capital and Workforce Planning Initiatives at the Broadcasting Board of Governors," Report No. IBO-A-03-02
5. OIG Final Report titled, "Review of the Information Security Program at Broadcasting Board of Governors," Report No. IT-A-03-14
6. OIG Resolution Analysis Report titled, "Review of the Information Security Program Evaluation at Broadcasting Board of Governors," Report No. IT-A-02-07
7. OIG Memorandum Report titled, "Review of the Information Security Program at Broadcasting Board of Governors," Report No. IT-A-04-07
8. OIG Resolution Analysis Report titled, "Review of the Broadcasting Board of Governors' Use of the Internet and Related New Technologies," Report No. IBO-A-04-03

During FY 2004 the agency implemented the recommendations of earlier reports, which allowed those evaluations to be closed-out in the past year. The reports that were closed are:

1. OIG Resolution Analysis Report titled, "Review of Broadcasting Board of Governors' Controls on Domestic Personal Property," Report No. IBO-A-02-03.
2. OIG Resolution Analysis Report titled, "Inspection of the International Broadcasting Bureau's Kuwait Transmitting Station," Report No. IBO-I-04-04.
3. OIG Resolution Analysis Report titled, "Middle East News Bureaus of the Broadcasting Board of Governors," Report No. IBO-04-08
4. OIG Security Inspection of Embassy Bangkok, Thailand and Constituent Posts, Report No. SIO-I-02-02.
5. OIG Resolution Analysis Report titled, "Inspection of the International Broadcasting Bureau's Transmitting Station in Sri Lanka," Report No. IBO-I-04-02.
6. OIG Resolution Analysis Report titled "Review of the Effectiveness and Implementation of Office of Cuba Broadcasting's New Program Initiatives," Report No. IBO-A-03-01.
7. OIG Memorandum Report titled, "Survey of the Merger of Worldnet Television with

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the Voice of America,” Report No. IBO-A-03-04.

8. GAO Report titled, “Interdepartment Radio Advisory Committee – IRAC Representatives Effectively Coordinate Federal Spectrum But Lack Seniority to Advise on Contentious Policy Issues,” Report No. GAO-04-1028.

*Section 3:
Financial
Information*

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United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

November 15, 2004

Mr. Kenneth Y. Tomlinson
Chairman
Broadcasting Board of Governors
330 Independence Avenue SW, Room 3360
Washington, DC 20237

Dear Mr. Tomlinson:

In compliance with the Chief Financial Officers Act, as amended, an independent certified public accounting firm, Leonard G. Birnbaum and Company, LLP (LGB), audited the Broadcasting Board of Governors' (BBG) Balance Sheet as of September 30, 2004, but was unable to audit the accompanying Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing.

During its audit, LGB found that:

- the balance sheet was fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- there were two reportable conditions related to internal control over the financial and accounting system and overall management controls;
- there were instances of noncompliance with selected provisions of applicable laws and regulations involving BBG's financial management systems.

LGB's report (AUD/FM-05-12) is enclosed for your review. LGB is responsible for this report and the opinions and conclusions expressed therein. OIG is responsible for technical and administrative oversight regarding performance under the terms of the contract, including ensuring that the audit was performed in accordance with *Government Auditing Standards* and certain sections of Office of Management and Budget Bulletin 01-02, Audit Requirements for Federal Financial Statements. OIG made appropriate inquiries of LGB representatives and monitored the audit by:

- evaluating the nature, timing, and extent of the work;
- evaluating the qualifications and independence of the auditors;
- monitoring progress throughout the audit;
- examining audit work papers and evaluating key judgments;
- reviewing the audit report to ensure compliance with appropriate standards; and
- performing other procedures that OIG deemed appropriate in the circumstances.

Address correspondence to: U.S. Department of State, Office of Inspector General, Washington, D.C. 20520-6817

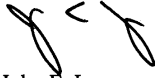
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OIG's review, as differentiated from an audit in accordance with *Government Auditing Standards*, was not intended to enable OIG to express, and OIG does not express, an opinion on BBG's financial statements or conclusions about the effectiveness of internal control and compliance with certain laws and regulations. However, OIG's review disclosed no instances where LGB did not comply, in all material respects, with *Government Auditing Standards*.

BBG agreed with the findings and conclusions, and its comments are included as Appendix A to the report. In addition to this report, OIG will transmit a separate management letter to BBG discussing several other matters that were identified during the audit.

OIG appreciates the cooperation extended to it and LGB by BBG's managers and staff during the audit.

Sincerely,



John E. Lange
Acting Deputy Inspector General

Enclosure: As stated.

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**AUDIT OF THE
BROADCASTING BOARD OF GOVERNORS'
2004 PRINCIPAL FINANCIAL STATEMENTS**

Report No. AUD/FM-05-12



FY2004 Performance and Accountability Report

LEONARD G. BIRNBAUM AND COMPANY, LLP

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INDEPENDENT AUDITOR'S REPORT

To The Chairman
Broadcasting Board of Governors

We have audited the accompanying Balance Sheet of the Broadcasting Board of Governors (BBG) as of September 30, 2004; we have examined internal control over financial reporting in place as of September 30, 2004; and we have examined compliance with applicable laws and regulations. We were unable to audit the accompanying Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. Accordingly, we do not express an opinion on them.

