

**Management Letter
Related to the Audit of the
Broadcasting Board of Governors
2012 and 2011 Financial Statements**

AUD-FM-IB-13-13, February 2013

Clarke Leiper, PLLC
Certified Public Accountants
6265 Franconia Road
Alexandria, Virginia 22310

November 16, 2012

To the Chief Financial Officer
Broadcasting Board of Governors:

We (Clarke Leiper, PLLC) have audited the consolidated financial statements of the Broadcasting Board of Governors (BBG) as of and for the years ended September 30, 2012 and 2011, and have issued our report thereon dated November 16, 2012 (*Independent Auditor's Report on the Broadcasting Board of Governors 2012 and 2011 Financial Statements*, AUD-FM-IB-13-12, Nov. 2012). In planning and performing our audit of the BBG financial statements, we considered BBG's internal control over financial reporting and compliance to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control related to financial reporting and compliance. We have not considered internal control since the date of our report.

During our audit, we noted certain matters involving internal control over financial reporting and compliance that we considered to be significant deficiencies under the standards established by the American Institute of Certified Public Accountants. We reported those deficiencies in the report referenced.

Our audit procedures were designed primarily to enable us to form an opinion on the financial statements and therefore may not identify all internal control weaknesses that may exist. However, we would like to take this opportunity to use the knowledge we gained during the audit of BBG to provide comments and suggestions that we hope will be useful.

Although not considered to be significant deficiencies, we noted certain matters involving internal control and other operational matters that are presented in Appendix A for your consideration. These observations are intended to improve BBG's internal control or result in other operating efficiencies.

This letter is intended solely for the information and use of BBG officials and the Office of Inspector General and is not intended to be, and should not be, used by anyone other than these specified parties.

Comments by BBG management on this report are presented as Appendix B.

Very truly yours,

A handwritten signature in cursive script that reads "Clarke Leiper PLLC".

Clarke Leiper, PLLC

Management Letter Related to the
Audit of the Broadcasting Board of Governors
2012 and 2011 Financial Statements

Observations and Conclusions

1. Personal Services Contractors Employment Taxes

During FY 2012, the Internal Revenue Service (IRS) was conducting an examination of the Broadcasting Board of Governors (BBG) Employment Tax Returns to determine whether some or all of BBG's independent contractors should be classified as employees. If considered employees for tax purposes, BBG would be liable for employment taxes. As of September 30, 2012, the IRS was in the process of reviewing the working relationships between BBG and approximately 800 contractors.

IRS Publication 15-A, "Employer's Supplemental Tax Guide," states the following:

Under common-law rules, anyone who performs services for you is your employee if you have the right to control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how the services are performed.

If you have an employer-employee relationship, it makes no difference how it is labeled. The substance of the relationship, not the label, governs the worker's status. It does not matter whether the individual is employed full time or part time.

The publication further states, "If you classify an employee as an independent contractor and you have no reasonable basis for doing so, you are liable for employment taxes for that worker"

BBG was unaware that certain independent contractors may be considered employees or that BBG may have the responsibility for withholding taxes for these contractors. Pending the final results of the IRS examination, BBG may have a liability to the IRS for unpaid employment taxes. As of September 30, 2012, the IRS had not completed its examination and a potential liability had not been determined. BBG did not have sufficient information to estimate the potential liability.

We recommend that the Broadcasting Board of Governors (BBG) take action to address any recommendations received from the Internal Revenue Service. Additionally, if the Internal Revenue Service determines that an employer-employee relationship exists between BBG and the contractors, we recommend that BBG develop policies and procedures to ensure that it appropriately implements all tax requirements for contractors, including documenting BBG's working relationship with its contractors.

2. American Payroll – Time and Attendance

We performed tests of the controls over BBG’s time and attendance (T&A) approval and processing procedures related to its American payroll. Testing results indicated that 13 of the 45 timesheet records sampled did not contain evidence of approval by either a supervisor or timekeeper.

BBG’s policy regarding the approval of T&A reports, as presented in the Broadcasting Administrative Manual, requires that all T&A reports and other supporting documents be reviewed and approved by an authorized supervisor. The approval must be indicated either by handwritten signature or an approved system that provides for an automated signature. Automated approval must be made by entering designated codes into an automated system with appropriate safeguards to prevent unauthorized entry.

BBG officials stated that the exceptions identified occurred because, in the absence of the designated timekeepers, backup timekeepers did not enforce the required procedures.

