



Broadcasting
Board of
Governors



November 15, 2006

Voice of America • Radio/TV Marti • Radio Free Europe/Radio Liberty
Radio Free Asia • Middle East Broadcasting Networks

BROADCASTING BOARD OF GOVERNORS

MESSAGE FROM THE CHAIRMAN



I am pleased to present the Broadcasting Board of Governors' (BBG) *Performance and Accountability Report for Fiscal Year 2006*. This is the BBG's third *Performance and Accountability Report* and includes the results of this year's audit of the Agency's financial statements. The report also measures our performance against the objectives we identified for FY 2006, highlights the accomplishments of the past year, and identifies the challenges that lie ahead.

The current mission of the BBG is to promote freedom and democracy and to enhance understanding by broadcasting accurate, objective and balanced news and information about the United States and the world to audiences overseas. The BBG broadcast services, including the Voice of America, Radio Free Europe/Radio Liberty, the Middle East Broadcasting Networks (Radio Sawa and Alhurra TV), Radio Free Asia, and Office of Cuba Broadcasting (Radio and TV Martí) pursue this single mission, reaching a worldwide audience of over 140 million in 58 languages via radio, television, and the 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 2006. VOA's Persian-language television continued to rank as one of the top international broadcasters to Iran. Building on this continued success, the Persian Service expanded television programming to four original hours daily, with repeats giving us a total of twelve hours daily. Radio Farda also enhanced its programs, offering increased reporting in the Middle East, inside Iran and throughout the U.S. and Europe. RFA's Korean Service went to a two-hour live format in FY 2006. The expanded live format provided the flexibility to change programming daily or even hourly.

FY 2006 also saw BBG reach out to new audiences in new media. VOA, already experiencing notable success in reaching Afghanistan's millions of Dari and Pashto speakers, launched the initial phase of its new 'Pashto to the Afghanistan-Pakistan Border Region' radio broadcast stream, aimed at the 25 million Pashto-speaking people living along the border. VOA's Urdu Service entered the Pakistani TV market in FY 2006 by launching a 30-minute TV news magazine show, *Beyond the Headlines*, on Pakistan's most widely watched satellite TV channel.

FY 2006 marked a number of achievements in BBG's efforts to reach out to Arabic-speaking audiences, a key performance measure for our post-9/11 mission. The Middle East Broadcasting Networks successfully launched a new Alhurra stream engaging the millions of Arabic speakers watching satellite television in Western Europe. Alhurra established two new TV stations in the Iraqi cities of Mosul and Hilla, giving added reach to Alhurra-Iraq. A six-station FM network in Lebanon expanded Radio Sawa's coverage to include 99% of the Lebanese population.

In addition to achieving its FY 2006 goals, the BBG also met a number of unexpected challenges throughout the year. In July, when the Israeli-Hezbollah crisis began, the BBG broadcast services responded. For example, Alhurra TV operated as an around-the-clock breaking news station, pre-empting all other programming. Radio Sawa also extended its twice-an-hour newscasts following the emergence of the crisis, while its all news website provided up to the minute news and details on situation in Lebanon and Israel. When North Korea conducted seven ballistic missile launches, RFA's Korean Service dropped its regular format in order to provide comprehensive, in-depth reporting on the missile tests.

This report and the audit results demonstrate the BBG's ability to 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 given our financial statements an unqualified ("clean") opinion for the third year in a row. 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 begun to take steps to correct the identified weaknesses. We take the stewardship of taxpayer resources seriously and are committed to improving our internal controls and financial processes.

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 2006 in furthering our mission as well as wisely and effectively using the resources entrusted to us by the Administration, Congress, and the public.



Kenneth Y. Tomlinson
Chairman

BROADCASTING BOARD OF GOVERNORS

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

This Performance and Accountability Report presents the Broadcasting Board of Governors' (BBG) financial and program performance for FY 2006. It fulfills the requirements of the Accountability of Tax Dollars Act of 2002, the Reports Consolidation Act of 2000, the Federal Managers' Financial Integrity Act of 1982 (FMFIA), the Government Management Reform Act of 1982 (GMRA), the Government Performance and Results Act of 1993 (GPRA), and Federal Financial Managers Improvement Act of 1996 (FFMIA).

FY 2006 has been a very productive year for the BBG in the area of financial management. We are proud to have received an unqualified opinion on our financial statements for our third audit. The auditors identified no reportable conditions.

Key BBG FY 2006 accomplishments in financial management improvements include:

Expanded Electronic Government

The BBG has made significant progress in implementing several e-government initiatives. The BBG has selected the Department of Defense's Defense Civilian Payroll System and is working with OPM, OMB, and the Department of State to implement the new e-payroll system in FY 2007. Also, in support of the Presidential Management Agenda, the Agency implemented an automated e-travel solution (E-2 Solutions) for online booking and online vouchering services, and completed the transition in FY 2006. In further support of e-governance, the use of electronic procurements and performance based contracting is being expanded and modernized within the Office of Contracts.

Improved Financial Performance

BBG supports a successful audit and improves financial performance by utilizing automated tools for tracking and financial reporting; implementing standard procedures and processes; and offering financial management training to its financial, program and administrative staffs. This training reinforced financial system controls, regulatory compliance, and budget formulation and execution requirements. The BBG is in compliance with Federal accounting principles and standards and met all Treasury and OMB financial reporting requirements in FY 2006.

The BBG currently has a cross-servicing agreement with the Department of State for its financial management system. During FY 2006, 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. For example, the BBG consolidated the government-wide purchase card payments, increasing the earnings from the rebate.

Budget and Performance Integration

The BBG continued to make significant progress on integrating performance goals in 2006, including annual objectives and measures, with budget requests and financial management. This year, the BBG continued to build a portfolio of program level strategies and annual performance plans linked to the agency's strategic goal, performance indicators and resources. The Office of the CFO, including the Office of Financial Operations, the Budget Office and the Office of Strategic Management, facilitated the agency's on-going effort to integrate performance information with budget and financial information. The Budget Office also worked closely with the program offices to formulate and execute the budget and financial plans, monitor implementation of the financial plans by program, and conduct quarterly reviews of the status of funds to ensure that the funds meet each program's requirements and objectives. A detailed explanation of our progress as demonstrated through OMB's PART evaluations is included in the Performance Section of this report.

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."

A handwritten signature in black ink, appearing to read "Janet K. Stormes". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Janet K. Stormes
Chief Financial Officer

Table of Contents

INTRODUCTION	1
SECTION 1: MANAGEMENT'S DISCUSSION AND ANALYSIS	2
ORGANIZATIONAL STRUCTURE AND MISSION.....	3
PERFORMANCE GOALS, OBJECTIVES AND RESULTS.....	5
FY 2006 HIGHLIGHTS AND ACCOMPLISHMENTS	6
PRESIDENT'S MANAGEMENT AGENDA	12
ON-GOING CHALLENGES	15
INSPECTOR GENERAL'S STATEMENT ON FY 2006	
MANAGEMENT AND PERFORMANCE CHALLENGES.....	19
BBG'S RESPONSE TO IG'S STATEMENT ON FY 2006	
MANAGEMENT AND PERFORMANCE CHALLENGES.....	23
FINANCIAL HIGHLIGHTS	25
MANAGEMENT CONTROLS, SYSTEMS,	
AND COMPLIANCE WITH LAWS AND REGULATIONS	26
IMPROPER PAYMENTS INFORMATION ACT REPORTING.....	31
LIMITATION OF FINANCIAL STATEMENTS	32
SECTION 2: PERFORMANCE INFORMATION.....	33
FY 2006 IMPLEMENTATION STRATEGIES	33
FY 2006 PERFORMANCE OBJECTIVES AND OUTCOMES	36
FY 2006 PERFORMANCE INDICATOR TARGETS AND OUTCOMES	49
PROGRAM ASSESSMENT RATING TOOL (PART)	56
PROGRAM EVALUATIONS	59
SECTION 3: FINANCIAL INFORMATION.....	62
INDEPENDENT AUDITORS' REPORT.....	63
BALANCE SHEET	74
STATEMENT OF NET COSTS	75
STATEMENT OF CHANGES IN NET POSITION	76
STATEMENT OF BUDGETARY RESOURCES	77
STATEMENTS OF FINANCING	79
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	80

Introduction

Purpose of the Performance and Accountability Report

This FY 2006 Performance and Accountability Report (PAR) is the Broadcasting Board of Governors' (BBG) third report providing consolidated performance and financial information. This integrated presentation of the agency's program performance, financial accountability, and managerial effectiveness is intended to assist Congress, the President, and the public in assessing the BBG's performance 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
Reports Consolidation Act of 2000
Federal Manager's Financial Integrity Act of 1982 (FMFIA)
Government Management Reform Act of 1982 (GMRA)
Government Performance and Results Act of 1993 (GPRA)
Federal Financial Managers Improvement Act of 1996 (FFMIA)

Structure of the Performance and Accountability Report

The report includes the following sections:

Management's Discussion and Analysis (MD&A)

The MD&A is an overview of the BBG, its organizational structure, and mission. It includes a summary of the agency's highlights and accomplishments for FY 2006, the progress made in implementing the President's Management Agenda, the BBG's management and performance challenges, and the Inspector General's (IG) statement regarding these challenges. The MD&A also includes the results of the agency's FY 2006 FMFIA internal control review.

Performance Section

The performance section presents annual program performance information as required by the GPRA and describes the agency's progress in meeting its operational strategic goals. A summary of the FY 2006 performance objectives is presented, as well as information about the outcome of specific performance indicator targets. This section also includes a summary of the Program Assessment Rating Tool (PART).

Financial Section

The financial section contains BBG's financial statements and related Independent Auditor's Report. The BBG has prepared and presented all five statements as required by the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

*Section 1:
Management's Discussion
And Analysis*

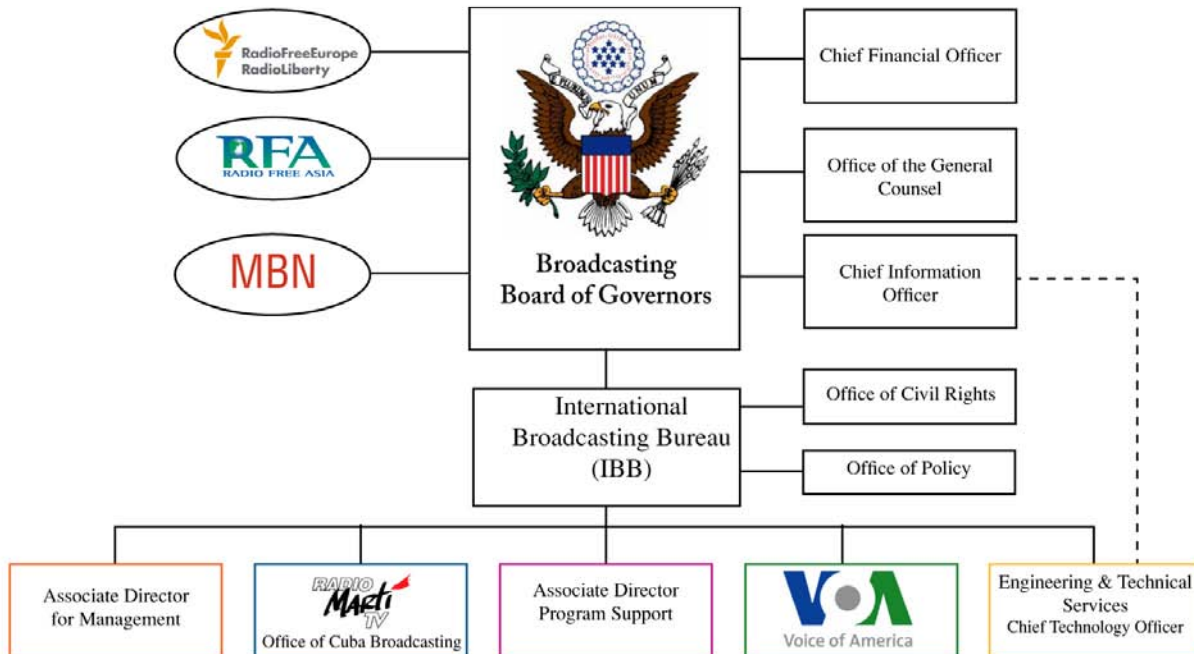
Organizational Structure and Mission

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 Broadcasting Networks (MBN- Radio Sawa and Alhurra TV) and the Office of Cuba Broadcasting (OCB-Radio and TV Martí), as well as support offices in the International Broadcasting Bureau (IBB). VOA, RFE/RL, RFA, OCB, and MBN, 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 MBN are grantee organizations that receive their funding from the government but are organized and managed as private non-profit corporations.

Broadcasting Board of Governors



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.

BBG Mission

Since October 1999, the BBG has fundamentally transformed U.S. non-military international broadcasting in pursuit of its central mission to promote freedom and democracy, to broadcast accurate news and information about the U.S. and the world to audiences overseas, and to provide to those audiences dynamic, creative programming that inspires intellectual curiosity and supports aspirations for political, economic, social, and human rights. This transformation has grown out of the post-Cold War and post-September 11th environment, changing priorities in where to broadcast, and how to reach key audiences around the world. The changes that the BBG has implemented have made international broadcasting an effective tool in the U.S. effort to directly access a worldwide audience of 140 million, countering misrepresentations of the U.S. and its policies, and providing accurate news and information and vibrant intellectual discussions and debates to those who do not receive this from their own media.

In a year defined by dynamic and unrelenting worldwide challenges, the BBG repeatedly displayed its ability to respond quickly to cover crises as they occur and took significant steps to strengthen its broadcasts to critical areas of the world. During the recent Israel-Hezbollah crisis, the Middle East Broadcasting Networks (MBN) transformed into a 24/7 news organization successfully presenting balanced and objective Arab-language coverage on satellite television to the Middle East. When Fidel Castro temporarily gave leadership of Cuba to his brother, Raul Castro, Radio and TV Marti hastened the launch of an airborne-platform to better reach Cuban audiences, and the Voice of America (VOA) expanded its daily program to Cuba. As the crisis in North Korea expanded, the BBG responded with broadcasts designed to present the facts to North Koreans closed off from international media. Other challenges included effectively reaching audiences in Iran, Afghanistan, and Pakistan.

The BBG broadcast services reach a worldwide audience in 58 languages via radio, television, and the Internet. All BBG broadcast services adhere to the broadcasting standards and principles of the International Broadcasting Act of 1994. All services include reliable, accurate, objective, and comprehensive news; balanced and comprehensive presentations of U.S. thought, institutions, and policies, including discussion about those policies; and information about developments throughout the world with a variety of opinions from nations around the world.

FY 2006 Performance Goals, Objectives and Results

The BBG has one strategic goal for all entities - *to create an increasingly effective and modern international broadcasting system that reaches significant audiences where most needed, in support of U.S. strategic interests* - and progress towards meeting that goal is measured by the BBG performance indicators. Taken together, they provide a comprehensive accounting of the annual performance of the BBG. The resources applied to achieve these results by entity are also presented in the Statement of Net Cost (SNC).

Delivering accurate news and information to significant audiences in target countries is our core definition of success. This requires first that our programs reach large numbers of people on a regular basis, as measured by the weekly audience reach; and secondly, that our programs say what we want in a manner that is attractive and endorsed as trustworthy to the audience, as measured by the program quality and program credibility. Both elements are equally important, and we report them at the entity level, together with other secondary measures that have a significant impact on the primary measures. The secondary measures include number of transmitters and affiliates, signal strength, satellite effectiveness and transmission network consumable expense.

All performance indicators for each language service are annual measures that are aggregated at the entity level to summarize the accomplishments of each entity. These common measures also serve as a foundation for internal review processes, including Language Service Review and Program Reviews, that ensure BBG priorities are being met and performance is meeting expectations of integrating resources with results. Further evaluations of the detailed level measures are also conducted through the Office of Management and Budget's annual Program Assessment Rating Tool process.



FY 2006 Highlights and Accomplishments

During FY 2006, the BBG continued to respond to the challenges of forging new approaches to identify target audiences, program preferences, and formats that appeal to significant audiences, and providing the serious news, information, and debate to fuel democratic development. Program innovations were based on the rigorous use of research, new technologies, frequent program reviews, and commercial broadcast expertise to meet challenges to our national security. This is especially true of BBG's efforts to effectively communicate with Muslim audiences in the Middle East and Southwest Asia where terrorism has flourished in an unstable environment. Key accomplishments in FY 2006 included:

Voice of America

Throughout FY 2006, VOA reported on the US-led War on Terror and events in Iraq while continuing to provide coverage of U.S. and international news and current affairs. VOA programs were broadcast worldwide on more than 1,000 weekly hours of radio in 44 languages, more than 60 hours of television in 26 languages, and a 24/7 Internet website at www.VOANews.com.

- VOA's Persian-language television continued to rank as one of the top international broadcasters to Iran, attracting a TV audience that grew significantly in the past two years. In 2006, VOA Persian expanded its weekly discussion and call-in show, *Roundtable with You*, from 90-minutes weekly to 60-minutes daily; launched *Late Edition*, a daily 60-minute newscast patterned after the News & Views formula that

offers a nightly wrap-up of the day's news targeted to a younger demographic; and debuted its fourth hour of television with *NewsTalk*, a 60-minute news discussion program featuring a regular panel of experts who discuss the day's headlines.