In our opinion, BBG's balance sheet as of September 30, 2004 presents fairly, in all material respects, BBG's financial position at that date.

We found:

- inadequacies in internal control, and
- instances of noncompliance with selected provisions of applicable laws and regulations involving BBG's financial management system.

Each of these conclusions is discussed in more detail below. This report also discusses the scope of our work.

BALANCE SHEET

In our opinion, BBG's Balance Sheet as of September 30, 2004, including the notes thereto, present fairly, in all material respects, BBG's financial position at that date. This is the first balance sheet prepared by BBG.

INTERNAL CONTROL

We considered BBG's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Balance Sheet. We limited our internal control testing to those controls necessary to achieve the objectives described in the Office of Management and Budget's (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls

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relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets;
- funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition;
- transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements and other laws and regulations that OMB, BBG management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated; and
- data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters of internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the BBG's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts, which would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

FY2004 Performance and Accountability Report

We noted two matters, discussed in the following paragraphs, involving internal control that we consider to be reportable conditions.

- BBG's internal control over its financial and accounting system, as of September 30, 2004, was inadequate. This inadequacy prevented BBG from routinely issuing accurate financial statements in a timely manner. There is a risk of materially misstating financial information under the current conditions. The principal areas of inadequacy were:
 - Certain elements of the financial statements, principally property, plant and equipment, are developed from sources other than the general ledger. The use of sources other than the general ledger to generate elements of the financial statements increases the potential for omission of significant transactions.
 - BBG has not codified its financial management operating procedures. The absence of codified operating procedures presents opportunities for inconsistencies and errors in processing financial transactions.
 - BBG had not undertaken a review of overall management controls. Without such an assessment there is no reasonable assurance that: (1) obligations and costs are in compliance with applicable laws; (2) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (3) revenues and expenditures applicable to BBG's operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

These deficiencies in internal control may adversely affect any decision by management that is based, in whole or in part, on information that is inaccurate because of the deficiencies. Unaudited financial information reported by BBG, including budget information, also may contain misstatements resulting from these deficiencies.

In addition, we considered BBG's internal control over Required Supplementary Information by obtaining an understanding BBG's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of controls as required by OMB Bulletin 01-02, and not to provide assurance on those internal controls. Accordingly, we do not provide an opinion on those controls.

Finally, with respect to internal control related to performance measures, we obtained an understanding of the design of significant controls relating to the existence and completeness assertions and determined whether those controls had been placed in operation as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

FY2004 Performance and Accountability Report

We noted certain other internal control issues that we have reported to BBG's management in a separate letter dated November 12, 2004.

COMPLIANCE WITH LAWS AND REGULATIONS

BBG's management is responsible for complying with laws and regulations applicable to BBG. As part of obtaining reasonable assurance about whether the Balance Sheet is free of material misstatement, we performed tests of BBG's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of Balance Sheet amounts, and certain other laws and regulations specified in OMB Bulletin 01-02. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to BBG. The objective of our audit of the Balance Sheet, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions in statutes and regulations, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or that sensitivity warrants disclosure thereof.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed the following instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Bulletin 01-02.

Overall, we found that BBG's financial management system did not comply with a number of laws and regulations, as follows:

- Budget and Accounting Procedures Act of 1950. This requires an accounting system to provide full disclosure of the results of financial operations; adequate financial information needed in the management of operations and the formulation and execution of the budget; and effective control over income, expenditures, funds, property, and other assets. However, we found that the financial systems did not issue interim financial reports that could be used for effective management of operations.
- Federal Managers' Financial Integrity Act of 1982. This requires the implementation of internal accounting and administrative controls that provide reasonable assurance that: (1) obligations and costs are in compliance with applicable laws; (2) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (3) revenues and expenditures applicable to BBG's operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. However, as

FY2004 Performance and Accountability Report

discussed above, we found that BBG had not undertaken the management control assessment required by this Act.

- OMB Circular A-127, *Financial Management Systems*. This requires that transaction processing be applied consistently throughout BBG's financial management system. The use of sources other than the general ledger to generate elements of the balance sheet increases the potential for omission of significant transactions.
- OMB Circular A-123, *Management Accountability and Control*. This requires that documentation for management controls be clear and readily available for examination. The absence of codified financial management procedures fails to meet this objective.

The results of our tests of compliance with other laws and regulations disclosed no material instances of noncompliance.

RESPONSIBILITIES AND METHODOLOGY

BBG's management has the responsibility for:

- preparing the Balance Sheet and required supplementary information, and other accompanying information in conformity with accounting principles generally accepted in the United States of America;
- establishing and maintaining effective internal control; and
- complying with applicable laws and regulations.

