Fiscal Year 2013 Performance and Accountability Report

Broadcasting Board of Governors

Voice of America

RadioFreeEurope RadioLiberty

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Radio Free Asia

MIDDLE EAST BROADCASTING NETWORKS, INC. MBN

BROADCASTING BOARD OF GOVERNORS

Message from the BBG Chairman

On behalf of the Broadcasting Board of Governors (BBG), I am pleased to present the BBG Performance and Accountability Report (PAR) for Fiscal Year (FY) 2013. This is the BBG's tenth PAR, and it includes the results of this year's audit of the Agency's financial statements. The report also measures our performance against the objectives that we identified for FY 2013, highlights the accomplishments of the past year, and identifies the challenges that lie ahead.

The mission of the BBG is to inform, engage, and connect people around the world in support of freedom and democracy. The BBG broadcast services include two federal entities: the Voice of America (VOA) and the Office of Cuba Broadcasting (OCB); and three grantees: Radio Free Europe/Radio Liberty (RFE/RL), Radio Free Asia (RFA), and the Middle East Broadcasting Networks (MBN). Each of these entities pursues this single mission, collectively reaching a record worldwide audience of 206 million people in 61 languages via radio, television, and the Internet. In addition to these five networks, the BBG also oversees the International Broadcasting Bureau (IBB).

The BBG's mission aligns with a central tenet of the National Security Strategy of the United States, as articulated by President Obama: "In all that we do, we will advocate for and advance the basic rights upon which our Nation was founded … Democracy does not merely represent our better angels, it stands in opposition to aggression and injustice, and our support for universal rights is both fundamental to American leadership and a source of our strength in the world."

The BBG upholds the inherent right of people everywhere to receive information through any media without restriction. BBG broadcasters are professional journalists committed to providing accurate, credible, and comprehensive news and information to audiences who lack access to the truth and are therefore susceptible to misinformation.

By exemplifying free media and free expression, the BBG helps foster and sustain free, democratic societies. Those societies have proven to be more peaceful and stable and rarely threaten their neighbors or offer safe havens for terrorists. Nurturing them is thus a national security imperative, consistent with the President's national security policy.

While supporting broad freedom and democracy aims, the work of BBG broadcasters also helps to support specific U.S. foreign policy objectives – for example, reporting on life and death matters in war-torn Syria; countering violent extremist propaganda targeted to youth in Somalia with frank on-air and online discussion of radicalism; combatting censorship in China by tapping into internal viral networks with coverage of taboo subjects including high-level government corruption and Tibet; easing inter-ethnic and inter-religious strife with roundtable discussions that bring diverse parties together to bridge differences and model civic discourse from Burma to the Balkans; and providing a humanitarian lifeline to people in extreme distress due to natural disasters in Haiti and Indonesia and beyond.

Reporting about the United States complements BBG coverage of its target markets and global affairs, and serves the purpose of opening a window onto the American democratic experience as a point of reference for people in countries struggling to establish or consolidate their own free, open, democratic societies. What President John F. Kennedy said to VOA some 50 years ago remains true today: "What we do here in this country, and what we are, what we want to be, represents really a great experiment in the most difficult kind of self-discipline, and that is the organization and maintenance and development of the process of free government. And it is your task … to tell that story around the world."

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

The BBG responded quickly to critical strategic challenges in FY 2013. BBG networks broadcast special programming in response to the war in Syria, democratic transitions in Egypt and Iraq, the rise in Islamist fundamentalism in Mali and northern Nigeria, the political opening in Burma, and unrest and protests in Tibet.

The BBG expanded and improved distribution of programming with new affiliations in Russia, Burma, and Democratic Republic of Congo; 24/7 FM transmitters in Mali, South Sudan, and Chad; and new satellite distribution in China.

BBG programs are reaching their largest audiences ever with 206 million weekly listeners and viewers. During FY 2013, the BBG experienced vast audience gains around the world, particularly in Latin America, Africa, and Asia.

In FY 2013, the BBG continued to fight for the free flow of information around the world. BBG Internet anti-censorship efforts included monitoring Internet censorship in over 70 locations worldwide; countering Internet censorship in 12 countries; deploying mobile applications to secure online communications for users in Iran; and integrating censorship circumvention technologies directly into mobile applications used by BBG broadcasters.

The financial and performance data presented in this report are fundamentally complete and reliable. I am pleased that the independent auditors have given our financial statements an unqualified opinion for the ninth year. I recognize that there are a number of significant items identified by the external audit that will require our continued attention, diligence, and improvement. We are committed to addressing these items and meeting these challenges.

I am proud to report the achievements of the Broadcasting Board of Governors during FY 2013. We strive to wisely and effectively use the resources entrusted to us by the Administration, Congress, and the public to further our mission.

Jeffrey Shell
Chairman

December 16, 2013

BBG FY 2013 Performance and Accountability Report: Contents

Introduction

Purpose of the Performance and Accountability Report

This FY 2013 Performance and Accountability Report (PAR) is the Broadcasting Board of Governors' (BBG) tenth report providing 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:

Federal Managers' Financial Integrity Act of 1982 (FMFIA)
Government Performance and Results Act of 1993 (GPRA)
Government Management Reform Act of 1994 (GMRA)
Reports Consolidation Act of 2000
Accountability of Tax Dollars Act of 2002
Improper Payments Information Act of 2002
Improper Payments Elimination and Recovery Act of 2010
Government Performance and Results Modernization Act of 2010 (GPRAMA)

Structure of the Performance and Accountability Report

The report includes the following sections:

<u>Management's Discussion and Analysis (MD&A)</u>

The MD&A is an overview of the BBG, its organizational structure, and mission. It includes a summary of the Agency's program highlights and accomplishments for FY 2013 and the BBG's management and performance challenges. The MD&A also includes the results of the Agency's FY 2013 FMFIA internal control review and a section on management assurances.

<u>Performance Information</u>

The performance section presents annual program performance information as required by GPRA and GPRAMA and describes the Agency's progress in meeting its operational strategic goals. A summary of the FY 2013 performance objectives is presented, as well as information about the outcome of specific performance indicator targets and a summary explanation of the verification and validation of performance measures used in the report.

<u>Financial Information</u>

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

<u>Other Information</u>

The other information section contains the Inspector General's statement on management and performance challenges along with the BBG's response. It also contains a summary of financial statement, audit, and management assurances and improper payments information.

Section 1: Management's Discussion and Analysis

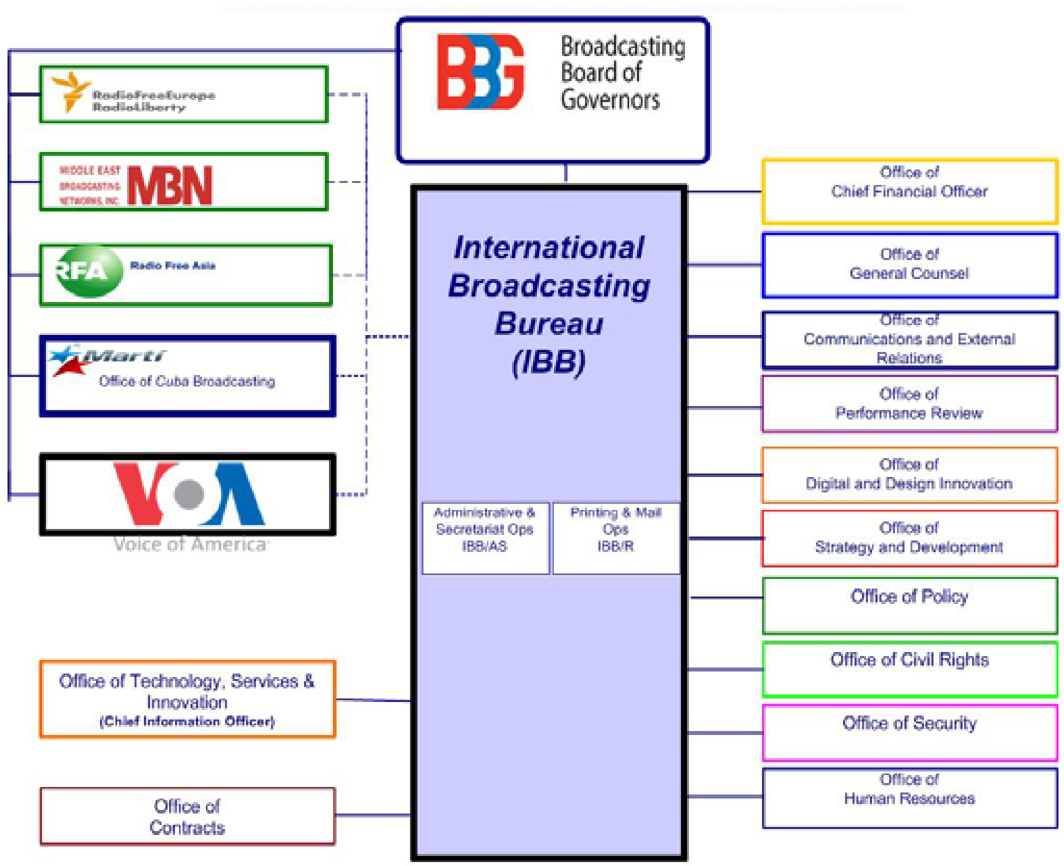
Organizational Structure and Mission

BBG Organization

The Broadcasting Board of Governors (BBG) became an independent federal entity on October 1, 1999, as a result of the 1998 Foreign Affairs Reform and Restructuring Act (Public Law 105-22). The BBG administers civilian international media funded by the U.S. Government in accordance with the U.S. International Broadcasting Act of 1994, as amended. As set forth in the enabling legislation, a bi-partisan, presidentially appointed board serves as head of the Agency. BBG is the name of both the Agency and the Board that governs the Agency. The Board sets the priorities and overall strategic direction of U.S. international media, allocates resources, manages relationships with the other executive branch agencies and Congress, reviews and evaluates the effectiveness of the broadcast language services, and safeguards journalistic integrity. This last function is of key importance to the Board, which has a vital role as a "firewall" between BBG journalists and those who would seek to influence news coverage.

The BBG networks include the Voice of America (VOA), the Office of Cuba Broadcasting (OCB), Radio Free Europe/Radio Liberty (RFE/RL), Radio Free Asia (RFA), and the Middle East Broadcasting Networks (MBN), as well as management and support offices in the International Broadcasting Bureau (IBB).

VOA, OCB, RFE/RL, RFA, and MBN, while under the direction of the BBG, have varied legal and organizational frameworks. VOA and OCB are part of the federal government. RFE/RL, RFA, and MBN are surrogate broadcasters that receive funding from the federal government but are organized and managed as private non-profit corporations.



BBG Mission Statement

To inform, engage, and connect people around the world
in support of freedom and democracy.

BBG Mission

The Broadcasting Board of Governors (BBG) informs, engages, and connects people around the world in support of freedom and democracy through its international media programs. The BBG reaches a worldwide audience of 206 million in check via radio, television, and the Internet. All BBG broadcast services adhere to the standards and principles of the International Broadcasting Act of 1994, as amended, and support the BBG mission.

FY 2013 Performance Goals, Objectives, and Results

In the Strategic Plan covering FY 2012-2016, the BBG has set one strategic goal – to become the world's leading international news agency by 2016, focused on mission and impact. The Agency's key performance goal for the life of the plan is to reach 216 million in global weekly audience by 2016.

In support of these goals, and as a principal measure of their accomplishment, the BBG has set the following performance goals with corresponding indicators and annual targets:

1. Increase global audience reach.
2. Produce high-quality, credible, and relevant content.
3. Ensure effective, strategic program delivery.
4. Achieve substantive impact within the target audiences and societies consistent with a multi-factor measure to be developed over the course of the Plan.

Success requires that BBG programs reach large numbers of people on a regular basis, as measured by the weekly audience reach; that BBG programs are attractive and endorsed as trustworthy to the audience, as measured by program quality and program credibility; and that BBG programs increase audience understanding. All three elements are reported at the entity level, together with other secondary measures, which include the number of transmitters and affiliates, signal strength, satellite effectiveness, and consumable expense (total annual cost of power and parts to operate the transmitters in the BBG global network). With a new global research program in FY 2012, BBG has begun an assertive effort to measure performance using a robust set of new performance indicators, including driving news and discussion agendas in key markets.

Taken together, these indicators provide a comprehensive accounting of the annual performance of the BBG. The resources to achieve these results are also presented in the Statement of Net Cost.

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 the annual Language Service Review and Program Reviews, which ensure BBG priorities are met and performance is meeting the expectations of integrating resources with results.

Highlights of BBG's performance in FY 2013 are presented on the following pages. Full performance results are presented in Section Two.

Performance Highlights

Over the past year, the BBG has effectively distributed breaking news, in-depth reporting and reasoned analysis on traditional and new media platforms, illustrating that international media is the most effective U.S. tool to provide accurate news and information and relevant discussions to those who do not receive this from their own media.

The broadcasts of the BBG entities reach a worldwide audience of over 206 million in 61 languages.

Key accomplishments in FY 2013 include:

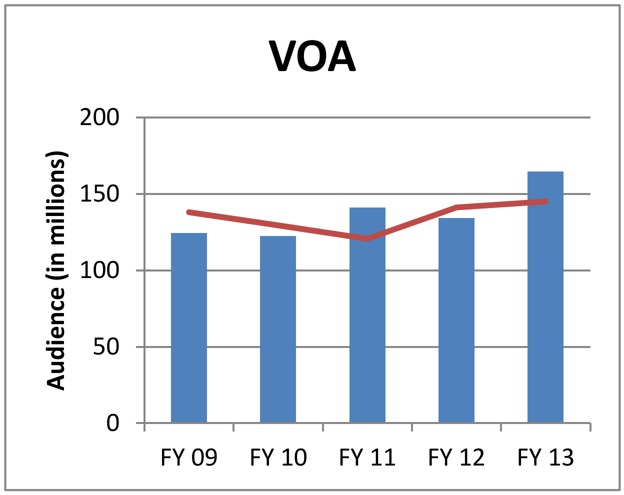
- MBN provided in-depth coverage of the war in Syria and the democratic transitions in Egypt and Iraq.
- RFE/RL launched a morning television program to Iran; together VOA and RFE/RL reach 24 percent of the adult population in Iran.
- RFA and VOA delivered breaking news and exclusive stories and videos from inside China, particularly concerning unrest in Tibet.
- VOA began new programming for audiences in Mali, with news and information in the Bambara and Songhai languages.
- OCB doubled the number of news reports it produces in Cuba, providing audiences with more in-depth local coverage.

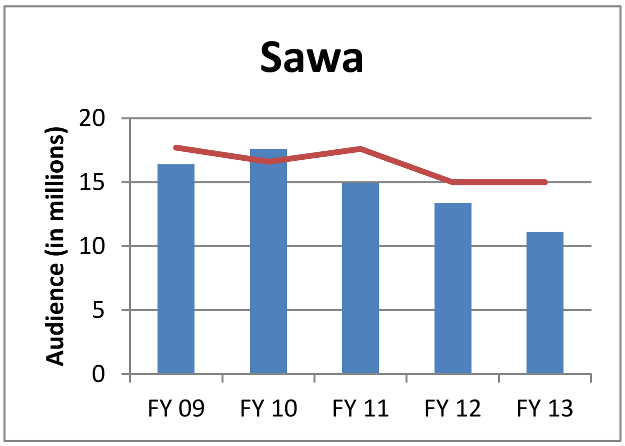
Performance Goal 1: Increase global audience reach

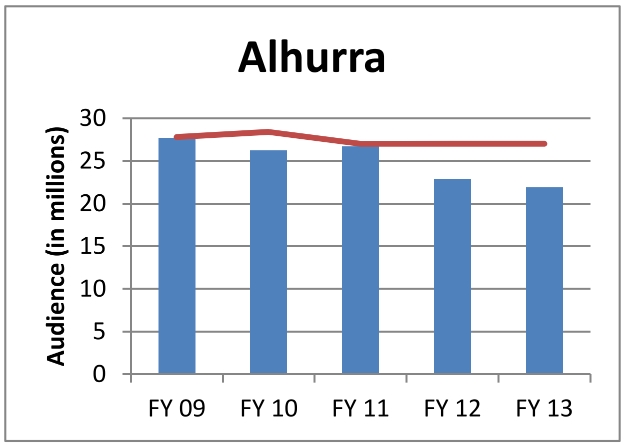
The BBG's primary measure of success is its weekly audience. These charts present weekly audience for BBG broadcasters from FY 2009 to FY 2013, along with the targets set by the Agency.

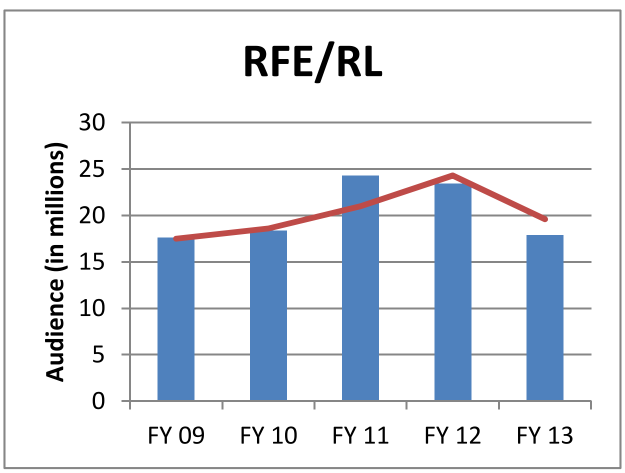
Further discussion of these figures and results for the other performance goals and indicators are presented in Section Two: Performance Information.

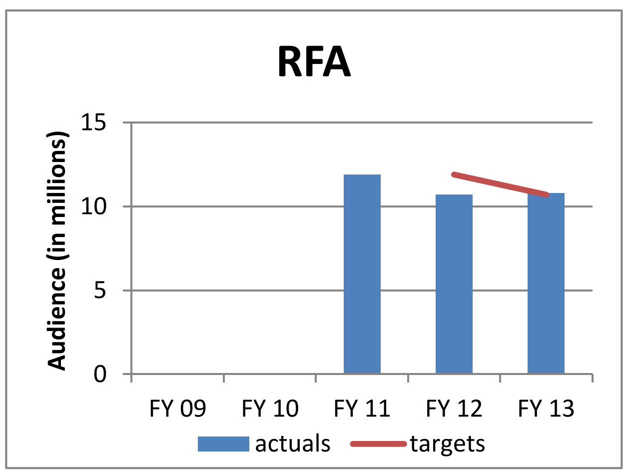
Impact cannot be reduced to a single quantitative factor. With the new global research program launched in FY 2012, the BBG has begun an assertive effort to design a new impact framework, supported by a robust set of new performance indicators.











Ongoing Challenges

Media Environment

Two major factors shape the global political and security context for BBG operations: extreme volatility in global affairs and the need to sustain a global information posture. Extremist rhetoric and incitement to violence directly threaten U.S. national security interests in Afghanistan, the FATA, the Maghreb, the Sahel, Yemen, Somalia, and elsewhere. Al Qaeda and its affiliates incessantly attack core U.S. values of freedom and democracy and respect for human rights as they seek to instill fear and intimidation among local populations. The BBG brands of credible, factual, and locally relevant journalism counters these lies and half-truths and counters violent extremism. In addition, the United States must retain a global information capacity as part of the country's international posture. The BBG must meet the challenges posed by state-sponsored media of other countries whose foreign policy aims are often at odds with ours. The Chinese, Russians, Qataris, and Iranians, among others, are all heavily engaged in global media efforts that cost billions of dollars.

The foremost challenge for the BBG is to deliver programming to audiences via the media and the formats they prefer, despite the instabilities of various broadcast markets. In many cases, the BBG relies on agreements with host country governments to ensure program delivery and access to local radio and TV affiliates. In FY 2013, BBG established new FM transmitters in Misrata, Libya; Bamako, Mali; Juba, South Sudan; and Mehtar Lam and Sharan, Afghanistan. When the political climate or leadership of a country changes, the BBG's ability to continue broadcasting may also change. To reach audiences, the BBG is constantly working to overcome jamming and censorship. The BBG has been at the forefront of the battle against satellite jamming, working closely with other concerned parties and through international forums to fight satellite jamming. As a testament to these efforts, no confirmed jamming of BBG signals occurred during the June 2013 presidential elections in Iran. On behalf of its broadcasters, the BBG's Internet anti-censorship program counteracts activities undertaken by governments such as China and Iran to restrict Internet access, constantly revising and updating its approaches and techniques to thwart Internet censorship. The BBG must be agile to adjust broadcast media in response to changing media climates.

The BBG responds to crises and political changes worldwide with surges in broadcasting. BBG language services add additional broadcast hours and create rich content to effectively and accurately inform people affected by crises and turmoil with very little lead-time and often with no defined end of surge. As regional and localized crises develop, the BBG must respond quickly and decisively depending on available media resources and the nature of the situation. In FY 2013, in response to the surge in Islamist extremism in Mali and Northern Nigeria, VOA launched new Bambara language radio programs and developed new Hausa content for radio and mobile devices.

The geopolitical landscape constantly challenges the BBG to find inventive and dynamic means to achieve its mission. Whether reaching out to populations in crisis, providing a forum for public debate, or engaging the next generation of decision makers, the BBG is continually evaluating its approach and striving to meet the unique challenges that its mission aspires to and that today's global political climate demands.

Infrastructure

The BBG requires powerful and reliable broadcast equipment to fulfill its mission. BBG customers – audiences and affiliate stations around the world – often have a number of choices for where they get their news. To ensure these programs reach target audiences, the BBG must find ways to effectively deliver high quality programs in a format that is preferred by and accessible to the target audience. The BBG must manage a mix of media and technologies from traditional shortwave radio to satellite TV, Internet, and cell phones.

The BBG must carefully manage its transmission infrastructure to maintain a strong presence in critical markets. It is necessary to provide modern and effective transmitting and antenna systems in order to improve signal strength and reliability of broadcasts to vital areas throughout the world. The BBG works to meet this challenge by determining where transmission resources can be best utilized to BBG broadcasts. To make the best use of transmission assets, BBG conducts in-depth analysis to meet the constant challenge of maintaining an effective and cost-effective transmission network.