A weak control environment over T&A records increases the potential for fraud and employee abuse. Without adequate enforcement of proper T&A approval by responsible personnel, the potential for employees to be compensated for hours not worked or to receive unearned benefits increases.

We recommend that the Broadcasting Board of Governors strengthen its controls over time and attendance reporting by conducting timekeeping refresher training for all personnel responsible for approving timekeeping records (that is, timekeepers, backup timekeepers, and supervisors) to ensure that approvals are documented according to the internal control procedures detailed in the Broadcasting Administrative Manual.

3. Information Technology Security

BBG’s information technology (IT) internal control structure for general support systems was not adequate. The Department of State and BBG’s Office of Inspector General (OIG) annually performs an evaluation of the information security program’s compliance as required by the Federal Information Security Management Act of 2002 (FISMA).¹ Some of the concerns that OIG reported in the FISMA report related to general system controls that could impact the financial statements. Specific concerns are as follows:

- BBG did not complete the development of procedures and guidance that govern routine and critical configuration management processes.
- BBG’s user account management controls did not ensure that access was provided to authorized personnel only; for instance, of 3,551 “active” user accounts in Active Directory:
 - Ninety-three user accounts were not used for more than 90 days.
 - Thirty-one user accounts did not require the use of a password.
 - The passwords for 411 user accounts had not been changed for over 90 days.

¹ *Audit of the Broadcasting Board of Governors Information Security Program* (AUD-IT-IB-13-04, Nov. 2012).

- BBG had not developed sanctions for employees and contractors who did not complete the annual security awareness training course.
- BBG's Plan of Action and Milestones did not consistently provide sufficient detail, such as the resources required to address the security weaknesses, milestones used to measure progress toward completion, and changes to milestones for corrective actions that were not completed or past due.
- BBG did not ensure that remote access was granted only to computers that had implemented proper safeguards.

We also assessed IT general-system controls at the Voice of America (VOA) and the Office of Cuba Broadcasting (OCB). Our assessment supported the findings reported in OIG's FISMA report. Specifically, we found the following:

- VOA could not provide a current network diagram that identified key devices or configuration settings.
- OCB did not conduct annual cyber security awareness training for its users.
- OCB did not have a process to identify separated employees for the purpose of disabling user accounts. OCB utilizes generic usernames and passwords for network workstations in common areas, enabling multiple users to log in with the same username and password.

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, requires that an organization develop, document, and maintain an inventory of information system components that accurately reflects the current information system; is consistent with the authorization boundary of the information system; and is available for review and audit.

The NIST standard further requires that an organization establish usage restrictions and implementation guidance for each allowed remote access method and develop a plan of action and milestones for the information system to document the organization's planned remedial actions to correct weaknesses or deficiencies noted during the assessment of the security controls and to reduce or eliminate known vulnerabilities in the system.

The NIST standard also requires that an organization facilitate the implementation of security awareness and training policies and associated security awareness and training and develop and disseminate an organization-wide information security program plan that does the following:

- Provides an overview of the requirements for the security program and a description of the security program management controls and common controls in place or planned for meeting those requirements.
- Provides sufficient information about the program management controls and common controls (including specification of parameters for any assignment and selection operations either explicitly or by reference) to enable an implementation that is unambiguously compliant with the intent of the plan and a determination of the risk to be incurred if the plan is implemented as intended.

- Is approved by a senior official with responsibility and accountability for the risk being incurred to organizational operations (including mission, functions, image, and reputation), organizational assets, individuals, other organizations, and the Nation.

In addition, the NIST standard requires that an organization manage its information system accounts, including the following:

- Identifying account types (that is, individual, group, system, application, guest/anonymous, and temporary).
- Establishing conditions for group membership.
- Identifying authorized users of the information system and specifying access privileges.
- Requiring appropriate approvals for requests to establish accounts.
- Establishing, activating, modifying, disabling, and removing accounts.
- Specifically authorizing and monitoring the use of guest/anonymous and temporary accounts.
- Notifying account managers when temporary accounts are no longer required and when information system users are terminated or transferred or when information system, usage, or need-to-know/need-to-share changes.
- Deactivating (i) temporary accounts that are no longer required and (ii) accounts of terminated or transferred users.
- Granting access to the system based on (i) a valid access authorization, (ii) intended system usage, and (iii) other attributes as required by the organization or associated missions/business functions.