Our responsibility is to express an opinion on the balance sheet based on our audit. Auditing standards generally accepted in the United States of America require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misrepresentation and presented fairly in accordance with accounting principles generally accepted in the United States of America. We considered BBG's internal control for the purpose of expressing our opinion on the balance sheet and not to provide an opinion on internal control. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the balance sheet.

In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts on the Balance Sheet and related disclosures;
- assessed the accounting principles used and significant estimates made by management;

FY2004 Performance and Accountability Report

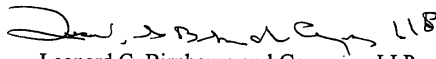
- evaluated the overall presentation of the Balance Sheet;
- obtained an understanding of the internal controls over financial reporting by obtaining an understanding of BBG's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls;
- obtained an understanding of the internal controls relevant to performance measures included in Management's Discussion and Analysis, including obtaining an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether they had been placed in operations;
- tested compliance with selected provisions of laws and regulations that may have a direct and material effect on the balance sheet;
- obtained written representations from management; and
- performed other procedures as we considered necessary in the circumstances.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin 01-02. We believe that our audit provides a reasonable basis for our opinion.

The Management's Discussion and Analysis and Required Supplementary Information are supplementary information required by OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, and the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended for the information of the Inspector General of the U.S. Department of State and Broadcasting Board of Governors, BBG's management, OMB, and the Congress. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Comments by BBG's management on this report are presented as Appendix A.


Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
November 12, 2004

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**BROADCASTING BOARD OF GOVERNORS
UNITED STATES OF AMERICA**

November 12, 2004

The Honorable Cameron R. Hume
Acting Inspector General
Department of State
2201 C Street, N.W.
Washington D.C. 20520

Dear Mr. Ambassador:

This is in response to your request for comments on the report *AUD-FM-05-12, Audit of the Broadcasting Board of Governors 2004 Principal Financial Statements*.

This is the first year the BBG has prepared financial statements, and first audit that the BBG has undergone. The independent audit firm has issued an unqualified ("clean") opinion on the BBG's balance sheet. Since this is the first year the BBG has prepared financial statements, the auditors were not able to audit the accompanying Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. These statements will be included in the FY 2005 audit.

Achieving an unqualified opinion on the first balance sheet that the BBG has prepared is a significant achievement. This was accomplished under a year-end closing schedule tighter than in prior years - the agency closed its FY 2004 books on October 2nd, two weeks earlier than last year. We would like to express our appreciation to your staff and to the audit firm, Leonard G. Birnbaum and Company, LLP, for the professional and cooperative manner in which the audit was conducted.

The audit report notes two reportable conditions regarding the agency's internal controls - areas of inadequacy in the financial and accounting system and the lack of a review of overall management controls. In addition, the audit report notes that the financial system is not fully compliant with the *Budget and Accounting Procedures Act of 1950*, *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*, OMB Circular A-127, *Financial Management Systems* and OMB Circular A-123, *Management Accountability and Control*.

The report states that the current financial system requires us to develop elements of the financial statements, principally property, plant, and equipment, from sources other than the general ledger and there is a lack of codified financial management operating procedures. We understand that developing elements of the financial statements from sources outside of the financial system increases the potential for omission of significant transactions. We also recognize that the lack of procedures presents opportunities for inconsistencies and errors in processing financial transactions.

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The auditors also found that the BBG has not undertaken a review of overall management controls, making it difficult to provide reasonable assurance that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for.

We have already taken steps to begin correcting these areas. We currently cross service with the Department of State for financial system services, and transitioned at the same time as the Department of State to Regional Financial Management System for all overseas posts at the end of FY 2003. We also plan to either transition with the Department of State to Global Financial Management System or to cross service with another provider of financial system services. Either option will integrate property data into the general ledger. We anticipate that this will be accomplished in FY 2006.

We will be looking at alternative reporting tools to improve our ability to produce our quarterly financial statements. We would like to meet with the auditors and the Department of State to identify options for improvement.

As stated in our Performance and Accountability Report (PAR), the BBG has begun updating and rewriting the Manual of Operations and Administration (MOA). The first sections that are being updated are the sections for the Office of the Chief Financial Officer, including codifying the financial management, budget, and performance management operating procedures. We anticipate having the updated MOA completed in FY 2005.

We also include in our PAR the corrective actions we have begun in order to institute the annual Federal Manager's Financial Integrity Act reviews. The agency conducted an internal control review in FY 2004. The agency will conduct mandatory FMFIA training in FY 2005 for all supervisors and managers prior to conducting the FY 2005 review. The Office of Administration is in the process of developing and implementing a continuous management control review process.

Thank you for the opportunity to comment on the audit report and for collaboratively working with us on our FY 2004 audit. We believe that the BBG has made significant strides in the past year as we underwent our first audit and began preparing quarterly and annual financial statements, and we are committed to continuing to improve the management of our programs and the quality of our financial reporting.