- VOA's Urdu Service entered the Pakistani TV market in FY 2006 by launching a 30-minute TV news magazine show, *Beyond the Headlines*, which airs 5 days a week (M-F) during prime time on GEO, Pakistan's most widely watched satellite TV channel.
- At the end of FY 2006, VOA launched a daily 60-minute TV news program (30 minutes each in Dari and Pashto) broadcast directly to viewers via satellite and affiliates. The new program includes elements of two 2005 pilot projects: one that combined the Dari and Pashto languages and another that had a simulcast call-in program with an Afghan TV station.
- On August 14, VOA launched the initial phase of its new Pashto to the Border Region radio broadcast stream, aimed at the 25 million Pashto-speaking people living along the Afghanistan-Pakistan border. In early September, VOA's Radio Deewa (Light) added a full news hour, including in-depth feature segments dealing with international, regional and local news critical to the target area.
- To reach the national audience of Afghanistan, VOA's Afghanistan Service continued to build on the success of its seamless 12-hour program stream in the Dari and Pashto languages, *Radio Ashna*, with a more contemporary, fast-paced format and daily call in shows and in-country reporting. A national survey in May 2006 showed that nearly half of all Afghan adults listen to Ashna at least once a week.

Radio Free Europe/Radio Liberty

Through its radio, Internet, and other information products, RFE/RL continued to make a significant contribution to the U.S.-led global struggle against terrorism. As of September 2006, RFE/RL broadcast in 28 languages to Central, Eastern and Southeastern Europe; Russia; the Caucasus; Central Asia; Iraq; Iran; and Afghanistan. Eighteen of RFE/RL's language services—almost two-thirds of the total—broadcast to countries or regions where the majority populations are Muslim. RFE/RL broadcast more than 1,000 hours of radio programming and almost 4 hours of television a week from its operations center in Prague and its regional bureaus. In 2006, RFE/RL's 19 Internet websites reached monthly averages of 1.1 million unique visitors with 1.5 million visitors listening to radio content online.

- Radio Farda program enhancements began in July 2006, with increased reporting that provided in-depth coverage of the fighting in Gaza and Lebanon. Special programming also included interviews and reports from Radio Farda correspondents in Washington, Jerusalem, Beirut, Cairo, Damascus, London, Stockholm and major cities inside Iran. RFE/RL is preparing to launch its newly redesigned Radio Farda website in first quarter of FY 2007. The new site will

provide news headlines and daily updates and will be rich in topical information utilizing creative on-line storytelling techniques.

- The Russian website attained a 25 percent increase in unique visitors in May 2006, following an aggressive marketing campaign for its new design. The new design complements the radio product and targets active news-seekers who use the site for its in-depth online content, analysis, and audio. Portability of downloadable audio, Rich Site Summary (RSS) feeds, and Wireless Application Protocol (WAP/Mobile) versions of the site are serving the audience in new ways. Additional features can be added to the site as broadband access in Russia continues to increase.

Radio Free Asia

RFA broadcasts in 12 languages and dialects to China (including Tibet and Xinjiang), Burma, Cambodia, Laos, North Korea, and Vietnam, operating as an unbiased news source in Asian countries that do not tolerate a free press and filling the news gap created by state-controlled media. Through its network of reporters across Asia and its eight bureaus/offices, RFA frequently leads the world in breaking news and continues to cover stories not reported by other media. RFA's language services are recognized worldwide as authoritative sources of breaking news and compelling features, and RFA services are routinely cited in leading mainstream media.

- RFA's Korean Service went to a two-hour live format in FY 2006, increasing original programming by 30 minutes. The expanded live format provided the flexibility to change programming daily or even hourly. For example, on July 4, 2006 when North Korea conducted seven ballistic missile launches, RFA's Korean Service dropped its regular format in order to provide comprehensive, in-depth reporting on the missile tests, filling in the blanks left by official North Korean media.

Middle East Broadcasting Networks (Alhurra, Alhurra Iraq, Alhurra Europe and Radio Sawa)

During FY 2006, Alhurra increased the effectiveness of its overall news programming including in-depth coverage of events in the Arab world and U.S. politics to compete more effectively with the growing number of Arabic-language satellite channels.

- In July 2006 when the Israel-Hezbollah crisis began, MBN responded. Alhurra TV operated as an around-the-clock breaking news station, pre-empting all other programming. Alhurra also began broadcasting a daily three-hour program from downtown Beirut with live reports from around the country, bringing viewers the latest news and information from Lebanon. Radio Sawa also extended its twice-an-hour newscasts following the emergence of the crisis, while its all news website provided up to the minute news and details on situation in Lebanon and Israel.

- Radio Sawa also expanded its programming and audience reach in FY 2006 when it added a separate stream to Lebanon, which became Radio Sawa's seventh distinct programming stream.
- As MBN continued to seek new and critical audiences, it began reaching out to the large and growing Arab-speaking populations across Western Europe in 2006. There is currently no source of Arabic-language news in Europe putting America and American policies in a proper context. Alhurra Europe, which began broadcasting in FY 2006, is designed to give the U.S. a news presence for Arabic-speakers in Europe. The channel, which is available via the popular Hotbird satellite system, presents news and information 24/7 with programming consisting entirely of newscasts, talk shows, roundtables and original magazine programs produced by Alhurra and Alhurra-Iraq.

Engineering and Technical Services

The Office of Engineering and Technical Services manages and operates the global broadcast network, satellite feed distribution system, and the 24/7 FMs in addition to all IBB information technology support functions, including Internet technical support. Engineering efforts over the past year continued 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.

- Of particular note this past fiscal year was the closure in the spring of 2006 of the Greece Transmitting Station, a major shortwave and medium wave facility with broadcast roots dating back to the 1950s. The realities of funding, technology, and shifting audience preferences led the BBG to cease broadcast transmissions from this facility on May 11, 2006.
- In October 2005, a new 800 kW medium wave transmitter became operational in Tajikistan, and a new medium wave antenna system, planned for completion before the end of 2006, will further strengthen broadcasts of Radio Aap Ki Dunyaa, the VOA Urdu language service, into Pakistan. In addition, the BBG has a lease for a second 800 kW medium wave transmitter from the UAE to provide even more coverage into Pakistan. Broadcasts from this facility are expected to begin in the second quarter of FY 2007.
- The BBG accomplished a number of other significant program delivery improvements in FY 2006. These include: additional FM systems in Al Nasiriyah (January 17, 2006), Al Samawah (April 7, 2006), and Kirkuk (May 18, 2006); upgraded antenna systems in Basra and Baghdad; a new 5 kW VHF TV transmitter system in Mosul (January 17, 2006) and a 10 kW UHF system near Al Hilla (June 3, 2006); and a six-station FM network in Lebanon to expand Radio Sawa broadcast coverage.

Agency Direction

The BBG oversees all U.S. funded, non-military international broadcasting, including the operations of IBB, VOA, OCB, and the three grantees, RFE/RL, RFA, and MBN. The Office of the General Counsel, Office of the CFO, Director of the IBB, Office of Policy, and Office of Civil Rights supported agency activities throughout FY 2006.

- The BBG conducted the 2006 Language Service Review, enabling the results of the review to inform the development of the FY 2008 budget request.
- Last year, BBG submitted its annual PAR on time and underwent an independent audit of its financial statements, which received an unqualified (“clean”) opinion.

Management Directorate

The Management Directorate continues to support the President’s Management Agenda through several initiatives. The Management Directorate continued its detailed analysis of the BBG’s workforce in FY 2006, along with a Human Capital Survey and a Training Needs Assessment. The use of electronic procurements and performance based contracting is being expanded and modernized within the Office of Contracts.

Program Support

The Office of Marketing and Program Placement (OMPP) continued to market a growing variety of BBG programs through advertising and promotional campaigns in FY 2006. OMPP was instrumental in developing new rebroadcast affiliate relationships in West and Central Asia, India, Pakistan, Russia, China and the Middle East. New television initiatives directed at Iran prompted positive responses from Iran as well as Farsi speakers in nearby countries.

In 2006, OMPP remained focused on the growing importance of Muslims in the global strategic balance. In Pakistan, OMPP organized the launch and worked with the associated media outlets in the run up to the November 14 launch of *Beyond the Headlines* on GEO-TV. GEO reports that *Beyond the Headlines* is now the number-two program in its timeslot. OMPP’s Dubai advertising campaign ran on the main concourse leading to flights between Dubai and Tehran until mid-June. In spring 2006, ads were also placed in in-flight magazines (Emirates and Gulf Air).

Office of Cuba Broadcasting (Radio and TV Martí)

The Office of Cuba Broadcasting (OCB) continues to provide coordinated management of Radio Martí and Television Martí. Radio and TV Martí continued to pursue their mission to provide a reliable source of news and information that is accurate and objective, and to promote freedom and democracy in Cuba. The all news and information format of Radio Martí, broadcast 24 hours a day, six days a week, and 18 hours a day, one day a week, has allowed Radio Martí to respond more quickly to breaking news, and to provide in-depth coverage of major events.

In 2006, OCB began test flights of an aircraft to provide dedicated airborne transmission into Cuba. OCB is utilizing contractor-owned-and-operated aircraft rather than government-owned aircraft because the contractor has the specialized skills and resources to handle aircraft ownership responsibilities, including compliance with all FAA airworthiness directives, maintenance and repair requirements and liability issues. The aircraft will provide up to 6 hours a day of broadcasts to Cuba.

President's Management Agenda

In 2001, the President established the President's Management Agenda (PMA) 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 PMA initiative. The following is a summary of our progress in FY 2006.

Strategic Management of Human Capital

The BBG established a Federal Human Capital Executive Oversight Committee to provide review and advice for the Human Capital Strategic Plan, results-based performance appraisal systems (including the SES system), Federal Human Capital Survey, and other Human Capital areas. The Management Directorate continued its detailed analysis of the BBG's workforce in FY 2006, along with a Human Capital Survey and a 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 our workforce in carrying out its mission. The agency expanded recruiting efforts by seeking partnerships with universities and professional organizations.

To meet the need for changing skills, the BBG renewed its authority for Voluntary Separation Incentive Payments (buyouts) and an extension of the agency's Early-Out Authority. The agency expanded its use of the USA Staffing automated staffing system to streamline and expedite recruitment. A variety of means are being used to attract skilled employees, including: entry level hires, full performance level hires, paid interns, co-ops, volunteer interns, Presidential Management Fellows, fellowships, consultants, experts and student hires. Selective use of recruitment bonuses, advanced in hire salary, and the new authority that provides up to seven additional days of leave for outstanding candidates new to the Federal government are each being used to aid in recruitment.

Training needs are identified through an annual survey and the Training Advisory Group in line with funding priorities provides oversight. The basic leadership course was revamped and a Supervisor Orientation Program for newly hired/promoted supervisors and managers was developed.

To retain its workforce, the BBG provided employees with increased flexibility such as flex time or telecommuting, where appropriate, and enhanced online access to guidelines for supervisors and employee personnel information.

Competitive Sourcing

Last year's FAIR Act submission reflects a commitment to finding the best possible means of accomplishing our mission. Contracting has been used, when appropriate, to accomplish new broadcasting initiatives. The agency is seeking legislative authority to expand its authority to employ personal services contractors in lieu of expanding FTE where appropriate.

Expanded Electronic Government

The BBG made significant progress in implementing a new payroll system to support the Administration's e-government mandate. The BBG has selected the Department of Defense's Defense Civilian Payroll System and is working with OPM, OMB, and the Department of State to implement the new system in FY 2007.

The agency also joined with the Department of State and the U.S. Agency for International Development (USAID) in their selection of CW Government Travel (CW) as its official travel service center. The selection of CW, an industry leader in e-Travel initiatives, supports the PMA. The Agency implemented an automated e-travel solution (E-2 Solutions) for online booking and online vouchering services, and completed the transition in FY 2006.

In further support of e-governance, the use of electronic procurements and performance based contracting is being expanded and modernized within the Office of Contracts.

Improved Financial Performance

The BBG received an unqualified opinion on the first audit of all BBG financial statements in 2004 and has continued to maintain an unqualified opinion on all financial statements in 2005. BBG supports a successful audit and improves financial performance by utilizing automated tools for tracking and financial reporting; implementing standard procedures and processes; and offering financial management training to its financial, program and administrative staffs. This training reinforced financial system controls, regulatory compliance, and budget formulation and execution requirements. The BBG is in compliance with Federal accounting principles and standards and met all Treasury and OMB financial reporting requirements in FY 2006.

The BBG currently has a cross-servicing agreement with the Department of State for its financial management system. During FY 2006, 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. For example, the BBG consolidated the government-wide purchase card payments, increasing the earnings from the rebate.

Budget and Performance Integration

The BBG improved its PART scores to "effective" ratings for programs evaluated in 2005. The PART evaluation notes the significant progress in BBG's improved budget and performance integration. In 2006, the BBG continued to make significant progress on integrating performance goals, including annual objectives and measures, with budget requests and financial management. The agency has included performance information to demonstrate the relationship between the agency's budget and strategic plan, implementation strategies, and performance targets. Efforts to further integrate performance and budget information continued with the FY 2008 Budget Request. The BBG conducted the 2006 Language Service Review on time so that the results of the review could inform the development of the FY 2008 budget, including extensive

information on performance goals and targets for the requested enhancements and linking them to the BBG strategic goals.

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 OMB's PART evaluations is included in the Performance Section of this report.

The BBG Performance and Accountability Report (PAR) for 2005 was submitted on time and no material weaknesses were found for the performance section. BBG conducted a financial statement audit, which was submitted on time and received an unqualified opinion on all of its financial statements.

The Office of the CFO, including the Office of Financial Operations, the Budget Office and the Office of Strategic Management, continued to facilitate the agency's on-going effort to integrate performance information with budget and financial information. The Budget Office worked closely with the program offices to formulate and execute the budget and financial plans, monitor implementation of the financial plans by program, and conduct quarterly reviews of the status of funds to ensure that the funds meet each program's requirements and objectives.

On-going Challenges

Broadcast Environment

Beyond the challenge of attracting large audiences in competitive media environments, the BBG broadcasts to parts of the world where freedom of the press is often suppressed or denied. Because the BBG also broadcasts to countries and regions that lack democracy or are in the process of transitioning into democracy, this means working in politically unstable environments.

Changes in the leadership and policies of host country governments can 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 a country changes, our ability to continue broadcasting may also change, a challenge illustrated by BBG's ongoing obstacles to broadcasting in Russia. The BBG broadcasts across borders to listeners, especially to countries where we cannot establish our own stations or arrange for local affiliates. In some countries that seek to suppress a free press, radio and television signals and Internet content are blocked, requiring us to seek transmission enhancements to overcome the jamming.

Moreover, the geopolitical landscape constantly challenges the BBG to find innovative and dynamic means to achieve its mission. Whether reaching out to populations in crisis in Lebanon, North Korea, and Zimbabwe; providing the forum for debating the fundamentals of democracy in Russia, Vietnam, and the Middle East; or engaging the next generation of decision makers in Iran, India and China, the BBG is constantly evaluating its approach, striving to meet the unique challenges its mission aspires to and that today's global political climate demands.

Regional and localized crises often develop without warning, and each scenario demands a unique international broadcasting approach depending on the media available to the audience (and the BBG) and the nature of the situation. In the late summer months of 2006, MBN responded to the Israel-Hezbollah crisis by expanding Alhurra's live satellite TV news coverage to 24 hours a day. Reports were filed extensively throughout Lebanon and Israel, distinguishing Alhurra from its competition. Meanwhile, RFA and VOA developed a creative proposal for expanding shortwave and medium wave programming to the heavily restricted and repressed audience in North Korea on the heels of unexpected missile tests by that government. Finally, on the opposite side of the globe, the OCB – through Radio and TV Marti – was providing the people of Cuba with rapid news updates on the temporary transfer of power from Fidel Castro to his brother.

Each of these challenges demands that the BBG innovate to deliver programs to target audiences in the medium that they prefer. These media include radio via shortwave (SW), medium wave (MW), or FM; television via terrestrial, cable, or direct-to-home satellite; and the Internet. As audiences gain a wider range of media choices, their preferences tend to shift to FM and television. This poses a particular challenge to the BBG. Unlike shortwave, medium wave and direct-to-home satellite television, FM and terrestrial TV delivery methods require the cooperation of the host country's government.

If the BBG is unable to gain access to in-country FM, cable or terrestrial television frequencies, it is unable to reach significant populations.

Finally, the current security situation in many countries poses an additional challenge to program delivery. RFE/RL correspondents were harassed, assaulted or forced to flee in Iran, Uzbekistan, Turkmenistan, Belarus, Afghanistan, Iraq, and Russia. In less than one year, RFE/RL lost over 50% of its Russian re-broadcasting partnerships because of increasing pressure on its affiliates by the Russian government. In Uzbekistan, authorities outlawed RFE/RL's bureau in Tashkent following a government crackdown. In Turkmenistan and Uzbekistan, RFE/RL correspondents were arrested on dubious charges and imprisoned without due process. RFE/RL Turkmen Service correspondent Ogulsapar Muradova died in Turkmen custody after being detained for unclear reasons in June.