Further, the NIST standard requires an organization to allow the use of group authenticators only in conjunction with an individual/unique authenticator and requires individuals to be authenticated with an individual authenticator prior to using a group authenticator.

In general, we and OIG found that BBG had not implemented effective standards, policies, processes, and procedures over its information security program. Moreover, OCB was not required to comply with VOA IT requirements, but it had not implemented its own IT security controls. OIG's FISMA report includes detailed recommendations for BBG to implement in order to address the deficiencies noted.

Poor controls over IT security can affect the integrity of financial reporting applications, which increases the risk that sensitive information could be accessed by unauthorized individuals or that financial transactions could be altered either accidentally or intentionally.

We recommend that the Broadcasting Board of Governors implement recommendations included in the Office of Inspector General's Federal Information Security Management Act report for FY 2012.

4. Reconciliation of Transactions Recorded in Suspense Accounts

A suspense account is a temporary account used by agencies to record transactions with discrepancies until a determination is made on the proper disposition of the transaction. As of

September 30, 2012, BBG had a total of negative \$396,857 recorded in suspense account F3875. Over 75 percent of that amount was over 60 days old and related to transactions from FY 2011 and earlier.

The Treasury Financial Manual, Volume I, Bulletin No. 2011-06, “Reporting Suspense Account Activity Using F3875 and F3885 and Using Default Accounts F3500 and F3502 as a Governmentwide Accounting (GWA) Reporter,” requires the CFO to “certify the balances in suspense accounts F3875 and F3885” to the Department of the Treasury “annually, at yearend.” The agency must also certify that the balances do not include any items or transactions more than 60 days old. If there are transactions more than 60 days old, the agency “must clearly explain the reason in the annual electronic certification.”

BBG officials stated they were unable to reconcile and clear suspense account balances in a timely manner because of resource limitations. Specifically, BBG officials stated that BBG had numerous unfilled vacancies in its Division of Financial Operations.

Failure to implement timely and effective suspense account reconciliation procedures could affect BBG’s ability to effectively monitor budget execution and accurately measure the full cost of its programs.

We recommend that the Broadcasting Board of Governors temporarily focus resources on clearing suspense account transactions that are more than 60 days old, as required by the U.S. Department of the Treasury.

5. Financial Reporting Process

Although BBG complied with the Office of Management and Budget’s (OMB) deadline to submit a draft Performance and Accountability Report (PAR) by November 1, 2012, BBG’s financial reporting process was insufficient to prepare the final PAR in a sufficient or timely manner. After we noted deficiencies with financial statement information included in the PAR, such as unreconciled balances and the use of an incorrect format for the Statement of Budgetary Resources, BBG had to correct the financial data in multiple subsequent revisions to the financial statements.

OMB Circular A-123, *Management’s Responsibility for Internal Control*, requires agencies to have controls in place to ensure accurate financial reporting. Specifically, the circular requires agency management to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

The Government Accountability Office’s *Standards for Internal Control in the Federal Government* states financial information is needed for both external and internal uses. The agency is required to develop financial statements for periodic external reporting and, on a day-to-day basis, to make operating decisions, monitor performance, and allocate resources.

BBG did not have adequate processes or controls in place to support the preparation of the final financial statements to successfully meet year-end reporting deadlines. BBG had unfilled vacancies for key positions within the Office of the Chief Financial Officer. BBG's financial statement compilation requires experienced and well-trained staff because of the significant number of manual entries and adjustments using Excel spreadsheets to ultimately populate the balances within the financial statements.

The labor-intensive process was time-consuming and increased the likelihood of errors and omissions within the financial statements and left little time for management quality control procedures. Furthermore, manual adjustments are prone to error and require an increased measure of internal control and review from management, making the financial reporting process less efficient. Because of financial reporting process issues, the end of fieldwork for the financial statement audit had to be postponed from November 1, 2012, until November 13, 2012. Although we were able to complete the audit opinion by the mandated deadline, the issues with financial reporting delayed the issuance of the audit opinion past agreed-upon deadlines.

We recommend that the Broadcasting Board of Governors implement processes and controls, including training for employees, to improve the timeliness and accuracy of its financial reporting process.

6. Contingent Liabilities

As of September 30, 2012, BBG had made \$3.8 million in settlement payments resulting from judgments against BBG. However, BBG had not reduced its contingent liability balance by the amount of the payments.