Sincerely,



Janet K. Stormes
Acting Chief Financial Officer

FY2004 Performance and Accountability Report

**Broadcasting Board of Governors
Balance Sheet
As of September 30, 2004
(In Thousands)**

ASSETS

Intra-governmental	
Fund Balance with Treasury (Note 2)	\$189,497
Accounts Receivable, Net (Note 4)	<u>3,795</u>
Total Intra-governmental	\$193,292
Cash and Other Monetary Assets (Note 3)	\$204
Accounts Receivable, Net (Note 4)	358
General Property, Plant, and Equipment, Net (Note 5)	188,247
Other	<u>330</u>
TOTAL ASSETS	<u>\$382,431</u>

LIABILITIES

Intra-governmental	
Accounts Payable	\$186
Accrued FECA Liability (Note 7)	<u>1,695</u>
Total Intra-governmental	\$1,881
Accounts Payable	\$19,604
Actuarial FECA Liability (Note 7)	8,702
Accrued Payroll and Benefits	7,251
Accrued Annual and Compensatory Leave	12,791
Other (Note 8)	<u>(2,812)</u>
TOTAL LIABILITIES	\$47,417

NET POSITION

Unexpended Appropriations	\$162,782
Cumulative Results of Operations	<u>172,232</u>
TOTAL NET POSITION	<u>\$335,014</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$382,431</u>

The accompanying notes are an integral part of these statements.

FY2004 Performance and Accountability Report

Broadcasting Board of Governors Statement of Net Cost For the Year Ended September 30, 2004 *(In Thousands)*

GOAL:

The primary strategic goal of U.S. international broadcasting is to create an increasingly effective and modern international broadcasting system that reaches significant audiences where most needed, in support of U.S. strategic interests. Its activities are designed to encourage the widest possible exchange of ideas and to foster an understanding of the U.S.'s values and culture, its institutions, and its policies.

PROGRAM COSTS

Intra-Governmental Gross Costs	\$49,457
Less: Intra-Governmental Earned Revenue	<u>(2,046)</u>
Net Intra-Governmental Costs	\$47,411
Gross Costs with the Public	\$657,074
Less: Earned Revenue from the Public	0
Net Costs with the Public	<u>\$657,074</u>
NET COST OF OPERATIONS	<u>\$704,485</u>

The accompanying notes are an integral part of these statements.

FY2004 Performance and Accountability Report

Broadcasting Board of Governors Statement of Changes in Net Position For the Year Ended September 30, 2004 (In Thousands)

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	\$206,535	\$237,995
Prior Period Adjustments	-	-
Beginning Balances, As Adjusted	\$206,535	\$237,995
BUDGETARY FINANCING SOURCES		
Appropriations Received		\$597,433
Appropriations Transferred-in/out		1,020
Other Adjustments		(13,265)
Appropriations Used	\$660,401	<u>(660,401)</u>
Nonexchange Revenue	4	
Donations	46	
Other Budgetary Financing Sources	81	
OTHER FINANCING SOURCES		
Imputed Financing	<u>\$9,650</u>	
TOTAL FINANCING SOURCES	\$876,717	\$162,782
NET COST OF OPERATIONS	<u>\$704,485</u>	
ENDING BALANCES	<u>\$172,232</u>	<u>\$162,782</u>

The accompanying notes are an integral part of these statements.

FY2004 Performance and Accountability Report

**Broadcasting Board of Governors
Statement of Budgetary Resources
For the Year Ended September 30, 2004
(In Thousands)**

BUDGETARY RESOURCES

Budgetary Authority	
Appropriations Received	\$597,433
Net Transfers	1,020
Unobligated Balance	
Beginning of Period	90,247
Spending Authority from Offsetting Collections	
Earned	
Collected	13,314
Received from Federal Sources	<u>(3,004)</u>
Subtotal	\$699,010
Recoveries from Prior Year Obligations	13,754
Permanently not Available	<u>(9,843)</u>
TOTAL BUDGETARY RESOURCES	<u>\$702,921</u>

STATUS OF BUDGETARY RESOURCES

Obligations Incurred	\$653,265
Unobligated Balance	
Apportioned	24,921
Exempt from Apportionment	676
Unobligated Balances Not Available	<u>24,059</u>
TOTAL STATUS OF BUDGETARY RESOURCES	<u>\$702,921</u>

RELATIONSHIP OF OBLIGATIONS TO OUTLAYS

Obligated Balance, Net – Beginning of Period	\$168,065
Obligated Balances Transferred, Net	-
Obligated Balance, Net – End of Period	
Accounts Receivable	5,614
Undelivered Orders	127,672
Accounts Payable	21,248
Outlays	
Disbursements	667,273
Collections	<u>(13,314)</u>
Subtotal	653,959
Less: Offsetting Receipts	<u>2,066</u>
NET OUTLAYS	<u>\$651,893</u>

The accompanying notes are an integral part of these statements.