While the establishment of facilities for Radio Free Afghanistan, Radio Sawa, and Alhurra Television is a critical component of the agency's mission, the unstable security situation in the Middle East and other regions makes this difficult. Alhurra Iraq television reporters must constantly remain vigilant outside of the Green Zone, rarely openly associating themselves with the network. MBN and RFE/RL operations in Baghdad are made possible only by costly security barricades and armed guards.

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. Primary challenges facing MBN include the completion of the terrestrial broadcasting network for Alhurra Iraq as well as procurement of additional FM transmission capability for Radio Sawa in Saudi Arabia, Algeria, Egypt, and in key cities in Iraq as security conditions permit.

Infrastructure

BBG requires powerful and reliable broadcast equipment in order to fulfill its mission. BBG's customers - audiences around the world - often have a number of choices for where they get their news. A key component of attracting these audiences is delivering vital and objective news in a modern, high-quality format. Since 9/11, the BBG has focused its resources on creating new programs to support U.S. national security requirements. This critical attention on the programming has placed a strain on the agency's infrastructure by limiting funding for maintenance and upgrades in order to accommodate funding for the highest priority program and broadcast initiatives. As broadcast hours and programming have expanded, the demands on our infrastructure have grown.

BBG's broadcast equipment is also heavily impacted by the dynamic, rapidly evolving broadcast information technology (IT) market. This rapid evolution drives a nearly constant demand for newer, more efficient and more costly technology. Moreover, new infrastructure must be established and maintained along with the existing infrastructure, and this maintenance is further complicated by the advent of digital technology. While digital technology provides the highest quality production capabilities and increased

opportunities for improved efficiencies, the equipment requires a more stringent replacement and upgrade cycle to meet industry standards. As the pace of obsolescence accelerates with new technologies, vendors discontinue support for older systems and repairs or upgrades become difficult or even impossible. Given these constraints, the BBG strives to judiciously allocate resources to address the most critical infrastructure requirements as well as annual, recurring technical infrastructure requirements and one-time projects.

In light of the ongoing War on Terror, the present security situation requires that the BBG take appropriate caution in safeguarding its infrastructure and property. Following the terrorist attacks of September 11, 2001, general threat assessments by a variety of U.S. government agencies emphasized that RFE/RL's site in Prague is vulnerable to terrorist attack. In response, the BBG is currently managing the relocation of RFE/RL's Prague headquarters.

The BBG must also respond to unpredictable damage to our technical infrastructure. In August of 2006, Israeli airstrikes in Southern Lebanon destroyed a Radio Sawa transmitter and damaged two others. When such events occur, it is necessary to respond as quickly as possible to prevent interruptions in our broadcasting capabilities. BBG also does its best to safeguard vulnerable infrastructure – much of the planning associated with constructing our new medium wave transmitter in Afghanistan required adequate security protection of the site.

The growth of television programming requirements has also strained the BBG's satellite delivery network infrastructure. New television requirements largely drive the capacity needed for the global delivery network. The addition of more BBG television programming, particularly during prime hours in a region, has stretched the current network capacity to its limits. Future TV growth, necessary to achieve a competitive presence in critical media markets, will require careful management of the BBG's program delivery infrastructure to ensure that the system is not strained beyond its capability.

The BBG strives to use the most effective mix of media to reach the largest audiences in targeted areas. Ongoing realignment of the global network infrastructure helps to keep the most appropriate assets close to the audiences that these resources can best serve. Historically, BBG has maintained a global shortwave broadcasting network to reach audiences almost anywhere in the world and to respond quickly to urgent surge and crisis broadcasting requirements. As shortwave listenership declines in some regions, BBG has downsized or closed a number of transmitting stations and moved usable assets to other areas where they can provide valuable service for years to come.

Management

Management challenges include transitioning our payroll and finance systems over the next few years while ensuring that on-going operations and financial management are not adversely affected. The BBG has been working closely with the relevant Federal

agencies, including the Department of State and OPM to ensure a smooth transition occurs.

Furthermore, 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 retirements. We must 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 pose further requirements to reshape, recruit, or retrain the BBG's workforce.



**United States Department of State
and the Broadcasting Board of Governors**

Inspector General

November 15, 2006

Ms. Jan Brambilla
Executive Director
Broadcasting Board of Governors
300 Independence Avenue, S.W.
Room 3360
Washington, D.C. 20237

Dear Ms. Brambilla:

The enclosed document is submitted in response to your request for a statement from the Office of Inspector General (OIG) for the Broadcasting Board of Governors (BBG) FY 2006 Performance and Accountability Report. The statement represents OIG's assessment of BBG's major management and performance challenges for the fiscal year.

If you have any questions concerning the attached statement, please contact William Todd, Deputy Inspector General, who can be reached at (202) 663-0362.

Sincerely,

A handwritten signature in red ink that reads "Howard J. Krongard".

Howard J. Krongard
Inspector General

Enclosure

FY 2006 Performance and Accountability Report

U.S. Department of State and the Broadcasting Board of Governors Office of Inspector General Statement for the Broadcasting Board of Governors' FY 2006 Performance and Accountability Report

Management and Performance Challenges

Human Capital

The Broadcasting Board of Governors (BBG) has improved its human capital program since the Office of Inspector General's (OIG's) management challenges statement in BBG's FY 2005 Performance and Accountability Report (PAR). Specifically, the BBG reports that it implemented all outstanding recommendations in the OIG report, *Review of Strategic Management of Human Capital and Workforce Initiatives* (IBO/A-03-02). As a result, OIG has closed the report and is dropping this issue from the list of BBG's management challenges.

Expanding Television Production and Distribution of Programming

The OIG statement in the BBG's FY 2005 PAR stated that a significant trend in broadcasting is for television viewing to increase and displace a portion of the radio market. While BBG and its legacy agencies have over six decades of radio experience, the challenge is to marry the BBG mission to the television market. (FY 2005 Performance and Accountability Report, page 19.)

BBG has made progress in this area. OIG's inspection of BBG's operations in and broadcasting to Pakistan stated that under the BBG strategic plan goal of employing modern communication techniques and the objective of infusing more television into the mix, BBG was making headway in Pakistan where television was rapidly becoming the medium of choice for Pakistanis. Despite limitations, BBG had done a good job of getting Voice of America (VOA) programming, including news, into Pakistan. (ISP-IB-05-67, page 10.) Subsequent to the inspection, the VOA moved quickly to put its Islamabad News Bureau on a stronger footing to enable it to carry out its expanded role in television news and special features. (*Semiannual Report, October 1, 2005 – March 31, 2006, compliance documentation dated 12/16/05.*) In October 2006, the International Broadcasting Bureau (IBB) announced the appointment of a director of VOA television, who will advise the Director of VOA on the editorial, production, program development, talent, and day-to-day operations of all television programming produced or broadcast by VOA. (IBB Notices Administration, October 26, 2006.)

Need for Improved Metrics of Performance Results

BBG continues to make progress in performance measurement, but improvements are still needed. OIG's inspection of the *Broadcasting Board of Governors' Operations in and Broadcasting to Afghanistan* (ISP-IB-06-02) stated that although BBG had improved its activity measures and had clear goals, it had few metrics for measuring the results of its activity. The ideal, in terms of the Program Assessment Rating Tool, is to show what is achieved with a certain amount of dollars and have some confidence about what will be achieved with additional dollars. (ISP-IB-06-02, page 27.) The report recommended that BBG provide data that better measures the impact of its broadcasting to Afghanistan and look into alternative measurement instruments to determine whether and how they can measure agency performance. (ISP-IB-06-02, key judgments.) OIG's inspection of the *International Broadcasting Bureau's Office of Performance Review* (ISP-IB-06-37) stated that the Office was attempting to improve its capability to review television and had been developing standards for evaluating television programming. (ISP-IB-06-37, page 13.)

Need for Improved Internal Controls

BBG needs to continue to improve its internal controls over financial and accounting systems. For example, although the independent external auditor issued an unqualified opinion on BBG's Principal Financial Statements as of and for the fiscal year ended September 30, 2005 (*Audit of the Broadcasting Board of Governors' 2005 Principal Financial Statements and 2004 Balance Sheet*, AUD/FM-06-07), the auditor's report brings to management's attention concerns regarding the inadequacy of BBG's financial and accounting system, which is both an internal control weakness and an issue of noncompliance with several laws and regulations.

Additionally, in a separate management letter, the independent external auditor identified internal control weaknesses relating to BBG's payroll documentation, accounts receivable balance, accounts payable records, property records, lease records, and undelivered orders. (*Management Letter Related to the Audit of the Broadcasting Board of Governors' 2005 Principal Financial Statements and 2004 Balance Sheet*, AUD/FM-06-06.)

BBG responded to the *Audit of the Broadcasting Board of Governors' 2005 Principal Financial Statements and 2004 Balance Sheet*, (AUD/FM-06-07), reporting that it is taking steps to correct internal control weaknesses with "a new financial system [that] will allow for integration of property data into the general ledger and interim financial reporting." Further, BBG reported that it is updating its Manual of Operations and Administration, "including codifying the financial management, budget, and performance management operating procedures."

Information Technology

Since the enactment of the Federal Information Security Management Act in FY 2002, BBG has been challenged to implement an effective management structure for the Chief Information Officer (CIO). There is currently an ambiguous reporting chain, negating the ability to effectively function as a direct adviser to the BBG on information management, information security, and information technology matters. OIG assessed that BBG has not sufficiently involved the CIO in its strategic planning process and therefore has not adequately defined the incumbent responsibilities and authorities within the process. As a result, OIG believes BBG is not in compliance with numerous statutory responsibilities. (BBG FISMA report, IT-I-06-04, pages 6-9.)



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

November 15, 2006

The Honorable Howard J. Krongard
Inspector General
Office of Inspector General
U.S. Department of State
Washington, DC 20522-0308

Dear Mr. Krongard:

Thank you for your letter dated November 15, 2006 regarding the management and performance challenges facing the Broadcasting Board of Governors (BBG) in FY 2006. We have reviewed your report and are providing responses to the OIG findings and recommendations. We appreciate the recognition of BBG's noted improvements and achievements throughout the fiscal year and are glad to have this opportunity to describe additional ways in which the BBG strives to make continued progress. The following describes the actions the BBG is taking to address the management and performance challenges identified by your office.

Need for Improved Metrics of Performance Results

The BBG concluded its first nearly national survey in Afghanistan in 2005. (Survey coverage in previous years was more limited due to logistical and security concerns.) Circumstances permitting, BBG continues to plan to run national surveys on an annual basis in future years, permitting national level tracking of trends. Survey questionnaires are already designed to allow tracking on key questions from year to year. These surveys will include additional questions about listeners' understanding of current events, in addition to conventional qualitative research, which offer the best options at present for exploring the impact of our programming.

The Office of Performance Review has conducted TV specific reviews in FY 2006. Regular television reviews will be incorporated in the program review process and conducted on an annual basis.

Need for Improved Internal Controls

The BBG agrees that continued improvement of internal controls over financial and accounting systems is needed. 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 fully 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 fully codified procedures presents opportunities for inconsistencies and errors in processing financial transactions.

We continue to take steps to correct these areas. While the financial system does not issue interim financial reports, we have established a reporting tool that enables us to produce interim financial reports based on the general ledger. Since FY 2005, utilizing this reporting tool, the BBG has submitted its quarterly financial statements to the Office of Management and Budget within prescribed deadlines.

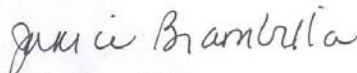
We currently cross service with the Department of State for financial system services. We will be transitioning to the Department of Interior's Momentum system by mid-FY 2008. We anticipate that the new financial system will allow for the integration of property data into the general ledger and interim financial reporting.

In FY 2005, the BBG began updating and rewriting the Manual of Operations and Administration (MOA). We have drafted all sections for the Office of the Chief Financial Officer, including codifying the financial management, budget, and performance management operating procedures. We have completed five sections, and the remaining CFO MOA sections are in the clearance process and should be finalized by mid-FY 2007.

Information Technology

While the BBG CIO is a relatively new office, the BBG has included the CIO in recent budget and finance exercises. These include the capital planning and e-government initiatives. The BBG continues to review the structure and placement of the CIO Office to effectively meet its responsibilities. Additionally, the CIO Office is currently developing a comprehensive plan of action to ensure the Agency's compliance with the requirements of the CCA, FISMA and PRA.

Sincerely,



Janice Brambilla
Executive Director

Financial Highlights

The BBG financial statements, which are included in the Financial Section of this report, are the third set of statements prepared for the agency. The BBG prepared and submitted quarterly statements on time for each quarter of FY 2006.

The independent accounting firm, Leonard G. Birnbaum and Company, LLP conducted our FY 2006 financial statement audit and issued an unqualified (“clean”) opinion on our Principal Financial Statements. 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)	2006	2005
At End of Year:		
Condensed Balance Sheet Data:		
Fund Balance with U.S.	\$195,076	\$150,803
Accounts Receivable	2,122	3,590
Property, Plant, and Equipment	231,737	245,607
Other	1,279	1,213
Total Assets	<u>\$430,214</u>	<u>\$401,213</u>
Accounts Payable	6,755	3,174
Retirement and Payroll	28,403	29,290
Total Liabilities	<u>\$35,158</u>	<u>\$32,464</u>
Unexpended Appropriations	165,908	140,602
Cumulative Results of Operations	229,148	228,147
Total Net Position	<u>\$395,056</u>	<u>\$368,749</u>
Total Liabilities and Net Position	<u>\$430,214</u>	<u>\$401,213</u>
For the Year:		
Total Cost	673,999	579,600
Total Earned Revenue	(2,601)	(1,998)
Total Net Cost of Operations	<u>\$671,398</u>	<u>\$577,602</u>

Management Controls, Systems, and Compliance with Laws and Regulations

As part of the Broadcasting Board of Governors' (BBG) commitment to establish and maintain effective and efficient internal controls, the agency management conducts 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 Accountability 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 Federal Managers' Financial Integrity Act (FMFIA) of 1982 (P.L. 97-255) is designed to provide reasonable assurance that agencies institute management accountability and internal controls that ensure:

- programs achieve their intended results;
- effective use of resources consistent with the agency's mission;
- proper safeguarding of programs and resources against waste, fraud, and mismanagement;
- reliable and timely information to support decision making; and
- compliance with laws and regulations.

The program and office directors annually report to the Chairman on compliance with the requirements of the Act related to their programs. Based on these reports, the Chairman prepares an annual statement on compliance of the agency's system of internal controls with the requirements of the Act.

Reports to the Chairman are based on annual management control reviews that are completed for each program or office of the agency. The management control reviews are based on two components of compliance with the Act:

- Program and administrative compliance; and
- Financial management systems compliance.

According to Part III of Office of Management and Budget's OMB Circular A-123, "a deficiency should be reported if it is or should be of interest to the next level of management. Agency employees and managers generally report deficiencies to the next supervisory level, which allows the chain of command structure to determine the relative importance of each deficiency." Deficiencies in controls that are identified during the management control review process must be included in the management control review reports. The report should describe the deficiencies and an action plan for correcting them.

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 proper conduct of BBG business and the accomplishment of management objectives by serving

as checks and balances against undesired action. This standard reflects the fact that all internal control systems, no matter how well designed, have inherent limitations and should not be relied upon to provide absolute assurance, and that control systems may vary over time because of changes in conditions.

As a result of the FY 2006 review, the BBG identified the following high vulnerability areas and some matters for continued monitoring. 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.

High Vulnerability Issue	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 necessary for the agency to implement agency policy and provides guidelines for establishing management controls. ➤ The MOA has not been consistently reviewed to determine if the regulations or requirements have changed or organizational changes have occurred that may require additions or deletions to the manual. 	<ol style="list-style-type: none"> 1. The CFO components of the MOA have been drafted, are being formatted to fit the current MOA model, and are under review by General Counsel. 2. The agency has drafted several additional sections of the MOA to be cleared by the affected entities. 3. The remaining sections are being prioritized and will be scheduled for work in FY 2007.
<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. In FY 2005, BBG purchased a database package, which was implemented for domestic property. However, in 2006 it was inaccessible to the overseas offices for property management, so the contract and system was terminated. 2. In 2006, the Agency migrated to one system, PIPS, for capitalized property. This system meets the entire Agency's needs. 3. The Agency has also updated its policies and procedures for sensitive property and conducted two physical inventories. 4. In FY 2007, the Agency will conduct a reconciliation of all property to ensure the information required for PIPS migration is accurate.