Statement of Federal Financial Accounting Standards No. 5, Accounting for Liabilities of the Federal Government, states that contingencies "should be recognized as a liability when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources is measurable." Accordingly, the outflow or sacrifice of BBG's resources should be recognized as payments to reduce the liability.

BBG was required to deposit funds into claimants' Thrift Savings Plan (TSP) accounts. Because the Judgment Fund cannot make deposits directly into TSP, BBG disbursed funds to the TSP accounts and requested reimbursement from the Judgment Fund. BBG's policy is to record the payments to TSP as an advance. BBG does not reduce the contingent liability account until BBG is reimbursed from the Judgment Fund. As of September 30, 2012, BBG had not been reimbursed by the Judgment Fund for \$3.8 million in funds transferred to TSP. Accordingly, BBG's contingent liabilities were overstated by \$3.8 million.

We recommend that the Broadcasting Board of Governors (BBG) revise its procedures related to the posting of transactions related to contingent liabilities. BBG should reduce its liability once payments are made into the Thrift Savings Plan relief accounts and establish an accounts receivable for pending reimbursements from the Judgment Fund.

7. Statement of Net Cost – Indirect Cost Allocation

BBG did not allocate indirect costs to its major programs based on current year data and activities. BBG allocated indirect costs based on ratios that were intended to equitably distribute costs to benefiting programs. For example, certain administrative costs were distributed on the basis of the number of staff, while engineering costs were distributed based on the number of transmission hours. Although we determined BBG’s indirect cost allocation methodology to be appropriate, the underlying data used to calculate the ratios was based on information and activities from FY 2010.

Statement of Federal Financial Accounting Standards No. 4, Managerial Cost Accounting Standards and Concepts states: “Each reporting entity should accumulate and report the cost of its activities on a regular basis for management information purposes. Cost information is essential to effective financial management and should play an important role in federal financial reporting. Managerial cost accounting processes are the means of providing cost information in an efficient and reliable manner on a continuing basis.”

The standard further states:

To perform managerial cost accounting on a “regular basis” means that entities should establish procedures to accumulate and report costs continuously, routinely, and consistently for management information purposes. Consistent and regular cost accounting is needed to meet the second objective of federal financial reporting which states information should be provided to help the user determine the costs of providing specific programs and activities and the composition of, and changes in those costs.

BBG policies and procedures do not require annual updates to the ratios used in allocating indirect costs. At the beginning of each fiscal year, the Chief Financial Officer reviews the allocations to determine whether they remain applicable to the current year based on anticipated activities. Although the total net cost presented in BBG’s FY 2012 Statement of Net Cost was fairly stated, the totals related to individual programs did not accurately represent the full cost of the programs.

We recommend that the Broadcasting Board of Governors calculate indirect cost allocation ratios based on current year operations.

Prior Year Management Letter Comments

During the audit of BBG’s FY 2011 financial statements, we identified matters that we reported in a management letter.² As a result of additional work performed during the audit of the FY 2012 financial statements, we did not include some of the prior observations in the current management letter. Some of the observations identified during the FY 2011 audit remain open. The statuses of the FY 2011 findings are presented in Table 1.

² *Management Letter Related to the Audit of the Broadcasting Board of Governors 2011 and 2010 Financial Statements* (AUD/IB-12-08, Feb. 2012).

Table 1. Statuses of Observations From the FY 2011 Management Letter

Observation Number	FY 2011 Observation	FY 2012 Status	Comment
1. Information Security	The annual Federal Information Security Management Act report stated that BBG did not fully comply with some statutory provisions and implementing regulations.	Open	See observation 3.
2. Fund Balance with Treasury	Unreconciled differences were not being cleared in a timely manner.	Closed	BBG implemented procedures to reconcile all differences within 2 months of occurrence.
3. Accounts Receivable	Qualifying debts were not referred to the Treasury Offset Program.	Closed	No instances of noncompliance with the Debt Collection Improvement Act of 1996 were identified during the audit.
4. Non-Personnel Expenses and Accounts Payable Accrual	BBG did not have a sufficient process to ensure that all costs were recorded in the correct period or properly accrued at year-end.	Open	Reported as a significant deficiency in the audit report.
5. Accounts Payable	Overseas accounts payable transactions were not recorded to the correct account.	Closed	The impact of this finding would not be material to the financial statements.