FY2004 Performance and Accountability Report

**Broadcasting Board of Governors
Statement of Financing
For the Year Ended September 30, 2004
(In Thousands)**

RESOURCES USED TO FINANCE ACTIVITIES

Budgetary Resources Obligated	
Obligations Incurred	\$653,265
Less: Spending Authority from Offsetting Collections and Recoveries	<u>24,064</u>
Obligations Net of Offsetting Collections and Recoveries	629,201
Less: Offsetting Receipts	<u>2,066</u>
Net Obligations	627,135
Other Resources	
Imputed Financing	\$9,650
Other	<u>81</u>
Net Other Resources Used to Finance Activities	<u>9,731</u>
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	<u>\$636,866</u>

RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS

Change in Budgetary Resource Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	\$36,798
Resources to Fund Expenses Recognized in Prior Periods	552
Resources That Finance the Acquisition of Assets	5,302
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	<u>(3,722)</u>
TOTAL RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS	<u>\$38,930</u>
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	<u>\$675,796</u>

**COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR
GENERATE RESOURCES IN THE CURRENT PERIOD**

Components Requiring or Generating Resources in Future Periods	
Increase in Annual Leave Liability	\$847
Increase in Exchange Revenue Receivable From the Public	13
Increase in Unfunded FECA Liability	<u>10,397</u>
Total Components Requiring or Generating Resources in Future Periods	\$11,257
Components Not Requiring or Generating Resources	
Depreciation and Amortization	<u>\$17,432</u>
Total Components of Net Cost of Operations Not Requiring or Generating Resources	\$17,432
TOTAL COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE RESOURCES IN THE CURRENT PERIOD	<u>\$28,689</u>
NET COST OF OPERATIONS	<u>\$704,485</u>

FY2004 Performance and Accountability Report

BROADCASTING BOARD OF GOVERNORS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2004 (In Thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

On October 1, 1999, the Broadcasting Board of Governors (BBG) became the independent, autonomous entity responsible for all U.S. Government and government-sponsored, non-military, international broadcasting. This was the result of the 1998 Foreign Affairs Reform and Restructuring Act (Public Law 105-277), the single most important legislation affecting U.S. international broadcasting since the early 1950s. Every week, more than 100 million listeners, viewers, and internet users around the world turn on, tune in, and log on to U.S. international broadcasting programs. While the "Broadcasting Board of Governors" is the legal name given to the federal entity encompassing all U.S. non-military international broadcasting services, the day-to-day broadcasting activities are carried out by the individual BBG international broadcasters: the Voice of America (VOA), Middle East Television Network (MTN) - Alhurra, Radio Sawa, Radio Farda, Radio Free Europe/Radio Liberty (RFE/RL), Radio Free Asia (RFA), and Radio and TV Martí, with the assistance of the International Broadcasting Bureau (IBB).

B. Basis of Presentation

These financial statements have been prepared to report the consolidated financial position of the BBG, consistent with the Chief Financial Officers' Act of 1990 and the Government Management Reform Act of 1994. These financial statements have been prepared from the books and records of the BBG in accordance with generally accepted accounting principles (GAAP) using guidance issued by the Federal Accounting Standards Advisory Board (FASAB), the Office of Management and Budget (OMB), and the BBG's accounting policies, which are summarized in this note. These consolidated financial statements present proprietary information while other financial reports also prepared by the BBG pursuant to OMB directives are used to monitor and control the BBG's use of federal budgetary resources.

C. Basis of Accounting

Financial transactions are recorded in the financial system, using both an accrual and a budgetary basis of accounting. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to the receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements and mandated controls over the use of federal funds. It generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded, and services received that will require payments during the same or future periods. Any BBG intra-entity transactions have been eliminated in the consolidated financial statements.

D. Revenues and Financing Sources

BBG operations are financed through congressional appropriations, reimbursement for the provision of goods or services to other federal agencies, and donations. Financing sources are received in direct and indirect annual and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. For financial statement purposes, appropriations are recorded as a financing source (i.e., appropriations used) and reported on the Statement of Changes in Net Position at the time they are recognized as expenditures. Appropriations expended for capitalized property and

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equipment are recognized when the asset is purchased. The applicable depreciation expense for real and personal property is recorded over the asset's useful life as described below in Property, Plant, and Equipment.

Work performed for other federal agencies under reimbursable agreements is initially financed through the account providing the service and is subsequently reimbursed. Reimbursements are recognized as revenue when earned, i.e., goods have been delivered or services rendered, and the associated costs have been incurred.

An imputed financing source is recognized to offset costs incurred by the BBG and funded by another federal source, in the period in which the cost was incurred. The types of costs offset by imputed financing are employees' pension benefits; health insurance, life insurance, and other post-retirement benefits for employees. Funding from other federal agencies is recorded as an imputed financing source.

E. Assets and Liabilities

Assets and liabilities presented on the BBG's balance sheets include both entity and non-entity balances. Entity assets are assets that the BBG has authority to use in its operations. Non-entity assets are held and managed by the BBG, but are not available for use in operations. The BBG's non-entity assets represent receivables that, when collected, will be transferred to the United States Treasury.

Intra-governmental assets and liabilities arise from transactions between BBG and other federal entities. All other assets and liabilities result from activity with non-federal entities. Liabilities covered by budgetary or other resources are those liabilities of the BBG for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations or other funding.