Matters for Continued Monitoring	Corrective Action
<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 Agency consolidated the travel operations into one office. 2. The manual travel system has been replaced with an automated system, E-2 Travel Solutions. 3. The Agency developed a process to reconciling outstanding orders and notifies travelers of delinquent vouchers. 4. The Agency developed and implemented a debt notification process to allow for the timely collection or referral of travel advances
<p><i>Federal Procurement Policies and Procedures</i></p> <ul style="list-style-type: none"> ➤ Warranted “Purchasing Activities” that are located both at BBG Headquarters in Washington, DC and at various field locations were not consistently following Federal procurement policies and procedures in procuring supplies and services. 	<ol style="list-style-type: none"> 1. Office of Contracts (M/CON) conducted a set of “Procurement Compliance Reviews” to identify non-conforming procurement actions and has made on-the-spot corrections of non-compliant procurement documents whenever possible. 2. M/CON conducted a review of the Eurasia Division’s procurement policies and issued a written report detailing the results.

Matters for Continued Monitoring	Corrective Action
<p><i>Federal Purchase Card Program</i></p> <ul style="list-style-type: none"> ➤ Citibank “Purchase Cardholders” located at both BBG Headquarters in Washington, DC and various field locations were not consistently following Federal procurement policies and procedures regarding Federal Purchase Card Program. 	<ol style="list-style-type: none"> 1. Effective July 31, 2006 M/CON established guidance on performing annual compliance reviews. M/CON also issued instructions to cardholders to establish and maintain complete and accurate documentation. 2. BBG continues to work to maintain consistency among all of its participating Purchase Cardholders in their use of the Citibank Purchase Card and adherence to applicable Federal procurement regulations.

Improper Payments Information Act Reporting

In accordance with the Improper Payments Information Act of 2002 (Public Law 107-300) the BBG continued to monitor its payment operations to ensure erroneous payments did not occur. The BBG's annual budget is less than \$600 million, of which about 60 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, 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 FY 2006.

The BBG will continue to monitor the payment process during FY 2007.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the Broadcasting Board of Governors (BBG), pursuant to the requirements of 31 U.S.C. 3515 (b). While the BBG statements have been prepared from its books and records in accordance with Generally Accepted Accounting Principles for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

These statements should be read with realization that they are for a component of the United States Government, a sovereign entity.

***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 2006 Implementation Strategies

The implementation strategies of the BBG guide U.S. International Broadcasting in fulfilling the Agency's goal of reaching significant audiences in support of U.S. strategic interests. These implementation strategies provide direction to the Agency and its broadcasting entities in making programming and budgetary decisions. Therefore, they form the foundation on which all of our international broadcasting activities are supported. They are not goals that we measure, but guide 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* composed of regional networks. Within the system each station will preserve its unique characteristics and strengths, while integrated program streams consisting of VOA and also RFA, RFE/RL or MBN programs in common languages are broadcast to critical regions. The effect will be to leverage assets in the most efficient and effective way to enhance our impact in places of strategic importance. Through this single system both VOA's and the grantees' missions will be fulfilled in every priority market.
- **Build out progressively, using regional networks and single-country priority initiatives.**
The old structure of U.S. international broadcasting must change. Using annual Language Service 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.**
In addition to adopting the principles and practices of modern radio formatics, BBG will accelerate multi-media development, infusing more TV and Internet into the mix. We will control the distribution channels that audiences use, where possible, and in general adapt programming in accordance with audience research findings so that we will reach more people while still achieving our mission.

- **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 and our mission is sacrificed. Credibility over time is achieved by being seen as an accurate, objective, and comprehensive news agency by our audiences. To remain credible, BBG must maintain the "firewall" between the broadcasting entities and those who would influence programs from the outside. At the same time, we must enforce top journalistic standards and exercise quality control through program reviews.

- **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 to ensure that the real facts about this country and its policies are understood clearly. In order to keep target audiences tuned in we must select content that is appropriate, relevant, and interesting to them.

- **Shore up our surge broadcasting capability**

In order to 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. In order to respond rapidly in such situations the technical means to do so must be available. We must be able to quickly mobilize, transport, and deploy complete AM and FM broadcasting stations anywhere in the world.

FY 2006 Performance Objectives and Outcomes

For FY 2006, the BBG established performance objectives based on regional priorities that are generally long-term, with underlying annual objectives for targeted focus.

A. Continuously improve Arabic broadcasting through Alhurra TV and Radio Sawa broadcasts.

- Use market research to improve Alhurra TV and Radio Sawa broadcasting and reach.

B. Expand audience reach in Near East, South and Central Asia through program expansion.

- Seize opportunities in Afghanistan including expansion into TV.
- Expand TV programs to Iran based on research to reach a young audience.
- Increase VOA Urdu broadcasts to Pakistan on TV.

C. Target African broadcasting to areas prone to terror incidents, genocide or failed states.

- Increase the number of high quality affiliate stations.
- Increase programming in vernacular languages carried on IBB 24/7 FM transmitters.
- Produce more locally relevant news content.

D. Focus broadcasting to East Asia and Eurasia reaching specific priority target audiences on media they use; continue evaluating other market options.

- Broadcast local news in support of democratic reforms in countries with restricted press and political freedom.
- Continue to build relationships with affiliates on both radio and TV in Indonesia.
- Explore new distribution options in Russia on local FM, UKV, AM, and TV to reach larger audiences, using formats that research indicates are appropriate for those distribution options.
- Use cross border broadcasts and Internet news services to counter jamming of radio and Internet news in China and continue placement of “soft” cultural programming on TV affiliates.

E. Reach Latin America with targeted programming.

- Continue to revitalize Enfoque Andino, a special news program on the Andean region.
- Increase the number of high quality affiliates in Andean countries.
- Continue to consolidate the gains of an improved all-news programming format to Cuba.
- Strengthen anti-jamming efforts through a dedicated airborne platform for transmission of Radio and TV Marti into Cuba.


F. Improve essential support functions in line with implementation strategies.

- Support the President's Management Agenda, including e-Gov initiatives.
- Improve capacity and reduce downtime through IT and equipment upgrades, maintenance and repair activities.
- Support all increases in programming with appropriate program delivery means.
- Continue to develop Internet measures, including reach and quality control.
- Maintain the firewall and continuously monitor programming quality in line with modern broadcast journalism principles through annual performance reviews of all broadcast services.
- Use research to identify appropriate target audiences; the preferred media, including TV; and the formats and content that would appeal to them.
- Increase awareness of BBG programs in high priority markets.
- Improve security of facilities through relocation of RFE/RL Prague Headquarters.


The following are highlighted accomplishments in each of the performance objectives during FY 2006


FY 2006 Performance Objectives	FY 2006 Outcomes
<p>A. Continuously improve Arabic broadcasting through Alhurra TV and Radio Sawa broadcasts.</p> <p><i>During the Israeli/Hezbollah crisis, Alhurra TV and Radio Sawa extended newscasts and provided in-depth coverage from within Israel and Lebanon.</i></p>  <p><i>Covering the Israeli/Hezbollah crisis</i></p> <p><i>Alhurra Europe, which began broadcasting in FY 2006, is designed to give the U.S. a news presence for Arabic-speakers in Europe. The channel presents news and information 24 hours a day, seven days a week.</i></p>	<ul style="list-style-type: none"> ✓ In July 2006 when the Israeli/Hezbollah crisis began, Alhurra TV operated as an around-the-clock breaking news station, pre-empting all other programming and covering breaking stories as they happened. Alhurra also expanded its current affairs programming and began broadcasting a daily three-hour program from downtown Beirut with live reports from around the country, bringing viewers the latest news and information from Lebanon. ✓ Radio Sawa extended its newscasts during the Hezbollah/Israeli crisis, and its current affairs program, <i>Free Zone</i>, discussed the conflict between Hezbollah and Israel. Radio Sawa's live updated newscasts and daily 30-minute news magazines continued in-depth reporting and news analysis. ✓ In 2006, Alhurra furthered its mission of promoting democracy in the Middle East by providing comprehensive live coverage of the elections in Egypt, Iraq, Israel, Kuwait and the Palestinian Territories. On Election Day in Iraq, Alhurra kept viewers informed with 12 hours of continuous coverage from across each country, interviewing voters and candidates about the election and the democratic process. ✓ Alhurra continued producing programs like <i>Equality</i> that discuss the rights of women in Islam and tackles subjects such as young girls being forced into marriage, freedom, and human rights that cannot be seen on other Arabic-language networks due to the limitations imposed by the countries that finance those networks. ✓ Alhurra started two new programs in 2006 to bridge the cultural gap between the U.S. and the Arab world, giving Arabic-language viewers a better understanding of the United States. A documentary series called <i>Americans</i>, highlighted different aspect of American life and history. <i>Inside Washington</i> takes viewers behind the scenes of the political process in Washington with guests such as Supreme Court Justice Antonio Scalia and Alexander Haig. ✓ MBN continued to seek new and critical audiences by reaching the Arabic-speaking audience in Europe. Alhurra Europe, which began broadcasting on August 1, 2006, is designed to give the U.S. a news presence for Arabic-speakers in Europe. The channel is available via the popular Hotbird satellite system, and presents news and information 24/7 with programming consisting of newscasts, talk shows, roundtables and original magazine programs produced by Alhurra and Alhurra-Iraq.

FY 2006 Performance Objectives	FY 2006 Outcomes
<p>A. Continuously improve Arabic broadcasting through Alhurra TV and Radio Sawa broadcasts. (Cont.)</p> <p><i>With the installation of a third transmitter, Alhurra-Iraq expanded its reach in Mosul, Iraq's second largest city.</i></p>  <p><i>Covering the war in Iraq</i></p>	<ul style="list-style-type: none"> ✓ Alhurra also launched a news ticker across the bottom of the television screen to give Arab viewers the latest headlines from the Middle East and around the world regardless of the programming that is on the air. ✓ In FY 2006, Alhurra-Iraq expanded its reach terrestrially with the installation of a third transmitter (following the installation of transmitters in Baghdad and Basra) in Mosul, Iraq's second largest city. This allows any Iraqi citizens living in Mosul to watch Alhurra-Iraq, even if they do not have a satellite dish. ✓ In 2006, the Springfield facility added a new master control and ingest facility. The new ingest facility permits the three Alhurra television networks to monitor and record more incoming news feeds including live speeches, breaking news coverage, and reports from correspondents throughout the world. The new master control allows Alhurra, Alhurra Iraq and Alhurra Europe to each have a separate master control to enable each network to run independently. ✓ In FY 2006, Radio Sawa maintained and expanded its audience as media competition increased in the region. Radio Sawa now broadcasts over 325 live, updated newscasts per week including daily 30-minute news magazines with in-depth reporting and news analysis. Radio Sawa also began broadcasting from four new FM transmitters in Iraq and from four new transmitters in Lebanon. Radio Sawa is currently broadcast from 28 transmitters located in 10 countries in the Middle East and Africa. ✓ Radio Sawa also received permission in 2006 from Sudan to broadcast on FM transmitters throughout Sudan. In FY 2006, Radio Sawa also added FM transmission in Kikurk, Iraq's fourth largest city. Radio Sawa now broadcasts from seven cities in Iraq. ✓ Radio Sawa's all-news Web site (www.radiosawa.com) continued to grow in 2006, as a trusted source of news featuring up-to-date Arabic language news, as news scripts are added hourly on a 24/7 basis. Listeners can also hear recent newscasts, correspondent reports, and Radio Sawa's program stream. The site averages over 12 million page views a month. The site is cross-linked with Alhurra's Web site.

FY 2006 Performance Objectives	FY 2006 Outcomes
<p data-bbox="235 306 560 485">B. Expand audience reach in Near East, South and Central Asia through program expansion</p> <p data-bbox="235 527 571 701"><i>A national survey in May 2006 showed that nearly half of all Afghan adults listen to Radio Ashna at least once a week.</i></p>  <p data-bbox="235 1236 474 1262"><i>New Persian TV show</i></p> <p data-bbox="235 1377 574 1663"><i>In a national telephone survey of adults inside Iran, 22.5% of respondents reported viewing VOA Persian TV during the previous week, compared to 9.6% in 2004.</i></p>	<ul style="list-style-type: none"> <li data-bbox="613 306 1484 472">✓ VOA’s Afghanistan Service continues to build on the success of its daily 12-hour program stream in the Dari and Pashto languages. Known as <i>Radio Ashna (Friend)</i>, the service’s broadcasts are presented in a contemporary, fast-paced format with daily call-in shows and in-country reporting from approximately 30 stringers. <li data-bbox="613 506 1484 604">✓ Radio Free Afghanistan continued to broadcast 12 hours a day. Radio Free Afghanistan remains the most popular media outlet in Afghanistan with 75.3% audience share. <li data-bbox="613 638 1484 905">✓ At the end of FY 2006, VOA launched a daily 60-minute TV news program (30 minutes each in Dari and Pashto) broadcast directly to viewers via satellite and affiliates. The new program includes elements of two 2005 pilot projects: one that combined the Dari and Pashto languages and another that has a simulcast call-in program with an Afghan TV station. According to the national survey, 16% of Afghans viewed at least one VOA-produced piece on Afghan TV during the previous week. <li data-bbox="613 938 1484 1073">✓ On August 14, VOA launched the initial phase of Radio Deewa, it’s new Pashto to the Border Region radio broadcast stream, aimed at the 25 million Pashto-speaking people living on the Afghanistan-Pakistan border. <li data-bbox="613 1106 1484 1339">✓ VOA’s Persian language television continues to rank as one of the top international broadcasters to Iran, attracting a TV audience that has grown significantly in the past two years. In a national 2006 telephone survey of adults inside Iran, 22.5% of respondents reported viewing VOA Persian TV during the previous week, compared to 9.6% in 2004. Overall, 29% of respondents watch VOA Persian TV programs annually. <li data-bbox="613 1373 1484 1606">✓ In July 2006, VOA Persian launched <i>Late Edition</i>, a daily 60-minute newscast that offers a nightly wrap-up of the day’s news targeted to a younger demographic. In October 2006, VOA Persian will debut its fourth hour of television with <i>NewsTalk</i>, a 60-minute news discussion program featuring a regular panel of experts who discuss the day’s headlines. All four original hours of Persian television will be repeated once and simulcast on radio. <li data-bbox="613 1640 1484 1774">✓ Meanwhile VOA Persian’s web site continues to be one of VOA’s five most frequently visited sites. In 2006, traffic to the site grew over the previous year, despite stepped up efforts by the Iranian government to block access to it.


FY 2006 Performance Objectives	FY 2006 Outcomes
<p data-bbox="235 279 560 457">B. Expand audience reach in Near East, South and Central Asia through program expansion. (Cont.)</p> <p data-bbox="235 552 576 766"><i>A recent national survey in Pakistan indicated that Radio Aap ki Duniyaa's listenership has doubled since its debut in May 2004.</i></p>  <p data-bbox="235 1375 584 1627"><i>RFE/RL expanded programming with special relevance to regional or local audiences and brings together diverse opinions to discuss contentious issues.</i></p>	<ul style="list-style-type: none"> <li data-bbox="625 279 1485 478">✓ Radio Farda – a Persian-language partnership between RFE/RL and VOA – broke its regular format to increase news on the crisis between Israel and Lebanon. Radio Farda also provided coverage of the growing nuclear crisis in Iran. Radio Farda’s Internet site maintained its popularity and is expected to grow even more with the launch of an upgraded site as mandated by Congress. <li data-bbox="625 514 1485 777">✓ VOA’s 12-hours-a-day Urdu language radio broadcast stream, <i>Radio Aap ki Duniyaa (Your World)</i>, continues to attract a growing number of listeners with a contemporary format that includes news, information, roundtable discussions, call-in shows, interviews, features, and music. The programs target Pakistani listeners between the ages of 15 and 39 – who account for some 60 million of Pakistan’s 150 million residents – as well as millions of additional potential listeners in India, the Gulf, and the Pakistani diaspora. <li data-bbox="625 812 1485 1012">✓ Broadcasting four hours of daily radio programming, VOA’s Kurdish Service remains highly popular among Kurds in Iraq despite their increased access to a variety of media choices. According to a 2006 survey conducted by InterMedia, VOA’s Kurdish Service scored a 31% audience share among the Kurds of Iraq and noted that “In fact, no radio station ranks higher in terms of reliability,” <li data-bbox="625 1047 1485 1247">✓ RFE/RL continued to defending freedom and human rights by covering a myriad of human rights violations across the region, including attacks by Iranian police forces on female demonstrators on International Women’s Day, discrimination against minorities in Iran, the arrest of an Afghan Christian for his religious beliefs, and press freedom violations. <li data-bbox="625 1283 1485 1514">✓ In FY 2006, RFE/RL devoted new programming to the difficult, uneven state of democracy throughout its broadcast region, where reform in some countries contrasts starkly with deepening oppression and lack of freedom in others. RFE/RL also continued to enrich its information products for countries and regions that are in the front line of the U.S.-led efforts to promote global democracy and the struggle against terrorism. <li data-bbox="625 1549 1485 1780">✓ RFE/RL programming continues to promote tolerance and combat extremism, including a new reporting initiative to give voice to religious moderates. The new Religion and Tolerance reporting initiative—including a special section on RFE/RL’s English-language website—offers interviews with religious leaders, including many moderate Muslim thinkers, who speak out against extremism and offer moderate interpretations of religious teachings. <li data-bbox="625 1816 1485 1879">✓ In highlighting democracy in action, RFE/RL covered presidential, parliamentary, and constitutional elections in Afghanistan, Armenia,


FY 2006 Performance Objectives	FY 2006 Outcomes
<p>B. Expand audience reach in Near East, South and Central Asia through program expansion. (Cont.)</p>  <p><i>The average number of page views to RFE/RL's 19 Internet websites in calendar year 2006 grew by more than 64 percent over the previous year, to an average of 15.9 million per month.</i></p>	<p>Azerbaijan, Belarus, Iraq, Kazakhstan, Kyrgyzstan, Tajikistan, Macedonia, Bosnia and Herzegovina, and Montenegro.</p> <ul style="list-style-type: none"> ✓ RFE/RL also provided extensive coverage, geared to domestic audiences across its broadcast region, of democracy in action in the United States, including President Bush's State of the Union and Karen Hughes interview about the role of public diplomacy in combating terrorism and focus on "America's conversation with the world." ✓ To expand its new programming and special coverage, RFE/RL enhanced its interactivity on the radio and web with balanced views and reactions from experts and from all strata of society. ✓ Against all odds, RFE/RL correspondents managed to report on the aftermath of the Andijon massacre in Uzbekistan, the third anniversary of Operation Iraqi Freedom, election fraud, corruption in Central Asia, and the armed clashes in Nalchik, the capital of Russia's Kabardino-Balkaria Republic. ✓ In FY 2006, RFE/RL expanded its TV audiences using local partners. RFE/RL launched and promoted television programs in Kyrgyzstan, Bosnia, Macedonia, Georgia and Ukraine, in partnership with local television outlets using RFE/RL-branded content and talent. Television is the most popular medium for news and information, and results indicate that RFE/RL's reach increases dramatically when television products complement its radio and Internet offerings. ✓ In FY 2006, RFE/RL achieved dynamic success in its continued pursuit of the Internet as key delivery platform. The average number of page views to RFE/RL's 19 Internet websites in calendar year 2006 grew by more than 64 % over the previous year, to an average of 15.9 million per month. In March 2006 alone, page views exceeded 20 million. ✓ RFE/RL distributes monthly by email more than 1.3 million copies of news and analysis reporting about the countries to which it broadcasts, an increase of more than 18 % over the previous year. ✓ Office of Marketing and Program Placement (OMPP) dedicated efforts in Azerbaijan resulted in the RFE/RL Azeri programming moving to the number-one nationwide radio network, and placed VOA's Azeri television program with number-one ranked television network, achieving a reach for the program in excess of 30 % weekly viewers.