Broadcasting Board of Governors
INTERNATIONAL BROADCASTING BUREAU



JAN 30 2013

Mr. Harold W. Geisel
Deputy Inspector General
Office of Inspector General
Department of State

Dear Mr. Geisel:

This is in response to your request for comments on the draft management letter related to the audit of the Broadcasting Board of Governors' 2012 and 2011 financial statements. We have reviewed the observations and conclusions of the independent contractor, Clarke Leiper, PLLC, and in the enclosure provide responses to each of the issues identified by the auditors.

I assure you that we take the recommendations seriously and will monitor the progress made to address each recommendation.

Thank you for the opportunity to respond. If you have any questions, please feel free to contact Ms. Barbara Tripp at (202) 203-██████, or Ms. Kelu Chao, Director, IBB Office of Performance Review at (202) 203-██████.

Sincerely,


Richard M. Lobo
Director

Enclosure: As Stated

Enclosure

**Broadcasting Board of Governors Response
Audit of Financial Statements
September 30, 2012 and 2011**

BBG Responses to the Audit Observations and Conclusions

1. Personal Services Contractors Employment Taxes (new)

Audit Recommendation: Clarke Leiper recommends that the Broadcasting Board of Governors (BBG) take action to address any recommendations received from the Internal Revenue Service. Additionally, if the Internal Revenue Service determines that an employer-employee relationship exists between BBG and the contractors, we recommend that BBG develop policies and procedures to ensure that it appropriately implements all tax requirements for contractors, including documenting BBG's working relationship with its contractors.

BBG Response: The Broadcasting Board of Governors (BBG) concurs that it will address any recommendations from the IRS regarding employer tax withholding once the examination is concluded. We note, however, that the IRS raised this issue regarding most of our independent contractors after receiving misinformation from an agency official who did not have direct knowledge of the types of services procured by BBG nor the contractual relationship with certain contractors. Accordingly, we believe the number of contractors who may be classified as employees for tax purposes is greatly exaggerated. We will continue to work with IRS in the coming year to provide more accurate information so that this issue may be resolved.

2. American Payroll – Time and Attendance

Audit Recommendation: Clarke Leiper recommends that the Broadcasting Board of Governors strengthen its controls over time and attendance reporting by conducting timekeeping refresher training for all personnel responsible for approving timekeeping records (i.e., timekeepers, backup timekeepers, and supervisors) to ensure that time and attendance record approvals are documented according to the internal control procedures detailed in the Broadcasting Administration Manual.

BBG Response: The BBG has begun strengthening its controls over time and attendance reporting by conducting timekeeping refresher training for personnel responsible for timekeeping records (i.e., timekeepers, backup timekeepers, and supervisors). In addition, BBG is exploring ways to automate time and attendance, which will also strengthen controls over approvals and record keeping.

3. Information Security (email sent to Andre and Terry)

Audit Recommendation: Clarke Leiper recommends that the Broadcasting Board of Governors implement the recommendations included in the Office of Inspector General's Federal Information Security Management Act report for FY 2012.

BBG Response: The BBG concurs that the Agency should implement the recommendations included in the OIG FISMA audit for FY 2012. Secure Information Technology (IT) systems are vital for safeguarding the broadcast mission of the Agency. All recommendations in the subject OIG report are currently being addressed and on schedule for implementation. The BBG's Chief Information Officer (CIO) will oversee the development of procedures to ensure that security controls are properly managed and maintained for all IT systems with direct access to the BBG network. The BBG has increased investments in internal and offsite systems to be used for business continuity and the development of contingency plans. To support and lead these critical efforts, the CIO has hired a Disaster Recovery and Business Continuity (DR/BC) Manager. The DR/BC Manager has begun analyzing the various IT systems and procedures to gauge the impact on the Agency should systems become inoperable or the environment becomes unavailable. At this time, both additional server and storage systems specifically intended to provide DR/BC capabilities for BBG are on site in Washington, D.C. Upon completion of configuration and testing, the systems will be shipped to Prague for installation.

In the past several months, the BBG has made substantial progress in addressing many IT systems controls. The BBG has installed, configured, and populated an inventory management tool as well as establishing policies and workflows for use, has implemented change management procedures, has greatly expanded its data backup and retrieval processes, has developed and implemented policies and procedures for Plan of Actions and Milestones (POAM), has ensured adherence to password reset policies and procedures, has brought compliance to end-user participation in mandatory Security Awareness Training to 100%, which includes the Office of Cuba Broadcasting (OCB) and has instituted strict disciplinary measures for non-compliance, and has reviewed the BBG Incident Response Policy to align with guidance from the National Institute of Standards and Technology (NIST).