The rapidly evolving broadcast information technology (IT) market impacts much of the BBG's broadcast and transmission equipment. Different areas of the world depend on different types of broadcast technology, requiring the BBG to maintain a traditional transmission network, while investing in new media technology to support programming efforts such as news delivery via SMS or mobile devices. New infrastructure must be established and maintained along with existing infrastructure, and this maintenance is complicated by the advent of digital technology. While digital technology provides the highest quality production capabilities and increased opportunities for improved efficiencies, digital 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.

Management

While audience preferences and research dictate the strategies of individual language services across the BBG, the Agency must remain flexible and capable of adapting to changes in regional priorities and broadcast strategies. The BBG must continually assess how best to scale and shape operations, including the right mix of language services, to meet the new challenges while enhancing performance.

Unpredictable global events and changing media consumption habits make it challenging to plan the specific next steps the Agency will take. As audience preferences in target broadcast areas have changed, the BBG has transitioned from radio-only broadcasts to multimedia news and information distribution, including television, the Internet, text messaging, and mobile applications. Like surge broadcasts, these changes in distribution availability and audience preferences evolve quickly and require that the BBG be innovative to respond effectively and decisively.

Internally, the quality, competence, and morale of the BBG workforce is critical to mission achievement. As such, the Agency has made the development and motivation of its workforce a key component of its Strategic Plan for meeting future challenges. Issues of Federal employee morale and satisfaction, made apparent in the results of federal employee surveys, are being addressed through a comprehensive Workplace Engagement initiative.

Financial Highlights

The BBG financial statements are included in the Financial Section of this report.

The independent accounting firm, Kearney & Company, conducted our FY 2013 financial statement audit and issued an unqualified opinion on our Principal Financial Statements.

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 and incorporate the application of the standards as prescribed by the Federal Accounting Standards Advisory Board.

Financial Highlights ***(in thousands)***	**2013**	**Restated 2012** (Note 18)
At end of the Year:		
Condensed Balance Sheet Data:		
Fund Balance with Treasury	$ 161,420	$ 168,047
Accounts Receivable	112	135
Advances to Surrogate Broadcasters	45,576	50,012
Property, Plant and Equipment	118,407	126,552
Other	10,982	4,801
Total Assets	$ 336,497	$ 349,547
Accounts Payable and Other	38,815	43,138
Retirement and Payroll	35,665	29,161
Total Liabilities	$ 74,480	$ 72,299
Unexpended Appropriations	$ 162,659	$ 176,831
Cumulative Results of Operations	99,358	100,417
Total Net Position	262,017	277,248
Total Liabilities and Net Position	$ 336,497	$ 349,547
For the Year:		
Condensed Statement of Net Cost Data:		
Total Cost	$ 743,355	$ 750,512
Total Earned Revenue	(3,646)	(1,592)
Total Net Cost of Operations	$ 739,709	$ 748,920

Management Assurances

Federal Managers' Financial Integrity Act (FMFIA)

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 (Public Law 97-255) is designed to provide reasonable assurance that agencies institute management accountability and internal controls that support five objectives:

- programs achieve their intended results;
- resources are effectively used consistent with the Agency's mission;
- programs and resources are properly safeguarded against waste, fraud, and mismanagement;
- reliable and timely information supports decision making; and
- the Agency complies with laws and regulations.

As part of the BBG's commitment to establish and maintain effective and efficient internal controls, management conducts ongoing reviews of internal operational, accounting, financial management, and administrative control systems. The results of these reviews, as well as consideration of audits, evaluations and reviews conducted by the U.S. Government 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 BBG's objectives in its processes for planning, organizing, directing, controlling, and reporting on Agency operations are to ensure effectiveness and efficiency of operations, provide reliable financial reporting, and ensure compliance with applicable laws and regulations.

The program and office directors report annually to the BBG on compliance with the requirements of the FMFIA related to their programs. Reports to the BBG are based on annual internal control reviews that are completed by each entity of the BBG. The management control reviews are based on two components of compliance with the Act: program and administrative compliance and financial management systems compliance. Based on these reports, the IBB Director certifies an annual statement on compliance of the Agency's system of internal controls with the requirements of the FMFIA.

According to the Office of Management and Budget's (OMB) Circular A-123, "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 internal control review process are included in the BBG's internal control review reports.

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 mitigating protection against fraud, waste, abuse, and illegitimate transactions. These standards reflect 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.

Operational Internal Control Review

The FMFIA assessment is conducted at the program and office level of the BBG in accordance with the Office of Management and Budget (OMB) Circular A-123 and best practices in internal control. The program and office directors report annually to the BBG on compliance with internal controls requirements. The review is conducted each year with personnel and managers responsible for managing, monitoring, improving and assessing internal control.

Financial Management Systems and Reporting Internal Control Review

Each year, the Broadcasting Board of Governors receives an independent auditor's report on the internal control and functionality of its financial management systems and platforms. The BBG employs a program to continuously assess, document, and report on internal controls. In addition to safeguarding resources and complying with laws and regulations, the BBG strives to fairly and accurately present financial reports that have a material effect on spending, budgetary, or other financial decisions.

Financial Management Systems Strategies

The BBG upgraded its Momentum financial system to provide increased functionalities and a framework for future enhancements. Performing this upgrade enabled BBG to comply with mandatory Federal Government procurement, accounting, and external reporting changes. These anticipated changes include Treasury's Payment Disbursement Modernization (PAM) and Governmentwide Treasury Account Symbol (GTAS) initiatives, as well as GSA's System for Award Management (SAM) initiative. BBG now has greater processing efficiencies, a solid framework for upcoming requirements, and increased capabilities to remain accurate and accountable.

Improper Payments Program

The Broadcasting Board of Governors (BBG) is dedicated to continuing to strengthen its improper payments program to ensure payments are legitimate, processed correctly and efficiently. The Program utilizes an experienced and trained staff, a financial management system that is designed with control functions to mitigate risk, and an internal analysis of processes and transactions.

The BBG conducts the following steps to comply with the IPIA and OMB Circular A-123 Appendix C, Part 1:

1. Review all programs and activities and identify those that are susceptible to significant improper payments.
2. Obtain a statistically valid estimate of the annual amount of improper payments for those programs that are identified as susceptible to significant improper payments.
3. Implement a plan to reduce erroneous payments.
4. Report estimates of the annual amount of improper payments in programs and activities and progress in reducing them.

Beginning in FY 2013, the BBG implemented predictive modeling and data mining techniques as well. More information on BBG's activities safeguarding against improper payments can be found in Section Four.

BROADCASTING BOARD OF GOVERNORS
UNITED STATES OF AMERICA

FY 2013 STATEMENT OF ASSURANCE

The Broadcasting Board of Governor's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The Broadcasting Board of Governors was unable to conduct its assessment of internal control over programmatic operations in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control* guidelines due to resource constraints. Since the assessment of internal controls was not completed, the Broadcasting Board of Governors cannot provide a conclusive assurance of its internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2013.

In addition, the Broadcasting Board of Governors was unable to conduct its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of OMB Circular A-123 due to resource constraints. Since the assessment of the effectiveness of internal controls was not completed, the Broadcasting Board of Governors cannot provide a conclusive assurance of its internal control over financial reporting as of June 30, 2013, was operating and that no material weaknesses were found in the design or operation of the internal control over financial reporting.

Our auditors have identified material weaknesses in grants management, property and equipment accountability, and funds management and areas of potential non-compliance with laws and regulations. In addition, OIG identified significant deficiencies during their FISMA audit. We generally concur with the findings, will work collaboratively with OIG on these issues, and plan to resume our internal control assessment program.

Jeffrey Trimble
Deputy Director
International Broadcasting Bureau

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Limitations of 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 the realization that they are for a component of the United States Government, a sovereign entity.

Section 2: Performance Information

Strategic and Performance Goals

The primary strategic goal of the BBG is to become the world's leading international news agency by 2016, focused on the Agency's mission and impact. The principal performance goals for accomplishing the strategic goal are:

1. Increase global audience reach.
2. Produce high-quality, credible, and relevant content.
3. Ensure effective, strategic program delivery.
4. Achieve substantive impact within the target audiences and societies consistent with a multi-factor measure to be developed over the course of the Plan.

Measures and targets for these goals are presented in the following section.

FY 2013 Tactical Steps

The tactical steps of the BBG guide U.S. international media in fulfilling the Agency's primary strategic goal of becoming the world's leading international news agency, focused on the Agency's mission and impact. These tactical steps provide direction to the Agency in making programming and resource decisions, given the challenges that are faced in accomplishing the strategic goal and the BBG mission. The steps are not goals that are measured, but guide the implementation of all BBG measurable performance objectives. The twelve BBG tactical steps are:

#1: Unify the Agency into One Organization, Many Brands

Owing to historical circumstance, the BBG is today a complex amalgam of diverse media properties with different legal and administrative frameworks headed by various full-time senior executives and a board of governors that also has supervisory authority. This structure inhibits effective intra-Agency coordination, clear chains of command, and efficient sharing of news and program content. Back-office redundancy and inefficiency trap resources needed on the front lines of BBG media endeavors. Management and organizational integration is thus a prerequisite to drive innovation and impact. The BBG must break down a stove-piped bureaucracy and shape a robust, unified, international media network. Optimally, all BBG components will share the same legal and administrative framework to maximize operational flexibility and integration. At the same time, the Agency's brand names that still enjoy popularity with audiences and support by key stakeholders will continue. The aim of the reorganization is to strengthen the brands and support their execution with clearer direction and additional resources.

#2: Launch a Global News Network

The BBG is one of the world's largest news-gathering and reporting enterprises with more than 80 language services, 50 overseas news bureaus, 4,000 employees, and 1,500 stringer reporters. Each of the Agency's five media properties generates original reporting every day from and around the world's hotspots – the Afghanistan-Pakistan border region, Burma, China, Egypt, Iran, North Korea, Russia, Syria, Yemen, et al – primarily in vernacular languages for target audiences in these areas. Too little of this rich content is translated and shared across the BBG to augment international news coverage for other BBG vernacular services (for example, MBN's Middle East reporting in Arabic for VOA and RFE/RL's Persian-speaking audiences in Iran) or made available to other global audiences in English. Creating a global news network at the BBG will seek to remedy both circumstances by harnessing Agency editorial output for internal sharing and launching a Web-based aggregation platform for external distribution. The public-facing platform will focus on the BBG's original reporting with full attribution to BBG content providers (its aim is to supplement not replace current BBG news sites). Developing efficient, competent translation will be critical to the system overall.

#3: Seize Targeted Growth Opportunities

Despite intensely competitive global media environments, there are significant, targeted opportunities to expand the BBG's reach and impact across the world. Populations in BBG target countries are overwhelmingly young – a challenge but also a chance to connect with a demographic that in the main has never even heard of BBG broadcasters. The BBG's audiences now are 62 percent male and 38 percent female – an imbalance ripe for correcting. Use of satellite TV is spreading, including in repressive societies where the BBG lacks other direct means of delivering programs – pointing to the importance of developing new video products. In some instances, new resources will be needed; in many cases, however, innovation and hard work will be the keys to success. Readjusting thinking and strategies, stopping what is not working and taking a risk on what might work, is critical. Boldness and ambition are requirements to get to the audience goal of 216 million by 2016.

#4: Prioritize Support for Democracy and Countering Pockets of Extremism

A key geopolitical development of the day, and likely to remain so for the duration of the current strategic plan, is the democratic transformation in the Middle East and North Africa and its repercussions for repressive governments across the world. U.S. foreign policy actively supports this movement. Former Secretary of State Clinton noted: "The status quo is broken; the old ways of governing are no longer acceptable; it is time for leaders to lead with accountability, treat their people with dignity, respect their rights, and deliver economic opportunity. And if they will not, then it is time for them to go." The BBG, with a mission to inform, engage, and connect global audiences in support of freedom and democracy, has a critical role to play at this important juncture. BBG broadcasters are active where democracy forces are at work, including Belarus, Burma, Cuba, China, Egypt, Iran, Libya, Yemen, Zimbabwe, and a host of other countries. The BBG must focus on these countries while sustaining and selectively expanding coverage as resources allow. The BBG must also continue to focus on addressing areas beset by violent extremism, which is antithetical to democracy and U.S. national security. In Afghanistan, Pakistan, the Afghanistan-Pakistan border region, Somalia, and other places where Al Qaeda, the Taliban, and their affiliates operate, the BBG's accurate, credible news and information is an antidote to extremist propaganda.

#5: Rationalize Program Delivery

Across the world, commercial, cable and satellite TV, and FM radio stations continue to proliferate. TV remains by far the world's dominant medium for news and entertainment. The Internet continues to grow. Social media usage is increasing exponentially. Ownership of mobile phones has reached near saturation levels in even the poorest countries. It is essential that BBG broadcasters reach audiences on their preferred media platforms. Yet the Agency's distribution methods and means have not strategically tracked the shifts in media use. The BBG must therefore align how it delivers content with how consumers now access it. In the process, the BBG must correct mismatches in resource allocations and redirect funds to support today's most effective distribution systems. This effort is to be research-driven but with close attention to intangibles such as the limitations in knowing in some countries how effective certain distribution methods are. Ultimately, the Agency is platform-agnostic. The BBG seeks to do what works best for the market at hand to get BBG content to as many users as possible.

#6: Combat Internet Censorship and Jamming

For almost 70 years U.S. international media has fought censorship in all its forms. Today, as the global media environment undergoes a dynamic revolution, access to a truly free press is actually in decline. Jamming of radio and TV broadcasts continues in a number of countries. Journalists suffer harassment and violence daily. Media laws often restrict free flows of information, limiting the ability of international news organizations to distribute their content. The Internet in particular is under assault. Freedom House, in its Freedom on the Net 2011 survey, noted: "Cyberattacks, politically motivated censorship, and government control over Internet infrastructures are among the diverse and growing threats to Internet freedom." Reporters without Borders cites China, Cuba, Iran, Saudi Arabia, Syria, Turkmenistan, and another half-dozen countries as "enemies of the Internet." As a national security asset of the United States, as well as a respected news source for 206 million people in more than 100 countries, the Agency upholds the right of citizens everywhere to receive and impart information without restriction. The BBG works on many fronts to make news and information accessible to global audiences with the aim of enabling not only unfettered access to BBG's own products but also the full spectrum of independent news sources on the Internet.

#7: Elevate and Expand Social Media Innovation

New and powerful web, mobile, and social media tools are enabling increasingly diverse voices to be heard around the world. These tools have made media personal, moving the power from centralized broadcasters to a new class of bloggers, activists, videographers, and a content-generating public. The role of social media in the Arab Spring, for example, has been a wake-up call on the role of media in the lives of global citizens. They are using media not only to tell their stories on a digital world stage but also to connect with one another to chart the future of their communities and build new forms of civil society. Social media are also changing the way news is gathered and distributed, requiring news organizations to adopt new work flows that allow them to use multiple platforms to deliver content to a global audience. The BBG must aggressively pursue an innovation agenda that develops the next generation of content, tools, and distribution platforms.

#8: Employ Leading-Edge Communication Techniques and Technologies

Congress stipulates that BBG programs "be designed so as to effectively reach a significant audience" – a very different challenge today than a decade ago. Over the coming years, audiences increasingly will be splintered by new competition as local media markets mature. Additionally, audiences will segment as they migrate from traditional means of international broadcast distribution, such as shortwave, to FM, television, satellite, mobile phones, and new media. The BBG must stay on the cutting edge of emerging technologies. The BBG's diverse audiences have different information needs and different media consumption habits. The BBG must therefore avoid a one-size-fits-all approach, and resist the assumption that the audience will come on their own. Instead, BBG broadcasters must go to them, with the content they want on the platforms they prefer. The aim is to expand audience reach while preserving the core mission of disseminating factual news and information.

#9: Engage the World in Conversation about America

Representing American society and presenting and discussing U.S. policy are legislated mandates for the Agency. Carrying them out requires sensitivity and creativity. Currents of anti-Americanism still run strong in some parts of the world, necessitating deft outreach that stresses dialogue not monologue. The way people interact with media today, with emphasis on interaction, further affirms this approach. At the same time, America's still dominant role on the global stage makes the country a focal point of international attention, and tens of millions of people around the world seek to learn American English.

Thus, obstacles to engaging overseas audience are balanced by certain competitive advantages. VOA, in particular, is uniquely mandated and positioned to leverage these advantages to connect with diverse international audiences.

#10: Nurture a Dynamic, Dedicated Workforce

The BBG's diverse, multi-cultural, and multi-talented workforce offers a rich range of experience and expertise to carry out the Agency's mission. Key to success in a rapidly changing, highly competitive global media environment is flexibility to develop innovative products for target countries consistent with emerging priorities, programming formats, and advances in technology. Enhanced skill sets are required to program for and transmit via multiple media platforms – radio, TV, Internet, mobile, and though social media. BBG employees are most effective when they are well motivated, trained, and led by dynamic leaders. While measures of employee satisfaction on the federal side of the Agency show signs of improvement, continued efforts to equip and energize the entire BBG workforce are critical to confront mounting competitive pressures worldwide.

#11: Spur Development through Targeted Media Initiatives and Training

Professional, independent media, in addition to fostering freedom and democracy, nurture development – as the World Bank and other institutions increasingly acknowledge. As one of the world's largest international media organizations, operating in mostly under-developed countries with restricted media, the BBG is an invaluable U.S. asset for advancing development on two main fronts: (1) human development through programming on health, education, science and technology, entrepreneurship, English learning, and other subjects; and (2) development of professional journalism and independent media through serving as an example, training of local journalists and media operators, and standing up media initiatives. Providing people with information that improves their everyday lives is a mission imperative, and also serves to extend the BBG's reach and impact. Journalism training is a congressional mandate for the BBG. For years the BBG has partnered with other government agencies and non-governmental organizations on mutually beneficial development projects, ranging from a single program series on HIV/AIDS to entire language services for crisis areas (e.g., Somalia) to workshops on reporting skills. The BBG has always retained editorial control (a fixed requirement) over its content. Outside support brings energy, ideas, and resources to enable mission-critical activity that the BBG might otherwise not be able to undertake. Enlarging collaboration with sister federal agencies, foundations, universities, and private corporations in carrying out development initiatives is a key strategic opportunity.

#12: Sharpen Understanding of Impact through State-of-the-Art Research

Gauging impact is critical to broadcasters, management, and stakeholders alike for strategic and budgetary purposes. Agreed-upon definitions of impact have been elusive. Audience size is a factor, but impact cannot be reduced to this or any other single variable. A new global research program incorporates an enhanced effort to better define and measure the impact of Agency media. This will drive fulfillment of three key requirements: (1) to measure as accurately as possible the performance of BBG programs and brands and to report the results clearly and confidently to Congress, the Administration, and the American public; (2) to provide the operational elements of the Agency with business intelligence that will lead to improved strategies at the program level; and (3) to understand the effect of the BBG's work on the target audiences, media markets, and societies.

FY 2013 Performance Objectives and Outcomes

The BBG Agency-level performance objectives and measures are further supported and linked to language service and support service performance plans that have action steps and detailed performance goals and measures. Listed below are the BBG annual performance objectives, including key initiatives supported by the FY 2012 and 2013 enhancements, with summaries of the current status. Most of the proposed enhancements were not funded in FY 2013. Detailed accomplishments by regional performance objectives are also presented in the accomplishments table in the following pages.

A. Reach the Arabic speaking world.

- Launch new programming to directly engage with the Egyptian people on social and political issues emerging in the wake of the revolution.
  Although appropriated resources did not support the launch of targeted information programming for Egypt, MBN provided extensive coverage of the democratic transition in Egypt.

- Integrate Radio Free Iraq into MBN's Radio Sawa to reduce duplication.
  Due to the continuing resolution, the transfer of Radio Free Iraq to MBN did not occur in FY 2013, but is planned for FY 2014.

B. Expand audience reach in strategic locations in the Near East, South, Central Asia and Eurasia

- Reach younger audiences in Central Asia and the Caucasus, through Russian-language satellite TV and mobile applications.
  Although appropriated resources did not support the launch of satellite television for Central Asia and the Caucasus, RFE/RL continues to serve these audiences through vernacular and Russian-language programming.

- Meet audience media preferences by shifting to TV-centered delivery in Kurdish and Georgian.
  Due to the continuing resolution, BBG continues to serve Kurdish and Georgian audiences on both radio and television and re-proposed some of these changes in the FY 2014 Budget.

- Reduce duplication between VOA and RFE/RL and increase coordination in countries where both entities broadcast.
  VOA and RFE/RL regularly coordinate in areas served by both networks, sharing bureaus, stringers, and audio and video content. RFE/RL produces a one-hour televised morning show, which is placed on VOA's Persian News Network.

C. Focus broadcasting to audiences of strategic priority in East Asia.

- Reduce duplication between VOA and RFA and increase coordination in countries where both entities broadcast.
  VOA and RFA cooperate in countries where feasible, including sharing studio space in Dharamsala, India. VOA and RFA are seeking long-term opportunities to co-locate overseas operations where possible, including in Cambodia, South Korea, and Burma.

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

- Increase engagement with African audiences through reporting on local news and other relevant issues, including health, business, and technology.
  VOA expanded its engagement in sub-Saharan Africa with new Bambara language programming in Mali, new weekend programming in Hausa, and new FM transmitters in Mali, South Sudan, and Chad.

E. Expand audience reach in strategic locations of Latin America.

- Integrate VOA Spanish and OCB program outputs to create a more efficient, collaborative organization.
  OCB and VOA Spanish work cooperatively, sharing space and technical services, exchanging story information, and airing each other's programs where appropriate.

F. Align essential support functions with broadcasting implementation strategies and performance goals.

- Expand reach and impact of BBG social media products through real-time/near-time translation and new analytics tools.
  Although appropriated resources did not support the addition of real-time translation tools, the Office of Digital and Design Innovation enhanced web analytics and is developing a social media metrics dashboard for BBG services.