F. Fund Balances with Treasury

Fund Balances with Treasury are cash balances remaining as of the fiscal yearend from which the BBG is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law. The balance consists primarily of appropriations. The BBG records and tracks appropriated funds in its general funds.

BBG does not maintain cash in commercial bank accounts for the funds reported in the balance sheet. Treasury processes domestic receipts and disbursements. Two financial service centers, located in Bangkok, and Charleston, South Carolina, provide financial support for BBG operations overseas. The U.S. disbursing officer at each center has the delegated authority to disburse funds on behalf of the Treasury.

G. Accounts Receivable

Accounts receivable consists of amounts owed to the BBG by other federal agencies and from the public. Intra-governmental accounts receivable represents amounts due from other federal agencies for reimbursable activities. Accounts receivable from the public represent amounts due from common carriers for unused airline tickets, and from vendors for erroneous or duplicate payments. These receivables are stated net of any allowances for estimated uncollectible amounts. The allowance, if any, is determined by the nature of the receivable and an analysis of aged receivable activity.

FY2004 Performance and Accountability Report

H. Property, Plant, and Equipment

Property, plant, and equipment consist of equipment, buildings, vehicles, and land. There are no restrictions on the use or convertibility of property, plant, and equipment. The BBG capitalizes property, plant, and equipment with a useful life of two years or more and an acquisition cost of \$25,000 or more. However, there are exceptions to this capitalization policy. All vehicles are capitalized, and ADP software costing over \$500,000 with a useful life of two or more years is capitalized. All land, land rights, and buildings are capitalized.

Expenditures for normal repairs and maintenance are charged to expense as incurred unless the expenditure is equal to or greater than \$25,000 and the improvement increases the asset's useful life by two years or more.

Depreciation or amortization of equipment is computed using the straight-line method over the assets' useful lives ranging from three to thirty years. Amortization of capitalized software begins on the date it is put in service, if purchased, or when the module or component has been successfully tested if developed internally. The BBG leases the majority of its office space from the General Services Administration. The lease costs approximate commercial lease rates for similar properties.

I. Advances and Prepayments

Payments made in advance of the receipt of goods and services are recorded as advances or prepayments, and recognized as expenses when the related goods and services are received. Advances are made principally to BBG employees for official travel, miscellaneous prepayments and advances to other entities for future services, and salary advances to BBG employees transferring to overseas assignments. Advances and prepayments are reported as "other assets" on the balance sheet.

J. Accrued Annual, Sick, and Other Leave and Compensatory Time

Annual leave, compensatory time, and other leave time, along with related payroll costs, are accrued when earned, reduced when taken, and adjusted for changes in compensation rates. Sick leave is not accrued when earned, but rather expensed when taken.

K. Employee Benefit Plans

Retirement Plans

Civil Service employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Employees covered under CSRS contribute 7% of their salary; the BBG contributes 7%. Employees covered under CSRS also contribute 1.45% of their salary to Medicare insurance; the BBG makes a matching contribution. On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, were allowed to join FERS or remain in CSRS. Employees participating in FERS contribute 0.80% of their salary, with BBG making contributions of 10.70%. FERS employees also contribute 6.20% to Social Security and 1.45% to Medicare insurance. BBG makes matching contributions to both. A primary feature of FERS is that it offers a Thrift Savings Plan (TSP) into which the BBG automatically contributes 1% of pay and matches employee contributions up to an additional 4%.

Health Insurance

Most American employees participate in the Federal Employees Health Benefits Program (FEHB), a voluntary program that provides protection for enrollees and eligible family members in case of illness, accident, or both. Under FEHB, the BBG contributes the employer's share of the premium as determined by the U.S. Office of Personnel Management (OPM).

FY2004 Performance and Accountability Report

Life Insurance

Unless specifically waived, employees are covered by the Federal Employees Group Life Insurance Program (FEGLI). FEGLI automatically covers eligible employees for basic life insurance in amounts equivalent to an employee's annual pay. Enrollees and their family members are eligible for additional insurance coverage, but the enrollee is responsible for the cost of the additional coverage.

Other Post Employment Benefits

The BBG does not report CSRS, FERS, FEHB or FEGLI assets, accumulated plan benefits, or unfunded liabilities applicable to its employees; OPM reports this information. As required by SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, the BBG reports the full cost of employee benefits for the programs that OPM administers. BBG recognizes an expense and imputed financing source for the annualized unfunded portion of CSRS, post-retirement health benefits, and life insurance for employees covered by these programs. The additional costs are not actually owed or paid to OPM, and thus are not reported as liabilities on the balance sheet.

L. Workers' Compensation

A liability is recorded for estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The FECA program is administered by the U.S. Department of Labor (DOL), which initially pays valid claims and subsequently seeks reimbursement from federal agencies employing the claimants. Reimbursements to DOL on payments made occur approximately two years subsequent to the actual disbursement. Budgetary resources for this intra-governmental liability are made available to the BBG as part of its annual appropriation from Congress in the year in which reimbursement to the DOL takes place. A current liability is recorded for actual un-reimbursed costs paid by DOL to recipients under FECA.