FY 2006 Performance Objectives	FY 2006 Outcomes
<p>C. Target African broadcasting to areas prone to terror incidents, genocide or failed states.</p> <p><i>A May 2006 survey commissioned by USAID-Harare found that VOA's audience increased 300% since the last USAID survey in April-May 2005, despite jamming in and around Harare.</i></p>  <p><i>Perspectives – VOA's latest TV program hosted by Ndimyake Mwakalyeye.</i></p>	<ul style="list-style-type: none"> ✓ According to a May 2006 survey commissioned by USAID-Harare – which sponsors VOA's popular daily <i>Studio 7</i> medium wave radio program targeted to Zimbabwe in English, Shona, and Ndebele – VOA's audience increased 300% since the last USAID survey in April-May 2005 (from 270,000 to more than one million listeners) despite signals being jammed in and around Harare. ✓ VOA Hausa broadcasts reach out to a large audience in Africa. InterMedia research in 2005 indicated that more than 51% of Hausa speakers in Nigeria listen to VOA Hausa broadcasts on a weekly basis. ✓ In April 2006, VOA's English to Africa Service launched a new, seamless four-hour program lineup for its African audience, providing millions of listeners across the continent with more in-depth local and world news, breaking news reports, and a broader range of topical features covering social and political issues, developments in science and technology.

FY 2006 Performance Objectives	FY 2006 Outcomes
<p>D. Focus broadcasting to East Asia and Eurasia reaching specific priority target audiences on media they use; continue evaluating other market options.</p> <p><i>As the crisis in North Korea expanded, the BBG responded with broadcasts designed to present the facts to North Koreans closed off from international media.</i></p>  <p><i>Sept., 2006 - VOA Korean Service Staff Reporter Sohn Jihyun interviews Ambassador John R. Miller</i></p>  <p><i>RFA's Mandarin Service broadcaster</i></p>	<ul style="list-style-type: none"> ✓RFA Korean service went to a two-hour live format in FY 2006, increasing original programming by 30 minutes. The expanded live format provides the flexibility to change programming, daily or even hourly. On July 4, 2006 when North Korea conducted seven ballistic missile launches, RFA's Korean service dropped its regular format to provide comprehensive, in-depth reporting on the missile tests. ✓For 21 hours and 10 minutes every week, VOA's Korean language broadcast is devoted to hard-hitting, in-depth news and information focusing on developments inside North Korea. Particular attention has been given to coverage of human rights conditions in North Korea and the security threats posed by North Korea's nuclear and missile activities. ✓In FY 2006 RFA expanded it's Seoul bureau to allow for additional staff closer to North Korea, including a senior journalist to oversee operations and 30 to 40 minutes programming originating daily from the Seoul bureau. ✓During the past year, VOA's Mandarin Service focused on original news programming to explain the United States to the Chinese audience and to provide first-hand coverage of major news developments. Despite the Chinese government's tightening control of the media, 12 television stations and more than 70 radio stations in China now carry VOA's programming, and branded multimedia VOA Mandarin English teaching programs are widely sold throughout China in the form of CDs and booklets. ✓Broadcast content of RFA's Mandarin service has highlighted the emergence of rights consciousness at the grassroots level. The service has added several new sources from inside China, including writers and legal experts who provide regular analysis and commentaries. ✓The RFA Uyghur service specializes in reporting stories that are banned in China and rarely covered by the international media. In late 2005 and 2006, the service reported extensively on topics avoided by the state-controlled media such as unpaid child labor practices and the arrest of a literary journal editor. The service's reporting has raised awareness of religious persecution, both inside Xinjiang and around the world. ✓In 2006, traffic to RFA website on most language services Web sites continues to surge. Traffic to the Uyghur, Tibetan and Lao service Web sites rose more than 70 % over the prior year, while Burmese and Vietnamese traffic rose more than 50 %. Cantonese and Khmer traffic increased 45 % and 36 % respectively. RFA also began experimenting with blogs—which can be regarded as uniquely effective proxies for disseminating RFA content.

FY 2006 Performance Objectives	FY 2006 Outcomes
<p data-bbox="235 275 586 527">D. Focus broadcasting to East Asia and Eurasia reaching specific priority target audiences on media they use; continue evaluating other market options. (Cont.)</p> <p data-bbox="235 842 581 982"><i>Thirteen million Russians now go on-line to RFE/RL's site at least once a week.</i></p>  <p data-bbox="235 1514 560 1566"><i>RFE/RL journalist conducting an interview in Ukraine.</i></p>	<ul style="list-style-type: none"> <li data-bbox="618 306 1481 499">✓ In March 2006, the RFA Tibetan service broadcast three roundtable programs in preparation for Tibetan exile government elections, providing a forum for voters to question candidates, a first for Tibetans. The series culminated with a town hall meeting of all candidates, moderated by RFA. RFA broadcasts in three Tibetan dialects: Uke, Amdo, and Kham. <li data-bbox="618 537 1481 667">✓ With audiences in Russia increasingly preferring TV, VOA increased its efforts to provide quality television programming to that country. VOA's weekly 30-minute <i>Window on the World</i> TV program has nearly doubled VOA's reach in Russia <li data-bbox="618 705 1481 940">✓ The RFE/RL Russian site attained a 25 % increase in unique visitors in May 2006, following an aggressive marketing campaign for its new design. The new design complements the radio product and targets active news-seekers who use the site for its in-depth online content, analysis, and audio. Portability of downloadable audio, RSS feeds, and WAP/Mobile versions of the site are serving the audience in new ways. <li data-bbox="618 978 1481 1108">✓ Thirteen million Russians now go on-line at least once a week. These statistics are also promising in light of the dire situation RFE/RL faces in its radio delivery in Russia, which has been effectively reduced by the authorities. <li data-bbox="618 1146 1481 1381">✓ RFE/RL covered major international stories with special relevance to regional and local audiences, including the energy crisis in Ukraine, Russia and Georgia; negotiations between Armenia and Azerbaijan over the Nagorno-Karabakh dispute; Avian Flu; lessons learned on the 20th anniversary of the Chernobyl nuclear disaster; and the reaction of Muslims to the controversial cartoon editorials printed in the European press. <li data-bbox="618 1419 1481 1612">✓ RFE/RL expanded its Ukrainian language website, usage of which doubled as Ukrainians sought impartial and comprehensive coverage of political events. RFE/RL also began distributing news via mobile phone in Ukraine; callers to a cell phone service provider in Ukraine were able to listen to one-minute or five-minute newscasts, updated every hour. <li data-bbox="618 1650 1481 1822">✓ VOA continued to expand and diversify its programming to Indonesia, the world's most populous Muslim nation. VOA Indonesian currently delivers 65 ¾ hours of radio and over three hours of television programming every week. Overall, the number of affiliate radio and TV stations re-broadcasting VOA increased to more than 200.

FY 2006 Performance Objectives	FY 2006 Outcomes
<p>D. Focus broadcasting to East Asia and Eurasia reaching specific priority target audiences on media they use; continue evaluating other market options. (Cont.)</p> <p><i>VOA Indonesian currently delivers 65 hours and 45 minutes of radio and over three hours of television programming every week.</i></p>  <p><i>VOA Indonesia</i></p>	<ul style="list-style-type: none"> ✓ In February 2006, VOA Indonesian revamped its morning and evening radio programs by adopting a livelier and more contemporary format. In addition, the Indonesian Service’s web page now has a new look that offers audio, video and special content to attract visitors. ✓ In 2006, RFA started production of a history series created by a renowned historian and began preparations for the upcoming Khmer Rouge Tribunal in Phnom Penh. ✓ RFA’s Vietnamese service has created weekly magazines and special programs to meet the needs of a growing audience and to attract younger and more rural listeners. The new magazine programs include: <i>Youth Forum</i>, discussing issues affecting the young; <i>Traditional Music</i> for people living in the southern countryside; <i>One Story a Week</i> which profiles interesting Vietnamese people in and outside the country, and <i>Health and Life</i>, which explores diseases and medicines common in Vietnam.

FY 2006 Performance Objectives	FY 2006 Outcomes
<p data-bbox="235 304 576 409">E. Reach Latin America with targeted programming.</p> <p data-bbox="235 483 560 661"><i>New aircraft combats anti-jamming and provides up to 6 hours a day of airborne transmission into Cuba.</i></p>  <p data-bbox="235 1150 576 1239"><i>VOA's Spanish Television news capsule Desde Washington (From Washington)</i></p>	<ul style="list-style-type: none"> <li data-bbox="617 304 1477 430">✓ On August 5, 2006 an aircraft for dedicated airborne transmission into Cuba began test flights. The aircraft provides up to 6 hours a day of TV and Radio Martí broadcasts to Cuba. The aircraft became fully operational in October 2006. <li data-bbox="617 472 1477 535">✓ TV Marti continued to produce 15 weekly half hours of programming for airborne transmission into Cuba to combat anti-jamming. <li data-bbox="617 567 1477 661">✓ In FY2006, Radio Martí enhanced news coverage by expanding its network of experts on Cuban and international affairs and broadcasting three daily discussion programs. <li data-bbox="617 703 1477 892">✓ Immediately following the announcement that Fidel Castro had temporarily given command to his brother Raul, VOA's Spanish Service extended its weekly radio call-in program <i>Hablemos con Washington (Let's Talk With Washington)</i>, from one to two hours, extended its daily radio program <i>Ventana a Cuba (Window on Cuba)</i>, from 30 to 60 minutes for added coverage. <li data-bbox="617 934 1477 1029">✓ VOA expanded its television news capsule <i>Desde Washington (From Washington)</i> from five to 10 minutes daily to provide more in-depth coverage of ongoing developments in Cuba. <li data-bbox="617 1071 1477 1165">✓ <i>Hablemos con Washington (Let's Talk With Washington)</i> and <i>Desde Washington (From Washington)</i> TV programs are being carried by several major TV affiliates in Venezuela for VOA Spanish. <li data-bbox="617 1207 1477 1302">✓ VOA has expanded its <i>Enfoque Andino</i> program to one hour daily and offers three-minute newscast for commercial affiliates called <i>Noticiero VOASAT</i> reformatted its weekly <i>Foro Interamericano</i>. <li data-bbox="617 1344 1477 1428">✓ VOA and the OMPP are working to create a new program stream for the large number of cable television systems on the VOA Latin America network.

FY 2006 Performance Objectives	FY 2006 Outcomes
<p data-bbox="235 275 576 415">F. Improve essential support functions in line with implementation strategies.</p> <p data-bbox="235 674 568 779"><i>RFE/RL's relocation project is on track and in the design phase.</i></p>  <p data-bbox="235 1129 560 1192"><i>Governor Simmons displaying the new Prague HQ design</i></p>	<ul style="list-style-type: none"> <li data-bbox="609 275 1482 369">✓ The BBG's 2005 Performance and Accountability Report (PAR) was submitted on time and the BBG received an unqualified opinion on the audit of all its financial statements. <li data-bbox="609 407 1433 438">✓ The BBG instituted a single-source property management database. <li data-bbox="609 476 1482 539">✓ The BBG also continued its efforts to expand e-Government in the contracting and financial management functions. <li data-bbox="609 577 1482 741">✓ Based on a comprehensive workforce analysis, the Federal Human Capital Survey, and a review of human capital plans and best practices of other Federal agencies, BBG developed a comprehensive, long-range Human Capital Plan and Human Resource Strategies for providing the needed workforce. <li data-bbox="609 779 1482 972">✓ The Agency established a Federal Human Capital Executive Oversight Committee, consisting of senior Agency leadership to review the Agency's Human Capital Plan, the new Performance and Pay System for SES members, and the results of the Federal Human Capital Survey. This committee also provides Human Capital advice to the IBB Director, the BBG Executive Director, and the Board. <li data-bbox="609 1010 1482 1073">✓ RFE/RL's relocation project is in the design phase. In FY 2006, the 60% schematic design and building permit process was submitted. <li data-bbox="609 1110 1482 1245">✓ In 2006, the Greece Transmitting station was closed. The two high power medium wave transmitters and associated equipment and two of the station's newer shortwave transmitters will be redeployed to high priority areas to support the BBG's worldwide broadcast mission. <li data-bbox="609 1283 1482 1417">✓ In FY 2006, the BBG continued to develop a facility to provide a technical contingency capability in the event of a catastrophic failure at the main headquarters building in Washington, D.C. The new facility achieved limited operational capability by the end of FY 2006.

Summary of FY 2006 Performance Indicator Targets and Outcomes

	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Target	FY 2006 Estimate
Regular Listening/Viewing Audiences: Number of people (in millions) in target areas listening or viewing at least weekly by program element					
VOA (Radio)	80	87	87	86	86
VOA (TV)	10	20	25	29	29
VOA (Radio + TV)	89	99	107	110	109.7
MBN (Radio Sawa)	10.5	14.3	20.8	22	20.8
MBN (Alhurra)	NA	8.5	21.3	22	21.3
OCB	NA	NA	NA	NA	NA
RFE/RL	26	33	31	33	34.4
RFA	NA	NA	NA	NA	NA
Affiliations and Transmitters: The count of high impact and high quality radio and TV stations regularly carrying US government programming, and of IBB-owned and -operated local transmitters, TV, FM, and AM.					
VOA (Radio) – Affiliates	170	188	215	226	226
VOA (Radio) – Transmitters	13	18	20	28	28
VOA (TV) – Affiliates	153	170	106	111	111
MBN (Radio Sawa) – Transmitters	12	21	21	29	31
MBN (Alhurra) - TV Transmitters	0	2	2	5	4
RFE/RL – Affiliates	69	58	63	66	66
RFE/RL – Transmitters	3	9	10	15	16
RFA – Affiliates	NA	0	0	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 overall are rated "good or better".					
VOA (Radio)	98	100	98	100	100
VOA (TV)	NA	NA	NA	NA	NA
MBN (Radio Sawa)	100	100	100	100	NA
RFE/RL	100	100	100	100	100
RFA	100	100	100	100	100
OCB	100	100	100	100	100
Program Credibility: Consists of the percent of those listening at least once a week who consider the station's news and information "very trustworthy/reliable" or "somewhat trustworthy/reliable" in an annual survey. Revised in 2004 and in 2005.					
VOA (radio only)	NA	83	90	100	90
MBN (Radio Sawa)	NA	53	NA	70	70
MBN (Alhurra)	NA	80	NA	74	74
RFE/RL	NA	82	84	86	86
RFA	NA	78	80	89	NA
OCB	NA	NA	NA	NA	NA
Radio Signal Strength Index: This overall network level indicator applies only to cross-border SW and MW radio signals, and measures whether programs can be heard by target audiences. Based on a 5-point scale					
BBG	2.94	3.00	2.80	2.80	2.79
Satellite Effectiveness Index: Assesses whether our satellite delivery is keeping pace with global media developments					
BBG	7.1	7.9	9.0	10.0	10.0
Transmission Network Consumable Expense: The cost (in millions) of power and parts to operate the IBO transmitter					
BBG	NA	\$32	\$32	\$33	\$27

Verification and Validation of Indicators

The performance indicators are a best effort to measure each broadcast entity's performance level. To achieve maximum objectivity, measurements are performed independently of the elements being evaluated. VOA, OCB, RFE/RL, RFA, and MBN 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 Office of Engineering, calculates the Satellite Effectiveness Index. Evaluation of program quality is initially conducted by InterMedia Survey Institute and presented at program reviews for each entity. The appropriate entity research director or BBG research coordinator computes entity-wide performance values, and sends them to InterMedia for verification.