- Increase reach among targeted audiences around the world with high-quality, original reporting and features from across BBG entities through global news-sharing network.
  BBG entities have established a news sharing system for exchanging content, including original stories and exclusive interviews. An aggregation dashboard and site was developed to leverage these assets across the entire broadcast network.

- Realign BBG transmissions to maximize the effectiveness of program delivery resources.
  During FY 2013, BBG took steps to reduce less effective legacy distribution systems, such as shortwave transmission, toward use of more modern technologies, where appropriate, to reach growing and younger audience. The FY 2014 Budget proposed additional steps toward this end.

- Upgrade VOA's digital media management and infrastructure and support VOA new media programming.
  The Office of Technology, Services, and Innovation (TSI) completed VOA's migration to the DaletPlus platform, providing users with a fully digital ingest, production, playback, and archiving solution for video production.

- Increase awareness of BBG programs in high priority markets through advertising and promotion.
  The BBG, through the Office of Strategy and Development, ensured that advertising and promotion resources were aligned with high priority markets.

- Use research to identify appropriate target audiences and their preferred media, with the formats and content that would appeal to them.
  Comprehensive audience research and analysis was available to BBG language services and managers for planning and measuring performance.

- Maintain the firewall and continuously monitor programming quality in line with modern broadcast journalism principles through annual performance reviews of all broadcast services.
  Annual program reviews were conducted by each broadcast entity with all but one rated broadcasting services receiving "good or better" program quality scores. No firewall violations were reported.

- Support initiatives to improve financial, performance, and budget integration as well as improve financial and acquisition processes.
  BBG continues to improve integration of financial and procurement management.

- Carry out BBG's mission and goals with a workforce that is agile, skilled, diverse, well-led, and motivated.
  IBB spearheaded an effort to improve workplace engagement at the BBG, launching a multiyear effort to change the Agency culture by developing an action plan to improve communication, transparency, accountability and fairness.

Summary of FY 2013 Performance Accomplishments

The following are highlighted accomplishments in each of the performance objectives during FY 2013.

FY 2013 Performance Objectives	FY 2013 Accomplishments
A. Reach the Arabic speaking world. Weekly Audience: 30.1 million  ***Alhurra reports on Egyptian political developments from Tahrir Square***  ***Alhurra interview with Yemeni Minister of Social Affairs on International Women's Day***	• MBN provided unique insight into democratic transitions in Egypt and Iraq. From the Constitutional referendum to the unseating of President Morsi, Alhurra and Radio Sawa provided wall-to-wall coverage through balanced news and objective current affairs shows. Alhurra-Iraq and Radio Sawa provided extensive coverage of the Iraqi provincial elections held in April 2013, the first elections held after the American troop withdrawal. • Despite the significant obstacles to newsgathering inherent in reporting from a war zone, MBN has ensured balanced, responsible coverage of events surrounding the war in Syria in its daily newscasts and talk shows. Beyond the headlines of ballooning death tolls and graphic video of destruction, MBN created a website that focuses on six individual Syrians to provide context for the ongoing conflict through first-person stories. These Syrians blog about the challenges and triumphs of living in and watching their homeland be torn apart on a new website, *SyriaStories.com*. • MBN launched new mobile websites for Alhurra and Radio Sawa. The new sites are more accessible and make information easier to share among mobile users. Alhurra marked another significant digital milestone when in June 2013 its Facebook page surpassed 2.5 million "likes." • One of the most popular entertainment/news channels in Egypt, Al Hayat-1, began prime time broadcasting of Alhurra's critically acclaimed *Rayheen ala Feen*? (Arabic for "Where are we going?") in February. The MBN program follows the lives of five young Egyptians as they adjust to a post-revolution Egypt. The series premiered on Alhurra in September 2012 and its rebroadcast on Al Hayat exposes millions of additional Egyptian viewers to Alhurra's high quality programming.

FY 2013 Performance Objectives	FY 2013 Accomplishments
B. Expand audience reach in strategic locations in the Near East, South, Central Asia and Eurasia. Weekly Audience: 49.5 million  ***Fans of Radio Deewa's children's programming thank VOA***  ***RFE/RL liveblogging the elections in Armenia***	• BBG achieved success with a multi-platform, multi-network model in Iran. According to a recent Gallup survey, VOA television programs to Iran are watched by more than 20 percent of the adult population, making VOA Persian one of the most popular international broadcasters in the country. Programs are available on direct-to-home satellite television, as well as online and on mobile phones, 24 hours a day. A recent program collaboration was the December 2012 launch of RFE/RL's first TV program, *Breakfast with News*, a daily 60-minute news and information program on VOA's and Radio Farda's satellite channels. • VOA's Urdu Service employed a new approach in Pakistan in the past year in an effort to reach new and younger audiences. VOA Urdu places fast-paced television programs that provide insight into American values and daily life on competitive cable networks that appeal to Pakistani youth and women. The Service diversified its product set and delivery platforms, resulting in a doubling of its television audience. By telling the stories of Americans and Pakistanis, the Urdu Service has garnered an audience of 7.3 million in Pakistan. • In 2013 RFE/RL's Russian Service provided exclusive live video coverage of opposition leader Aleksei Navalny's trial and verdict. RFE/RL's Russian Service was the only source of live video coverage from Kirov, the site of the trial. More than a dozen other RFE/RL and VOA language services used the live feed on their websites, expanding the audience for the exclusive coverage. VOA's approach in Russia continues to evolve based on market opportunities, with an emphasis on digital media and TV affiliates. Since 2008, visits to the VOA Russian website have doubled every year. Traffic to the VOA Russian YouTube channel is up, with as many as a million views a month. In the past year, VOA also partnered with domestic television channels, including Dozhd TV, a popular independent media outlet in Russia, and the Russian Business Channel.

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<tr><th>FY 2013
Performance Objectives</th><th>FY 2013
Accomplishments</th></tr>
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C. Focus broadcasting to audiences of strategic priority in East Asia.

Weekly Audience: 40.0 million

RFA released an iBook on the 1989 Tiananmen unrest and repression

VOA's Vietnamese website attracts millions of visitors each month

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- VOA undertook a major new initiative for Mandarin speakers in the past year, re-formatting and re-branding an existing satellite television channel to target China. Satellite television is the only media distribution path Chinese censors do not block. *VOA Wei Shei* includes two original hours of Mandarin news and information programming daily. Though Beijing takes vigorous steps to block the Internet, VOA Mandarin found new ways to circumvent censors by using Chinese social media sites including Weibo (the Chinese version of Twitter).
- In the spring of 2013, RFA produced an iBook on the 1989 Tiananmen unrest and repression in Mandarin and English. This is one in a series of e-books RFA is publishing which can circumvent censorship, since it can be easily downloaded and shared via email or on thumb drives.
- RFA launched its first-ever inter-service bilingual program in Tibetan and Mandarin entitled *Tibet-China Dialogue*. This bi-weekly show focuses on promoting cross-ethnic understanding between Tibetans and the majority Han people of China. VOA and RFA also provided detailed coverage of the situation on the ground in Tibet. VOA's Tibetan Service produced an acclaimed documentary, *Fire in the Land of Snow: Self-Immolations in Tibet,* examining the wave of self-immolations that have taken place since 2009. The one-hour documentary was broadcast in Tibetan, Mandarin, Vietnamese, and English on direct-to-home satellite, affiliate stations, VOA websites, and social media.
- RFA realigned resources and operational initiatives in the Burmese, Cambodian, and Lao Services, in an effort to increase localized reporting. This restructuring has allowed RFA Burmese to recruit and train 30 new journalists inside the country, including nine in states and divisions outside of Yangon.
- RFA's Korean Service expanded its coverage of North Korea. It launched a new feature entitled *What's Happening Now in North Korea?,* which explores the wide range of problems within the Hermit Kingdom.
- In early 2013, RFA introduced *The Water Project – An Investigation of Drinking Water in Asia,* an online, multilingual project on the quality and availability of clean drinking water in RFA's target countries.

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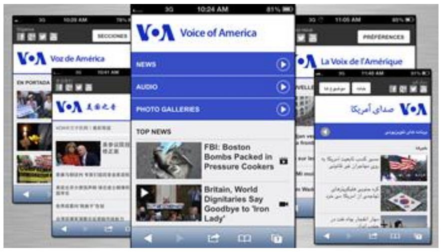
FY 2013 Performance Objectives	FY 2013 Accomplishments
D. Target African broadcasting to areas prone to terror incidents, genocide, or failed states. Weekly Audience: 57.9 million  *VOA's new weekly television program for Somalia*  *VOA Director David Ensor traveled to Bamako, Mali to launch the new FM transmitter*	• In response to the surge in Islamist extremism in Mali and Northern Nigeria, VOA created new Bambara language radio programs and developed new Hausa content for radio and for mobile devices. VOA is the only international news provider to broadcast in Bambara, a language spoken by about half the population in Mali. VOA's Bambara's broadcasts were an immediate hit, with listeners praising VOA's extensive coverage of local news. VOA covered the July elections with reports from polling stations around the country and analysis from studio guests. • In strife-torn northern Nigeria, where the terrorist group Boko Haram has a foothold, VOA added weekend programming and new SMS services in the past year to provide breaking headlines and news updates. Recent research shows that VOA reaches 36 percent of Hausa speakers in the region. VOA Hausa also held a series of town hall meetings, facilitating dialogue among families, local businesses, and government officials on such major challenges as healthcare, unemployment, and religious extremism. • In Somalia, another fragile country where terrorists and criminals have exploited the lack of a strong government, more than half of adults listen to VOA weekly. VOA launched a weekly 15-minute television show featuring mix of U.S., international, and regional news, as well as reports from local journalists in Somalia. VOA partnered this year with Google Ideas in a project to involve Somalis in the drafting of a new constitution. Audiences, including the Somali government, expressed gratitude to VOA for providing citizens with information not otherwise available to them. • The BBG expanded its broadcast reach in Africa by installing FM transmitters in Bamako, Mali, Juba, South Sudan, and N'Djamena, Chad.

FY 2013 Performance Objectives	FY 2013 Accomplishments
E. Expand audience reach in strategic locations in Latin America. Weekly Audience: 28.3 million  ***VOA reached record audiences in Latin America by providing U.S. and global news for affiliate stations***  ***Radio Martí interviewed Berta Soler of the human rights group Ladies in White***	• VOA's Spanish Service to Latin America produced extraordinary results after a major shift in strategy. VOA Spanish now markets itself to Latin American radio and TV stations as the go-to source for news about the United States and major global events. The latest research shows a measured audience of 28 million adults, up from just a few million several years ago. Last year VOA extensively covered the U.S. elections, and this year the Service has closely followed another issue of great interest to Latin Americans, the immigration debate in the United States. Service programming does not only cover the news; it also provides insight into U.S. democracy at work. • OCB has doubled the number of news reports it produces in Cuba, providing audiences with more in-depth local coverage—something that is of maximum interest to Cuban audiences. The Martís have assembled the largest network of independent journalists working inside Cuba. The Martís are now also able to hire Cuban nationals working inside Cuba as television journalists and producers, and OCB has created a small network of Cuban TV journalists working in various parts of the island exclusively for the Martís. • TV Martí increased its original programming, including information and analysis, interviews, documentaries, series, music, and live coverage of news and events, while diversifying content with social, economic, sports and technological topics. TV Martí launched the special programs series "… en sus propias palabras" ("…in their own words") which includes one-on-one interviews with the most important leaders of the dissident movement on the island. • The Martís reach out to nearly one million Cubans each week via email and SMS initiatives, providing news and information that would otherwise not be available to them. In 2013, OCB deployed an SMS-based social network, which allows Cubans to communicate with each other free from government control. OCB grew its social media integration across all platforms to engage in news-gathering and content engagement. OCB continued to use alternative means of distribution for Martí original content across the island, including DVDs and paper flash drives, which are easy to distribute and hard to detect or censor.

FY 2013 Performance Objectives	FY 2013 Accomplishments
F. Align essential support functions with broadcasting implementation strategies and performance goals.  ***Technology, Services, and Innovation Director Andre Mendes showcases Internet censorship circumvention devices***  ***BBG holds digital innovation expo, "Innovating at the Speed of News"***	• In FY 2013, the Internet Anti-Censorship (IAC) team countered Internet censorship in 12 countries and supported 20 BBG language services. The team deployed a mobile application for Android devices incorporating a social news reader, social reporter to accept user-generated content, and real-time chat functionality targeted at users in Iran. Working with TSI's frequency monitoring staff, the IAC team also deployed hardware and software capable of monitoring in-country Internet censorship in over 70 locations worldwide. And, in coordination with the BBG's Office of Digital and Design Innovation (ODDI), the IAC team integrated censorship circumvention technologies directly into mobile applications used by BBG broadcasters. • ODDI launched a series of new digital products and services that expand the capabilities of BBG networks to reach and engage with global audiences. First among those is the launch of new mobile applications in over 43 languages (the largest number of languages in any mobile application in the world) and improvements to the mobile websites that added an additional ten million page views per month to the BBG's total. Other services include award-winning websites built for mobile devices in the Middle East, new syndication relationships that grew the BBG digital audience by over three million and a host of new story-telling tools, including U.S. international media's first interactive tablet book. • The Office of Strategy and Development launched the Strategic Management and Audience Research Tool (SMART), a country-based knowledge management system. The web-based SMART system includes up-to-date information on country strategies, target audiences and their demographics, media habits and preferences, political and media environments, location of local BBG broadcast affiliates and transmitters, as well as links to other publically available information supportive to decision-making, such as various press freedom indices. The system gives broadcasters, managers, and support offices one-stop access to this critical research data and ensures that everyone is working from the same strategy.

FY 2013 Performance Objectives	FY 2013 Accomplishments
 ***New VOA mobile websites offer news in 43 languages***	• IBB spearheaded an effort to improve workplace engagement at the BBG. After collaborating with the Partnership for Public Service, IBB, along with VOA and OCB, launched a multiyear effort to change the Agency culture by developing an action plan to improve communication, transparency, accountability and fairness.

FY 2013 Performance Goals and Results

Performance Goal 1: Increase global audience reach.

	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Target[1]	FY 2013 Actual
Regular Listening/Viewing Audiences: Number of people (**in millions**) in target areas listening or viewing at least weekly by program element.						
VOA	124.5	122.5	141.1	134.2	145.0	164.6
MBN (Radio Sawa)[2]	16.4	17.6	14.9	13.4	15.0	11.1
MBN (Alhurra)[2]	27.7	26.2	26.7	22.9	27.0	21.9
RFE/RL	17.6	18.4	24.3	23.4	19.6	17.9
RFA[3]	NA	NA	11.9	10.7	10.7	10.8
OCB	NA	NA	NA	NA	NA	NA

Indicator:

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 has an adequately designed sample.

Analysis of Results

Regular Listening/Viewing Audience (Overall Weekly Audiences):

- **VOA – Target: 145.0 million Actual: 164.6 million**
  With a weekly audience of 164.6 million, VOA exceeded its FY 2013 target of 145.0 million, experiencing large audience gains in Africa and Latin America.

- **MBN (Radio Sawa) – Target: 15.0 million Actual: 11.1 million**
  Radio Sawa's measured audience decreased in 2013. This drop was due primarily to changes in Iraq, one of Radio Sawa's key markets, where past week radio listening declined significantly for both international and domestic radio broadcasters. Unidentified irregularities in the survey process may partly account for the change in Radio Sawa's reach. The percentage of Iraqis who said they owned radios, for example, plummeted to 47 percent in 2012 from 74 percent in 2011 and 78 percent in 2010, reducing the number of people listening to any station. The sharp decline in radio ownership is highly unusual but difficult to explain.

- **MBN (Alhurra) – Target: 27.0 million Actual: 21.9 million**
  Alhurra's weekly audience declined in 2013 due primarily to significantly lower viewership of regional TV stations, including Alhurra, in Iraq. While audiences for local Iraqi stations remained stable, traditionally popular regional stations Al Jazeera, Al Arabiya, Dubai TV, and BBC TV all saw audience declines of between 28 and 52 percentage points. Some of these

[1] FY 2013 Targets are from the BBG FY 2014 Congressional Budget Request.
[2] MBN figures shown here do not include Afia Darfur, a radio service aimed at the inhabitants of the Darfur region in Sudan. Survey research carried out in Darfur in 2012 indicated that that service had an audience of 1.7 million. If added to the total combined audiences of the other MBN services, Radio Sawa and Alhurra, MBN's total, unduplicated audience comes to 30.0 million.
[3] BBG began reporting audience figures for RFA in FY 2011.

declines may be attributable to Iraqi government threats to shut down several regional stations for sedition around the time the survey was conducted. Respondents may have been reluctant to admit they were watching stations the government was targeting. Alhurra's reach also may be slightly lower in 2012 than in 2011 because the 2012 survey excluded Suleimaniya province due to data irregularities. Other unidentified irregularities in the survey processes may have contributed further to the unusual declines. Iraq has traditionally been a tough environment for survey research and surveys often produce data shifts from year to year that are difficult to explain.

- **RFE/RL – Target: 19.6 million   Actual: 17.9 million**
  RFE/RL's weekly audience declined from 23.4 million in FY 2012 to 17.9 million in FY 2013. The main driver behind the decline in RFE/RL's measured global audience was loss of audience in Afghanistan and Iraq. Changes in methodology and local partners appear to be key drivers of the decline. Data from Iraq were weighted for the first time to improve the representative nature of the national sample. Both research environments are extremely difficult to work in and results have fluctuated significantly from year to. However, media habits are changing rapidly in both countries and additional research will need to be conducted to confirm the validity of the findings. In Afghanistan, television ownership is growing quickly and most Afghans no longer listen as intensely to the radio as they did in the past.

- **RFA – Target: 10.7 million   Actual: 10.8 million**
  With a weekly audience of 10.8 million, RFA exceeded its FY 2013 target of 10.7 million.

- **OCB (Radio and TV Martí) – Target: NA   Actual: NA**
  National estimates of audience reach for OCB in Cuba are not available. Conducting media surveys among probability samples of adults in Cuba has been feasible only via phone, which can reach about 30 percent of adults and remains subject to concerns about underreporting of use of foreign media in a repressive environment. Weekly audiences for Radio and TV Martí measured in such surveys in recent years have consistently been small. In order to gain more detailed and frank information from as many Martí listeners and viewers as possible, BBG commissions surveys and qualitative research among convenience samples of recent Cuban immigrants. These studies – whose results cannot be used to estimate audiences in Cuba – have shown that among these respondents, listening to Radio Martí had been a common experience in their last year on the island, while viewing of TV Martí was relatively rare.

Performance Goal 2: Produce high-quality, credible, and relevant content.

	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Target[1]	FY 2013 Actual
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	100	100	100	100	100	100
MBN (Radio Sawa)	NA	100	NA	NA	100	NA
MBN (Alhurra)	100	NA	NA	NA	100	NA
RFE/RL	100	100	96	100	100	96
RFA	100	100	100	100	100	100
OCB	50	100	100	100	100	100
Program Credibility: Consists of the percent of those listening or viewing at least once a week who consider the station's news and information "very trustworthy/reliable" or "somewhat trustworthy/reliable" in an annual survey.						
VOA[2]	91	94	93	92	95	89
MBN (Radio Sawa)	82	90	92	89	92	85
MBN (Alhurra)	85	86	88	84	90	84
RFE/RL	87	92	93	93	94	92
RFA	95	91	92	92	92	89
OCB	NA	NA	NA	NA	NA	NA
Understanding: Consists of the percent of those listening or viewing at least once a week who say that the broadcasts have "increased their understanding of current events" "somewhat" or "a great deal" in an annual survey.						
VOA	NA	85	88	88	86	90
MBN (Radio Sawa)	NA	70	70	70	75	80
MBN (Alhurra)	NA	69	70	72	75	79
RFE/RL	NA	85	91	91	90	90
RFA	NA	89	83	92	92	97
OCB	NA	NA	NA	NA	NA	NA

Indicators:

Program Quality: This indicator presents the percentage of an entity's language services with programming that 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. Historically, this measure has combined scores of external monitoring panels with the analysis of in-house analysts. With the transition to a new research provider in FY 2012, the BBG is evaluating and restructuring how it conducts external quality analysis. Scores for FY 2012 and 2013 are based exclusively on in-house ratings. Quality scores are 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. The percentage of each entity's reviewed language services that fall within the good, good to excellent, or excellent range is then calculated.

Program Credibility: This indicator is determined by the survey question about trustworthiness of news and information of those sampled respondents who listened to or viewed each station at least once a week. 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 the broadcasts as very or somewhat trustworthy.

[1] FY 2013 Targets are from the BBG FY 2014 Congressional Budget Request.
[2] Prior to FY 2010, VOA program credibility scores cover radio only. For FY 2010 through FY 2013, they include both radio and TV.

Understanding: This indicator is determined by the survey question asking weekly listeners/viewers whether the broadcasts have increased their understanding of current events. The answers are registered on a four-point scale – a great deal, somewhat, very little, or not at all. The understanding indicator measures the percent of those answering the question in the survey (excluding those who did not respond or did not know) who chose a great deal or somewhat.

Analysis of Results

Program Quality:

- **VOA – Target: 100 Actual: 100**
  Program quality ratings continued to be good or excellent for all VOA language services reviewed in FY 2013.

- **MBN (Radio Sawa) – Target: 100 Actual: NA**
  A program quality score was not available for Radio Sawa in FY 2013 because quantitative internal reviews were not conducted.

- **MBN (Alhurra) – Target: 100 Actual: NA**
  A program quality score was not available for Alhurra in FY 2013 because quantitative internal reviews were not conducted.

- **RFE/RL – Target: 100 Actual: 96**
  Program quality ratings continued to be good or excellent for all but one RFE/RL language service in FY 2013. The program quality score for the Kazakh Service declined from 2.7 to 2.6, dropping the Service from the "good" category to the "fair to good" category. The main factor behind the decline was a drop in the score for presentation provided by RFE/RL management. Considering that the program quality score for content has been in the "fair to good" category for two years in a row, more support is being offered to the Kazakh Service to help improve the content and presentation of materials on its websites in Kazakh and Russian. Articles are also regularly translated into English, providing RFE/RL management the opportunity to continually monitor the output of the Kazakh Service.