The CIO will attempt to strengthen the IT security controls over all Federal BBG elements that connect to the BBG's Wide Area Network (WAN). These BBG Federal elements include the International Broadcasting Bureau, the Office of Cuba Broadcasting, and the Voice of America. At this time, the BBG is circulating for comments an Agency-wide policy that reinforces the role of the CIO in addressing risk management processes and procedures as recommended by the NIST. If full compliance cannot be met, compensating controls will be put in place to ensure an acceptable risk level for the BBG. The CIO will continue to assess progress.

4. Reconciliation of Transactions Recorded in Suspense Accounts

Audit Recommendation: Clarke Leiper recommends that BBG temporarily focus resources on clearing suspense account transactions that are more than 60 days old as required by the U.S. Department of the Treasury.

BBG Response: Budgeting and resource constraints continue to hamper BBG's ability to quickly resolve historical transactions while maintaining critical activities to ensure smooth mission operations. As workload allows, BBG will focus resources to reconcile suspense account transactions that are more than 60 days old.

5. Financial Reporting Process

Audit Recommendation: Clarke Leiper recommends that the Broadcasting Board of Governors implement processes and controls, including training for employees, to improve the timeliness and accuracy of its financial reporting process.

BBG Response: The BBG agrees that vacancies in key positions and the manual process hampered our ability to prepare and review the financial statements efficiently. However, even with these hindrances, the financial statements are accurate and complete. Although the reporting team was short-staffed, the team was well-trained and did an admirable job in executing the excessively manual process, which enabled BBG to meet the OMB reporting deadlines. It should be noted that the dates mentioned within the finding were internal agency deadlines and not specifically mandated by law or regulation.

BBG concurs that the manual, labor-intensive, and time-consuming financial statement process could be improved through automation and filling key vacancies. BBG has already made progress resolving this finding by successfully upgrading the financial management system during October 2012. This newer version of the system should allow the production of the annual financial statements directly from the financial management system with increased controls and timeliness and eliminate the manual process.

6. Contingent Liabilities

Audit Recommendation: Clarke Leiper recommends that the Broadcasting Board of Governors (BBG) revise its procedures related to the posting of transactions related to contingent liabilities. BBG should reduce its liability once payments are made into the Thrift Savings Plan relief accounts and establish an accounts receivable for pending reimbursements from the Judgment Fund.

BBG Response: In accordance with accounting standards, BBG agrees that contingent liabilities should be reduced and the corresponding imputed benefits be recognized (as applicable) when payments have been made to the claimants. This recommendation relates

to a particular arrangement for a unique legal case asserted against the U.S. Information Agency more than 2 decades ago, and the payment of the final resolution of those claims follow the law applicable at that time. BBG believes the current posting sequencing developed for reporting the contingent liabilities for this particular case, better reflects the general rules for contingent liabilities arising from litigation that is ultimately paid from the Judgment Fund. Accordingly, BBG does not expect to revise its procedures for reporting this particular contingent liability.

In typical cases where the Judgment Fund paid claimants directly, a federal agency would not reduce a contingent liability against a direct appropriation account until it confirms that Treasury paid the claimants from the Judgment Fund. At the same time, the agency would record any imputed benefits. Here, the Judgment Fund cannot pay the claimant's directly, and \$3.8 million in settlement "payments" that were deposited into the TSP accounts of claimants came from deposit fund X6276 - *Other Federal Payroll Withholding, Allotments*. Deposit fund X6276 is not one of BBG's direct appropriation fund symbols. In essence, there has been no "outflow" of BBG resources to trigger the liabilities reduction. The reimbursement from the Judgment Fund replenishes the negative cash in deposit fund X6276. Similar to the payment of claimants directly in typical litigation, the Judgment Fund's reimbursement to Fund X6276 should be the triggering event for reducing contingent liabilities and recognizing imputed benefits.

7. Statement of Net Costs – Indirect Cost Allocation

Audit Recommendation: Clarke Leiper recommends that the Broadcasting Board of Governors calculate indirect cost allocation ratios based on current year operations.

BBG Response: The BBG will review the current methodology and perform analysis to determine the optimal indirect cost allocation approach for the preparation of the Statement of Net Cost.