The standards of the Conference of International Broadcasting Audience Researchers and other standards-setting organizations are followed for the design and conduct of sample surveys. A technical report is produced for every survey which describes the sampling plan, the problems encountered in the field and the methods of resolution, and these are being improved to allow computation of margins of error that include design effects where feasible.

Regular Listening/ Viewing Audience (Overall Weekly Audiences): 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 language service and for the countries served by the BBG. It is based upon the 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 uses the best statistical sample design possible given the conditions in a particular country.

- **VOA (Radio) - Target: 86 million Estimate: 86 million**
Overall, the VOA radio audience target was met in 2006. The apparent decline by one million viewers from 87 million in 2005 to 86 million in 2006 is primarily caused by a change in audience computation methodology. In this year's VOA radio audience estimate, we project only to areas covered by surveys, following GAO's recommendation. VOA's radio audience would have increased substantially compared to last year if the methodology had not changed. The methodological change masks significant and sizeable gains in Nigeria and Pakistan, and in Iran, where the portion of Radio Farda's audience that listened to VOA's contributions are credited to VOA.
- **VOA (TV) - Target: 29 million Estimate: 29 million**
VOA TV audience achieved its target FY 2006 and increased its viewing audience by 4 million viewers from 2005. Countries where significant increases in audiences have occurred are Iran, Afghanistan and sub-Saharan Africa (Nigeria and Uganda).

- **VOA (Radio + TV) - Target: 110 million Estimate: 109.7 million**
 The target was met and the audience increased by 2.7 million from 107 million in FY 2005 to 109.7 million in FY 2006. This is the unduplicated measure of weekly audience members who watch either VOA radio or TV.
- **MBN (Radio Sawa) - Target: 22 million Estimate: 20.8 million**
 BBG is evaluating a September 2006 GAO audit of MBN and therefore is using a conservative estimate for 2006, based on 2005 results. Radio Sawa added a separate stream to Lebanon and increased transmission range in Iraq and Lebanon. It is expected that these efforts will prompt an increase in the number of listeners when the audience survey methodology and measures are reviewed and finalized.
- **MBN (Alhurra) - Target: 22 million Estimate: 21.3 million**
 BBG is evaluating a September 2006 GAO audit of MBN and therefore is using a conservative estimate for 2006, based on 2005 results. In 2006, Alhurra expanded its programming reach with transmitters in Mosul and Al Hilla, Iraq and the launch of Alhurra Europe. The audience reach is expected to increase and will be adjusted to align with any changes to the estimation methodology for the final audience measures.
- **OCB (Radio and TV Martí) - Target: NA Estimate: 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.
- **RFE/RL - Target: 33 million Estimate: 34.4 million**
 RFE/RL exceeded the 2006 target audience reach by 1.4 million people, as the overall audience increased by 3.4 million from 2005. RFE/RL broadcasts in 28 languages with 18 of the language services broadcasting to countries or regions where the majority populations are Muslims. Their audience growth is largely attributed to new programming and coverage of major international stories that had special relevance to regional and local audiences, such as Iraq and Afghanistan. This growth is also partly attributed to renewed use of affiliates in Ukraine and the use of the tochka distribution system in Russia.
- **RFA - Target: NA Actual: NA**
 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 for the entire entity. However, available indications do point to increasing audiences. In Cambodia, on of the few places where RFA can conduct a national survey, the rate increased from 15% to almost 16% of the country's population listening to RFA weekly, and web logs on RFA's websites show continuously increasing numbers of users.

Affiliations and Transmitters: As shortwave usage wanes in parts of the world, the importance of affiliations with local AM and FM stations grows. Types and degrees of affiliations are many, ranging from live simulcasts at scheduled times to occasional use of taped segments of programs. This indicator counts only those stations with contracts that regularly rebroadcast identified programs of U.S. international broadcasting entities on competitive media, in or near prime time in an uncensored manner, either nationally or in strategically important parts of the country.

- **VOA (Radio) Affiliates - Target: 226 Estimate: 226**
The number of affiliates increased by 11 for VOA Radio in 2006. Increases of note are in Indonesia, where a 20-station business news network was added, and in Eastern Africa, where a major affiliate in Kampala, Uganda was added.
- **VOA (Radio) Transmitters - Target: 28 Actual: 28.**
The number of transmitters increased by 8 from 20 in 2005 to 28 in 2006 for VOA Radio and met the target for 2006. FM transmitters began broadcasting in Asadabad, Gardez and Khost, Afghanistan and in Al Amarah, Al Samawa, Al Nasiriyah, Arbil and Kirkuk, Iraq.
- **VOA (TV) Affiliates - Target: 111 Estimate: 111**
The number of affiliates increased by 5 from 106 in 2005 to 111 in 2006 for VOA. Increases for VOA television are noted in Ukraine and India.
- **MBN (Radio Sawa) Transmitters - Target: 29 Actual: 28**
In FY 2006 Radio Sawa increased the number of transmitters by 7 from 2005 and nearly met the target for 2006. The target would have been met had one FM transmitter not been destroyed in July 2006 during the Israeli-Hezbollah conflict. FM transmitters began broadcasting in Al Amarah, Al Samawa, Al Nasiriyah, and Kirkuk, Iraq and in Beirut, Bosite, and Jabal Safi, Lebanon. Three FM transmitters scheduled to be on the air in 2006 (one in Iraq and two in Palestine) were delayed.
- **MBN (Alhurra) TV Transmitters - Target: 5 Actual: 4**
Alhurra increased the number of transmitters by two in 2006 for a total of 4. TV transmitter systems were installed in Al Hilla and Mosul, Iraq. The security situation delayed any more installations, and the situation will persist for the near future.
- **RFE/RL Affiliates - Target: 66 Actual: 66**
The number of affiliates increased by 3 from 63 in 2005 to 66 in 2006 for RFE/RL and met the target. Increases of note included Kyrgyzstan and Ukraine.
- **RFE/RL Transmitters - Target: 15 Actual: 15**
RFE/RL gained 5 transmitters during 2006, which met the target. The FM transmitters are located in Al Amarah, Al Samawa, Arbil, Al Nasiriyah, and

Kirkuk, Iraq. One additional FM transmitter scheduled to be on the air in Iraq was delayed.

▪ **RFA Affiliates – Target: 2 Estimate: 2**

RFA met its target of 2 new affiliates for 2006. These affiliates are rebroadcasting programs directed at audiences in Laos.

Program Quality: This indicator presents the percentage of an entity’s language services whose programming is assessed as being of good-or-better quality. 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. Content is given a 65% weight, and presentation a 35% weight. These are averaged and summarized on a scale from 1 – 4, where 1.0–1.3 = poor; 1.4–1.6 = poor to fair; 1.7–2.3 = fair; 2.4–2.6 = fair to good; 2.7–3.3 = good; 3.4–3.6 = good to excellent; 3.7–4.0 = excellent.

▪ **VOA (Radio) - Target: 100 Estimate: 100**

Program quality ratings are good or excellent for all VOA Radio language services in 2006.

▪ **VOA (TV) - Target: NA Estimate: NA**

The program quality score to television is still under development.

▪ **MBN (Radio Sawa) - Target: 100 Estimate: NA**

The program quality score is not yet available for 2006.

▪ **RFE/RL - Target: 100 Estimate: 100**

Program quality ratings continued to be good or excellent for all RFE/RL language services in 2006.

▪ **RFA - Target: 100 Estimate: 100**

Program quality ratings continue to be good or excellent for all RFA language services in 2006.

▪ **OCB - Target: 100 Estimate: 100**

Program quality ratings were good or excellent for Radio and TV Martí in 2006.

Program Credibility: This indicator is determined by the survey question about “trustworthiness of news and information” of those sampled respondents who listened at least once a week to each station. The answers are registered on a five-point scale -- very trustworthy, somewhat trustworthy, neither trustworthy nor untrustworthy, somewhat untrustworthy, or very untrustworthy. The credibility index is the percent of those answering the question in the survey (excluding those who did not respond or did not know) who endorsed very or somewhat trustworthy.

- **VOA Radio Only - Target: 100 Estimate: 90**
 VOA maintained a program credibility score of 90 percent in FY2006 to match the FY 2005 index of weekly listeners who endorse the stations as very or somewhat trustworthy.
- **MBN Radio Sawa - Target: 70 Estimate: 70**
 MBN Radio Sawa achieved a FY 2006 program credibility score of 70 percent of the respondents who listened at least once a week to each station in 2006 endorsing the stations as very or somewhat trustworthy. The score was not available in 2005, but this is an improvement from the 53 percent recorded in FY 2004.
- **MBN Alhurra - Target: 74 Estimate: 74**
 MBN Alhurra met its target in FY 2006 with 74 percent of weekly viewers endorsing the stations as very or somewhat trustworthy. This is a very high level considering anti-Americanism is common in many areas of the Arabic speaking world.
- **RFE/RL - Target: 86 Estimate: 86**
 RFE/RL met its program credibility target of 86 percent. This score shows a steady improvement from the 82 percent in FY 2004 and 84 percent in FY 2005.
- **RFA - Target: 89 Estimate: NA**
 The limited data for RFA in 2006 for this survey question is not sufficient to measure credibility for the entity. However, in prior years, RFA showed improvement from 78 percent in FY 2004 to 80 percent in FY2005.
- **OCB - Target: NA Estimate: NA**
 As previously indicated, the closed nature of Cuban society makes it extraordinarily difficult to conduct surveys or research, and, therefore, program credibility cannot be measured.

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 or not the programs are capable of being heard by the target audiences. The IBB routinely compiles a program reception statistic for each language service. Typically, this work is done for each of the two broadcast seasons: April to September and October to March. The summary statistic aggregates the most recent readings for each service and averages them. While signal delivery lends itself well to GPRA measurement, since monitoring data are regularly collected, U.S. international broadcasting continues to examine this approach with an eye to improving its accuracy, sensitivity, and usefulness as an analytical tool. Survey research data provide an independent source of data, yet to be integrated into the statistic. The scale is 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: 2.80 Actual: 2.79**

This FY 2006 Index decreased slightly from the target set for the year. The Radio Signal Strength Index only measures shortwave and medium wave transmissions, thus the minor decline over the past several years reflects the shortwave reductions across most of the BBG's global transmission network.

Satellite Effectiveness Index: This index provides a quantitative measure of the ability of the satellite network to access the population of TV households. It accounts for TV population, total satellite network capacity, signal strength, and prime-time flexibility. This index considers five criteria: 1) Coverage of the satellite in channel-hours; 2) Coverage to small (3 meters or less) antennas; 3) Time-zone flexibility to ensure prime-time coverage; 4) TV households reached; and 5) Ability to feed other satellites as part of the network. This index was developed by the Office of Engineering in cooperation with the Broadcasting Satellite Users' Board to improve on an earlier index. The Index represents a refined, more useful planning tool than the original formula. The upper limit of the index is unknown since the potential number of TV channels and TV audiences around the world may change in the future.

- **BBG - Target: 10.0 Actual: 10.0**

The Satellite Effectiveness Index reached the target of 10.0 in 2006 and improved from the 9.0 in 2005. The BBG's continued commitment to convert the satellite distribution network to more efficient and effective digital capability has contributed to the steady rise in this index. Establishing distribution facilities for a third video channel for Alhurra-Europe also expanded the satellite network capacity.

Transmission Network Consumable Expense: This indicator equals the total annual cost of power and parts to operate the transmitters in the BBG network around the world. Jamming by host governments increases costs, as does a proliferation of media in the target market areas, which requires the BBG to have more diverse delivery systems to successfully compete.

- **BBG - Target: \$33 million Actual: \$27 million**

The transmission network consumable declined significantly in 2006, well below the target for a reduction in expected costs of \$6 million. This is attributed to the closure of the BBG's Greece Transmitting Station and shortwave reductions across most of the global transmission network.

Program Assessment Rating Tool (PART)

PART Schedule

The PART, initiated in FY 2002, is a five-year process by OMB to assess 100% of Federal government programs, or approximately 20% each year. The PART uses a series of questions in four areas that are weighted by OMB. The scores are then grouped in ratings of Effective (85-100), Moderately Effective (70-84), Adequate (50-59) and Results Not Demonstrated. The purpose is to determine whether a program has a clear definition of success, uses strong management practices, and produces results.

Programs evaluated in prior years may be 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 2005, a PART evaluation of Broadcasting to Latin America and Engineering and Technical Services for International Broadcasting was conducted. In FY 2006, OMB evaluated Programming Support for International Broadcasting and Audience Development for International Broadcasting, with the final results to be published in February 2007. This completes the first 5-year PART cycle for the BBG.

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 and “Effective” in FY 2005.

Year of Review	Programs Reviewed	Rating
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.
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.▪ Moderately Effective. Re-evaluation because of War on Terror and major enhancements for Alhurra Television.
FY 2004	<ul style="list-style-type: none">▪ Broadcasting to East Asia and Eurasia▪ Broadcasting to Near East Asia and South Asia	<ul style="list-style-type: none">▪ Moderately Effective.▪ Moderately Effective. Re-evaluation due to continued priority of War on Terror and inclusion of additional language services in this program. Final score higher than previous assessment.
FY 2005	<ul style="list-style-type: none">▪ Broadcasting to Latin America▪ Engineering and Technical Services for International Broadcasting	<ul style="list-style-type: none">▪ Effective.▪ Effective with 100% score.

BBG Strategic Planning and Performance Integration

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 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.

Since the PART began, the BBG has improved its ratings, due in large part to significant progress in strategic planning, budget and performance integration at all levels. The release of our first strategic plan since independence became the roadmap for the core strategy of “marrying the mission to the market” and individual performance plans have strengthened linkages to the mission, strategic goals and performance goals, which is a major section in the PART evaluation. Improvements in linking budget to performance have also continued with the FY 2008 Budget Request.

Our goal is to integrate budget and performance information throughout all levels of the BBG. Previously evaluated programs look forward to similar ratings when re-evaluated in light of the improved strategic planning, budget and performance integration processes now in place.

PART recommendations

OMB’s recommendation that the BBG ensure that funding for each of the PART programs be explicitly linked to the accomplishment of relevant performance goals is accomplished in the FY 2006, FY 2007 and FY 2008 integrated Performance Budgets. Another recommendation is to implement additional performance measures that capture the quality and credibility of the radio and television programs. The BBG added an agency-wide measure of “credibility” (percent of the audience assessing BBG news and information as trustworthy or very trustworthy) and is now reporting radio and television results separately. We continue to explore and test specific internet and television performance measures. The recommendation to revise the current agency strategic plan to build on a market-based approach to broadcasting will be completed with the issuance of the new BBG Strategic Plan covering 2008 - 2013.

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 LSR 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.” Program Reviews, which are conducted for the individual entities, serve as annual quality control mechanisms based on field research and external analysis of program content and presentation.

OIG and the GAO also conduct evaluations of the BBG. During FY 2006, OIG issued 12 final reports and GAO issued one final report to the BBG. The agency will continue to implement and respond to the recommendations of those evaluations. Also during FY 2006, the OIG issued five Draft Reports; two Semiannual Reports; three Resolution Analyses; three Compliance Reports; one Memorandum Report; and one Closure Report. The GAO issued one Draft Report.

Report No. / Dated	Type of Report	Title	Status
ISP-06-02 Dated Nov 2005	OIG Draft	<i>Inspection of the Broadcasting Operations in and Broadcasting to Afghanistan</i>	BBG Responded 11/23/2005
ISP-IB-06-02 Dated Feb 2006	OIG Final Report	<i>The Broadcasting Board of Governors' Operations in and Broadcasting to Afghanistan</i>	BBG Responded 04/17/2006
ISP-IB-05-67 Dated Sept. 2005	OIG Final Report of Inspection	<i>The Broadcasting Board of Governors' Operations in and Broadcasting to Pakistan</i>	BBG Responded 11/22/2005
ISP-IB-05-65 Dated Aug. 2005	OIG Resolution Analysis	<i>Review of the VOA's Digital Upgrade Program</i>	BBG Responded 03/01/2006
AUD/PP-06-XX Dated May 2006	OIG Draft Audit	<i>Review of the Broadcasting Board of Governors' Purchase Card Program</i>	BBG Responded 06/09/2006
AUD/IB-06-15 Dated Aug 2006	OIG Final Audit	<i>Review of the Broadcasting Board of Governors' Purchase Card Program</i>	BBG Responded 09/18/2006
AUD/SI-06-XX Dated Feb. 2006	OIG Draft Audit Report	<i>Audit of Emergency Preparedness at the Washington Metropolitan Facilities of the Broadcasting Board of Governors</i>	BBG Responded 03/28/2006
AUD/SI-06-24 Dated April 2006	OIG Final Audit Report	<i>Audit of Emergency Preparedness at the Washington Metropolitan Facilities of the Broadcasting Board of Governors</i>	BBG Responded 05/25/2006.