- **RFA – Target: 100 Actual: 100**
  Program quality ratings continue to be good or excellent for all RFA language services reviewed in FY 2013.

- **OCB – Target: 100 Actual: 100**
  Program quality ratings were good or excellent for all OCB language services reviewed in FY 2013.

Program Credibility:

- **VOA – Target: 95 Actual: 89**
  VOA's program credibility score of 89 percent in FY 2013 did not meet the target of 95 percent. However, VOA continues to hold a high level of credibility among listeners with 89 percent of weekly listeners and viewers rating its programming as very or somewhat trustworthy.

- **MBN (Radio Sawa) – Target: 92   Actual: 85**
  MBN Radio Sawa's program credibility score of 85 percent in FY 2013 did not meet the target of 92 percent. However, Radio Sawa continues to hold a high level of credibility among listeners with 85 percent of weekly listeners rating its programming as very or somewhat trustworthy.

- **MBN (Alhurra) – Target: 90   Actual: 84**
  MBN Alhurra's program credibility score of 84 percent in FY 2013 did not meet the target of 90 percent. However, Alhurra continues to hold a high level of credibility among listeners with 84 percent of weekly viewers rating its programming as very or somewhat trustworthy.

- **RFE/RL – Target: 94   Actual: 92**
  RFE/RL's program credibility score of 92 percent in FY 2013 barely missed the target of 94 percent. However, RFE/RL continues to hold a high level of credibility among listeners with 92 percent of weekly listeners and viewers rating its programming as very or somewhat trustworthy.

- **RFA – Target: 92   Actual: 89**
  RFA's program credibility score of 89 percent in FY 2013 did not meet the target of 92 percent. However, RFA continues to hold a high level of credibility among listeners with 89 percent of weekly listeners rating its programming as very or somewhat trustworthy.

- **OCB – Target: NA   Actual: 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 reliably measured.

Understanding:

- **VOA – Target: 86 Actual: 90**
  VOA's understanding score of 90 percent in FY 2013 exceeded the target of 86 percent.

- **MBN (Radio Sawa) – Target: 75   Actual: 80**
  MBN Radio Sawa's understanding score of 80 percent in FY 2013 exceeded the target of 75 percent.

- **MBN (Alhurra) – Target: 75   Actual: 79**
  MBN Alhurra's understanding score of 79 percent in FY 2013 exceeded the target of 75 percent..

- **RFE/RL – Target: 90   Actual: 90**
  RFE/RL's understanding score of 90 percent in FY 2013 met the target of 90 percent.

- **RFA – Target: 92   Actual: 97**
  RFA's understanding score of 97 percent in FY 2013 exceeded the target of 92 percent.

- **OCB – Target: NA   Actual: NA**
  As previously indicated, the closed nature of Cuban society makes it extraordinarily difficult to conduct surveys or research, and, therefore, understanding cannot be reliably measured.

Performance Goal 3: Ensure effective, strategic program delivery.

	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Target[1]	FY 2013 Actual
Affiliations and Transmitters: The count of affiliated outlets (broadcast, online, and mobile) that retransmit content from BBG networks, and of BBG-owned and -operated local transmitters, TV, FM, and AM.						
VOA – Affiliates	342	360	371	383	390	2,252
RFE/RL – Affiliates	46	62	65	81	85	759
RFA – Affiliates	3	7	7	14	15	29
VOA – Transmitters	33	34	35	39	53	44
MBN (Radio Sawa) – Transmitters	39	40	40	42	53	43
MBN (Alhurra) – Transmitters	5	5	5	5	5	5
RFE/RL – Transmitters	19	20	20	25	28	27
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	2.74	2.80	2.92	2.97	2.90	3.02
Satellite Effectiveness Index: Assesses whether the BBG satellite delivery is keeping pace with global media developments.						
BBG	10.4	10.4	10.9	11.6	14.8	12.8
Transmission Network Consumable Expense: The cost (in millions) of power and parts to operate the IBO transmitter.						
BBG	$34	$35	$35	$32	$27	$28

Indicators:

Affiliations and Transmitters: Affiliates are a primary gatekeeper between the BBG networks and their end users – the audiences that listen, watch, and read their content online, on mobile and by broadcast outlets. Counting the number of affiliates, then, offers a measure of the appeal of the programming to these vital gatekeepers and distributors of the BBG networks' content. As shortwave usage wanes in parts of the world, the importance of affiliations with local medium wave and FM radio and television stations grows. With the growth of digital and mobile technology, there are new forms of affiliations, including online and mobile. In FY 2013, the BBG changed its methodology for counting affiliates. This stemmed, in part, from an upgrade to its affiliate database to promote better communication with affiliates, as well as the growing importance of digital outlets. Where previously only high impact, high quality radio and TV affiliates with signed contracts were tallied, the affiliation indicator now counts all stations or outlets that regularly retransmit content from BBG networks. The transmitter indicator counts IBB owned and operated local transmitters—TV, FM, and medium wave—that carry BBG programming.

Radio Signal Strength Index: This statistic refers exclusively to radio signal monitoring by BBG staff of cross-border shortwave and medium wave signals in or near target areas. Signal strength is an important register of whether the programs are capable of being heard by the target audiences. The BBG 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 media 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.

Satellite Effectiveness Index: This index provides a quantitative measure of the ability of BBG's satellite network to reach the desired population of TV households around the world. The measure accounts for TV population, total satellite network capacity, signal strength, and primetime flexibility. The index considers five criteria: 1) Coverage of the satellite in channel hours; 2) Coverage to small (three meters or less) satellite dish antennas; 3) Time-zone flexibility to ensure prime-time coverage; 4) TV households

[1] FY 2013 Targets are from the BBG FY 2014 Congressional Budget Request.

reached; 5) Ability to feed other satellites as part of the network. The BBG Office of Technology, Services, and Innovation, in cooperation with the Broadcasting Satellite Users' Board, developed this index. The weighted measure of each criterion for each satellite that the BBG uses is combined in a mathematical formula to calculate the final index. This final index reflects the contribution of all of the satellites in the BBG network. The five criteria described above are characteristics of an effective satellite network that contributes to reaching BBG's global TV audiences. Because of the complex interaction among the criteria, annual measures and targets will vary. 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.

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

Analysis of Results

Affiliations and Transmitters:

- **VOA Affiliates – Target: 390 Actual: 2,252**
  Due to the methodology change for counting affiliates described above, VOA's affiliates in FY 2013 cannot meaningfully be compared to the target previously established. Targets for FY 2014 and beyond will be established on this new baseline.

- **RFE/RL Affiliates – Target: 85 Actual: 759**
  Due to the methodology change for counting affiliates described above, RFE/RL's affiliates in FY 2013 cannot meaningfully be compared to the target previously established. Targets for FY 2014 and beyond will be established on this new baseline.

- **RFA Affiliates – Target: 15 Actual: 29**
  Due to the methodology change for counting affiliates described above, RFA's affiliates in FY 2013 cannot meaningfully be compared to the target previously established. Targets for FY 2014 and beyond will be established on this new baseline.

- **VOA Transmitters – Target: 53 Actual: 44**
  The number of VOA Transmitters increased but did not meet the FY 2013 target because of political difficulties in establishing new agreements and overall resource constraints.

- **MBN (Radio Sawa) Transmitters – Target: 53 Actual: 43**
  The number of MBN (Radio Sawa) transmitters increased slightly but did not meet the FY 2013 target because of political difficulties in establishing new agreements and overall resource constraints.

- **MBN (Alhurra) TV Transmitters – Target: 5 Actual: 5**
  Alhurra's number of transmitters remained at 5, as targeted, during FY 2013, and will remain at that level for the foreseeable future.

- **RFE/RL Transmitters – Target: 28 Actual: 27**
  The number of RFE/RL Transmitters increased but did not quite meet the FY 2013 target because of political difficulties in establishing new agreements and overall resource constraints.

Radio Signal Strength Index:

- **BBG – Target: 2.90   Actual: 3.02**
  The Radio Signal Strength Index increased slightly in FY 2013 rather than declining as predicted. This increase resulted from effective re-scheduling of available network assets after transmission requirements were decreased significantly as a result of sequestration. The BBG will strive to keep the index at about the same level in future years as broadcasting requirements are shifted from shortwave to more effective media and as constrained available network capabilities reduce scheduling options.

Satellite Effectiveness Index:

- **BBG – Target: 14.8   Actual: 12.8**
  The Satellite Effectiveness Index did not meet its target in FY 2013 because not as many video channels were added as had been anticipated because of limited resources. It is anticipated that more regular video and high definition video channels can be added in future years while backbone satellite delivery requirements are shifted to more economical terrestrial networks.

Transmission Network Consumable Expense:

- **BBG – Target: $27 million   Actual: $28 million**
  The Transmission Network Consumable Expense declined FY 2013 because of sequestration transmission reductions. It is anticipated that transmission reductions will be continued and increased in FY14 and FY15. However, the turbulent world economy could still produce unanticipated large increases in the fuel and electricity costs as well as in foreign exchange rates in the coming years.

Performance Goal 4: Achieve substantive impact within the target audiences and societies consistent with a multi-factor measure to be developed over the course of the Strategic Plan.

Gauging impact is critical to broadcasters, management, and stakeholders alike for strategic and budgetary purposes. Agreed-upon definitions of impact have been elusive. Audience size is a factor, but impact cannot be reduced to this or any other single variable. A new global research program, which began in FY 2012 with the start of this Strategic Plan, incorporates an enhanced effort to better define and measure the impact of Agency media. This will drive fulfillment of three key requirements: (1) to measure as accurately as possible the performance of our programs and brands and our ability to report the results clearly and confidently to Congress, the Administration, and the American public; (2) to provide the operational elements of the Agency with business intelligence that will lead to improved strategies at the program level; and (3) to understand the effect of our work on the audiences, media markets, and societies we target.

Verification and Validation of Performance Measures

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. The VOA, OCB, RFE/RL, RFA, and MBN audience research for the fiscal years reported was carried out by outside research providers under contract to the BBG, previously InterMedia and currently Gallup. The Broadcasting Satellite Users' Group, a multi-element working group not affiliated with the Office of Technology, Services, and Innovation, calculates the Satellite Effectiveness Index. Entity-wide performance values are computed by the IBB Office of Research and verified by each entity's research director.

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.

Use of Performance Data to Promote Improved Outcomes

The BBG undertakes quantitative, qualitative, evaluative, and ad hoc research projects every year to directly help support decisions on programming and strategy. Since FY 2002, the BBG has used a consolidated contract to procure audience and market research for all BBG broadcast services. The Agency maintains a vast database of audience and market data that consolidates research results. The archive covers some 90 countries and contains socioeconomic and demographic data as well as strategically important information on local media, competition, and audience preferences and needs. The research guides BBG strategic planning at all levels, specifically on-air program development, program reviews, and the Agency's comprehensive annual strategic review of all language services.

Program Review

Each BBG entity conducts yearly reviews of each of its language services and their programming in order to maintain high quality broadcasts and to help the language services progress toward their strategic goals. These reviews are scheduled to include fresh research data and analysis about the media market and audiences in the area that each program targets. Survey data allow both for the development of future strategies in response to media trends, as well as a review of the services' performance across key indicators, such as the size and positive experience of the audience. Program Reviews further analyze the quality of news and information programming by examining a sample of broadcast material, editorial controls and supervision, utilizing monitoring panels, and tracking regular audiences' perceptions of the trustworthiness and reliability of the entity's news and information.

After the Program Review, program quality scores are assigned to the language services. Historically, this measure has combined scores of external monitoring panels with the analysis of in-house analysts. During the transition to a new research provider, the BBG is evaluating and restructuring how it conducts external quality analysis. Scores for FY 2012 and 2013 are based exclusively on in-house ratings. Program review analysts facilitate the development of an action plan with each service and the support elements to improve program quality and/or delivery, and to move the service toward completion of its strategic goals.

Language Service Review

The Annual Language Service Review (LSR) is a Board directed, comprehensive assessment of the languages in which the BBG entities broadcast. The process fulfills the Congressional mandate in the U.S. International Broadcasting Act of 1994 to "review, evaluate, and determine, at least annually, after consultation with the Secretary of State, the addition or deletion of language services." A significant portion of the review is devoted to the careful examination of both qualitative and quantitative research on the impact and performance of programming, audience reach, and media usage and ownership. The priorities and impact identified by the LSR process form the basis for evaluation of proposals for enhancing existing language services or starting new ones in the subsequent budget process.

For the LSR, the BBG compiles research data, trend analyses, and information on key in-country events. With input from its contracted independent research provider, the BBG assembles regional overview data on every broadcast language, including weekly audience reach in the adult population, the languages in which they prefer to listen or watch, awareness of broadcasters, signal quality, program credibility, weekly broadcast hours, staffing, number and type of affiliates, and direct transmission frequencies.

In addition, the BBG, in conjunction with the independent research provider, analyzes other data that shapes priorities, including press freedom, political freedom, civil liberties, economic freedom, and human development indices from non-governmental organizations (e.g., Freedom House, Heritage Foundation/Wall Street Journal, United Nations Development Programme). The inclusion of such data enables the BBG to evaluate changing conditions worldwide.

Independent 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 questions: (1) where the BBG should broadcast and (2) how well BBG is fulfilling the 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, conducted for the individual language services, serve as annual quality control mechanisms based on field research and expert analysis of broadcast output on six criteria. The results of Language Service Reviews and Program Reviews are a significant source of analysis used for addressing and informing the BBG.

The Office of the Inspector General (OIG) provides the BBG and Congress with systematic and independent evaluations of the operations of the BBG, designed to prevent and detect waste, fraud, and abuse, including: whether resources are being used and managed with maximum efficiency; whether financial transactions and accounts are properly conducted, maintained, and reported; whether the administration of activities and operations meets the requirements of applicable laws and regulations; whether internal management controls have been instituted to ensure quality of performance and reduce the likelihood of mismanagement; and whether adequate steps for detection, correction, and prevention have been taken.

OIG inspections also generally review whether policy goals and objectives are being effectively achieved. However, Public Law 103-236 states that the OIG "shall respect the journalistic integrity of all the broadcasters and may not evaluate the philosophical or political perspectives reflected in the content of broadcasts."

The Government Accountability Office (GAO) audits Agency operations to determine whether federal funds are being spent efficiently and effectively, including investigating allegations of illegal and improper activities, reporting on how well government programs and policies are meeting their objectives, and performing policy analyses and outlining options for Congressional consideration. GAO also advises Congress and the heads of executive agencies about ways to make government more efficient, effective, ethical, equitable, and responsive.

The BBG maintains a productive relationship with the OIG and GAO. The BBG works to ensure that the inspections, audits, and reviews produce reports that are based on relevant facts with an understanding of the programs and operations involved. The resulting recommendations assist the Agency in improving administration and management of its programs and operations.

During FY 2013, the OIG issued eleven final reports and one outline for action for BBG; the GAO issued one report about BBG. The Agency will continue to implement and respond to the recommendations of these evaluations.

OIG and GAO reports issued in FY 2013 are summarized below.

OIG Audit of Broadcasting Board of Governors FY 2012 Compliance with Improper Payments Requirements

OIG conducted this second annual audit to assess BBG's FY 2012 compliance with IPIA. OIG found that BBG complied with improper payments requirements. Specifically, BBG had conducted an improper payments risk assessment of its significant programs; implemented a program of internal control to prevent, detect, and recapture improper payments; and reported the required improper payments information in its FY 2012 Performance and Accountability Report (PAR). Based on the actions that BBG took since the 2012 IPIA report, OIG closed the three recommendations the 2012 report.

OIG Audit of the Broadcasting Board of Governors Information Security Program
Through an external audit firm, the OIG conducted the annual evaluation of BBG's Information Security Program, in accordance with the Federal Information Security Management Act of 2002. The audit found that BBG made progress in FY 2012 toward developing its information security program, but significant challenges remain. BBG needs to address several control weaknesses in the areas of security standards and procedures, compliance enforcement authority, user account management controls, reporting of security incidents, security awareness training, completion of plans of action and milestones, management of remote network access, system inventory management process, and system-specific contingency plans. The report contains nine recommendations, all of which the BBG concurred with and is working to implement.

OIG Inspection of the Broadcasting Board of Governors
This inspection focused on the operations of the BBG Board, including its structure, conduct, and relationships with the entities that it oversees. The OIG issued seven formal recommendations dealing with a chief executive officer position, Grantee corporate boards, meeting attendance policies and consent agendas, nondisclosure policies, self-governance guidelines, and travel policies.

OIG Review of the Broadcasting Board of Governors' Operations in Phnom Penh, Cambodia
The OIG found no serious management issues at either the Voice of America (VOA) Khmer Service or the Radio Free Asia (RFA) operation in Cambodia.

OIG Inspection of the International Broadcasting Bureau's Philippines Transmitting Station
The OIG conducted an inspection of the BBG's Philippines Transmitting station and found that it operates efficiently and meets IBB performance standards. The OIG issued two formal recommendations in the areas of property management procedures and cashier operations.

OIG Review of the Broadcasting Board of Governors' Operations in Abuja, Nigeria
In connection with the OIG inspection of Embassy Abuja, a public diplomacy inspector reviewed BBG operations in Nigeria. The report contained no recommendations for the BBG.

OIG Review of the Broadcasting Board of Governors' Operations in Baghdad, Iraq
In connection with the OIG inspection of Embassy Baghdad, an inspector reviewed BBG operations in Iraq, focusing on interviews with RFI and MBN news staff. The report contained no formal recommendations for the BBG.

OIG Review of the Broadcasting Board of Governors' Operations in Kyiv, Ukraine
In connection with the OIG inspection of Embassy Kyiv, an inspector reviewed BBG operations in Ukraine. The report contained no recommendations for the BBG.

OIG Inspection of Voice of America Latin America Division
The OIG conducted an inspection of the Voice of America's Latin America Division, which includes the Spanish Service and the Creole Service, and found that it is functioning well. The OIG issued four formal recommendations in the areas of workload, processes and staffing needs of the radio production unit; relations and coordination with OCB; contract administration procedures; and contracting officer's representative designation.

OIG Inspection of U.S. International Broadcasting to Russia
The OIG conducted on-site inspections of Voice of America and Radio Free Europe/Radio Liberty operations in Washington DC and Moscow. The OIG issues eleven formal recommendations in the areas of strategy, collaboration, executive direction, and administrative procedures including contracting, travel, financial management, time and attendance, and inventory recording.

Compliance Follow-up Review of Inspection of IBB Germany's Transmitting Station
The Office of Inspector General (OIG) conducted a compliance follow-up review of the IBB Germany Transmitting Station and found that the transmitting station had complied overall with the recommendations from the September 2011 inspection report. The OIG team reissued two of the recommendations dealing with information technology operations.

Audit of the Broadcasting Board of Governors Administration and Oversight of Acquisition Functions
The OIG is performing an audit is to determine whether the BBG is in compliance with Federal regulations for conducting selected acquisition functions, including contract oversight. Based on preliminary results of the audit work performed, OIG has identified areas of concern within the Office of Contracts that require immediate attention and issued three recommendations. Areas of concern include noncompliance with Federal Acquisition Regulation, a lack of contract oversight, and Anti-Deficiency Act violations.

GAO Report to Congress on Additional Steps Needed to Address Overlap in International Broadcasting
The report examined the extent to which (1) BBG language services overlap with one another and (2) BBG broadcasts in the same languages as other international broadcasters. GAO recommended that BBG systematically consider in its annual language service reviews (1) the cost and impact of overlap among BBG entities' language services and (2) the activities of other international broadcasters. BBG agreed with GAO's recommendations and is taking initial steps to implement them.

Section 3:
Financial Information

United States Department of State

The Inspector General

December 16, 2013

Board of Governors
Broadcasting Board of Governors
330 Independence Avenue SW, Room 3360
Washington, DC 20237

Dear Members of the Board:

An independent certified public accounting firm, Kearney & Company, P.C., was engaged to audit the consolidated financial statements of the Broadcasting Board of Governors (BBG) as of September 30, 2013, and for the year then ended; to provide a report on internal control over financial reporting; and to report any reportable noncompliance with laws, regulations, contracts, and grant agreements it tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget audit guidance.

In its *Independent Auditor's Report on the Broadcasting Board of Governors 2013 Financial Statements* (AUD-FM-IB-14-14), Kearney & Company found

- the consolidated financial statements present fairly, in all material respects, the financial position of BBG as of September 30, 2013, and its net cost of operations, changes in net position, and budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the United States of America;

- three material weaknesses[1] in internal control over financial reporting; and

- instances of reportable noncompliance with laws, regulations, contracts, and grant agreements tested.

The BBG 2012 consolidated financial statements were audited by a predecessor auditor whose report, dated November 16, 2012, expressed an unqualified opinion on those statements. The predecessor auditor reported on the consolidated financial statements of the prior period before restatement.

[1] A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

As part of Kearney & Company's audit of the 2013 consolidated financial statements, Kearney & Company also audited the adjustments that were applied by BBG to restate its 2012 consolidated financial statements. In Kearney & Company's opinion, such adjustments are appropriate and have been properly applied. Kearney & Company was not engaged to audit the BBG 2012 consolidated financial statements other than with respect to the adjustments and, accordingly, Kearney & Company does not express an opinion or any other form of assurance on the 2012 consolidated financial statements as a whole.

Kearney & Company is responsible for the enclosed auditor's report, which includes the Independent Auditor's Report, the Report on Internal Control Over Financial Reporting, and the Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements, dated December 14, 2013, and the conclusions expressed in the report. The Office of Inspector General (OIG) does not express an opinion on BBG's consolidated financial statements or conclusions on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements.

BBG's comments on the auditor's report are attached to the report.

OIG appreciates the cooperation extended to it and Kearney & Company by BBG managers and staff during this audit.