Additionally, an actuarial estimate of the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases is recorded. This estimate is determined using a method that analyzes historical benefit payment patterns related to a specific period in order to predict the ultimate payments related to the current period. The estimated liability is not covered by budgetary resources and will require future funding.

M. Contingent Liabilities

Contingencies are recorded when losses are probable, and the cost is measurable. When an estimate of contingent losses includes a range of possible costs, the most likely cost is reported; in situations in which no cost is more likely than any other, the lowest possible cost in the range is reported.

N. Net Position

BBG's net position contains the following components:

Unexpended Appropriations

This is the sum of undelivered orders and unobligated balances. Undelivered orders represent the amount of obligations incurred for goods or services ordered, but not yet received. An unobligated balance is the amount available after deducting cumulative obligations from total budgetary resources. As obligations for goods or services are incurred, the available balance is reduced.

Cumulative Results of Operations

These include (1) the accumulated difference between revenues and financing sources less expenses since inception; (2) BBG's investment in capitalized assets financed by appropriation; (3) donations; and (4) unfunded liabilities, for which liquidation may require future congressional appropriations or other budgetary resources.

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NOTE 2: FUND BALANCE WITH TREASURY

Treasury performs cash management activities for all federal agencies. The net activity represents Fund Balance with Treasury. The Fund Balance with Treasury represents the right of the BBG to draw down funds from Treasury for expenses and liabilities.

Fund Balance with Treasury by fund type as of September 30, 2004, consist of the following:

Type of Fund	Amount
Appropriated Funds	\$184,914
Trust Funds	\$4,583
Totals	<u>\$189,497</u>

The status of the fund balance may be classified as unobligated available, unobligated unavailable, and obligated. Unobligated funds, depending on budget authority, are generally available for new obligations in current operations. The unavailable amounts are those appropriated in prior fiscal years, which are not available to fund new obligations. The unavailable balance also includes funds in deposit funds and miscellaneous receipts. The obligated but not yet disbursed balance represents amounts designated for payment of goods and services ordered but not yet received, or goods and services received but for which payment has not yet been made.

The status of Fund Balance with Treasury as of September 30, 2004, consists of the following:

Status	Amount
Unobligated Balance	
Available	\$25,598
Unavailable	24,059
Obligated Balance Not Yet Disbursed	<u>139,840</u>
Totals	<u>\$189,497</u>

NOTE 3: CASH AND OTHER MONETARY ASSETS

BBG maintains a domestic imprest fund for small purchases less than \$25. Typically, these expenditures are the result of taxi fares or local transportation fees. Overseas imprest funds are maintained for international small purchases. Typically, these include expenditures for maintaining government owned vehicles, small office supply orders and drinking water. As of September 30, 2004, BBG maintained imprest funds totaling \$203,644.00.

NOTE 4: ACCOUNTS RECEIVABLE, NET

Accounts receivable as of September 30, 2004, are as follows:

	Amount
Accounts Receivable - Intra-governmental	\$3,795
Accounts Receivable – Public	358
Less Allowance for Uncollectible Receivables - Public	<u>0</u>
Total Accounts Receivable, Net	<u>\$4,153</u>

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NOTE 5: PROPERTY, PLANT, AND EQUIPMENT, NET

“Property, plant, and equipment” consists of that property used in operations and consumed over time. The following tables summarize cost and accumulated depreciation of property, plant, and equipment as of September 30, 2004.

Property	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Buildings	30	\$44,771	\$(22,746)	\$22,025
Land	NA	38,081		38,081
Equipment	3-30	96,023	(81,869)	14,154
Other Structures	20	<u>259,472</u>	<u>(145,485)</u>	<u>113,987</u>
	Totals	<u>\$438,34</u>	<u>\$(250,100)</u>	<u>\$188,247</u>
		<u>7</u>		

Depreciation expense for the year ended September 30, 2004, is \$17,431,505.69.

NOTE 6: NON-ENTITY ASSETS

Non-entity assets, restricted by nature, consist of miscellaneous receipt accounts that represent cash collected and accounts receivable (net of allowance for uncollectible amounts) due to the U.S. Treasury.

	Amount
Non-Entity Assets	
Intra-governmental:	
Fund Balance with Treasury	<u>\$57</u>
Total Intergovernmental	\$57
Accounts Receivable	<u>\$13</u>
Total Non-Entity Assets	\$70
Total Entity Assets	<u>\$382,361</u>
Total Assets	<u>\$382,431</u>

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NOTE 7: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

BBG's liabilities are classified as covered or not covered by budgetary resources. Liabilities not covered by budgetary resources result from the receipt of goods and services, or occurrence of eligible events in the current or prior periods, for which revenue or other funds to pay the liabilities have not been made available through appropriations. Liabilities not covered by budgetary resources as of September 30, 2004 are summarized as follows.