Report No. / Dated	Type of Report	Title	Status
AUD/SI-06-24 Dated Aug 2006	OIG Resolution Analysis	<i>Audit of Emergency Preparedness at the Washington Metropolitan Facilities of the Broadcasting Board of Governors</i>	BBG Responded 09/28/2006.
IT-I-05-10 Dated Sept. 2005	OIG Information Technology Memorandum Report	<i>Review of the Information Security Program at the Broadcasting Board of Governors</i>	BBG Responded 10/28/2005
ISP-S-05-38A Dated Sept. 2005	OIG Final Classified Report (" SECRET ")	<i>Security Management Inspection of Embassy Gaborone, Botswana</i>	BBG Responded 11/29/2005
ISP-S-05-38A Dated Sept. 2005	OIG Compliance Review Classified Cable (" CONFIDENTIAL ")	<i>Security Management Inspection of Embassy Gaborone, Botswana</i>	BBG Responded 05/31/2006
ISP-I-06-37 Dated April 2006	OIG Draft Report	<i>Inspection of the International Broadcasting Bureau's Office of Performance Review</i>	BBG Responded 04/28/2006
ISP-I-06-37 Dated May 2006	OIG Final Report	<i>Inspection of the International Broadcasting Bureau's Office of Performance Review</i>	BBG Responded 07/19/2006
ISP-I-06-37 Dated May 2006	OIG Resolution Analysis	<i>Inspection of the International Broadcasting Bureau's Office of Performance Review</i>	BBG Responded 09/06/2006
ISP-I-06-44 Dated July 2006	OIG Draft Report	<i>Inspection of International Broadcasting Bureau's Office of Engineering and Technical Services</i>	BBG Responded 07/31/2006
April 1, 2005 to Sept. 30, 2005	OIG Semiannual Reports to the Congress	<i>OIG Classified Annex ("SECRET") to the Semiannual Report to the Congress</i>	BBG Responded 11/22/2005
Oct 1, 2005 to Mar 31, 2006	OIG Semiannual Report to the Congress	<i>Semiannual Report</i>	BBG Responded 06/07/2006
GAO-06-762 Dated July 2006	Draft Report	<i>U.S. International Broadcasting Management of Middle East Broadcasting Services Could Be Improved</i>	BBG Responded 07/20/06

Report No. / Dated	Type of Report	Title	Status
ISP-IB-06-37 Dated May 2006	OIG Final Report of Inspection	<i>The International Broadcasting Bureau's Office of Performance Review</i>	BBG Responded 07/19/06
ISP-I-05-37A Dated Sept. 2005	OIG Final Report of Inspection	<i>Embassy Harare, Zimbabwe</i>	No Action Required of BBG
ISP-I-05-39A Dated Sept. 2005	OIG Final Report of Inspection	<i>Inspection of Embassy Lusaka, Zambia</i>	No Action Required of BBG
ISP-I-06-21A Dated Feb. 2006	OIG Final Report of Inspection	<i>Embassy Manama, Bahrain</i>	No Action Required of BBG
ISP-I-06-12 Dated Feb. 2006.	OIG Final Report of Inspection	<i>Embassy Bamako, Mali.</i>	No Action Required of BBG
ISP-I-06-20A Dated Feb. 2006.	OIG Final Report of Inspection	<i>Embassy Dakar, Senegal</i>	No Action Required of BBG
GAO-06-762 Dated August 2006	Final Report	<i>U.S. International Broadcasting Management of Middle East Broadcasting Services Could Be Improved</i>	BBG is preparing a response
ISP-IB-05-67 Dated Sept. 2005	OIG Closure	<i>Inspection of the Broadcasting Board of Governors' Operations in and Broadcasting to Pakistan</i>	<input checked="" type="checkbox"/> OIG Closed Report 12/16/05
IT-A-04-07 Not Dated	OIG Compliance Analysis	<i>Review of the Information Security Program at the Broadcasting Board of Governors</i>	<input checked="" type="checkbox"/> Closed: Incorporated into the FY 2005 FISMA Report.
IT-A-02-07 Dated Sept. 2002	OIG Compliance Analysis	<i>Review of the Information Security Program at the Broadcasting Board of Governors</i>	<input checked="" type="checkbox"/> Closed Nov. 2, 2005

Section 3: Financial Information



**United States Department of State
and the Broadcasting Board of Governors**

Inspector General

NOV 15 2006

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) annual financial statements as of September 30, 2006 and 2005, and for the years then ended. In LGB's opinion, the financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

LGB also found:

- two reportable conditions related to internal control over the financial and accounting system and accounts payable; and
- instances of noncompliance with selected provisions of applicable laws and regulations involving BBG's financial management systems.

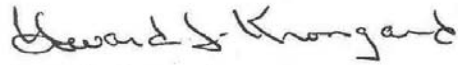
LGB's report (AUD/FM-07-08) is enclosed for your review. LGB is responsible for this report and the opinions and conclusions expressed therein. OIG is responsible for technical and administrative oversight regarding performance under the terms of the contract. OIG's review, as differentiated from an 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 annual financial statements or conclusions about the effectiveness of internal control and compliance with certain laws and regulations.

BBG management 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.

Address correspondence to: U.S. Department of State, Office of Inspector General, Washington, D.C. 20522-0308

OIG appreciates the cooperation extended to it and LGB by BBG's managers and staff during the audit. If you have any questions, please call me at (202) 663-0361, or have your staff call Mark W. Duda, Assistant Inspector General for Audits, at (202) 663-0372.

Sincerely,

A handwritten signature in cursive script that reads "Howard J. Krongard".

Howard J. Krongard
Inspector General

Enclosure: As stated.

**Audit of the
Broadcasting Board of Governors'
Financial Statements**

September 30, 2006 and 2005

Independent Auditor's Report

AUD/FM-07-08

Leonard G. Birnbaum and Company, LLP
Certified Public Accountants
6285 Franconia Road
Alexandria, Virginia 22310

(703) 922-7622

Important Notice

This report is intended solely for the official use of the Broadcasting Board of Governors or any agency receiving the report directly from the Office of Inspector General. No secondary distribution may be made outside the Broadcasting Board of Governors or by other agencies or organizations in whole or in part, without prior authorization by the Inspector General. Public availability of the document will be determined by the Inspector General under the U.S. Code 5 U.S.C. 552. Improper disclosure of this report may result in criminal, civil, or administrative penalties.

LEONARD G. BIRNBAUM AND COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

WASHINGTON OFFICE
6285 FRANCONIA ROAD
ALEXANDRIA, VA 22310-2510

(703) 922-7622
FAX: (703) 922-8256

LESLIE A. LEIPER
LEONARD G. BIRNBAUM
DAVID SAKOFS
CAROL A. SCHNEIDER
DORA M. CLARKE

WASHINGTON, D.C.
SUMMIT, NEW JERSEY
REDWOOD CITY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT

To the Chairman
Broadcasting Board of Governors

We have audited the Broadcasting Board of Governors' (BBG) Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing (Annual Financial Statements) as of, and for the years ended, September 30, 2006 and 2005; we have examined internal control over financial reporting in place as of September 30, 2006, and for the year then ended; and we have examined compliance with applicable laws and regulations.

In our opinion, BBG's 2006 and 2005 Annual Financial Statements are presented fairly in all material respects in conformity with accounting principles generally accepted in the United States of America.

We found:

- reportable conditions on weaknesses in BBG's 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 on the following pages. This report also discusses the scope of our work.

FINANCIAL STATEMENTS

In our opinion, BBG's Annual Financial Statements, including the notes thereto, present fairly, in all material respects, BBG's financial position as of September 30, 2006 and 2005, and its net cost of operations, changes in net position, use of budgetary resources, and use of financing resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

UNCLASSIFIED

MEMBERS OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

UNCLASSIFIED

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 Annual Financial Statements. 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 06-03, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls 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 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

UNCLASSIFIED

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.

We noted two matters involving internal control that we consider to be reportable conditions.

- BBG's internal control over its financial and accounting system, as of September 30, 2006, was inadequate. 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 fully codified its financial management operating procedures. The absence of codified operating procedures presents opportunities for inconsistencies and errors in processing financial transactions.

This condition was first cited in our audit of BBG's Balance Sheet as of September 30, 2004.

- During FY 2006, BBG did not maintain adequate internal control over accounts payable. Initial audit testing indicated that the amount presented as accounts payable was misstated by approximately 35 percent. Although BBG undertook an initiative to identify and resolve misstatements in accounts payable, the reconciliation was not completed by September 30, 2006.

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 of 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 06-03, 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

UNCLASSIFIED

completeness assertions and determined whether those controls had been placed in operation as required by OMB Bulletin 06-03. 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.

We noted certain other internal control issues that we have reported to BBG's management in a separate letter dated November 7, 2006.

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 Annual Financial Statements are 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 financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 06-03. 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 Annual Financial Statements, 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, which 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 above 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 06-03.

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.

UNCLASSIFIED

- 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 fully codified financial management procedures fails to meet this objective.

The above areas of noncompliance were first cited in our audit of BBG's Balance Sheet as of September 30, 2004.

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 Annual Financial Statements 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 Annual Financial Statements 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 Annual Financial Statements are 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 Annual Financial Statements 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 Annual Financial Statements.

In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts on the Annual Financial Statements and related disclosures;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Annual Financial Statements;

UNCLASSIFIED

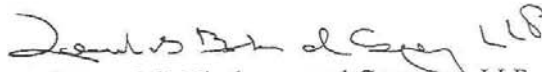
- obtained an understanding of the internal controls over financial reporting by obtaining an understanding of BBG's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls;
- obtained an understanding of the internal 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 determining whether they had been placed in operation;
- tested compliance with selected provisions of laws and regulations that may have a direct and material effect on the Annual Financial Statements;
- 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 06-03. We believe that our audit provided a reasonable basis for our opinion.

The Management's Discussion and Analysis and Required Supplementary Information are supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*, 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 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 7, 2006

UNCLASSIFIED

UNCLASSIFIED

Appendix A



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

November 15, 2006

The Honorable Howard J. Krongard
Inspector General
Office of Inspector General
Department of State
Washington D.C. 20522-0308

Dear Mr. Krongard:

This is in response to your request for comments on the report *AUD-FM-07-08, Audit of the Broadcasting Board of Governors 2006 and 2005 Principal Financial Statements*.

This is the third year the BBG has prepared financial statements, and the third audit that the BBG has undergone. The independent audit firm has issued an unqualified ("clean") opinion on BBG's principal financial statements.

Achieving an unqualified opinion on its financial statements is a significant achievement. This was accomplished under a tight year-end closing schedule – the agency closed its FY 2006 books on October 3rd. 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 one reportable condition regarding the agency's internal controls over its the financial and accounting system. In addition, the audit report notes that, while the financial system is not fully compliant with the *Budget and Accounting Procedures Act of 1950*, OMB Circular A-127, *Financial Management Systems*, and OMB Circular A-123, *Management Accountability and Control*, the BBG's financial management system is in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996.

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 fully 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 fully codified procedures presents opportunities for inconsistencies and errors in processing financial transactions.

330 INDEPENDENCE AVENUE, SW ROOM 3360 COHEN BUILDING WASHINGTON, DC 20237 (202) 401-3736 FAX (202) 401-6605

7

UNCLASSIFIED

UNCLASSIFIED

Appendix A

We are continuing to take steps to correct these areas. While the financial system does not issue interim financial reports, the BBG has established a reporting tool that enables us to produce interim financial reports based on the general ledger. Since FY 2005, utilizing this reporting tool, the BBG has submitted timely its quarterly financial statements to the Office of Management and Budget.

We currently cross service with the Department of State for financial system services. We will be transitioning to the Department of Interior's Momentum system by mid-FY 2008. We anticipate that the new financial system will allow for the integration of property data into the general ledger and interim financial reporting.

In FY 2005, the BBG began updating and rewriting the Manual of Operations and Administration (MOA). We have drafted all sections for the Office of the Chief Financial Officer, including codifying the financial management, budget, and performance management operating procedures. We have completed five sections, and the remaining CFO MOA sections are in the clearance process and should be finalized by mid-FY 2007.

Thank you for the opportunity to comment on the audit report and for collaboratively working with us on our FY 2006 audit. We believe that the BBG has made significant strides in the past year as we underwent our third audit of our principal financial statements, and we are committed to continually improving the management of our programs and the quality of our financial reporting.

Sincerely,



Janet K. Stormes
Chief Financial Officer

Broadcasting Board of Governors
Balance Sheet
As of September 30, 2006 and 2005
(In Thousands)

	2006	2005
ASSETS		
Intra-governmental		
Fund Balance with Treasury (Note 2)	\$195,076	\$150,803
Accounts Receivable, Net (Note 3)	<u>2,064</u>	<u>3,549</u>
Total Intra-governmental	\$197,140	\$154,352
Cash and Other Monetary Assets (Note 4)	\$3	\$3
Accounts Receivable, Net (Note 3)	58	41
General Property, Plant, and Equipment, Net (Note 5)	231,737	245,607
Other (Note 6)	<u>1,276</u>	<u>1,210</u>
TOTAL ASSETS	<u>\$430,214</u>	<u>\$401,213</u>
LIABILITIES		
Intra-governmental		
Accrued FECA Liability (Note 8)	<u>\$1,345</u>	<u>\$1,203</u>
Total Intra-governmental	\$1,345	\$1,203
Accounts Payable	\$5,666	\$1,417
Actuarial FECA Liability (Note 8)	6,034	7,214
Accrued Payroll and Benefits	7,921	7,950
Accrued Annual and Compensatory Leave (Note 8)	13,103	12,923
Other (Note 9 and 10)	<u>1,089</u>	<u>1,757</u>
TOTAL LIABILITIES	\$35,158	\$32,464
NET POSITION		
Unexpended Appropriations	\$165,908	\$140,602
Cumulative Results of Operations	<u>229,148</u>	<u>228,147</u>
TOTAL NET POSITION	<u>\$395,056</u>	<u>\$368,749</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$430,214</u>	<u>\$401,213</u>

The accompanying notes are an integral part of these statements.

Broadcasting Board of Governors
Statement of Net Cost
For the Years Ended September 30, 2006 and 2005
(In Thousands)

Goal: The over-arching aim of the Broadcasting Board of Governors is to achieve an increasingly effective international broadcasting system that reaches significant audiences where most needed in support of U.S. strategic interest.

PROGRAM COSTS	2006	2005
Voice of America (VOA)		
Gross Costs	\$294,121	
Less: Earned Revenues	<u>(2,601)</u>	
Net VOA Costs	\$291,520	
Middle East Broadcasting Networks (MBN)		
Gross Costs	\$141,125	
Less: Earned Revenues	=	
Net MBN Costs	\$141,125	
Office of Cuba Broadcasting (OCB)		
Gross Costs	\$52,126	
Less: Earned Revenues	=	
Net OCB Costs	\$52,126	
Radio Free Asia (RFA)		
Gross Costs	\$66,271	
Less: Earned Revenues	=	
Net RFA Costs	\$66,271	
Radio Free Europe/Radio Liberty (RFE/RL)		
Gross Costs	\$120,356	
Less: Earned Revenues	=	
Net RFE/RL Costs	\$120,356	
Total Gross Program Costs	\$673,999	\$579,600
Less: Total Earned Revenue	<u>(2,601)</u>	<u>(1,998)</u>
NET COST OF OPERATIONS	<u>\$671,398</u>	<u>\$577,602</u>

The accompanying notes are an integral part of these statements.

Broadcasting Board of Governors
Statement of Changes in Net Position
For the Years Ended September 30, 2006 and 2005
(In Thousands)

	All Funds 2006	Consolidated Total 2006	Consolidated Total 2005
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	<u>\$228,147</u>	<u>\$228,147</u>	<u>\$172,233</u>
Adjustments:			
Beginning Balance, as Adjusted	\$228,147	\$228,147	\$172,233
Budgetary Financing Sources			
Appropriations Used	\$658,239	\$658,239	\$618,217
Non-exchange Revenue			71
Other	133	133	118
Other Financing Sources (Non-Exchange)			
Imputed Financing	<u>14,027</u>	<u>14,027</u>	<u>15,110</u>
Total Financing Sources	\$672,399	\$672,399	\$633,516
Net Cost of Operations	<u>671,398</u>	<u>671,398</u>	<u>577,602</u>
Net Change	<u>\$1,001</u>	<u>\$1,001</u>	<u>\$55,914</u>
CUMULATIVE RESULTS OF OPERATIONS	\$229,148	\$229,148	\$228,147
UNEXPENDED APPROPRIATIONS:			
Beginning Balance	<u>\$140,602</u>	<u>\$140,602</u>	<u>\$162,782</u>
Adjustments:			
Beginning Balance, as Adjusted	\$140,602	\$140,602	\$162,782
Budgetary Financing Sources			
Appropriations Received	\$688,443	\$688,443	\$606,860
Appropriations Transferred In/Out	661	661	1,104
Other Adjustments	(5,553)	(5,553)	(11,926)
Appropriations Used	<u>(658,245)</u>	<u>(658,245)</u>	<u>(618,217)</u>
Total Budgetary Financing Sources	<u>\$25,306</u>	<u>\$25,306</u>	<u>\$(22,179)</u>
UNEXPENDED APPROPRIATIONS	\$165,908	\$165,908	\$140,603
NET POSITION	<u>\$395,056</u>	<u>\$395,056</u>	<u>\$368,750</u>

The accompanying notes are an integral part of these statements.