Sincerely,

Steve A. Linick
Inspector General

Enclosure: As stated.

cc: Leslie Hyland, BBG/CFO

KEARNEY& COMPANY

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INDEPENDENT AUDITOR'S REPORT
AUD-FM-IB-14-14

To the Board of Governors and the Inspector General of the Broadcasting Board of Governors

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Broadcasting Board of Governors (BBG), which comprise the consolidated balance sheet as of September 30, 2013, the related consolidated statements of net cost and changes in net position and the combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements (hereinafter referred to as the "consolidated financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BBG as of September 30, 2013, and its net cost of operations, changes in net position, and budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the consolidated financial statements, in FY 2013, BBG adopted new accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB) – specifically, Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*. In addition, as discussed in Note 1 to the consolidated financial statements, BBG changed its method of reporting actuarial liabilities and benefit plan assets relating to after-employment benefits provided to Foreign Service National overseas staff in FY 2013. Our opinion is not modified with respect to these matters.

Other Matters

FY 2012 Financial Statements Audited by a Predecessor Auditor

BBG's consolidated financial statements as of, and for the year ended, September 30, 2012, were audited by a predecessor auditor whose report, dated November 16, 2012, expressed an unqualified opinion on those consolidated financial statements. The predecessor auditor reported on the prior period consolidated financial statements before restatement.

As part of our audit of the FY 2013 consolidated financial statements, we also audited the adjustments described in Note 18 that were applied to restate the FY 2012 consolidated financial statements. These notes describe the amount of the restatements and the effect on the financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to BBG's FY 2012 consolidated financial statements other than with respect to the adjustments, and accordingly, we do not express an opinion or any other form of assurance on the FY 2012 consolidated financial statements as a whole. Our Report on Internal Control Over Financial Reporting includes a discussion of the significant internal control deficiencies that failed to prevent or detect the misstatements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Deferred Maintenance (hereinafter referred to as "required supplementary information") be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by OMB Circular A-136, *Financial Reporting Requirements*, and FASAB, which consider it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Message from the BBG Chairman, the Performance Information, the Letter from the Chief Financial Officer, the Inspector General's Statement on FY 2012 Management and Performance Challenges, the Agency Response to the Management and Performance Challenges, the Summary of Financial Statement Audit and Management Assurances, and the Improper Payments Information Act Reporting are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02, we have also issued reports, dated December 14, 2013, on our consideration of BBG's internal control over financial reporting and on our tests of BBG's compliance with certain provisions of laws, regulations, contracts, and grant agreements for the year ended September 30, 2013. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards,* and OMB Bulletin No. 14-02, in considering BBG's internal control over financial reporting and compliance.

Kearney & Company

Alexandria, Virginia
December 14, 2013

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Governors and the Inspector General of the Broadcasting Board of Governors

We have audited the consolidated financial statements of the Broadcasting Board of Governors (BBG) as of and for the year ended September 30, 2013, and have issued our report thereon dated December 14, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered BBG's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate under the circumstances for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of BBG's internal control. Accordingly, we do not express an opinion on the effectiveness of BBG's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 14-02. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the following sections, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in BBG's internal control to be material weaknesses.

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Material Weaknesses

I. Grantee Monitoring and Accounting for Grant Advances

BBG has three grantees that it funds through annual grant agreements: Radio Free Europe/Radio Liberty, Radio Free Asia, and Middle East Broadcasting Networks. The grantees are responsible for developing broadcast content (radio and television news programs), which is distributed by BBG. The three grantees annually receive approximately one third of BBG's funding. We identified control deficiencies relating to BBG's management of its grantees that, when combined, constituted a material weakness in internal control. The individual deficiencies we identified are summarized as follows:

- Grantee Monitoring – BBG is responsible for monitoring how its grantees use BBG funds to ensure the grantees adhere to relevant laws and regulations as well as the terms and conditions specified in the grant agreements. BBG's process for overseeing grantee activities and compliance consisted mainly of maintaining a binder for each grantee that contained signed grant agreements, amendments, financial plans, funding requests, payment vouchers, and the monthly financial reports prepared by each grantee. Although, BBG was maintaining binders for each grantee, we noted the following instances where BBG did not sufficiently monitor the three grantees:

    - BBG did not have specific procedures in place for post-award monitoring to ensure grantees were not using Federal awards for unallowable costs.
    - BBG did not obtain and review property listings for all grantees. The property listing obtained from one grantee lacked the necessary information to reconcile to accounting records, and BBG grant officials could not document that follow up had been performed.
    - The FY 2012 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, audit reports for one grantee identified an issue related to unallowable costs. Although BBG was responsible for issuing a management decision on this issue, there was no evidence that BBG officials were aware of this finding.
    - BBG does not have oversight policies and procedures in place to ensure grantees have mandated procurement procedures.
    - BBG's grant terms and conditions state that grantees should provide advance notification of new contracts and leases exceeding certain thresholds for BBG approval. No documentation was provided showing that BBG grant officials obtained this required information from the grantees.
    - There was no evidence that the grantees had requested and been provided with disposition instructions from BBG concerning disposals of property over a certain threshold acquired using Federal funds.
    - There was no evidence of grantee certifications regarding disbarment and suspension.

BBG has developed a handbook to provide guidance to BBG officials about the administration and oversight of grants. Although the handbook specifies monitoring procedures, it does not define specific roles and responsibilities. In addition, staff turnover and the lack of sufficient oversight protocols led to inconsistent execution and documentation of grant monitoring. The lack of effective grantee oversight procedures increases the risk of waste, fraud, and abuse of Federal funds.

- <u>Grant Advances</u> – We found that BBG did not record funds advanced to its grantees in its annual financial statements. Our review of the grantees' financial statements identified significant cash balances provided by BBG that, according to accounting principles, should be reported as advances by the grant-making organization. Instead, BBG recorded an expense as soon as the funds were transferred to the grantees. Because BBG did not have a sufficient process in place to monitor its grantees, BBG officials did not have a complete understanding of grantee operations and financial management practices and were unaware that the grantees had significant unused funds.

  As a result of our findings, BBG requested financial information from the grantees, which should have been easy for the grantees to provide, in order to report the required grant advances in BBG's financial statements. According to BBG officials, the grantees did not provide requested information in a timely manner to facilitate the preparation of BBG's financial statements. Because BBG's grantees were unwilling or unable to provide the requested information, BBG had no alternative but to consider other methods, which were less precise, to estimate the material grant advances. Based on the material misstatement identified during the audit, BBG restated its FY 2012 financial statements.

II. Property, Plant, and Equipment

As of September 30, 2013, BBG reported over $100 million in net property, plant, and equipment (PP&E), which included real and personal property. We identified control deficiencies with BBG's PP&E processes that, when combined, constituted a material weakness in internal control. The individual deficiencies we identified are summarized as follows:

- <u>Recording Transmitting Stations as Assets</u> – BBG facilitates its broadcasting mission by using Government-owned transmitters, physical radio stations, and broadcasting stations strategically located around the world. We found that BBG had 85 FM radio and 5 television transmitting stations worldwide that had not been recorded as PP&E. Instead, BBG had recorded the costs associated with the transmitting stations as expenses. Although BBG had several controls in place to reconcile property inventories and search for unrecorded capital assets, the controls did not identify the unrecorded transmitting stations. The transmitting stations were being tracked outside of BBG's primary property management system. In addition, there was not an effective communication mechanism between the BBG officials that were aware of the costs of the transmitting stations and BBG financial reporting staff. As a result of the lack of controls, PP&E and expenses were materially misstated. BBG recorded an estimated amount for the transmitting stations for its FY 2013 financial statements and restated its FY 2012 financial statements.

- Removing Assets from Service – Agencies are responsible for ensuring that PP&E is appropriately valued and reported in the financial statements. Assets that are no longer providing service to the organization should be written off. We found two transmitting facilities that had ceased operations in 2007 and were permanently out of service. At these two locations, we identified 22 assets included in BBG's financial statements that were impaired, obsolete, or permanently removed from service. BBG did not have an effective process in place to obtain information on assets that had been removed from service and, therefore, PP&E and expenses were misstated.

- Accounting for Leases – BBG leases real property in overseas and domestic locations under varying types of lease agreements. During FY 2013, BBG had more than 80 leases, the majority of which were reported as operating leases. Operating leases allow for the use of an asset, but do not convey ownership rights. Capital leases are leases that transfer substantially all of the benefits and risks of ownership. We reviewed lease agreements to ensure that capital leases were not being inaccurately reported as operating leases. We were unable to determine whether all lease agreements were appropriately recorded because BBG did not maintain information needed to assess the applicability of capital lease criteria. Specifically, BBG did not document the fair market values, economic useful lives, present values of future lease payments, or details on lease purchase options.

  BBG used a manual data call process to obtain information on leases annually. However, the manual data call process was ineffective in obtaining the data needed to assess leases for capitalization in accordance with accounting standards. For instance, the data call request sent to posts each year did not request all of the necessary information. In addition, the data call request was only sent to posts where officials from Headquarters were aware a lease existed. Without an effective process to track and assess leases for capitalization, property and expenses may be misstated on BBG's financial statements.

- Unrecorded Leasehold Improvements – Periodically, BBG funds renovations or improvements to its leased facilities. BBG capitalizes significant improvements to leased facilities that exceed $25,000. We found two renovation projects at leased property that were not included in PP&E as required. Instead, BBG had recorded the costs associated with these projects as expenses because BBG did not have a process in place to ensure that significant leasehold improvements were recorded accurately. As a result PP&E and expenses were misstated.

III. Budgetary Accounting and Funds Control

BBG lacked sufficient reliable funds control over its accounting and business processes to ensure budgetary transactions were properly recorded, monitored, and reported. Our audit identified control deficiencies that, when combined, we considered to be a material weakness. The individual deficiencies we identified are summarized as follows:

- FY 2012 Apportioned Authority – BBG receives funding through annual appropriations, which is apportioned to BBG by OMB. On its statement of budgetary resources (SBR), BBG reports the extent to which resources are obligated or unobligated. For unobligated balances, BBG is required to further distinguish whether the amounts are apportioned or unapportioned. We noted a negative balance of $17 million reported as Apportioned Authority on BBG's FY 2012 SBR, which is an abnormal balance. Upon investigation, BBG management noted that the balance should have been approximately $7 million. BBG officials indicated that the erroneous apportionment balance was due to the method used by BBG's accounting system to post certain collections and year-end closing entries. BBG did not perform effective reviews and comparative analyses of its FY 2012 financial data, which should have detected the error. Without developing and implementing effective routine financial reviews, material errors and anomalies in the financial statements may not be identified and corrected. As a result of this material error, BBG restated its FY 2012 financial statements.

- Timeliness of Obligations – BBG should record an obligation in its financial management system when it enters into an agreement, such as a contract or a purchase order, to purchase goods and services. We identified a number of instances where obligations were not created in a timely manner, such as obligations that were not recorded within 15 days of executing obligating document, obligations that were recorded prior to executing the obligating document, and obligations that were posted subsequent to the receipt of goods and services or the start of the period of performance for a contract. BBG did not have an adequate process in place to ensure that its employees were complying with Federal requirements related to the creation, approval, and timely recording of obligations. Without an effective obligation process, controls to monitor funds and make timely payments may be compromised, which may lead to violations of the Antideficiency Act and the Prompt Payment Act.

- Unliquidated Obligations – Once recorded, obligations remain open until they are fully reduced by disbursements, are deobligated, or until the appropriation funding the obligations is cancelled. Unliquidated obligations (ULO) represent the cumulative amount of orders, contracts, and other binding agreements for which the goods and services ordered have not been received, or the goods and services have been received but payment has not yet been made.

  We identified numerous invalid ULOs. For domestic obligations, BBG had not effectively implemented ULO review procedures. Specifically, BBG officials did not perform timely follow-up with program offices to ensure invalid ULOs were identified and liquidated. For overseas obligations, BBG did not have a process to obtain a population of ULOs or have a standard process to ensure ULOs were periodically reviewed for validity. As a result of the identified errors, BBG had an overstatement of obligations of $16 million. In addition, funds that could have been used for other purposes remained in unneeded obligations.

The material weaknesses described above were not identified by BBG's FY 2013 Federal Managers' Financial Integrity Act assessment.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the following deficiency in BBG's internal control to be a significant deficiency.

Significant Deficiency

I. Information Technology

BBG uses several financial management systems to compile information for financial reporting purposes. BBG's main domestic financial management and accounting system is Momentum, which is provided by an external service provider. The external service provider is responsible for maintaining a number of information technology (IT) controls. However, Momentum is accessed through BBG's general IT support systems. Therefore, IT deficiencies noted in the general systems could potentially impact Momentum as well. For overseas accounting and budget execution, BBG uses the Regional Financial Management System (RFMS) provided by the Department of State (Department). The Department is responsible for maintaining an adequate general and application control environment over this system.

The Office of Inspector General (OIG) annually performs an evaluation of BBG and Department information security program compliance with IT requirements as required by the Federal Information Security Management Act (FISMA).

We evaluated the internal control structure surrounding the general support systems and key financial applications used by BBG. We noted weaknesses and vulnerabilities in BBG's general support systems and several key financial applications maintained by BBG and the Department. We identified a number of weaknesses that, when combined, we considered to be a significant deficiency. The individual deficiencies noted are as follows:

- General Support Systems – Collectively, the control deficiencies noted by OIG in its FY 2013 FISMA report[1] related to BBG's general support systems represented a significant deficiency to enterprise-wide security as defined by OMB guidance. OIG reported that the most significant security deficiencies were related to BBG's risk management framework, continuous monitoring program, and the incident response and reporting program. These control weaknesses impact BBG's general support system, which is used to access the Momentum system.

- Domestic Accounting System Access Controls – As part of our audit, we tested BBG's Momentum system access controls by reviewing whether employees who had separated from BBG during FY 2013 had their access to Momentum revoked. We identified two user accounts belonging to separated employees that showed system logins after the employees' separation dates.

[1] *Audit of the Broadcasting Board of Governors Information Security Program* (AUD-IT-IB-14-02, Oct. 2013).

- Overseas Accounting System Account Monitoring and Separation of Duties – OIG's FY 2013 FISMA report[2] for the Department identified deficiencies with the general support systems at the Department similar to ones identified at BBG. OIG concluded that the issues identified were a significant deficiency to enterprise-wide security. RFMS is hosted on the Department's general support systems.

  We also performed testing on RFMS during the audit of the Department's FY 2013 financial statements and found that the Department did not effectively monitor RFMS for suspicious behavior or malfunctions. For example, the Department did not have an effective process to log and independently monitor changes to the permissions granted to user accounts. In addition, we found deficiencies that impacted the ability of the Department to identify and mitigate problems with RFMS users that had incompatible duties. Specifically, we found that the Department had not defined many RFMS user roles, and we identified RFMS users that had been assigned a combination of roles that potentially allowed users to perform end-user accounting transactions.

In general, we and OIG found that BBG had not implemented effective standards, policies, processes, and procedures over its information security program, including its financial applications. With respect to separated employees with Momentum accounts, we determined that BBG did not have a formal process to communicate employee separations to the Momentum system administrators. For RFMS, because of the deficiencies noted with the IT security program at the Department, BBG needs to implement additional controls to ensure that financial information is being processed accurately and completely by the Department.

Poor controls over IT security can affect the integrity of financial applications, which increases the risk that sensitive financial information could be accessed by unauthorized individuals or that financial transactions could be altered either accidentally or intentionally. IT weaknesses increase the risk that BBG will be unable to accurately report financial data.

During the audit, we noted certain additional matters involving internal control over financial reporting that we will report to BBG management in a separate letter.

BBG's Response to Findings

BBG management has provided its response to our findings in a separate memorandum attached to this report. We did not audit management's response, and accordingly, we express no opinion on it.

[2] *Audit of the Department of State Information Security Program* (AUD-IT-14-03, Nov. 2013).

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Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the effectiveness of BBG's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 14-02, in considering BBG's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
December 14, 2013

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH APPLICABLE PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS

To the Board of Governors and the Inspector General of the Broadcasting Board of Governors

We have audited the consolidated financial statements of the Broadcasting Board of Governors (BBG) as of and for the year ended September 30, 2013, and have issued our report thereon dated December 14, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

Compliance

As part of obtaining reasonable assurance about whether BBG's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material impact on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02 that we determined were applicable. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to BBG. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 14-02 and which are summarized as follows:

- *Federal Grant Regulations.* BBG is responsible for monitoring the use of funds provided to its grantees to ensure the grantees adhere to relevant laws and regulations. As noted in our Report on Internal Control Over Financial Reporting, we identified control deficiencies that resulted in noncompliance with the following Federal grant regulations:
  - OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, sets forth standards for obtaining consistency and uniformity among Federal agencies in the administration of grants to non-profit organizations.
  - OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, establishes principles for determining the costs of grants, contracts and other agreements with non-profit organizations.
  - OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, sets forth standards for obtaining consistency and uniformity

among Federal agencies for the audit of non-profit organizations expending Federal awards.

- *Prompt Payment Act*. This act requires Federal agencies to make payments in a timely manner, pay interest penalties when payments are late, and take discounts only when payments are made within the discount period. BBG did not always make payments within 30 days, as required. Additionally BBG did not always pay interest on payments made after the 30-day requirement or accurately calculate the interest that was paid.

- *Antideficiency Act.* The Antideficiency Act (ADA) prohibits BBG from (1) making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law; (2) involving BBG in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law; and (3) making obligations or expenditures in excess of an apportionment or reapportionment, or in excess of the amount permitted by agency regulations. Several potential ADA violations have been identified at BBG. We found that BBG recorded an obligation related to an annual grant agreement that was in excess of its annual appropriation, which is a potential ADA violation. In addition, we noted a BBG fund with a negative balance. Finally, the Office of Inspector General (OIG) identified two practices that were potential ADA violations related to the use of personal services contracts and contractors without valid contracts in place.

- *Federal Acquisition Regulation.* The Federal Acquisition Regulation (FAR) is the primary guidance for Federal acquisitions of supplies and services using appropriated funds. OIG is currently conducting an audit of BBG's acquisition functions. Based on the preliminary results of the audit, OIG has identified instances of noncompliance with the FAR during pre-solicitation, pre-award, and contract administration phases of the acquisition process, including inadequate performance of full and open competition and price determination.

- *Internal Revenue Service Code.* The Internal Revenue Service (IRS) is the U.S. Government agency responsible for tax collection and tax law enforcement. IRS is assessing how BBG processes payments to certain individuals engaged to support BBG. The IRS has questioned BBG's practice of not withholding Federal employment taxes on compensation to personal service contractors (PSC) and purchase order vendors (POV). The IRS issued a "notice of proposed adjustment" in 2013, concluding that BBG should have treated PSCs and POVs as employees, rather than independent contractors, for tax purposes. BBG is in the process of responding to the IRS review. However, BBG may be liable for employment taxes relating to PSC and POV payments dating back to 2010.

- *Federal Managers' Financial Integrity Act* – The Federal Managers' Financial Integrity Act requires executive branch agencies to establish and maintain effective internal control. The heads of agencies must annually evaluate and report on the effectiveness of the internal control and financial management systems that protect the integrity of

Federal programs. We found that BBG did not complete its annual evaluation in FY 2013.

Except as noted above, our tests of compliance with the provisions of selected laws, regulations, contracts, and grant agreements disclosed no other instances of noncompliance that would be reportable under the standards applicable to financial audits contained in *Government Auditing Standards* and OMB Bulletin No. 14-02.

During the audit, we noted certain additional matters involving compliance that we will report to BBG management in a separate letter.

BBG's Response to Findings

BBG management has provided its response to our findings in a separate memorandum attached to this report. We did not audit management's response, and accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of BBG's compliance. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 14-02, in considering BBG's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
December 14, 2013

BROADCASTING BOARD OF GOVERNORS
UNITED STATES OF AMERICA

December 16, 2013

The Honorable Steve A. Linick
Deputy Inspector General
Office of Inspector General
2201 C Street, N.W.
Washington, DC 20520

Dear Mr. Linick:

The Performance and Accountability Report (PAR) is our principal report to the President, Congress, and the American people on our stewardship of the public funds to which we have been entrusted. The PAR is a key element and essential discipline in disclosing the BBG's financial status and providing transparency and accountability. The PAR provides a comprehensive view of the BBG's financial activities set against the backdrop of the global issues and engagements we face as a small agency working to advance U.S. broadcasting interests abroad.

I am pleased that the BBG has received an unqualified audit opinion for FY 2013. I recognize that there were material weaknesses and significant deficiencies identified during the course of audit that will require continued focus and dedication throughout the agency. We remain committed to corporate governance and continuing to improve our financial management and internal controls. We are dedicated to addressing these items and meeting these challenges.

Our ultimate goal is to support an accountable and efficient financial platform that furthers the BBG's global broadcasting operations and mission as well as provide accurate and high-value financial information for decision-makers. Given the global and complex nature of our operations, there will always be areas of concern and opportunities for improvement. We understand that fact, and I am confident in our resolve as we continue to manage the BBG's finite resources on behalf of America's taxpayers in support of U.S. International Broadcasting.

I want to thank Kearney & Company for their efforts and professionalism in working through the many complex issues associated with the BBG's financial processes.