	Amount
Intra-governmental:	
Accrued FECA Liability	<u>\$1,695</u>
Total intra-governmental	\$1,695
Accrued Annual and Compensatory Leave	\$ 7,251
FECA Actuarial Liability	<u>8,702</u>
Total Liabilities Not Covered by Budgetary Resources	\$17,648
Total Liabilities Covered by Budgetary Resources	<u>\$29,769</u>
Total Liabilities	<u>\$47,417</u>

Future Worker's Compensation Liability

DOL developed a model for agencies not specified in the Federal Employees Compensation Act (FECA) model to use as an estimate of their FECA actuarial liability. The model uses the amount of benefit payments for the entity over the last 9 to 12 quarters as provided in the quarterly charge back reports issued by the FECA, and calculates the annualized average of payments for medical expenses and compensation. The annualized average is then multiplied by the liability to benefits paid ratios for the whole FECA program for 2004. Using this tool, BBG's 2004 actuarial liability as of September 30, 2004, is \$8,701,854.14.

NOTE 8 OTHER LIABILITIES

Other liabilities consist of the following as of September 30, 2004:

	Amount
Public	
Deposit and Suspense Liabilities	<u>\$(2,812)</u>

NOTE 9: CONTINGENT LIABILITIES, COMMITMENTS, AND CONTINGENCIES

BBG is a party to a class action that was settled in 2000. There are still outstanding payments to be made under the court judgements for back and front payments, as well as contributions to OPM to establish or adjust retirement accounts. The total amount of these payments will be paid from the judgment funds maintained by Treasury in subsequent fiscal years. Although the amounts are measurable, BBG's management and legal counsel have determined that reimbursement of the Judgement Fund for these payments is remote. Therefore there is no amount for contingent liabilities recorded on the Balance Sheet.

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NOTE 10: IMPUTED FINANCING

OPM pays pension and other future retirement benefits on behalf of Federal agencies for Federal employees. OPM provides rates for recording the estimated cost of pension and other future retirement benefits paid by OPM on behalf of Federal agencies. The costs of these benefits are reflected as imputed financing in the consolidated financial statements. There were no payments from the Treasury Judgment Fund on behalf of BBG in FY 2004. Expenses of the BBG paid or to be paid by OPM as of September 30, 2004, total \$9,649,690.98.

NOTE 11: STATEMENT OF NET COST

The Consolidated Statement of Net Cost reports the BBG's gross and net cost for its strategic objective and goal. The net cost of operations is the gross (i.e., total) cost incurred by the BBG, less any exchange (i.e., earned) revenue. The Consolidating Schedule of Net Cost categorizes costs and revenues by strategic goal and responsibility segment, which is presented in BBG's current Strategic Plan established pursuant to the Government Performance and Results Act of 1993. BBG has only strategic goal, thus net cost of operations are shown as one segment/line item on the Statement of Net Cost.

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Broadcasting Board of Governors Required Supplemental Information September 30, 2004 (In Thousands)

Accounts Receivable

Trading Partner	Federal Agency	Amount
72	Agency for International Development	\$2,239
97	Department of Defense	252
19	Department of State	1,226
95	Other (BBG/IBB)	<u>78</u>
Total		<u>\$3,795</u>

Accounts Payable

Trading Partner	Federal Agency	Amount
04	Government Printing Office	\$3
47	General Service Administration (GSA)	<u>183</u>
Total		<u>\$186</u>

Expenses

Trading Partner	Federal Agency	Amount
97	Department of Defense	\$9,873
13	Department of Commerce	97
16	Department of Labor	47
19	Department of State	3,784
20	Department of Treasury	110
21	Department of the Army	486
69	Department of Transportation	(23)
27	Federal Communications Commission	221
47	General Service Administration (GSA)	22,158
4	Government Printing Office	323
3	Library of Congress	68
24	Office of Personnel Management	11,439
57	Department of the Air Force	142
18	U.S. Postal Service (USPS)	(108)
75	Department of Health and Human Services	160
95	Other (BBG)	<u>680</u>
Total		<u>\$49,457</u>

Revenue

Trading Partner	Federal Agency	Amount
19	Department of State	\$1,090
97	Department of Defense	250
95	Other (BBG)	<u>706</u>
Total		<u>\$2,046</u>

Supplemental Financial Information

Improper Payments Information Act

In accordance with the Improper Payments Information Act of 2002 (Public Law 107-300) the BBG implemented a plan to ensure erroneous payments do not occur. As required by the Act The BBG's annual budget is less than \$600 million, of which about 50 percent is attributed to salary payments. Improper payments in the aggregate of \$10 million dollars are statistically unlikely given the number and size of our average payments.

During the course of the year, in conjunction with our cross service provider, we have monitored our payments to ensure erroneous payments have not occurred. The BBG did not incur any erroneous payments totaling \$10 million dollars during fiscal 2004.

The BBG will continue to monitor the payment process during FY 2005.

Debt Management

In accordance with the Debt Collection Improvement Act of 1996 the BBG has been reviewing and tracking the outstanding receivables. During FY 2004 the BBG enrolled with the Department of Treasury in the Treasury Offset Program (TOP). TOP allows federal agencies to refer their debt to Treasury who offsets the debt with any federal payment. A majority of the agency's debt is related to the outstanding travel advances.