Broadcasting Board of Governors
Statement of Budgetary Resources
For the Years Ended September 30, 2006 and 2005
(In Thousands)

	2006	2005
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1	\$58,577	\$49,657
Recoveries of Prior Year Unpaid Obligations	11,152	28,451
Budget Authority		
Appropriation	688,443	606,860
Contract Authority		
Spending Authority From Offsetting Collections		
Collected	6,545	3,319
Change in Receivables From Federal Sources	<u>(1,485)</u>	<u>(1,065)</u>
Subtotal	\$693,503	\$609,114
Nonexpenditure Transfers, Net Anticipated and Actual	661	1,104
Permanently Not Available	<u>(13,708)</u>	<u>(11,685)</u>
TOTAL BUDGETARY RESOURCES	<u>\$750,185</u>	<u>\$676,641</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred		
Direct	\$690,616	\$617,392
Reimbursable	<u>1,885</u>	<u>677</u>
Subtotal	\$692,501	\$618,069
Unobligated Balance		
Apportioned	\$42,429	\$8,390
Exempt from Apportionment	<u>2,673</u>	<u>465</u>
Subtotal	\$45,102	\$8,855
Unobligated Balance Not Available	<u>12,582</u>	<u>49,717</u>
TOTAL STATUS OF BUDGETARY RESOURCES	<u>\$750,185</u>	<u>\$676,641</u>
CHANGE IN OBLIGATED BALANCE:		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	\$96,400	\$148,920
Less: Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	<u>(4,549)</u>	<u>(5,613)</u>
Total Unpaid Obligated Balance, Net	\$91,851	\$143,307
Obligations Incurred, Net	\$692,501	\$618,069
Gross Outlays	(642,087)	(642,135)
Obligated Balance Transferred, Net		
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(11,152)	(28,451)
Change in Uncollected Customer Payments From Federal Sources	1,485	1,065
Obligated Balance, Net, End of Period		
Unpaid Obligations	\$135,662	96,404
Less: Uncollected Customer Payments From Federal Sources	<u>(3,064)</u>	<u>(4,549)</u>
Total, Unpaid Obligated Balance, Net, End of Period	\$132,598	\$91,855

NET OUTLAYS

Net Outlays

Gross Outlays	\$642,087	\$642,135
Less: Offsetting Collections	(6,545)	(3,320)
Less: Distributed Offsetting Receipts	<u>(4,009)</u>	<u>(2,078)</u>
Net Outlays	<u>\$631,533</u>	<u>\$636,737</u>

The accompanying notes are an integral part of these statements.

Broadcasting Board of Governors
Statement of Financing
For the Years Ended September 30, 2006 and 2005
(In Thousands)

	2006	2005
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	\$692,501	\$618,069
Less: Spending Authority from Offsetting Collections and Recoveries	<u>16,212</u>	<u>30,706</u>
Obligations Net of Offsetting Collections and Recoveries	\$676,289	\$587,363
Less: Offsetting Receipts	<u>4,009</u>	<u>2,078</u>
Net Obligations	\$672,280	\$585,285
Other Resources		
Imputed Financing	\$14,027	\$15,110
Other	<u>273</u>	<u>117</u>
Net Other Resources Used to Finance Activities	<u>\$14,300</u>	<u>\$15,227</u>
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	<u>\$686,580</u>	<u>\$600,512</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	\$(58,939)	\$57,424
Resources to Fund Expenses Recognized in Prior Periods	1,501	2,426
Resources That Finance the Acquisition of Assets	1,228	7,955
Other Resources or Adjustments to That Do Not Affect Net Cost of Operations	<u>26,995</u>	<u>(34,977)</u>
TOTAL RESOURCES USED TO FINNACE ITEMS NOT PART OF NET COST OF OPERATIONS	<u>\$(29,215)</u>	<u>\$32,828</u>
 TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	 <u>\$657,365</u>	 <u>\$633,340</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	\$395	\$580
Increase in Exchange Revenue Receivable From the Public	17	-
Increase in Unfunded FECA Liability	<u>142</u>	<u>=</u>
Total Components Requiring or Generating Resources in Future Periods	\$554	\$580
Components Not Requiring or Generating Resources		
Depreciation and Amortization	\$17,638	\$18,982
Revaluation of Assets	<u>(4,159)</u>	<u>(75,300)</u>
Total Components Not Requiring or Generating Resources	<u>\$13,479</u>	<u>\$(56,318)</u>
TOTAL COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE RESOURCES IN THE CURRENT PERIOD	<u>\$14,033</u>	<u>\$(55,738)</u>
 NET COST OF OPERATIONS	 <u>\$671,398</u>	 <u>\$577,602</u>

The accompanying notes are an integral part of these statements.

Broadcasting Board of Governors
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005
(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 140 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. international broadcasting services, the day-to-day broadcasting activities are carried out by the individual BBG international broadcasters: the Voice of America (VOA), the Middle East Broadcasting Networks (Radio SAWA and Alhurra TV), Radio Free Europe/Radio Liberty (RFE/RL), Radio Free Asia (RFA), and the Office of Cuba Broadcasting (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 are awarded, and services are 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, transfers and donations. Financing

sources are received in direct and indirect annual, multi-year 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 equipment is 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, which 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 include 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 Department of 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 those for which 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 year end 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, which have not been earmarked for any special purposes. 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, Thailand 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.

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. The thresholds for capitalization are as follows: equipment costing \$25,000 or more, buildings and capital leases costing more than \$100,000, and other structures and facilities costing \$50,000 or more. In addition, ADP software costing over \$250,000, and all land, land rights, and vehicles are capitalized, regardless of cost.

Expenditures for normal repairs and maintenance are charged as an expense when 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. Amortization of capital leases is over the term of the lease. 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 11.20%. 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).

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 when 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.

O. Management’s Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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, 2006 and 2005, consist of the following:

Type of Funds	2006	2005
Appropriated Funds	\$191,561	\$146,186
Trust Funds	<u>\$3,515</u>	<u>\$4,617</u>
Total	<u>\$195,076</u>	<u>\$150,803</u>

The status of the fund balance may be classified as unobligated available, unobligated unavailable, obligated, and Non-Budgetary Fund Balance with Treasury. 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, 2006 and 2005, consists of the following:

Status of Funds	2006	2005
Unobligated Balance		
Available	\$45,102	\$ 8,855
Unavailable	12,582	49,717
Obligated Balance Not Yet Disbursed	135,987	92,231
Non-Budgetary Fund Balance with Treasury	<u>1,405</u>	
Total	<u>\$195,076</u>	<u>\$150,803</u>

NOTE 3: ACCOUNTS RECEIVABLE, NET

Accounts receivable as of September 30, 2006 and 2005, are as follows:

Accounts Receivable	2006	2005
Intra-governmental	\$2,064	\$3,549
Public	58	41
Less Allowance for Uncollectible Receivables	=	=
Total Accounts Receivable, Net	<u>\$2,122</u>	<u>\$3,590</u>

NOTE 4: 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, 2006 and 2005, BBG maintained imprest funds totaling \$3,000.00 in each year.

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, 2006 and 2005.

Property	Useful Life	As of September 30, 2006			As of September 30, 2005		
		Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Buildings	30	\$42,812	\$(25,084)	\$17,728	\$ 42,812	\$ (24,071)	\$ 18,741
Land	NA	4,121		4,121	1,121		1,121
Equipment	6-30	403,645	(216,341)	187,304	406,389	(206,316)	200,073
Vehicles	6	7,398	(6,060)	1,338	7,278	(5,746)	1,532
Assets Under Capital Lease	10	2,040	(1,574)	466	2,040	(1,468)	572
Software	5	2,082	(2,082)	0	2,082	(2,059)	23
Other Structures	20	<u>59,618</u>	<u>(38,838)</u>	<u>20,780</u>	<u>59,467</u>	<u>(35,922)</u>	<u>23,545</u>
Total		<u>\$521,716</u>	<u>\$(289,979)</u>	<u>\$231,737</u>	<u>\$521,189</u>	<u>\$(275,582)</u>	<u>\$245,607</u>

Depreciation and amortization expense for the years ended September 30, 2006 and 2005, is \$17,637,871.61 and \$18,982,105.47, respectively.

NOTE 6: OTHER ASSETS

This line item consists of advances and prepayments. These amounts are made principally to BBG employees for official travel, miscellaneous prepayments and advances to other non-Federal entities for future services, and salary advances to BBG employees transferring to overseas assignments. Other assets consist of the following as of September 30, 2006 and 2005:

Other Assets	2006	2005
Public		
Advances and Prepayments	<u>\$1,276</u>	<u>\$1,210</u>

NOTE 7: 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.

Assets	2006	2005
Non-Entity Assets		
Intra-governmental:		
Fund Balance with Treasury		<u>\$1</u>
Total Intragovernmental		\$1
Accounts Receivable	\$6	<u>\$8</u>
Other	<u>1</u>	
Total Non-Entity Assets	\$7	\$9
Total Entity Assets	<u>\$430,207</u>	<u>\$401,204</u>
Total Assets	<u>\$430,214</u>	<u>\$401,213</u>

NOTE 8: 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, 2006 and 2005, are summarized as follows.

Liabilities Not Covered by Budgetary Resources	2006	2005
Intra-governmental:		
Accrued FECA Liability	<u>\$1,345</u>	<u>\$1,203</u>
Total intra-governmental	\$1,345	\$1,203
Accrued Annual and Compensatory Leave	\$13,103	\$ 12,923
Capital Lease Liability	566	671
FECA Actuarial Liability	<u>6,034</u>	<u>7,214</u>
Total Liabilities Not Covered by Budgetary Resources	<u>\$21,048</u>	<u>\$22,011</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 that year. Using this tool, BBG's actuarial liabilities as of September 30, 2006 and 2005, are \$6,033,716.50 and \$7,214,247.45, respectively.

NOTE 9: OTHER LIABILITIES

In addition to liabilities for capital leases (see Note 10), Other liabilities consist of the following as of September 30, 2006 and 2005:

Other Liabilities	2006	2005
Public		
Deposit and Suspense Liabilities	\$523	\$1,086
Capital Lease Liability	<u>566</u>	<u>671</u>
Total	<u>\$1,089</u>	<u>\$1,757</u>

NOTE 10: CAPITAL LEASE LIABILITY

BBG has long-term leases for the use of land in domestic locations that meet the criteria as a capital lease in accordance with SFFAS No. 6, *Accounting for Property, Plant, and Equipment*. Assets that meet the definition of a capital lease and their related lease liability are initially recorded at the present value of the future minimum lease payments. In general, capital assets are depreciated over the estimated remaining life of the asset, and the related liability is amortized over the term of the lease, which can result in a different value in the asset versus the liability.

BBG currently has lease agreements for generators that transfer ownership at the end of the lease. The leases are being amortized over the lease term of 10 years, which is the same as the useful life. Net Assets Under Capital Leases and future minimum lease payments as of September 30 follow:

Assets Under Capital Lease	2006	2005
Equipment	\$2,040	\$2,040
Accumulated Depreciation	<u>(1,574)</u>	<u>(1,468)</u>
Net Assets Under Capital Leases	<u>\$466</u>	<u>\$ 572</u>

Future Minimum Lease Payments	Total
2007	\$242
2008	242
2009	123
2010	0
2011	0
2012 and thereafter	<u>0</u>
Total Minimum Lease Payments	\$607
Less: Imputed Interest	<u>41</u>
Net Capital Lease Liability	<u>\$566</u>

Future lease payments are not covered by budgetary resources.

Operating Leases

BBG leases real and personal property in overseas and domestic locations under operating leases, which expire in various years. Minimum future lease payments under operating leases with remaining terms in excess of one year as of September 30, 2006, for each of the next 5 years and in aggregate follow.

Fiscal Year	Total
2007	\$24,327
2008	23,798
2009	5,061
2010	3,940
2011	1,739
2012 and thereafter	<u>9,538</u>
Total Future Lease Payments	<u>\$68,403</u>

NOTE 11: CONTINGENT LIABILITIES, COMMITMENTS, AND CONTINGENCIES

BBG is a party to a Title VII class action that was settled in 2000. Payments from the Judgment Fund to individual claimants, which began in 1998, have continued into 2006, with additional implementation payments yet to be made. These payments are for back and front pay, as well as contributions to OPM, TSP and SSA to establish or adjust retirement accounts. In accordance with OPM's recent ruling on No Fear Act Reimbursement, for litigation occurring prior to the act, BBG is not liable for these payments. Therefore there is no amount for contingent liabilities recorded on the Balance Sheet.

NOTE 12: INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and earned revenue relate to source of goods and services purchased and received from other Federal entities. The amounts for September 2006 and 2005 follow:

Programs	2006	2005
Voice of America (VOA)		
Intragovernmental Costs	\$33,641	
Public Costs	<u>260,480</u>	
Total VOA Costs	<u>\$294,121</u>	
Intragovernmental Earned Revenue	\$2,601	
Public Earned Revenue	-	
Total VOA Earned Revenue	\$2,601	
Middle East Broadcasting Networks (MBN)		
Intragovernmental Costs	\$5,058	
Public Costs	<u>136,067</u>	
Total MBN Costs	<u>\$141,125</u>	
Intragovernmental Earned Revenue	\$-	
Public Earned Revenue	-	
Total MBN Earned Revenue	\$-	

Programs	2006	2005
Office of Cuba Broadcasting (OCB)		
Intragovernmental Costs	\$9,198	
Public Costs	<u>42,928</u>	
Total OCB Costs	<u>\$52,126</u>	
Intragovernmental Earned Revenue		
Public Earned Revenue	\$-	
Total OCB Earned Revenue	-	
	\$-	
Radio Free Asia (RFA)		
Intragovernmental Costs	\$4,409	
Public Costs	<u>61,862</u>	
Total RFA Costs	<u>\$66,271</u>	
Intragovernmental Earned Revenue	\$-	
Public Earned Revenue	=	
Total RFA Earned Revenue	-	
Radio Free Europe/Radio Liberty (RFE/RL)		
Intragovernmental Costs	\$4,704	
Public Costs	<u>115,652</u>	
Total RFE/RL Costs	<u>\$120,356</u>	
Intragovernmental Earned Revenue	\$-	
Public Earned Revenue	=	
Total RFE/RL Earned Revenue	\$-	
Total Intragovernmental Costs	<u>\$57,010</u>	\$49,625
Total Public Costs	<u>\$616,989</u>	529,975
Total Intragovernmental Earned Revenue	<u>\$2,601</u>	1,999
Total Public Earned Revenue	<u>\$-</u>	(1)
Total Net Costs	<u>\$671,398</u>	<u>\$577,602</u>

NOTE 13: STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources reports information on how budgetary resources were made available and their status as of and for the years ended September 30, 2006 and 2005.

Information on the agency's budget is reported in the *Budget of the United State Government, Appendix* which includes, among other things, budget schedules for each agency's accounts. Information on budgetary resources and their status is displayed in the Program and Financing (P&F) Schedule under each account. BBG is responsible for submitting data presented in the P&F Schedules.

There is currently a \$16 million difference between FACTS II and the P&F for information reported for FY 2005 International Broacasting Operations (IBO). This is a result of a reporting discrepancy in MAX. The agency's total obligated balances were keyed into MAX for the IBO account, rather than just the obligated balances for the IBO account. This is not an edited field

within the MAX application, and therefore was not caught in processing. The true obligation balances for IBO are the FACTS II amounts.

The President's Budget containing actual numbers for FY 2006 has not yet been published. The budget is anticipated to be reported in the second quarter of FY 2007 at the following website: <http://www.whitehouse.gov/omb/budget/fy2007>.

**NOTE 14: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED:
DIRECT VS. REIMBURSABLE OBLIGATIONS**

BBG incurs reimbursable obligations in support of the U.S. Agency for International Development's various program initiatives.

Direct and reimbursable obligations for the years ended September 30, 2006 and 2005 are as follows.

Obligations	2006	2005
Direct Obligations	\$690,616	\$617,392
Reimbursable Obligations	<u>1,885</u>	<u>677</u>
Total	<u>\$692,501</u>	<u>\$618,069</u>

NOTE 15: UNDELIVERED ORDERS AT THE END OF THE PERIOD

Budgetary resources obligated for undelivered order for the years ended September 30, 2006 and 2005 as follows.

	2006	2005
Undelivered Orders at the end of the period	<u>\$129,460</u>	<u>\$71,162</u>