Sincerely,

Leslie Hyland
Chief Financial Officer

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Broadcasting Board of Governors
Consolidated Balance Sheet
As of September 30, 2013 and 2012
(In Thousands)

	FY 2013	Restated FY2012 (Note 18)
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 161,420	$ 168,047
Accounts Receivable, Net (Note 4)	102	-
Total Intragovernmental	161,522	168,047
Cash and Other Monetary Assets	-	1
Accounts Receivable, Net (Note 4)	10	134
Advances to Surrogate Broadcasters (Note 5)	45,576	50,012
General Property, Plant and Equipment, Net (Note 6)	118,407	126,552
Other (Note 7)	10,982	4,801
Total Assets	$ 336,497	$ 349,547
Liabilities (Note 8):		
Intragovernmental:		
Accounts Payable	$ -	$ -
Accrued FECA Liability (Note 8)	1,689	1,553
Other (Note 11)	1,381	134
Total Intragovernmental	3,070	1,687
Accounts Payable	28,915	26,520
Actuarial FECA Liabilities (Note 8)	7,233	7,117
Accrued Payroll and Benefits	5,435	5,016
Foreign Service Nationals After-Employment Benefits (Note 8)	4,444	6,828
Environmental and Disposal Liabilities (Note 10)	1,061	-
Accrued Annual and Compensatory Leave (Note 8)	16,864	15,475
Contingent Liabilities (Note 8 and 13)	6,288	8,439
Other (Note 11)	1,170	1,217
Total Liabilities	$ 74,480	$ 72,299
Net position:		
Unexpended Appropriations	$ 162,659	$ 176,831
Cumulative Results of Operations	99,358	100,417
Total Net Position	$ 262,017	$ 277,248
Total Liabilities and Net Position	$ 336,497	$ 349,547

The accompanying notes are an integral part of these statements.

Broadcasting Board of Governors
Consolidated Statement of Net Cost
For the Years Ended September 30, 2013 and 2012
(In Thousands)

	FY 2013	Restated FY 2012 (Note 18)
Voice of America		
Gross Costs (Note 14)	$ 370,575	$ 366,457
Less: Earned Revenues	(3,646)	(1,592)
Net Program Costs	$ 366,929	$ 364,865
Office of Cuba Broadcasting (OCB - Radio and TV Marti)		
Gross Costs (Note 14)	$ 45,770	$ 50,787
Less: Earned Revenues	-	-
Net Program Costs	$ 45,770	$ 50,787
Surrogate Broadcasters		
Gross Costs (Note 14)	$ 327,010	$ 333,268
Less: Earned Revenues	-	-
Net Program Costs	$ 327,010	$ 333,268
Total Gross Costs	$ 743,355	$ 750,512
Less: Total Earned Revenues	(3,646)	(1,592)
Net Cost of Operations	$ 739,709	$ 748,920

The accompanying notes are an integral part of these statements.

Broadcasting Board of Governors
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2013 and 2012
(In Thousands)

	All Other Funds FY 2013	Consolidated Total FY 2013	Restated FY 2012 (Note 18)
Cumulative Results of Operations:			
Beginning Balances	$ 100,417	$ 100,417	$ 91,786
Adjustments:			
Correction of Errors	-	-	6,803
Beginning Balance, as Adjusted	100,417	100,417	98,589
Budgetary Financing Sources:			
Other Adjustments	-	-	-
Appropriations Used	719,572	719,572	735,910
Other	36	36	81
Other Financing Sources (Non-Exchange):			
Donated Revenue-Nonfinancial Resources	1	1	12
Imputed Financing	19,063	19,063	14,768
Other	(22)	(22)	(23)
Total Financing Sources	738,650	738,650	750,748
Net Cost of Operations	(739,709)	(739,709)	(748,920)
Net Change	(1,059)	(1,059)	1,828
Cumulative Results Of Operations	**99,358**	**99,358**	**100,417**
Unexpended Appropriations:			
Beginning Balance	176,831	176,831	131,570
Adjustments:			
Correction of Errors	-	-	34,849
Beginning Balance as Adjusted	176,831	176,831	166,419
Budgetary Financing Sources:			
Appropriations Received	751,530	751,530	751,530
Appropriations Transferred In/Out	-	-	290
Other Adjustments	(46,130)	(46,130)	(5,498)
Appropriations Used	(719,572)	(719,572)	(735,910)
Total Budgetary Financing Sources	(14,172)	(14,172)	10,412
Total Unexpended Appropriations	162,659	162,659	176,831
Net Position	$ 262,017	$ 262,017	$ 277,248

The accompanying notes are an integral part of these statements.

Broadcasting Board of Governors
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2013 and 2012
(In Thousands)

	FY 2013	Restated FY 2012 (Note 18)
Budgetary Resources:		
Unobligated balance, brought forward, Oct 1	$ 49,843	$ 50,888
Adjustment to unobligated balance brought forward, Oct 1	(70)	1,021
Unobligated balance brought forward, Oct 1, as adjusted	49,773	51,909
Recoveries of prior year unpaid obligations	7,059	20,250
Other changes in unobligated balance	(8,085)	(5,208)
Unobligated balance from prior year budget authority, net:	48,747	66,951
Appropriations	713,954	752,005
Spending authority from offsetting collections:	8,105	5,416
Total budgetary resources	$ 770,806	$ 824,372
Status of Budgetary Resources:		
Obligations incurred:	$ 724,030	$ 774,529
Unobligated balance, end of year:		
Apportioned	12,514	6,903
Unapportioned	34,262	42,940
Total unobligated balance, end of year	46,776	49,843
Total budgetary resources	$ 770,806	$ 824,372

(continues on next page)

Broadcasting Board of Governors
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2013 and 2012
(In Thousands) (continued)

	FY 2013	Restated FY 2012 (Note 18)
Change in Obligated Balance		
Unpaid Obligations:		
Unpaid obligations brought forward, Oct 1	$ 122,780	$ 118,359
Adjustments to unpaid obligations, start of year		
Obligations incurred	724,030	774,529
Outlays, gross	(716,902)	(749,857)
Recoveries of piror year unpaid obligations	(7,059)	(20,250)
Unpaid obligations, end of year	122,849	122,780
Uncollected payments:		
Uncollected payments, federal sources, brought forward, Oct 1	(1,431)	(7,545)
Change in uncollected payments, federal sources	(2,676)	6,114
Uncollected payments, federal sources, end of year	(4,107)	(1,431)
Memorandum (non-add) entries:		
Obligated balance, start of year	$ 121,349	$ 110,814
Obligated balance, end of year	$ 118,742	$ 121,349
Budget Authority and Outlays, Net:		
Budget authority, gross	$ 722,059	$ 757,421
Actual offsetting collections	(5,429)	(11,530)
Change in uncollected customer payments from federal sources	(2,676)	6,114
Budget Authority, net	$ 713,954	$ 752,005
Outlays, gross	$ 716,902	$ 749,857
Actual offsetting collections	(5,429)	(11,530)
Outlays, net	711,473	738,327
Agency outlays, net	$ 711,473	$ 738,327

The accompaning notes are an integral part of these statements.

Broadcasting Board of Governors
Notes to Principal Financial Statements
For the Years Ended September 30, 2013 and 2012

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 federal agency is composed of four components:

- Broadcasting Board of Governors (the Board),
- International Broadcasting Bureau (IBB),
- Voice of America (VOA),
- Office of Cuba Broadcasting (OCB).

The Board and the IBB do not engage in the development of news content. The Board provides overall governance for the BBG and has authority to make grants to carry out its statutorily defined broadcasting mission. The IBB maintains the global distribution network over which all BBG-funded news and information programming is distributed. The IBB also provides administrative functions which are governed by federal laws and regulations. The VOA and OCB are the components of the agency that develop news content along with three surrogate broadcasters: Radio Free Europe/Radio Liberty (RFE/RL), Radio Free Asia (RFA), and the Middle East Broadcasting Networks (MBN). Every week, 206 million listeners, viewers, and Internet users around the world turn on, tune in, and log on to U.S. international broadcasting programs.

The surrogate broadcasters – RFE/RL, RFA, and MBN – are grantee organizations who receive their sole funding from the BBG and are organized and managed as private, independent, not-for-profit corporations. Further information on these grantees can be found at:

- Radio Free Europe/Radio Liberty – www.rferl.org
- Radio Free Asia – www.rfa.org/english
- Middle East Broadcasting Networks – www.alhurra.com

B. Basis of Presentation and Accounting

These financial statements have been prepared to report the financial position, net cost, changes in net position, and budgetary resources 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) and Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. The GAAP for federal entities are the standards issued by the Federal Accounting Standards Advisory Board (FASAB) which is the designated standard-setting body for the Federal Government.

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

C. 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.

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

D. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) includes several types of funds available to pay current liabilities and finance authorized purchases.

General Funds. These consist of expenditure accounts used to record financial transactions arising from congressional appropriations, as well as receipt accounts.

Trust Funds. These are used for the acceptance and administration of funds contributed from public and private sources and programs.

Other Fund Types. These include miscellaneous receipt accounts, deposit and clearing accounts maintained to track receipts and disbursements awaiting proper classification.

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

E. Accounts Receivable

Accounts receivable consists of amounts owed to the BBG by other federal agencies and the public. Intragovernmental 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.

F. 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 some BBG employees for official travel; salary advances to some BBG employees, often for employees transferring to overseas assignments; miscellaneous prepayments and advances to surrogate broadcasters for future services. Advances to surrogate broadcasters are described further in Note 5.

G. Personnel Compensation and Benefits

Annual, Sick and Other Leave Program. Annual leave and other leave time are accrued when earned, reduced when taken, and adjusted for changes in compensation rates. An unfunded liability is recognized for earned but unused annual leave as these balances will be funded from future appropriations in the year that leave is taken. Sick leave is expensed when taken, and no liability is recognized as employees are not vested in unused sick leave.

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 percent of their salary; the BBG contributes 7 percent. Employees covered under CSRS also contribute 1.45 percent 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 percent of their salary, with the BBG making contributions of 11.29 percent. FERS employees also contribute 6.20 percent to Old Age Survivor and Disability Insurance (OASDI) and 1.45 percent to Medicare insurance. The 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 percent of pay and matches employee contributions up to an additional 4 percent. CSRS-covered employees may make voluntary contributions to the TSP, but without the employer 1 percent contribution or employer-matching contributions. Effective January 1, 2013, pursuant to Public Law 112-96, Section 5001, new employees (as designated in the statute) will pay higher FERS employee contributions (3.1 percent instead of 0.80 percent) with BBG making contributions of 9.60 percent. These employees will be covered under the FERS as Revised Annuity Employees (RAE), FERS-RAE.

Note – FERS used here refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Government retirement plans; CSRS used here includes the Civil Service Retirement System, CSRS Offset, the Foreign Service Retirement and Disability System, and other equivalent Government retirement plans.

Foreign Service employees participate in either the Foreign Service Retirement and Disability System (FSRDS) or the Foreign Service Pension System (FSPS). The FSRDS is the Foreign Service equivalent of CSRS as described in chapter 83 of Title 5, U.S.C. Employees covered under FSRDS contribute 7.25 percent of their salary; the BBG contributes 7.25 percent. Employees covered under FSRDS also contribute 1.45 percent of their salary to Medicare insurance; the BBG makes a matching contribution. The FSPS is the Foreign Service equivalent of the FERS, as described in chapter 84 of Title 5, U.S.C. In general, all Foreign Service eligible participants hired after December 31, 1983, participate in the FSPS. Most employees hired after December 31, 1983, are automatically covered by FSPS and Social Security. Employees hired prior to January 1, 1984, were allowed to join FSPS or remain in FSRDS. Employees participating in FSPS contribute 1.35 percent of their salary, with the BBG making contributions of 20.22 percent. FSPS employees also contribute 6.20 percent to OASDI and 1.45 percent to Medicare insurance. The BBG makes matching contributions to both. A primary feature of FSPS is that it offers a TSP into which the BBG automatically contributes 1 percent of pay and matches employee contributions up to an additional 4 percent. FSRDS-covered employees may make voluntary contributions to the TSP, but without the employer 1 percent contribution or employer-matching contributions. Effective January 1, 2013, pursuant to Public Law 112-96, Section 5001, new employees (as designated in the statute) will pay higher FSPS employee contributions (3.65 percent instead of 1.35 percent) with BBG making contributions of 17.92 percent. These employees will be covered under FSPS as Revised Annuity Employees (RAE), FSPS-RAE. The Department of State manages the FSRDS and FSPS.

Health Insurance. Most of the BBG's 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. Under FEGLI, the BBG contributes the employer's share of the premium, as determined by OPM.

Workers' Compensation. The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. 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.

The FECA liability consists of two components. First is a current liability amount based on actual claims paid by DOL but not yet reimbursed by the BBG. Timing of the BBG's reimbursement to DOL is dependent on appropriated funds made available for this purpose and generally occurs two to three years after actual claims had been paid.

The second FECA component is the actuarial estimate of future benefit payments for death, disability, medical, and miscellaneous costs. 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.

Federal Employees 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 Statements of Federal Financial Accounting Standards (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. The 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.

Foreign Service Nationals (FSN) After-Employment Benefits. The BBG employs approximately 300 FSN employees at 24 overseas posts. Many of these posts offer some type of after-employment benefits that are based on the employment laws and prevailing wage practices in that host country. These benefits include annuity-based defined benefit plans, defined contribution plans, and lump sum voluntary severance and retirement benefits. Descriptions of these after-employment benefits and projected plan benefits are presented in fuller details in Note 9.

H. Contingent Liabilities

Contingencies are accrued in the financial statements for claims where potential losses are probable and the cost is measurable. Cases for which the likelihood of an unfavorable outcome is less than probable but more than remote, the estimated range of loss is disclosed and not accrued.

I. Revenues and Financing Sources
The 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 annual and no-year appropriations; these appropriations may be used, within statutory limits, for operating and capital expenditures.

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

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

J. Net Position
The 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) the 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.

K. Management's Use of Estimates
The preparation of financial statements requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities. Actual results could differ from these estimates.

L. Statement of Net Cost Presentation
Beginning in fiscal year 2013 the BBG changed the presentation of its Statement of Net Cost. Previously, the statement showed five programs: VOA, OCB, MBN, RFA, and RFE/RL. The latter three are BBG's grantees and their associated costs are now presented in aggregate to better reflect the reporting entity of federal and surrogate broadcasting components.

M. Comparative Data
Certain Fiscal Year 2012 amounts have been reclassified to conform to the Fiscal Year 2013 presentation.

N. Change in Accounting Principles
Foreign Service National After Employment Benefits – Beginning in FY 2013, BBG, in consultation with the U.S. Department of State, BBG began accounting for its share of overseas defined benefit after employment plans. The U.S. Department of State has determined that Federal accounting standards do not provide specific or sufficient guidance with regard to the FSN defined benefit plans and other after-employment benefits arrangements established outside of the United States. As provided for in SFFAS No. 34, *The Hierarchy of Generally Accepted Accounting Principles*, other accounting literature, to

include pronouncements by the International Accounting Standards Board (IASB), may be appropriate guidance for establishing GAAP depending upon "its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority." After considering other accounting literature, the Department of State determined that the provisions and guidance contained in International Accounting Standard (IAS) No. 19, *Employee Benefits*, provides a better structure for the reporting of these plans which are established in accordance with local practices in countries overseas. The adoption of IAS No. 19 results in the BBG recognizing a net defined benefit liability in the Consolidated Balance Sheet. The net defined benefit liability is comprised of the present value of the defined benefit obligation less the fair value of plan assets. BBG did not restate its FY 2012 financial statements to reflect FSN defined benefit plans due to insignificance. Note 8 presents information under IAS No. 19 for FY 2013.

Environmental Liability associated with Asbestos Cleanup: FASAB Technical Bulletins (TB) 2006-1, 2009-1, and 2011-2 became effective for fiscal years beginning after September 30, 2012. TB 2006-1 requires the recognition of a liability for the cleanup costs associated with friable and non-friable asbestos containing materials. The environmental liability for asbestos-related cost is reported on the Balance Sheet and on the Statement of Changes in Net Position as an adjustment to cumulative results of operations for prior period adjustments due to changes in accounting principles. The BBG has elected to recognize the estimated total cleanup cost as a liability upon implementation of TB 2006-1 as the majority of the BBG's related PP&E has been in service for a substantial portion of its estimated useful life. See Note 10.

NOTE 2: ENTITY / NON-ENTITY ASSETS

Assets of the BBG include entity assets and non-entity assets. Non-entity assets are currently held by but not available to the BBG. They are restricted by nature and consist of amounts in deposit and miscellaneous receipts held for others. The funds will be forwarded to Treasury or other entities at a future date. The negative Fund Balance with Treasury is mainly from the deposit fund whereby court order relief of retirement claims were processed by the Thrift Savings Plans and such amount is to be reimbursed by the Judgment Fund to the BBG's deposit fund for these pass-through activities. Non-entity assets as of September 30, 2013 and 2012, are summarized as follows:

Entity / Non-Entity Assets *(in thousands)*	**2013**	**Restated 2012**
Intragovernmental		
Fund Balance with Treasury	$ (2,747)	$ (2,680)
Accounts Receivable	6	12
Prepayments for Judgement Fund	3,846	3,829
Total Non-Entity Assets	1,105	1,161
Total Entity Assets	335,392	348,386
Total Assets	**$ 336,497**	**$ 349,547**

NOTE 3: 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, 2013 and 2012, consists of the following:

Fund Balances ***(in thousands)***	**2013**	**2012**
General Funds	$ 158,190	$ 164,181
Trust Funds	7,329	7,011
Other Fund Types	(4,099)	(3,145)
Total	**$ 161,420**	**$ 168,047**

The status of Fund Balance with Treasury as of September 30, 2013 and 2012 consists of the following:

Status of Fund Balance with Treasury ***(in thousands)***	**2013**	**2012**
Unobligated Balance		
Available	$ 21,113	$ 17,561
Unavailable	25,663	32,282
Obligated Balance Not Yet disbursed	118,743	121,349
Non-Budgetary Fund Balance with Treasury	(4,099)	(3,145)
Total	**$ 161,420**	**$ 168,047**

The status of the fund balance may be classified as unobligated available, unobligated unavailable, obligated balance not yet disbursed, and non-budgetary Fund Balance with Treasury. Unobligated available funds, depending on budget authority, are generally available for new obligations in current fiscal year. The unobligated unavailable amounts are those appropriated in prior fiscal years but not available to fund new obligations; however they are available to increase existing prior year obligations. 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.

Canceled funds returned to Treasury as of September 30, 2013 and 2012, totaled $8.1 million and $5.5 million, respectively.

NOTE 4: ACCOUNTS RECEIVABLE, NET

Accounts receivable as of September 30, 2013 and September 30, 2012, are as follows:

Accounts Receivable ***(in thousands)***	**2013**	**2012**
Intragovernmental	$ 102	$ -
Public	19	134
Allowance for Uncollectable Accounts	(9)	-
Total Accounts Receivable, Net	**$ 112**	**$ 134**

NOTE 5: ADVANCES TO SURROGATE BROADCASTERS

The advance to surrogate broadcasters (or grantees) is an amount in which the BBG has disbursed funds but for which goods and services have not been delivered or performed. The grant accrual is based on the grantees' cash balances at year end less an estimated amount of grantees' payables for goods and services received but not yet paid.

Advances to surrogate broadcasters for the years ended September 30, 2013 and 2012 is $45.6 million and $50.0 million, respectively.

NOTE 6: PROPERTY, PLANT, AND EQUIPMENT, NET

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 to expense as incurred unless the expenditure is equal to or greater than $25,000 and the improvement increases the asset's useful life by two years or more.

Depreciation or amortization is computed using the straight-line method over the assets' useful lives ranging from five 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 lease costs approximate commercial lease rates for similar properties.

Property, plant, and equipment consist of property used in operations and consumed over time. The following table summarizes cost and accumulated depreciation/amortization of property, plant, and equipment as of September 30, 2013 and 2012.

PP&E *(in thousands)*			2013			Restated 2012	
Property	**Useful Life**	**Cost**	**Accumulated Depreciation**	**Net Book Value**	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land	N/A	$ 3,848	$ -	$ 3,848	$ 4,046	$ -	$ 4,046
Building	30	23,733	(16,555)	7,178	27,530	(19,927)	7,603
Other Structures	20	7,875	(6,559)	1,316	16,875	(9,584)	7,291
Construction-in-Progress	N/A	1,200	-	1,200	-	-	-
Equipment	6-30	313,180	(214,033)	99,147	338,105	(232,731)	105,374
Vehicles	6	5,946	(4,654)	1,292	5,937	(5,056)	881
Assets under Capital Lease	10	2,040	(2,040)	-	2,040	(2,040)	-
Leasehold Improvements	10	1,800	-	1,800	-	-	-
Software	5	4,747	(2,121)	2,626	2,082	(2,082)	-
Internal Use of Software in Development	N/A	-	-	-	1,357	-	1,357
Total		**$ 364,369**	**$ (245,962)**	**$ 118,407**	**$ 397,972**	**$ (271,420)**	**$ 126,552**

Depreciation and amortization expense for the years ended September 30, 2013 and 2012 is $13.1 million and $12.3 million, respectively.

NOTE 7: OTHER ASSETS

Other assets consist of (a) general PP&E that are no longer in service and are awaiting disposal, retirement or removal from service, and are recorded at estimated net realizable value; and, (b) advances and prepayments to BBG employees for official travel, miscellaneous prepayments, and salary advances to BBG employees transferring to overseas assignments. Other assets consist of the following as of September 30, 2013 and 2012:

Other Assets *(in thousands)*	**2013**	**2012**
Inactive PP&E	$ 5,634	$ 392
Travel/Salary Advance	1,502	580
Prepayments for Judgement Fund	3,846	3,829
Total	**$ 10,982**	**$ 4,801**

NOTE 8: LIABILITIES NOT COVERED / COVERED BY BUDGETARY RESOURCES

The BBG's liabilities are classified as covered or not covered by budgetary resources. Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. They include the annual leave, workers compensation, pensions and other retirement benefits, and certain environmental matters as described in Note 10 – Environmental and Disposal Liability.

Liabilities Covered / Not Covered by Budgetary Resources *(in thousands)*	**2013**	**2012**
Intragovernmental		
Accrued FECA Liability	$ 1,689	$ 1,553
Total Intragovernmental	1,689	1,553
Public		
Actuarial FECA Liability	7,233	7,117
Accrued Annual and Compensatory Leave	16,864	15,475
Contingent Liabilities	6,288	8,439
Foreign Service National After-Employment Benefits	4,444	6,828
Environmental and Disposal Liabilities	1,061	-
Total Liabilities Not Covered by Budgetary Resources	**37,579**	**39,412**
Total Liabilities Covered by Budgetary Resources	**36,901**	**32,887**
Total Liabilities	**74,480**	**72,299**

NOTE 9: FOREIGN SERVICE NATIONALS (FSN) AFTER-EMPLOYMENT BENEFITS

The BBG operates overseas in 24 countries and employs approximately 300 local nationals known as Foreign Service Nationals (FSNs). FSNs do not qualify for any federal civilian benefits, and therefore cannot participate in any of the federal civilian retirement plans. Instead, FSN employees participate in a variety of plans established by the Department of State in each country based upon prevailing wage and compensation practices in the host country, unless the Department of State makes a public interest determination to do otherwise. In general, the BBG follows host country (i.e., local) practices and conventions in compensating FSNs. The end result of this is that compensation for FSNs is often not in accord with what would otherwise be offered or required by statute and regulations for federal civilian employees.

In each country, FSN after-employment benefits are included in the Post's Local Compensation Plan (LCP). The LCP may include defined benefit plans, defined contribution plans, and retirement and voluntary severance lump sum payment plans. These plans are typically in addition to or in lieu of participating in the host country's local social security system. These benefits form an important part of the BBG's total compensation and benefits program that is designed to attract and retain highly skilled and talented FSN employees.

Local Defined Contribution Plans

The BBG has implemented various local arrangements with third party providers for defined contribution plans for the benefit of FSNs. Total contribution to these plans by the BBG in FY 2013 and FY 2012 were $64 thousand and $75 thousand, respectively.

Defined Benefit Plans

The BBG has implemented various arrangements for defined benefit pension plans for the benefit of FSNs in 11 countries. Some of these plans supplement the host country's equivalent to U.S. social security, others do not. While none of these supplemental plans are mandated by the host country, some are substitutes for optional tiers of a host country's social security system. Such arrangements include (but are not limited to) conventional defined benefit plans with assets held in the name of trustees of the plan who engage plan administrators, investment advisors and actuaries, and plans offered by insurance companies at predetermined rates or with annual adjustments to premiums. The BBG deposits funds under various fiduciary-type arrangements, purchases annuities under group insurance contracts or provides reserves to these plans. Benefits under the defined benefit plans are typically based either on years of service and/or the employee's compensation (generally during a fixed number of years immediately before retirement). The range of assumptions that are used for the defined benefit plans reflects the different economic and regulatory environments within the various countries.

The net defined benefit liability is comprised of the present value of the defined benefit obligation less the fair value of plan assets. The change in liability was a decrease of $1,250 thousand in FY 2013.

Retirement and Voluntary Severance Lump Sum Payments

In 11 countries, FSN employees are provided a lump-sum separation payment when they resign, retire, or otherwise separate through no fault of their own. The amount of the payment is generally based on length of service, rate of pay at the time of separation, and the type of separation.

The cost method used for the valuation of the liabilities associated with these plans is the Projected Unit Credit actuarial cost method. The participant's benefit is first determined using both their projected service and salary at the retirement date. The projected benefit is then multiplied by the ratio of current service to projected service at retirement in order to determine an allocated benefit. The Projected Benefit Obligation (PBO) for the entire plan is calculated as the sum of the individual PBO amounts for each active member. Further, this calculation requires certain actuarial assumptions be made, such as voluntary withdraws, assumed retirement age, death and disability, as well as economic assumptions. These are done by the Department of State and its actuaries whose results are provided to the federal agencies for their use. The BBG relies on the actuarial reports to obtain required financial information.

The economic assumptions used for the Retirement and Voluntary Severance Lump Sum Payment Liability as of September 30, 2013 and 2012 are:

Economic Assumptions	2013	2012
Discount Rate	3.66%	4.03%
Rate of Inflation	2.43%	2.46%
Salary Increase	3.55%	2.71%

The total liability reported for the FSN After-employment Benefits as of September 30, 2013 and 2012, respectively, are as follows:

After-Employment Benefits Liability (*in thousands*)	2013	2012
Defined Benefits Plans	$ 920	$ -
Voluntary Severance	1,439	2,973
Supplemental Retirement Lump Sum	2,085	3,855
Total After-Employment Benefits Liability	**$ 4,444**	**$ 6,828**

NOTE 10: ENVIRONMENTAL AND DISPOSAL LIABILITIES

Environmental and disposal liabilities result from hazardous and potentially hazardous materials at current operating locations and abandoned facilities that create a public health or environmental risk. The related cleanup cost to remove or contain or dispose of any hazardous materials or properties is recognized as an environmental and disposal liability until the end of the useful life of the property, plant, and equipment (PP&E) or until the operations at the PP&E locations cease either permanently or temporarily, or until a voluntary remediation approach is adopted.

Federal, state, and local statutes and regulations require environmental cleanup. Some of these statues include the Comprehensive Environmental Response, Compensation, and Liability Act; The Resource Conservation and Recovery Act; as well as State and Local laws.

The BBG recognizes an estimated $215 thousand cleanup cost to remove hazardous materials from a transmitter facility. The estimate is based on recent disposal efforts.

Through an internal survey to comply with SFFAS 5, Accounting for Liabilities of the Federal Government, SFFAS 6, Accounting for Property, Plant and Equipment, FASAB Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-related Cleanup* Costs and Federal Financial Accounting and Auditing (FFAA) Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, the BBG identified offices and building facilities that contained non-friable and friable asbestos. Based on this survey, the BBG recognized an estimated asbestos cleanup liability in the amount of $846 thousand for three of its overseas facilities. This estimate was based on property specific cost and historical cost of asbestos cleanup. BBG also acknowledge probable asbestos at one facility with no reasonable estimate to record a liability. The total environmental liability for BBG in FY 2013 is $1,061 thousand.

NOTE 11: OTHER LIABILITIES

Other liabilities consist of the following as of September 30, 2013 and 2012:

Other Liabilities *(in thousands)*	2013	2012
	Current	Current
Intragovernmental		
Advances and Prepayments	$ 1,381	$ 134
Public		
Deposit and Suspense Liabilities	1,170	1,217
Total Other Liabilities	**$ 2,551**	**$ 1,351**

NOTE 12: OPERATING LEASE LIABILITY

The BBG leases real property in overseas and domestic locations under operating leases that expire in various years. Minimum future lease payments under operating leases having remaining terms in excess of one year as of September 30, 2013 for each of the next 5 years and in aggregate follows:

Operating Leases *(in thousands)*	
Fiscal Year	**Total**
2014	$ 22,867
2015	22,904
2016	21,877
2017	21,582
2018	21,304
2019 and thereafter	4,721
Total Future Lease Payments	**$ 115,255**

NOTE 13: CONTINGENT LIABILITIES

The BBG is a party in various administrative proceedings, legal actions, and tort claims that may ultimately result in settlements or decisions adverse to the Federal Government. These include legal cases that have been settled but not yet paid, and claims where the amount of potential loss is probable and estimable. Most of the cash settlements are expected to be paid out of the Judgment Fund, which is maintained by Treasury, rather than the operating resources of the BBG. No amounts have been accrued in the financial records for claims where the amount of potential loss cannot be estimated or the likelihood of an unfavorable outcome is less than probable. The accrued and potential contingent liabilities as of September 30, 2013 and 2012 are as follows:

Contingent Liabilities *(in thousands)*			
		Estimated Range of Loss	
FY 2013	**Accrued Liabilities**	**Lower End of Range**	**Upper End of Range**
Probable	$ 6,288	$ 6,288	$ 6,288
Reasonably Possible	-	-	27,605

		Estimated Range of Loss	
FY 2012	**Accrued Liabilities**	**Lower End of Range**	**Upper End of Range**
Probable	$ 8,439	$ 8,439	$ 8,439
Reasonably Possible	-	-	27,580

NOTE 14: INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

The following table presents the BBG's earned revenues and associated costs for providing goods and services to federal agencies and the public. Both earned revenues and related costs are allocated across the programs based on factors such as broadcasting hours and transmitting hours. Costs and exchange revenue for the years ended September 30, 2013 and 2012, consist of the following:

Programs *(in thousands)*	**2013**	**Restated 2012**
Voice of America (VOA)		
Intragovernmental Costs	$ 53,307	$ 19,206
Public Costs	317,268	347,251
Total VOA Costs	370,575	366,457
Intragovernmental Earned Revenue	(3,220)	(1,592)
Public Earned Revenue	(426)	-
Total VOA Earned Revenue	(3,646)	(1,592)
Office of Cuba Broadcasting (OCB)		
Intragovernmental Costs	5,233	6,524
Public Costs	40,537	44,263
Total OCB Costs	45,770	50,787
Surrogate Broadcasters		
Intragovernmental Costs	3,954	21,543
Public Costs	323,056	311,725
Total Surrogate Broadcasters Costs	327,010	333,268
Total Intragovernmental Costs	**62,494**	**47,273**
Total Public Costs	**680,861**	**703,239**
Total Intragovernmental Earned Revenue	**(3,220)**	**(1,592)**
Total Public Earned Revenue	**(426)**	**-**
Net Cost of Operations	**$ 739,709**	**$ 748,920**

NOTE 15: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED - DIRECT VS. REIMBURSABLE OBLIGATIONS

The BBG incurs obligations directly in support of its own programs as well as reimbursable obligations in support of other federal agencies' program initiatives. The reimbursable obligations incurred by the BBG support programs of the U.S. Agency for International Development and Department of State.

Direct and reimbursable obligations for the years ended September 30, 2013 and September 30, 2012 are as follows:

Obligation Incurred *(in thousands)*	**2013**	**2012**
Direct Obligations Incurred		
CAT A	$ 473,681	$ 500,179
CAT B	245,003	271,357
Exempt from Apportionment	-	12
Total Direct Obligations Incurred	**718,684**	**771,548**
Reimbursable Obligations Incurred		
CAT A	60	4
CAT B	5,286	2,977
Total Reimbursable Obligations Incurred	**$ 5,346**	**$ 2,981**

NOTE 16: UNDELIVERED ORDERS AT THE END OF THE PERIOD

Budgetary resources obligated for undelivered orders for the years ended September 30, 2013 and September 30, 2012 are $134.3 million and $109.7 million, respectively.

NOTE 17: EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE US GOVERNMENT

A comparison between the FY 2013 Statement of Budgetary Resources and the FY 2013 actual numbers presented in the FY 2015 Budget cannot be performed as the FY 2015 Budget is not yet available. The FY 2015 Budget is expected to be published in February 2014 and will be available from the Government Printing Office.

The BBG reconciled the amounts of the FY 2012 column on the statement of Budgetary Resources (SBR) to the actual amounts for FY 2012 in the 2013 President's Budget for budgetary resources, obligations incurred, distributed offsetting receipts and net outlays as presented below.

For the Fiscal Year Ended September 30, 2012 *(in thousands)*	**Budgetary Resources**	**Obligations Incurred**	**Distributed Offsetting Receipts**	**Net Outlays**
Combined Statement of Budgetary Resources	$ 824,372	$ 774,529	$ -	$ 738,327
Expired Account	43,490	3,471	-	-
Budget of the U.S. Government	**$ 780,882**	**$ 771,058**	**$ -**	**$ 738,327**

NOTE 18: RESTATEMENTS

SFFAS No. 21 requires restatement for correcting material errors. The BBG has determined that a restatement to the FY 2012 financial statement is required due to the following:

(A) FY2012 apportioned unobligated ending balance was understated by $24 million, while the un-apportioned unobligated ending balance was overstated by the same amount on the Combined Statement of Budgetary Resources. This misstatement was due to a posting model correction of carryover funds in the no year funds for which no clean-up of affected transactions was identified and performed until FY2013. The reclassification of the reporting line has no impact to the total unobligated ending balance.

(B) Expenses were overstated by $50 million, and advances to surrogate broadcasters (or grantees) were understated by the same amount. Historically the BBG expensed all payments made to its three grantees, regardless of whether grantees had fully incurred expenditures of their grant funds. There was no true-up or accrual of unspent funds by these grantees at year end on BBG's records until FY2013. This error affected all statements.

(C) The BBG owns approximately 85 FM radio and 5 TV transmitting stations. These capitalized assets were not considered as complete, functional assets; rather, they were treated as individual components such as transmitter, towers which individually did not meet the capitalization threshold. As a result, net PPE was understated by $6.4 million and expenses were overstated by the same amount. This error affected the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

The BBG has restated its FY 2012 Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources and associated footnotes for the effect of the changes. The following is the summary of the line items affected by the restatement of the FY2012 financial statements.

Consolidated Balance Sheet ***(in thousands)***			**As of September 30, 2012**
	As Previously Reported	**Restatement**	**As Restated**
Advances to Surrogate Broadcasters	$ -	$ 50,012	$ 50,012
General Property , Plant and Equipment, Net (note 6)	120,582	5,970	126,552
Asset with the Public			
Other	4,409	392	4,801
Net Position			
Unexpended Appropriations	126,819	50,012	176,831
Cumulative Results of Operations	$ 94,054	$ 6,363	$ 100,417

Consolidated Statement of Net Cost ***(in thousands)***			**As of September 30, 2012**
	As Previously Reported	**Restatement**	**As Restated**
Gross Costs			
Voice of America	$ 366,246	$ 211	$ 366,457
Office of Cuba Broadcasting (OCB-Radio and TV Marti)	50,758	29	50,787
Surrogate Broadcasters	348,231	(14,963)	333,268
Total Gross Cost	$ 765,235	$ (14,723)	$ 750,512

Consolidated Statement of Changes in Net Position ***(in thousands)***			**As of September 30, 2012**
	As Previously Reported	**Restatement**	**As Restated**
Beginning Cumulative Results of Operations, as adjusted	$ 91,786	$ 6,803	$ 98,589
Appropriation Used	751,073	(15,163)	735,910
Total Financing Sources	765,911	(15,163)	750,748
Net Cost of Operations	(763,643)	14,723	(748,920)
Net Change	2,268	(440)	1,828
Cumulative Results of Operations	$ 94,054	$ 6,363	$ 100,417

Combined Statement of Budgetary Resources ***(in thousands)***			**As of September 30, 2012**
Status of Budgetary Resources	**As Previously Reported**	**Restatement**	**As Restated**
Unobligated Balance, End of Year			
Apportioned	$ (17,086)	$ 23,989	$ 6,903
Unapportioned	$ 66,929	$ (23,989)	$ 42,940

NOTE 19: RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

There are inherent differences in timing and recognition between the accrual proprietary accounting method used to calculate net cost and the budgetary accounting method used to report budgetary resources and obligations. The reconciliation of net cost to budgetary resources for the years ended September 30, 2013 and 2012 is as follows:

Broadcasting Board of Governors
Reconciliation of Net Cost of Operations to Budget
For the Years Ending September 30, 2013 and 2012
(In Thousands)

	FY 2013	**Restated FY 2012**
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	724,030	774,529
Less: Spending Authority from Offsetting Collections and Recoveries	15,164	25,666
Obligations Net of Offsetting Collections and Recoveries	708,866	748,863
Less: Offsetting Receipts	-	-
Net Obligations	708,866	748,863
Other Resources		
Donations and Forfeitures of Property	1	12
Imputed Financing from Costs Absorbed by Others	19,063	14,768
Other	(22)	(23)
Net Other Resources Used to Finance Activities	19,042	14,757
Total Resources Used to Finance Activities	**727,908**	**763,620**
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	(20,525)	1,461
Resources that Fund Expenses Recognized in Prior Periods	6,696	21,152
Resources That Finance the Acquisition of Assets	7,512	3,599
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	35	81
Total Resources Used to Finance Items not Part of the Net Cost of Operations	**(6,282)**	**26,293**
Total Resources Used to Finance the Net Cost of Operations	**734,190**	**737,327**

(continues on next page)

Broadcasting Board of Governors
Reconciliation of Net Cost of Operations to Budget
For the Years Ending September 30, 2013 and 2012
(In Thousands) (continued)

	FY 2013	Restated FY 2012
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	1,426	3
Increase in Environmental and Disposal Liability	1,061	-
Increase in Exchange Revenue Receivable From the Public	-	71
Increase in Unfunded FECA Liability	252	85
Total Components of Net cost of Operations Requiring or Generating Resources in Future Periods	2,739	159
Components not Requiring or Generating Resources:		
Depreciation and Amortization	13,029	13,848
Revaluation of Assets or Liabilities	1,864	251
Other	(12,113)	(2,665)
Total Components of Net Cost of Operations not Requiring or Generating Resources	**2,780**	**11,434**
Total components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	**5,519**	**11,593**
Net Cost of Operations	**$ 739,709**	**$ 748,920**

The accompanying notes are an integral part of these statements.

Required Supplementary Information

Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been, that was scheduled and not performed, or that was delayed for a future period. Maintenance is the act of keeping property, plant, and equipment (PP&E) in acceptable operating condition and includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it can deliver acceptable performance and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from or significantly greater than those needs originally intended to be met by the asset.

The BBG has an ongoing maintenance and repair plan for its PP&E that allows it to prioritize required maintenance on its capitalized assets and schedule that maintenance appropriately. The maintenance plan is developed and updated by an inspection of its capital assets to determine current conditions and to estimate costs to correct any deficiencies. The inspection allows the BBG to assign a current condition code to each maintenance project. The five-point scale used for classifying the current condition of any asset requiring maintenance or repair is: 1 – excellent, 2 – good, 3 – fair, 4 – poor and 5 – very poor.

The BBG reviewed its FY 2013 maintenance and repair plan and identified those projects where maintenance or repair had been planned and/or required but nevertheless was not performed in 2013. For those projects where maintenance was not performed and where the current condition level was 4 or 5 (poor or very poor), the BBG estimated the deferred maintenance cost – the cost to return the asset to an acceptable condition.

The following shows BBG's deferred maintenance for projects for capital assets in condition code 4 – poor and condition code 5 – very poor that have been deferred as of September 30, 2013 and 2012:

Deferred Maintenance ***(in thousands)***

PP&E Category	Asset Condition	FY 2013 Estimated Cost to Return to Acceptable Condition	FY 2012 Estimated Cost to Return to Acceptable Condition
Equipment	4 - poor	$ -	$ 265
	5 - very poor	-	60
Other Structures & Facilities	4 - poor	280	215
Total		$ 280	$ 540

Section 4: Other Information

FY 2013 Management and Performance Challenges
Broadcasting Board of Governors

The *Reports Consolidation Act of 2000* requires that the Broadcasting Board of Governor's (BBG) *Performance and Accountability Report* include a statement by the Inspector General that summarizes the most serious management and performance challenges facing BBG and briefly assesses the progress in addressing them. The Office of Inspector General (OIG) considers the most serious management and performance challenges for BBG to be in the following areas:

- Establishing a Chief Executive Officer
- Managing Contracts
- Broadcasting with Fewer Resources
- Information Technology and Security
- Financial Management
- Contract and Procurement

ESTABLISHING A CHIEF EXECUTIVE OFFICER

Instituting the most effective management structure to oversee all of the BBG operations is a management challenge. BBG does not have a Chief Executive Officer (CEO) to coordinate operational aspects of the broadcast entities and to oversee its support structure. In the inspection of the Broadcasting Board of Governors,[1] OIG found that a part-time board could not effectively perform those functions. OIG also noted that "the concept of a CEO with clearly delineated authorities and responsibilities, complemented by a part-time, presidentially appointed board of directors focused on strategic issues, has worked well with entities like the Millennium Challenge Corporation and the Corporation for Public Broadcasting." A CEO would allow the Board to focus appropriately on strategic endeavors and keep out of day-to-day management activities. OIG recommended BBG establish a CEO position, a topic that was also outlined in BBG's 2012–2016 strategic plan. BBG's FY 2014 budget request includes a legislative proposal for establishing a CEO who will be chosen by and report to the BBG Board.[2]

MANAGING CONTRACTS

OIG noted weaknesses in contract management in several OIG inspection reports.[3] The Voice of America (VOA) Russia and Nairobi News bureaus lacked appropriate contractual documents for services rendered. In other inspections, OIG recommended Radio Free Europe/Radio Liberty (RFE/RL) in Prague and the VOA Latin America Division implement contract administration processes and suggested that the International Broadcasting Bureau (IBB) Philippines Transmitting Station implement better controls over procurement activities. OIG also found

[1] Inspection of the Broadcasting Board of Governors, ISP-IB-13-07
[2] Broadcasting Board of Governors FY 2014 Budget Request
[3] Inspection of the US International Broadcasting to Russia, ISP-IB-13-50, Memorandum Report-Review of Broadcasting Board of Governors' Operations in Nairobi, Kenya, ISP-IB-12-40, Inspection of Radio Free Europe/Radio Liberty Prague, ISP-IB-12-43, Inspection of Voice of America-Latin America Division, ISP-IB-13-49, Inspection of the International Broadcasting Bureau's Philippines Transmitting Station, ISP-IB-13-11

employees with contracting responsibilities did not always get refresher training and contracting officer representatives' roles and responsibilities were not always documented as required by the Federal Acquisition Regulations.

OIG found significant challenges with BBG's contract and procurement management functions. An audit of BBG's acquisition functions found significant noncompliance with the Federal Acquisition Regulation during the pre-solicitation, pre-award, and contract administration phases. Specifically, BBG's Office of Contracts was not executing or was improperly executing acquisition planning, competition requirements, and oversight of contractor performance.[4] In addition, an audit of BBG's suspension and debarment process determined that BBG did not have sufficiently detailed suspension and debarment policies and procedures. Specifically, OIG determined that BBG had minimal agency procedures for reporting, investigation, and referring contractors that performed poorly, and as a result, as of February 2012, the BBG had processed only one suspension no debarments in 20 years.[5]

BROADCASTING WITH FEWER RESOURCES

Sequestration cuts have already negatively affected staffing levels in some BBG operations. Reallocating BBG resources into the technologies, countries, and broadcasting activities where those resources will have greatest impact is a continuing challenge. OIG reports highlight progress with this challenge but also setbacks.[6] In Cambodia, BBG was exploring the possibility of combining the office space of VOA and Radio Free Asia to save lease costs. In the Ukraine, VOA and RFE/RL were sharing a video studio. The RFE/RL Ukrainian Service eliminated three contract positions in Prague. BBG carried out a transmission review and eliminated four hours of repeat shortwave and medium wave radio programming in Belarus. BBG also has elected not to fill the deputy regional marketing director position in Prague because of budget uncertainties.

On the other hand, although BBG proposed merging RFE/RL's Radio Free Iraq with the Middle East Broadcast Network, congressional approval of the merger has been pending since February 2012 when BBG submitted its FY 2013 budget request. BBG estimates the merger could save thousands in operating costs annually.[7] Similarly, Congress has not yet approved BBG's proposed closure of the Poro transmission facility in the Philippines. The Poro transmission station is currently idle with a small number of staff but no transmissions. BBG estimates its closure could free up $650,000 that could be used to broadcast into China and Tibet and to add a VOA satellite broadcasting component to these markets.[8]

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[4] *OIG Outline for Action: Management Attention Needed to Overhaul BBG Acquisition Functions* (September 2013).

[5] *Survey of Broadcasting Board of Governors Suspension and Debarment Process* (AUD/CG-12-24, February 2012).

[6] Memorandum Report-Review of Broadcasting Board of Governors' Operations in Phnom Penh, Cambodia, ISP-IB-13-09, and Memorandum Report-Review of Broadcasting Board of Governors' Operations in Kyiv, Ukraine, ISP-IB-13-46, Inspection of Embassy Minsk, Belarus, ISP-I-13-42A, and Inspection of the International Broadcasting Bureau's Regional Office of Marketing and Program Placement in Prague, Czech Republic, ISP-IB-12-44

[7] Memorandum Report-Review of Broadcasting Board of Governors' Operations in Baghdad, Iraq, ISP-IB-13- 26

[8] Inspection of the International Broadcasting Bureau's Philippines Transmitting Station, ISP-IB-13-11 and Broadcasting Board of Governors FY 2013 and FY 2014 Budget Requests

INFORMATION TECHNOLOGY AND SECURITY

During the FY 2013 audit of BBG's compliance with the Federal Information Security Management Act (FISMA) of 2002, weaknesses noted from the FY 2012 report[9] continued to exist, as several components of BBG's information security management program have not been completed. OIG identified areas in which BBG can improve and increase its overall security posture. Areas for improvement include processes to security configuration and performance management, identity and access management, incident response, and completing the annual security awareness training course. Other areas for improvement include BBG's Plan of Actions and Milestones process, remote access policy, developing and implementing contingency planning and testing policies and procedures, and completing its enterprise-wide and system-specific contingency plans. The internal control weaknesses identified during the FY 2013 FISMA audit and reported collectively by OIG represent a significant deficiency,[10] and OIG recommended to the Chief Financial Officer that the weaknesses be identified and reported under the Federal Managers Financial Integrity Act of 1982.[11]

During the inspection of the IBB transmitting station in the Philippines and the compliance follow-up review of the IBB transmitting station in Germany, OIG found back up storage media were not maintained off-site and standard operating procedures for administering, configuring and maintaining the station's administrative network were not in place.[12] At RFE/RL in Prague, OIG recommended BBG assign a lead information systems security officer to develop security plans and perform critical security reviews.[13]

FINANCIAL MANAGEMENT

Financial management continues to be a challenge for BBG. In 2012, BBG received an unqualified opinion[14] on its financial statements. Although this is an achievement, the independent auditor identified significant internal control deficiencies related to property and equipment, unliquidated obligations, accounts payable accruals, and after-employment benefits for locally-employed staff. BBG planned to focus its corrective actions on leveraging technology to streamline processes and strengthen internal controls.

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[9] *Audit of the Broadcasting Board of Governors Information Security Program* (AUD/IT-IB-13-04, November 2012).

[10] A reportable condition is defined as a control deficiency, or combination of control deficiencies, that in management's judgment, should be communicated because it represents significant weaknesses in the design or operation of internal control that could adversely affect the organization's ability to meet its internal control objectives. A reportable condition, if not addressed, could ultimately rise to the level of a material weakness if corrective actions are not taken. Reportable conditions are not reported externally.

[11] Pub. L. No. 97-255, 96 Stat. 814 (1982).

[12] Inspection of the International Broadcasting Bureau's Philippines Transmitting Station, ISP-IB-13-11, Compliance Follow-up Review of the International Broadcasting Bureau Germany Transmitting Station, ISP-IB-C-13-20

[13] Inspection of Radio Free Europe/Radio Liberty Prague, ISP-IB-12-43

[14] *Independent Auditor's Report on the Broadcasting Board of Governors 2012 and 2011 Financial Statements* (AUD-FM-IB-13-12, November 2012).

Agency Response to the Office of Inspector General: FY 2013 Management and Performance Challenges Broadcasting Board of Governors

The BBG has reviewed the OIG report identifying findings regarding the most serious management and performance challenges facing the Broadcasting Board of Governors (BBG). The BBG has reviewed the OIG findings and would like to take this opportunity to describe the actions that it is taking to address the management and performance challenges identified by the OIG.

Establishing a Chief Executive Officer

The BBG concurs with the recommendation to establish a Chief Executive Officer (CEO) for the Agency. As noted in OIG's letter, the Agency developed a legislative proposal in cooperation with the Administration to authorize this new position. The Administration transmitted this legislation to the Congress as part of the President's Fiscal Year 2014 budget submission. The Agency continues to work with the Congress toward the adoption of this legislation.

In further support of this Agency priority, the Board adopted a resolution on October 23, 2013 to establish a Special Committee on the Creation of the Position of Chief Executive Officer of U.S. International Broadcasting. This Committee will assess all existing efforts to create a CEO and to begin a search for potential candidates qualified for the position.

Managing Contracts

The BBG acknowledges weaknesses in its contract and procurement management functions and the need for more sustained training to ensure the integrity of all procurement practices and oversight.

Pursuant to recent discussions with the Office of Inspector General, the Agency has taken immediate action to procure the assistance of outside experts in Federal acquisition and contracting to help assess Agency acquisition practices and assist in the development of uniform performance evaluation standards, policies, and training to enhance Agency implementation of acquisition regulations and policies. Among other issues, the firm will document our contracting processes from requisition to contract close out to assess internal controls, analyze risks, and identify inefficiencies. We also will work with the experts to implement changes to our processes that address inefficiencies and improve internal controls. Recently, the IBB Director spearheaded an effort to secure improvements in contracting, including implementation of an improved electronic invoice processing system, and regular mandatory training for Contracting Officers and their Representatives.

Over the past decade, the BBG has provided mandatory training for managers involved in contract administration and oversight. Nevertheless, BBG needs to be more diligent in ensuring the integrity between Federal acquisition activities and the Agency's own unique personnel needs, which include a variety of skills that may evolve as U.S. national security and interests change. BBG requires a flexible personnel structure to adjust to broadcasting requirements in emerging hotspots, to fulfill both humanitarian and U.S. policy needs. Thus, the BBG and its predecessor Agency, the U.S. Information Agency, have greatly benefited from a diverse mix of contractors supporting these programs.

Broadcasting with Fewer Resources

As noted by the OIG, the BBG has worked, and continues to work, to reallocate resources in order to manage its operations in this tight fiscal environment.

In addition to the elimination of transmissions to Belarus mentioned in the OIG report, the BBG has ended or reduced shortwave and medium wave transmissions to other languages during sequestration. The BBG carefully analyzed its broadcasting requirements against research data on media usage and crafted a distribution strategy to maximize the effectiveness of program delivery resources. Research data clearly show the declining effectiveness of shortwave distribution to many target audiences. BBG also examined costly medium wave transmissions to assess their continuing effectiveness. Based on this analysis, during sequestration the BBG ended or reduced shortwave and medium wave transmission in the following languages: Arabic, Albanian, Azerbaijani, Belarusian, Cantonese, Dari, Georgian, English, Mandarin, Kazakh, Khmer, Kyrgyz, Lao, Pashto, Persian, Portuguese, Romanian, Spanish, Tajik, Tatar-Baskir, Turkmen, Urdu, Uzbek, and Vietnamese.

As noted by the OIG, in an effort to save thousands in operating costs, the BBG has proposed merging RFE/RL's Radio Free Iraq with MBN and closing its Poro transmission facility. These proposals are still pending Congressional approval, and the BBG has resubmitted both as part of its FY 2014 budget request.

Information Technology and Security

The BBG appreciates the OIG's identification of areas for improvement in information technology and security. The BBG would like to offer one clarification on the findings. The BBG achieved a 100 percent compliance rate with its security awareness training in FY 2013. The FY 2013 Audit of the Broadcasting Board of Governors Information Security Program, October 2013, noted that although the BBG had increased compliance with Security Awareness training from 25 to 100 percent of the staff in FY 2013, the BBG lacked a policy for role-based training for staff with sensitive duties. The BBG concurs with this finding and plans to implement a policy for role-based security training. The BBG will continue to develop, implement, and refine IT security technologies, policies, and procedures as it constantly strives to improve its IT security posture.

Financial Management

As expressed in your findings, the BBG faces challenges in financial management and is continuing ongoing efforts to improve financial management within constrained staffing and resources. The BBG will continue to focus efforts to improve controls and strengthen the processes for retired property, accruals for accounts payable, and after-employment benefits for locally-employed staff. The BBG will reevaluate processes to efficiently track and resolve outstanding unliquidated obligations.

Summary of Financial Statement Audit and Management Assurances

Table 1.
Summary of Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	Yes				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Grantee Monitoring & Advance		*1*			*1*
Property, Plant, and Equipment		*1*			*1*
Budgetary Accounting and Funds Control		*1*			*1*
Total Material Weaknesses		*3*			*3*

Table 2.
Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Statement of No Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	*N/A*					
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Statement of No Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	*N/A*					
Conformance with financial management system requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances						

Reporting on Improper Payment Information Act, as Amended by IPERA

Improper payments are payments that should not have been made or were made in the incorrect amount, which can include duplicate payments, payments to ineligible recipients, or payments made without sufficient supporting documentation. To improve the integrity and accuracy of the federal Government's payments, Congress enacted the Improper Payments Information Act (IPIA) of 2002 (P.L. 107-300). IPIA requires federal agencies to:

- Review their programs and activities annually;
- Identify programs that may be susceptible to significant improper payments;
- Estimate amounts improperly paid; and
- Report improper payment amounts and the actions taken to reduce them.

During July 2010, Congress passed the Improper Payments Elimination and Recovery Act (IPERA) which amended IPIA and Section 831 of the Defense Authorization Act of 2002, also known as the Recovery Auditing Act. IPERA strengthened IPIA by increasing management accountability and requiring additional efforts to recover improper payments. IPERA directed the OMB to issue implementing guidance to agencies. Memorandum M-11-16 dated April 14, 2011 issues government-wide guidance on the implementation of IPERA. This guidance is contained in Parts I and II to Appendix C of OMB Circular A-123, *Management's Responsibility for Internal Controls* which requires all executive branch agencies to determine whether the risk of improper payments is significant (exceeds both 2.5 percent, decreased to 1.5 percent for FY 2013, of program annual payments and $10 million, or exceeds $100 million) and to provide valid annual estimates of improper payments. Other significant components of OMB's guidance include:

- Describing alternative improper payment measurements;
- Expanding payment recapture audits to all types of payments and activities with more than $1 million in annual outlays if cost-effective;
- Improving corrective action plans and incorporating lessons learned from the Recovery Act Implementation;
- Distributing funds recovered through payment recapture audits for authorized purposes; and
- Establishing compliance reviews and requirements for agencies deemed non-compliant.

In January 2013, Congress passed the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 "to intensify efforts to identify, prevent, and recover payment error, waste, fraud".[1] It reinforces and accelerates the "Do Not Pay" initiative, increases emphasis on high-priority programs and the establishment of performance targets, and clarifies guidance for estimating improper payments.

BBG's Process

The Broadcasting Board of Governors (BBG) is dedicated to continuing to strengthen its improper payments program to ensure payments are legitimate, processed correctly and efficiently. The Program utilizes an experienced and trained staff, a financial management system that is designed with control functions to mitigate risk, and an internal analysis of processes and transactions. All executives and staff are required to comply with BBG's procurement and accounting policies and procedures, and Federal laws and regulations.

BBG conducts the following steps to comply with the IPIA and OMB Circular A-123 Appendix C, Part 1:

[1] Public Law 112-248

1. Review all programs and activities and identify those that are susceptible to significant improper payments.
2. Obtain a statistically valid estimate of the annual amount of improper payments for those programs that are identified as susceptible to significant improper payments.
3. Implement a plan to reduce improper payments.
4. Report estimates of the annual amount of improper payments in programs and activities and progress in reducing them.

The BBG's Office of Chief Financial Officer (OCFO) is responsible for reviewing and reporting the BBG's improper payments annually. The above four step process began during fiscal year 2012 and continues into fiscal year 2014.

Improper Payment Actions, Results and Reporting

BBG's risk assessment methodology consists of ranking each of its programs from high to low risk based on operational risk, complexity, volume of payments, human capital risk, historical risk, IT risk, compliance risk and total dollar value. Based on the results of BBG's risk assessment, there were no programs which met OMB's criteria for being susceptible to significant improper payments (exceeding both 1.5 percent of program payments and $10 million).

For good governance, BBG plans to sample all programs on a rotating basis. During FY 2013, BBG selected the Voice of America (VOA), International Broadcasting Bureau (IBB), and Radio Free Asia (RFA), extracting the universe of disbursement data files from BBG's financial system, Momentum, for the period of October 1, 2011 through September 30, 2012, excluding overseas payments, intra-governmental transactions and payments to employees (payroll and travel). BBG also tested disbursements from the first three quarters of FY 2013 for the Office of Cuba Broadcasting (OCB), excluding overseas payments, intra-governmental transactions and payroll.

Per Memorandum 11-16, issued April 14, 2011, Appendix C, Part 1.A.5, *Requirements for Effective Measurement and Remediation of Improper Payments*, agencies were not obligated to review intra-governmental transactions and payments to employees. The new IPERIA law, passed in January 2013, removed the exemption for payments to employees. While BBG began testing employee travel reimbursements for FY 2013, payroll has not yet been tested. In the future, BBG plans to conduct a separate risk assessment for payroll and include payroll in future test samples. Overseas payments are excluded because they are processed by the Department of State.

In accordance with OMB Circular A-123, Appendix C guidance, a statistical sample was selected and used to estimate the population's proportion. To be confident that the sample's improper payment rate estimates the population's rate, with a 90 percent confidence interval of plus or minus 2.5 percentage points, based on an estimated error rate of 3.5 percent, BBG sampled the full population (19 payments) for RFA, 145 payments for VOA and OCB and 176 payments for IBB. Additionally, all payments made for more than $1 million, within the selected programs, were reviewed. The VOA sample reflects an error rate of greater than 15 percent. We have used this rate to project the improper payments for the VOA program, but the results are not statistically valid. For the VOA error rate to be statistically valid, BBG would have to significantly increase the sample size. BBG will conduct further testing and analysis of the VOA program in 2014.

BBG's estimates of improper payments based on testing conducted for FY 2013 and FY 2012 are shown in Table 1. BBG has set a performance target to reduce the improper payment rate by 1/10 of a percent per year for the VOA, IBB and OCB programs.

Table 1: Improper Payment Reduction Outlook *(in thousands)*

Program Name	2012 Outlays[1]	2012 IP%	2012 IP$	2013 Outlays[1]	2013 IP%	2013 IP$	2013 Over-payment $[6]	2013 Under-payment $
Middle East Broadcasting Networks (MBN)	$ 110,342	0.00%	$ -	$ 105,725	0.00%	$ -	$ -	$ -
Radio Free Europe/Radio Liberty (RFE/RL)	$ 95,174	0.00%	$ -	$ 92,097	0.00%	$ -	$ -	$ -
Voice of America (VOA)[2,3]	$ 49,539	15.72%	$ 7,786	$ 46,487	15.72%	$ 7,307	$ 7,307	$ -
Office of Cuba Broadcasting (OCB)[3]	$ 7,796	N/A	N/A	$ 9,394	4.07%	$ 383	$ 381	$ 2
Office of Technology Services Innovation (TSI)[4]	$ 85,907	N/A	N/A	$ 78,626	N/A	N/A	N/A	N/A
International Broadcasting Bureau (IBB)[2,3]	$ 25,469	4.30%	$ 1,094	$ 25,040	4.30%	$ 1,076	$ 1,076	$ -
Radio Free Asia (RFA)[2]	$ 44,738	0.00%	$ -	$ 41,759	0.00%	$ -	$ -	$ -

Table 1: Improper Payment Reduction Outlook continued *(in thousands)*

Program Name	2014 Estimated Outlays[5]	2014 IP%	2014 IP$	2015 Estimated Outlays[5]	2015 IP%	2015 IP$	2016 Estimated Outlays[5]	2016 IP%	2016 IP$
Middle East Broadcasting Networks (MBN)	$ 106,102	0.00%	$ -	$ 106,102	0.00%	$ -	$ 106,102	0.00%	$ -
Radio Free Europe/Radio Liberty (RFE/RL)	$ 94,082	0.00%	$ -	$ 94,082	0.00%	$ -	$ 94,082	0.00%	$ -
Voice of America (VOA)	$ 44,850	15.62%	$ 7,004	$ 44,850	15.52%	$ 6,959	$ 44,850	15.42%	$ 6,915
Office of Cuba Broadcasting (OCB)	$ 7,911	3.97%	$ 314	$ 7,911	3.87%	$ 306	$ 7,911	3.77%	$ 299
Office of Technology Services Innovation (TSI)	$ 74,482	N/A	N/A	$ 74,482	N/A	N/A	$ 74,482	N/A	N/A
International Broadcasting Bureau (IBB)	$ 23,389	4.20%	$ 981	$ 23,389	4.10%	$ 958	$ 23,389	4.00%	$ 935
Radio Free Asia (RFA)	$ 39,716	0.00%	$ -	$ 39,716	0.00%	$ -	$ 39,716	0.00%	$ -

[1]Excludes intra-governmental disbursements.
[2]2013 estimate is based on review of FY2012 payments conducted during 2013, after 2012 PAR was completed.
[3]Excludes payments to employees (payroll and travel) and overseas payments.
[4]Excludes payroll and overseas payments.
[5]2013 outlays were reduced to reflect the reduction in budget authority requsted in the President's FY 2014 Budget and used to estimate outlays for 2014 to 2016.
[6]Includes payments made for an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements and those payments lacking proper or sufficient supporting documentation to discern whether or not they are proper.

The majority of improper overpayments were caused by insufficient or incomplete supporting documentation, i.e. lack of documentation, no signatures and/or undated documentation, which prevented BBG from verifying that the payment was proper.

Recapture of Improper Payment Reporting

IPERA requires agencies to conduct payment recapture audits for each program and activity that expends $1 million or more annually, if conducting such audits would be cost-effective. A payment recapture audit is a detective and corrective control activity designed specifically to identify and recapture overpayments.

BBG contracted with a CPA firm to provide recapture audit services and be compensated on a contingency fee basis. The contractor performed data-mining to identify potential high-risk payments, but the amounts of the payments identified were immaterial to warrant further research. Based on the results of the statistical improper payment estimates, prior year recapture audit results (which found no improper payments), and BBG's payment composition (large volume, low dollar payments), the contractor determined that it would not be cost-effective to further pursue a recapture audit.

BBG also identifies and recaptures improper payments during the normal course of its disbursement management process. During FY 2013, the BBG identified twenty-five erroneous payments totaling $170,737. During FY 2012, the BBG identified twenty-two erroneous payments totaling $1,241,599. All but $14,319 of the amount identified in 2013 and $988 of the amount identified in 2012 has been recovered. The amounts identified and recovered are shown in Table 2.

Table 2: Overpayments Recaptured Outside of Payment Recapture Audit *(in thousands)*						
Source of Recovery	Amount Identified 2013	Amount Recovered 2013	Amount Identified 2012	Amount Recovered 2012	Cumulative Amount Identified (2013 +2012)	Cumulative Amount Recovered (2013 +2012)
Self Reported	$ 171	$ 157	$ 1,242	$ 1,241	$ 1,413	$ 1,398

BBG Information Systems and Other Infrastructure

BBG believes that it has sufficient internal controls, human capital, and information systems to reduce improper payments to their targeted levels. BBG domestic and international vouchers are processed within the financial management system (Momentum) by well-trained examiners and certifying officers prior to submission to the Department of the Treasury. The financial accounting system, Momentum, has built in controls to prevent duplicate invoice processing, ensure funds availability, require payment authorizations, and enforce access controls. If an erroneous payment occurs, BBG takes immediate action to collect those funds.

BBG's Improper Payment Program is functional and designed to prevent material, recurring, and illegitimate payments. The BBG standard operating procedure provides control processes to ensure that erroneous or fraudulent payments do not occur.

Accountability

BBG recognizes the importance of maintaining adequate internal controls to ensure proper payments, and is committed to continually monitor and improve its disbursement management process. In addition, BBG has reviewed its 2012 financial statement audit findings for indications of breaches of disbursement internal controls. None of these audit findings have uncovered any material weaknesses with improper payments or the internal controls surrounding disbursements.

Executives and managers are responsible for monitoring internal controls and the disbursement approval and execution process. The approval process includes segregation of duties which preclude the receiver of goods or services from processing and approving the invoice. Obligations, receiving documentation, and invoices are matched, reviewed, recalculated and entered into the system. A second independent review of the invoice supporting documentation is conducted prior to approving the invoice for payment.

Some other examples of the internal controls procedures used by the OCFO to prevent improper or erroneous payments are:

- Limited access to vendor files.
- Controlled access to financial system.
- Financial system edit checks to highlight duplicate invoice numbers and inconsistencies between the funded, expected and actual invoice amounts and vendor name.
- Daily pre-payment audits to prevent improper payments from occurring.

Periodic reviews are performed to detect and reduce the likelihood of improper payment occurrences and anomalies in domestic and internal payments, travel reimbursements and grant related payments. In addition, external procedural confirmation contributes to the internal assessment on the accuracy and adequacy of detection.

Barriers

BBG has not identified any barriers which would limit its corrective actions in reducing improper payments.

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